

AGREEMENT BY AND BETWEEN
First FS & LA of Central Illinois
Shelbyville, Illinois
and
The Comptroller of the Currency

First FS & LA of Central Illinois, Shelbyville, Illinois (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors and other customers of the Bank and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules, and regulations.

The Comptroller has found unsafe or unsound banking practices and violations of law or regulation relating to the Allowance for Loan and Lease Losses (“ALLL”), internal audit, lending policies and credit administration, Bank Secrecy Act (“BSA”) compliance, consumer compliance management, and information technology systems at the Bank.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 163.555. *See* 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) This Agreement shall cause the Bank to be designated in “troubled condition,” as set forth in 12 C.F.R. § 163.555, unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 116.5, unless otherwise informed in writing by the Comptroller.

ARTICLE II

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days from the date of this Agreement, the Board shall revise, implement, and thereafter ensure adherence to the Bank’s written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses (“ALLL”) in accordance with U.S. generally accepted accounting principles (“GAAP”). The ALLL policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council’s *Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Associations*, dated July 20, 2011 (OCC Bulletin 2001-37), and the *Interagency Guidance and Frequently Asked Questions (FAQs) on the ALLL*, dated December 13, 2006 (OCC Bulletin 2006-47), and shall at a minimum include:

- (a) procedures for identifying and determining whether a loan is impaired;

- (b) procedures for measuring the amount of impairment, consistent with GAAP (including FASB ASC 310-10, *Receivables - Overall - Subsequent Measurement – Impairment*);
- (c) procedures for segmenting the loan portfolio and accurately estimating loss on groups of loans that are consistent with GAAP (including FASB ASC 450-20, *Loss Contingencies*). These procedures shall require the Bank to document its analysis of how the nine qualitative factors set forth in OCC Bulletin 2006-47 resulted in any adjustments to estimated credit losses for each segment of the loan portfolio analyzed;
- (d) procedures for internally validating the ALLL methodology on a quarterly basis and independently validating the ALLL methodology on at least an annual basis; and
- (e) a process for summarizing and documenting, for the Board’s prior review and approval, the amount to be reported in the Consolidated Reports of Condition and Income for the ALLL.

(2) The program shall provide for a review of the ALLL by the Board at least once each calendar quarter. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL.

ARTICLE III

INTERNAL AUDIT

(1) Within one-hundred and twenty (120) days, the Board, or a designated committee of the Board, shall adopt, implement, and thereafter ensure Bank adherence to an independent internal audit program, addressing its scope, testing, and documentation requirements sufficient to:

- (a) detect irregularities and weak practices in the Bank's operations;
- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
- (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (d) evaluate the Bank's adherence to revised policies and procedures, with particular emphasis directed to the Bank's adherence to its loan, credit administration, BSA, consumer compliance, and information technology policies;
- (e) adequately cover all areas including but not limited to: information technology, BSA, consumer regulations, financial reporting, and banking operations; and
- (f) establish an annual audit plan using a risk based approach sufficient to achieve these objectives, from which deviations in the Bank's internal audits of more than 45 days will occur only with Board approval.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure an appropriate level of testing to support the audit findings.

(4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party, including any individual who is a director.

(6) All audit reports shall be in writing and supported by adequate work papers. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors verify that appropriate actions have been taken and a written record describing those actions is maintained.

(7) The Board must establish a formal audit tracking report that identifies exceptions and deficiencies in all areas of the Bank, management's response and follow-up, and time periods for correction for all exceptions identified by any Bank auditor or the Comptroller.

(8) The audit staff shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

ARTICLE IV

LENDING POLICY AND CREDIT ADMINISTRATION

(1) Within ninety (90) days from the date of this Agreement, the Board shall review and revise the Bank's written loan policy. The policy shall incorporate, at minimum, the following:

- (a) procedures to administer the retail loan portfolio in accordance with the *Interagency Uniform Retail Credit Classification and Account Management Policy* dated June 20, 2000 (OCC Bulletin 2000-20), including:
 - (i) monitoring and tracking bankruptcy notices;
 - (ii) obtaining timely collateral valuations;
 - (iii) guidance for approving deferrals, extensions, renewals, and rewrites; and
 - (iv) identifying and recognizing losses in a timely manner;
- (b) establishment of appropriate loan-to-value limits in accordance with 12 C.F.R. § 160.101 – *Real estate lending standards*;
- (c) establishment of lending limits on the type and size of loans that may be made by all loan officers of the Bank without prior approval by the Board or a committee established by the Board for this purpose;
- (d) procedures requiring written credit memorandum for commercial and commercial real estate loans exceeding certain dollar thresholds to be

determined by the Board. The credit memoranda shall contain at minimum:

- (i) the terms of the loan, including but not limited to purpose and primary and secondary sources of repayment;
 - (ii) global cash flow and debt service analysis of the borrower's ability to repay; including an analysis of the borrowers financial position, liquidity, and net worth; and
 - (iii) current collateral valuation in accordance with regulatory guidance as well as the Bank's lien position of the collateral;
- (e) procedures to timely recognize, value, account for, and dispose of Other Real Estate Owned in accordance with *OTS Examination Handbook Section 251 – Real estate owned and repossessed assets* and Instructions for Preparation of Consolidated Reports of Condition and Income;
- (f) procedures to monitor overdrafts and recognize losses in accordance with *OTS CEO Memo 211 – Guidance on Overdraft Protection Programs*, dated February 18, 2005;
- (g) procedures to identify and monitor retail exposure by utilizing borrower credit score information;
- (h) procedures to ensure the independence of the appraisal and evaluation review process;
- (i) procedures to ensure conformance with the lending policy, including through the Bank's loan review and internal audit functions;

- (j) procedures to track and analyze exceptions to the lending policy and report such information to the Board;

(2) The Board shall adopt, and the Bank shall implement and thereafter ensure Bank adherence to the approved lending policy.

ARTICLE V

BANK SECRECY ACT INTERNAL CONTROLS

(1) Within sixty (60) days from the date of this Agreement, the Board shall revise, adopt, implement, and thereafter ensure Bank adherence to a written program of policies and procedures to ensure compliance with the BSA, as amended (31 U.S.C. §§ 5311 et seq.), the regulations promulgated thereunder at 31 C.F.R. Chapter X, as amended, 12 C.F.R. Parts 163.177 and 163.180, and the rules and regulations of the Office of Foreign Assets Control (“OFAC”) for the appropriate identification and monitoring of transactions that pose greater than normal risk for compliance with the BSA. This program shall include, among other things, the following:

- (a) customer due diligence and enhanced due diligence policies, procedures, and timeframes for identifying and monitoring customer accounts, including high risk customers, whose activity shall be reviewed on at least a monthly basis;
- (b) adequate controls and procedures to ensure that all suspicious and large currency transactions are identified and reported; and
- (c) procedures to maintain records on monetary instrument transactions, as required by the BSA.

ARTICLE VI

CONSUMER COMPLIANCE PROGRAM

(1) Within one-hundred and twenty (120) days from the date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written consumer compliance program designed to ensure that the Bank is operating in compliance with all applicable consumer protection laws, rules, and regulations. This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer, which shall include the responsibility for monitoring regulatory changes and communicating those changes to appropriate Bank personnel;
- (b) adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations;
- (c) the preparation of a policies and procedures manual covering all consumer protection laws, rules and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities;
- (d) periodic updates of the written compliance policies and procedures manual to ensure it remains current as laws, regulations, and guidance changes, but in no case less than annually;
- (e) an audit program to independently test for and appropriately document findings as to the Bank's compliance with consumer protection laws, rules and regulations;
- (f) procedures to ensure that exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;

- (g) the education and training of all appropriate Bank personnel, including those who perform audits of the consumer compliance area, in the requirements of all federal and state consumer protection laws, rules and regulations; and
- (h) periodic reporting of the results of the consumer compliance audit to the Board or a committee thereof.

ARTICLE VII

INFORMATION TECHNOLOGY

(1) Within sixty (60) days from the date of this Agreement, the Board shall develop, implement and thereafter ensure adherence to written procedures designed to ensure the accuracy of data contained in all Management Information Systems (“MIS”) reports provided to Bank management or the Board. The procedures developed shall, at a minimum, include periodic comparison of MIS reports to source data to ensure accurate data migration.

(2) Within sixty (60) days from the date of this Agreement, the Board shall adopt and cause the Bank to implement policies and procedures, in accordance with the *Instructions for Preparation of Consolidated Reports of Condition and Income*, to ensure that all official regulatory reports filed by the Bank accurately reflect the Bank's condition as of the date that such reports are submitted. Thereafter the Board shall ensure Bank adherence to the policies and procedures adopted pursuant to this Article.

(3) Within ninety (90) days from the date of this Agreement, the Board shall cause the Bank to refile amended Reports of Condition and Income for all four quarters of 2012, due to, among other things, significant errors in interest income calculation and charges to the ALLL.

(4) Within ninety (90) days from the date of this Agreement, the Board shall develop, implement, and thereafter ensure adherence to a comprehensive, written information security program to ensure the safety and soundness of its operations and to support the Bank's efforts to conform to 12 C.F.R. Part 170, Appendix B – *Interagency Guidelines Establishing Information Security Standards*. The information security program shall include administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information. The information security program shall be consistent with the security process described in the “Information Security” booklet of the *FFIEC Information Technology Examination Handbook*. At a minimum, the information security program shall include:

- (a) a corporate-wide assessment of the risks to its customer information or customer information systems and a written report evidencing such assessment. The assessment shall include:
 - (i) the identification of reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer information systems;
 - (ii) an assessment of the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information; and
 - (iii) an assessment of the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risks.

- (b) a process to monitor and control the identified risks, commensurate with the sensitivity of the information as well as the complexity and scope of bank activities;
- (c) a test plan that provides for regular testing of key controls, systems and procedures of its information security program. The frequency and nature of such tests shall be determined by the risk assessment. Such tests shall be conducted or reviewed by independent third parties or staff independent of those who develop or maintain the information security program.

ARTICLE VIII

VIOLATIONS OF LAW

(1) Within ninety (90) days from the date of this Agreement, the Board shall ensure that Bank management corrects each violation of law, rule or regulation cited in the Report of Examination dated as of December 31, 2012 (“ROE”), and in any subsequent Report of Examination.

(2) Within ninety (90) days from the date of this Agreement, the Bank shall perform or obtain a look-back review of all mortgage loans made by the Bank and for which a tax service fee was charged, from September 30, 2011 through June 30, 2013. The Board shall ensure that the Bank disclosed the finance charges on the identified loans accurately and in accordance with 12 C.F.R. Part 1026.18(d)(1). In any case where the finance charge is determined to be inaccurate and above the thresholds of 15 U.S.C. § 1607(e), the Bank shall provide reimbursement to the affected customers. The Board shall report in writing to the Assistant

Deputy Comptroller the findings of the look-back review and any resulting reimbursement within ten (10) days of receipt or payment.

(3) Within ninety (90) days from the date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(4) Within ninety (90) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in such ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

ARTICLE IX

CLOSING

(1) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(2) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(3) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(4) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies, procedures, and programs developed pursuant to this Agreement;
- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner of any non-compliance with such actions.

(5) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements, or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/s/

John A. Vivian
Assistant Deputy Comptroller
Champaign Field Office

7-12-2013

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

<u>/s/</u> Tadd Brachbill	<u>7/12/13</u> Date
<u>/s/</u> Richard Firnhaber	<u>7/12/2013</u> Date
<u>/s/</u> Mark Hutti	<u>7/12/13</u> Date
<u>/s/</u> Ronald Pierce	<u>7/12/13</u> Date
<u>/s/</u> James Schrock	<u>7//12/2013</u> Date
<u>/s/</u> Michael Stanfield	<u>07-12-13</u> Date
<u>/s/</u> Paul Van Deursen	<u>07-12-13</u> Date