

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 11th day of July, 2000 (the Effective Date), by and between Mr. Morris Savings and Loan Association (Mr. Morris or the Institution), OTS Docket No. 02634, a state chartered savings association, having its main office located at 18 West Main Street, Mr. Morris, Illinois 61054, and the State of Illinois Office of Banks and Real Estate - Bureau of Residential Finance, Thrift Division (OBRE), having its offices located at 500 East Monroe Street, Springfield, Illinois 62701, acting through its Commissioner or his designee (Commissioner), and the Office of Thrift Supervision (OTS), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C. 20552, acting through its Central Regional Director or his designee (Regional Director). It is understood and agreed that this Agreement is a written agreement entered into with the OBRE within the meaning of 205 ILCS Sections 105/7-3(b), 105/7-3.1 and 105/7-5 and with OTS within the meaning of 12 U.S.C. Sections 1818(b)(1) and (1)(2).

WHEREAS, the OBRE and OTS are the regulator(s) of Mr. Morris; and

WHEREAS, based on the Joint Report of Examination dated February 14, 2000 (Report of Examination), the OBRE and OTS are of the opinion that Mr. Morris has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which Mr. Morris is subject, and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OBRE and OTS are of the opinion that grounds exist for the initiation of administrative proceedings against Mr. Morris; and

WHEREAS, the OBRE and OTS are of the view that it is appropriate to take measures intended to ensure that Mr. Morris will: (i) comply with all applicable laws and regulations, and (ii) engage in safe and sound practices; and

WHEREAS, Mr. Morris, acting through its Board of Directors (the Board), without admitting or denying any violations of laws or regulations and/or unsafe and unsound practices, wishes to cooperate with the OBRE and OTS and to evidence the intent to: (i) comply with all applicable laws and regulations, and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

All references to the United States Code (U.S.C.) are as amended, unless otherwise indicated.

OFFICE OF THE
SUPERVISOR
DISSEMINATION BRANCH
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ASSET QUALITY

(1) Asset Classification Policies and Procedures

By execution of this Agreement, the Board commits to the classification of all its assets in accordance with the Institution's current Asset Classification Policy, the Federal Financial Institutions Examination Counsel Uniform Retail Credit Classification Policy and 12 C.F.R. § 560.160.

(2) Allowance for Loan and Lease Losses

A. Within forty-five (45) days of the Effective Date, the Board shall develop, adopt and implement a revised Allowance for Loan and Lease Losses Policy (ALLL Policy), which, at a minimum, meets the guidelines set forth in the Federal Financial Institutions Examination Council Policy on Allowance for Loan and Lease Losses and takes into account the Institution's current level of delinquencies.

B. Within fifty-five (55) days of the Effective Date, the Board shall forward copies of the ALLL Policy required under paragraph (2)A. to the Commissioner and the Regional Director.

C. Once the ALLL Policy required under paragraph (2)A. has been implemented, the Institution shall adhere to it in all material respects.

(3) Delinquent Loan Reporting/Collection Procedures

A. Within forty-five (45) days of the Effective Date, the Institution, under the direction of the Board, shall develop a detailed written report which identifies the Institution's delinquent loans (Delinquency Report). At a minimum, the Delinquency Report, which shall be updated on a regular monthly basis, shall segregate portfolio loans from sold loans, and identify each individual delinquent loan by type, number of days delinquent and accrual status.

B. On a monthly basis, the Institution shall provide an updated Delinquency Report to the Board, who shall review and discuss the content of the Delinquency Report as part of its regular monthly meeting agenda and such discussion shall be fully documented in the Board minutes.

C. Within forty-five (45) days of the Effective Date, the Institution, under the direction of the Board, shall develop and implement a written program designed to improve and strengthen the Institution's loan collection efforts (Collection Program). The Collection Program shall include, at a minimum, specific plans to:

- (i) Reduce the number of delinquent loans; and
- (ii) Improve the recovery of charged-off assets.

D. Within fifty-five (55) days of the Effective Date, the Board shall forward copies of the Collection Program required in paragraph (3)C. to the Commissioner and Regional Director.

E. Once the Collection Program required under paragraph (3)C. has been implemented, the Institution shall adhere to it in all material respects.

MANAGEMENT

(4) Changes to the Board, Senior Management and Other Employees

A. The Institution, under the direction of the Board, shall notify the Commissioner and the Regional Director at least 30 days before adding or replacing any member of the Board, employing any person as a senior executive officer as defined under 12 C.F.R. § 563.555, or changing the responsibilities of any senior executive officer so that the person would assume a different senior executive position. All notices provided by the Institution to the Commissioner and the Regional Director shall be submitted in accordance with the regulatory provisions set forth under Subpart H of 12 C.F.R. Part 563.

B. As of the Effective Date, the Board shall notify, in writing, the Commissioner and the Regional Director of any change in the Institution's management or accounting personnel, which are not covered under the notice requirements contained in paragraph (4)A., within ten (10) days of such change.

(5) Internal Audit Function

A. Within sixty (60) days of the Effective Date, the Board shall develop, adopt and implement an independent internal audit program appropriate to the needs of the Institution. The internal audit program shall, at a minimum, provide for:

- (i) The appointment of an independent internal auditor who shall report directly to the Board;
- (ii) The establishment of the scope and frequency of internal audits;
- (iii) The submission of quarterly internal audit reports by the internal auditor to the Board; and
- (iv) On a quarterly basis, beginning with the first calendar quarter after the Effective Date, the Board shall submit copies of the quarterly internal audit reports required under paragraph (5)A.(iii) and detailed written descriptions of the respective corrective actions approved by the Board as a result of the information contained in the quarterly internal audit reports, to the Commissioner and the Regional Director within forty-five (45) days of the close of each calendar quarter.

B. Within seventy (70) days of the Effective Date, the Board shall forward copies of the internal audit program required in paragraph (5)A. to the Commissioner and the Regional Director.

C. Once the internal audit program required under paragraph (5)A. has been implemented,

the Institution shall adhere to it in all material respects.

D. By execution of this Agreement, the Board commits to properly record all audit adjustments, as required by internal and/or external auditors, within seven (7) days of receiving notice from the internal and/or external auditors.

(6) Board Review of Institution Policies and Fidelity Bond

A. Within forty-five (45) days of the Effective Date, the Board shall adopt and implement a schedule for reviewing and approving all Institution policies requiring annual Board approval, as well as an identification of a date for reviewing the adequacy of the Institution's current fidelity bond coverage.

B. Within fifty-five (55) days of the Effective Date, the Board shall forward copies of the schedule required under paragraph (6)A. to the Commissioner and the Regional Director.

C. Once the schedule required under paragraph (6)A. has been implemented by the Board, the Board shall adhere to it in all material respects.

(7) Executive Officer Compensation

A. Within thirty (30) days of the Effective Date, the Board shall develop a compensation and bonus program (Compensation Program) for all executive officers, which, at a minimum, shall include a detailed description of the criteria to be used in considering an annual salary increase or bonus.

B. Within forty (40) days of the Effective Date, the Board shall forward copies of the Compensation Program required under paragraph (7)A. to the Commissioner and the Regional Director for review and approval.

C. The Board shall not increase the compensation or issue a bonus to any executive officer of the Institution until the Compensation Program required under paragraph (7)A. has been approved by the Commissioner and the Regional Director.

D. Once the Compensation Program has been approved by the Commissioner and the Regional Director, the Board shall adhere to it in all material respects.

E. The Board must receive the prior written approval of the Commissioner and the Regional Director in order to amend the Compensation Program.

F. As of the Effective Date, the Institution, under the direction of the Board, shall not enter into any employment contracts without the prior written approval of the Commissioner and the Regional Director.

EARNINGS

(8) Business Plan

A. Within sixty (60) days of the Effective Date, the Board shall develop, adopt and implement a detailed three-year Business Plan designed to improve and sustain the earnings of the Institution. Such Business Plan shall contain narrative discussions of each significant activity and strategy to be used by the Institution and must, at a minimum, provide for the following:

- (i) Identification of the major areas in and means by which the Board will seek to improve the Institution's operating performance;
- (ii) Realistic and comprehensive budgets, including projected balance sheets, year-end income statements, and projected tangible, core and risk-based capital levels; and
- (iii) A description of the operating assumptions that form the basis for major projected income and expense components.

B. Within seventy (70) days of the Effective Date, the Board shall forward copies of the Business Plan required under paragraph (8)A. to the Commissioner and the Regional Director for their review and non-objection.

C. Once the Business Plan required under paragraph (8)A. has been implemented by the Board, the Institution shall adhere to it in all material respects.

D. On a quarterly basis, beginning with the first calendar quarter after the Effective Date, the Board shall compare actual operating results to projected amounts set forth in the Business Plan and provide detailed written variance analyses to the Commissioner and the Regional Director within forty-five (45) days of the close of each calendar quarter. Each quarterly variance report shall include, but not be limited to, a comparison of the actual results to the projected balance sheet, income statement and capital requirements.

SENSITIVITY TO MARKET RISK

(9) Interest Rate Risk Management Plan

A. Within sixty (60) days of the Effective Date, the Board shall develop, adopt and implement an Interest Rate Risk Management Plan (IRR Plan) for the purpose of reducing and managing the Institution's level of interest rate risk. At a minimum, the IRR Plan shall comply with the provisions of OTS Thrift Bulletin 13a (TB 13a) and contain the following:

- (i) Specific strategies and objectives for reducing and managing the Institution's level of interest rate risk;
- (ii) Target estimates of the Institution's interest rate risk measurements including the base-case and post-shock Net Portfolio Value ratios, interest rate risk sensitivity measures, and TB 13a measurements; and

(iii) A description of the interest rate assumptions that form the basis for the target interest rate risk measurements.

B. Within seventy (70) days of the Effective Date, the Board shall forward copies of the IRR Plan required under paragraph (9)A. to the Commissioner and the Regional Director.

C. Once the IRR Plan required under paragraph (9)A. has been implemented by the Board, the Institution shall adhere to it in all material respects.

D. On a quarterly basis, beginning with the first calendar quarter after the Effective Date, the Board shall compare actual interest rate risk measurements to target estimates set forth in the IRR Plan and provide detailed written variance analyses to the Commissioner and the Regional Director within forty-five (45) days of the close of each quarter.

GENERAL

(10) Violations of Law

Within ninety (90) days of the Effective Date, the Board shall address each regulatory exception and each violation of law, rule or regulation cited in the Report of Examination and take all corrective actions required by the OBRE and OTS in the Report of Examination. The Board shall provide a comprehensive written notice to the Commissioner and OTS within the ninety (90) day time-frame, describing the date and manner in which each correction has been effected.

(11) Director Responsibility

Notwithstanding the requirements of this Agreement that the Board submit various matters to the OBRE and OTS for consideration, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Institution at all times, including compliance with the determinations of the OBRE and OTS as required by this Agreement.

(12) Compliance with Agreement

A. The Board and officers of the Institution shall take immediate action to cause the Institution to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Institution to continue to carry out the provisions of this Agreement.

B. The Board, on a quarterly basis, shall adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the

immediately preceding calendar quarter, Mt. Morris has complied with each provision of this Agreement currently in effect, except as otherwise stated.

The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist; and (ii) identify all notices of exemption or non-objection issued by the Commissioner and the Regional Director that were outstanding as of the date of its adoption.

C. The minutes of the meetings of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasoning for opposing or abstaining.

D. The Board shall promptly respond to any request from the OBRE and/or OTS for documents that the OBRE and/or OTS reasonably request to demonstrate compliance with this Agreement.

MISCELLANEOUS

(13) Definitions

All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, Home Owners' Loan Act (HOLA), Federal Deposit Insurance Act (FDIA) or OTS Publications. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Publications shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

(14) Successor Statutes, Regulations, Guidance, Amendments

Reference in this Agreement to provisions of state and federal statutes, regulations, and OTS Publications shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

(15) Notices

A. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by this Agreement to be made upon, given or furnished to, delivered to, or filed with:

(i) OBRE and OTS, by the Institution, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Manager - Corporate

Section, Office of Banks and Real Estate - Bureau of Residential Finance, Thrift Division, 310 South Michigan Avenue, Suite 2130, Chicago, Illinois 60604-4278 or telecopied to (312) 793-7097 and to Mr. David J. Kalina, Assistant Director, Office of Thrift Supervision, Department of the Treasury, 200 West Madison, Suite 1300, Chicago, Illinois 60606 or telecopied to (312) 917-5002 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(ii) The Institution, by OBRE and/or OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to Mt. Morris Savings and Loan Association, 18 West Main Street, Mt. Morris, Illinois 61054 or telecopied to (815) 734-6950, and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

B. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two business days after the date of the postmark on the envelope in which the notice was enclosed.

(16) Duration, Termination or Suspension of Agreement

A. This Agreement shall become effective upon its execution by the OBRE and OTS, through their authorized representatives whose signatures appear below. The Agreement shall remain in effect until terminated, modified, or suspended, in writing by the OBRE, acting through its Commissioner or authorized representative, and OTS, acting through its Director, Regional Director or other authorized representative.

B. The Commissioner and the Regional Director in their sole discretion, may, by written notice, suspend any or all of the provisions of this Agreement.

(17) Time Limits

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

(18) Effect of Headings

The Section and paragraph headings herein are for convenience only and shall not affect the construction hereof.

(19) Separability Clause

In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Commissioner and the Regional Director in their sole discretion determine otherwise.

(20) No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

Nothing in this Agreement shall be construed as: (i) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject, or (ii) restricting or estopping the responsibilities placed upon it by law.

(21) Successors in Interest/Benefit

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

(22) Integration Clause

This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to the subject matter.

(23) Enforceability of Agreement

Mr. Morris represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. Mr. Morris acknowledges that this Agreement is a written agreement entered into with the OBRE within the meaning of 205 ILCS Sections 105/7-3(b), 105/7-3.1 and 105/7-5 and with OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. § 1818.

IN WITNESS WHEREOF, the OBRE, acting by and through the Commissioner and OTS, acting by and through the Regional Director, and Mt. Morris hereby execute this Agreement as of the Effective Date.

OFFICE OF BANKS AND REAL ESTATE

OFFICE OF THRIFT SUPERVISION

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By: 15/
William A. Darr
Commissioner

By: 15/
Ronald N. Karr
Regional Director
Central Region

MT. MORRIS SAVINGS AND LOAN ASSOCIATION

By: 15/
Donald R. Lowder
Director

By: 15/
Scott C. Diehl
Director

By: 15/
John B. Franklin
Director

By: 15/
Robert G. Hough, Jr.
Director

By: 15/
Michael H. McNett
Director

By: 15/
Bruce D. Obendorf
Director

By: 15/
Edward E. Ruther
Director

By: 15/
David A. Smith
Director