

AGREEMENT BY AND BETWEEN
Mid-Southern Savings Bank, FSB
Salem, Indiana
and
The Comptroller of the Currency

Mid-Southern Savings Bank, FSB, Salem, Indiana (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) 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 and unsound banking practices relating to the allowance for loan and lease losses, loan underwriting, credit risk monitoring, and internal audit at the Bank as well as violations of the regulations related to asset classification and reporting requirements.

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 definition of “troubled condition” at 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) Unless otherwise informed in writing by the Comptroller, all programs, reviews, or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Louisville Field Office
10200 Forest Green Boulevard, Suite 501
Louisville, Kentucky 40223-5165

Article II

MANAGEMENT

(1) The Board must ensure that the Bank has competent management in place on a full time basis to carry out the Board’s policies; ensure compliance with this Agreement and applicable laws, rules, and regulations; manage the day-to-day operations of the Bank; and administer the Bank’s loan portfolio in a safe and sound manner.

(2) Within ninety (90) days, the Board shall review the organizational structure and composition of the Bank’s management and shall adopt a plan to implement changes where appropriate to ensure compliance with paragraph (1) of this Article, including additions to or deletions from current managerial positions or personnel if necessary. At a minimum, as part of, or based upon its review, the Board shall:

- (a) delineate and assign specific senior executive officer positions to qualified individuals with written defined duties and lines of authority sufficient to cover

the scope of duties traditionally assigned to a Chief Executive Officer, Senior Lending Officer, Chief Credit Administrator, and Chief Financial Officer; and

(b) assess each of the Bank's current executive officers' experience, other qualifications, and performance compared to the position's duties and lines of authority and make changes if appropriate.

(3) Within one-hundred and eighty (180) days, the Board shall carry out the plan adopted pursuant to paragraph (2) of this Article.

Article III

INTERNAL AUDIT

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program covering all areas of the Bank, 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 established policies and procedures; and

(e) establish an annual audit plan using a risk-based approach sufficient to achieve these objectives.

(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 within sixty (60) days of receipt.

(3) If the Bank employs a third party to conduct the audits pursuant to this Article, the Board shall ensure that it selects, contracts, oversees, and documents the third party relationship in a manner that is consistent with the Third Party Relationships (OCC Bulletin 2001-47).

(4) The Board shall ensure that the audit program is independent. The persons responsible for implementing and executing 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 director.

(5) All audit reports shall be in writing.

(6) The Board shall ensure management responds in writing to all deficiencies cited in audit reports and takes immediate action to remedy those deficiencies.

(7) The Board shall ensure corrective actions are formally tracked until the corrective actions are implemented and their effectiveness is verified.

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

Article IV

INDEPENDENT LOAN REVIEW

(1) Within ninety (90) days, the Board shall establish, implement, and thereafter ensure Bank adherence to an effective, independent and on-going loan review program to review, at least semi-annually, the Bank's loan and lease portfolios to assure the timely and accurate risk rating of credits and the identification of credit information, collateral documentation, and policy exceptions. The Bank's program shall provide for a written report to

be filed with the Board after each review. Such reports shall include, at a minimum, conclusions regarding:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the accrual status and amount of impairment reserves, if necessary;
- (c) credit information and collateral documentation exceptions;
- (d) the identification and status of credit related violations of law, rule, or regulation;
- (e) loans, leases, or extensions of credit to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (f) loans, leases, or extensions of credit not in conformance with the Bank's lending and leasing policies concerning underwriting standards, credit administration, problem loan identification, and risk ratings with a description of each exception.

(2) Within thirty (30) days of receipt, the Board shall evaluate the internal loan and lease review reports and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report.

(3) A copy of the reports submitted to the Board, as well as documentation of the Board's review, decisions, and actions taken by the Bank to address concerns pursuant to this Article, shall be maintained at the Bank and available for review by the OCC upon request.

Article V

LOAN RISK RATING SYSTEM

(1) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of commercial credit relationships¹ as assigned by loan officers and by any independent loan reviewer, are timely, accurate, and consistent with the regulatory credit classification criteria set forth in the "Rating Credit Risk" booklet of the *Comptroller's Handbook*. At a minimum, the Board must ensure, on an ongoing basis, that with respect to the assessment of credit risk of any commercial credit relationship:

- (a) the primary consideration is the strength of the borrower's primary source of repayment (i.e., the probability of default rather than the risk of loss);
- (b) collateral, non-government guarantees, and other similar credit risk mitigants that affect potential loss in the event of default (rather than the probability of default) are taken into consideration only if the primary source of repayment has weakened and the probability of default has increased;
- (c) credit risk ratings are reviewed and updated whenever relevant new information is received, but no less frequently than annually;
- (d) incorporate a process to ensure the Bank's loans and other assets are timely placed on nonaccrual where appropriate in accordance with the Instructions for Consolidated Reports of Income and Condition ("Call Report Instructions") and with the OCC's Bank Accounting Advisory Series; and

¹ For purposes of this Agreement, commercial credit includes commercial, industrial, commercial real estate, multi-family, and investor-owned 1-4 family loans. Commercial credit relationships include all aggregate debt exposures to the entities, related entities, and the principals and guarantors of those entities.

- (e) the credit risk rating analysis is documented, maintained in the credit file, and available for review by the Board and the OCC upon request.

(2) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that any commercial credit relationship with a high probability of payment default or other well-defined weakness is rated no better than substandard, unless the debt is secured by cash or marketable securities. Consistent with the guidance in the “Rating Credit Risk” booklet of the *Comptroller’s Handbook*, the presence of illiquid collateral or existence of a plan for improvement will not, and a non-government guarantee generally will not, mitigate the probability of default or a well-defined weakness.

Article VI

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an appropriate 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 “Interagency Policy Statement on the Allowance for Loan and Lease Losses” dated December 13, 2006 (OCC Bulletin 2006-47) (“Interagency Statement”) and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with GAAP (including FASB ASC 310-10, Receivables, Overall - Subsequent Measurement - Impairment);
- (b) procedures for segmenting the loan portfolio and 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 estimation of credit losses and its analysis of the nine qualitative factors set forth in the Interagency Statement;

- (c) procedures for an independent review of the ALLL methodology to validate its appropriateness; and
- (d) 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 ("Call Reports") for the ALLL.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures to ensure that all official and regulatory reports filed by the Bank accurately reflect an appropriate ALLL balance. Any difference between the ALLL balance as determined by the analysis required by this Article and the Bank's actual ALLL balance shall be remedied through appropriate account adjustments in the quarter it is discovered, prior to the filing of the Call Reports.

Article VII

COMMERCIAL LOAN UNDERWRITING

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to written commercial loan underwriting standards designed to ensure that the Bank is granting, renewing, and restructuring commercial loans in a safe and sound manner. The standards shall include, at a minimum:

- (a) guidelines for evaluating and monitoring a borrower's capacity to meet a realistic repayment program. The guidelines, at a minimum shall establish:
 - (i) standards for minimally acceptable financial information on borrowers and guarantors;
 - (ii) minimum standards for debt service coverage for the real property, real property cash flow, and borrower net worth;
 - (iii) loan-to-value limits, including by real property type; and
 - (iv) minimum requirements for initial investment and maintenance of equity by the borrower that has not been financed elsewhere.

- (b) guidelines and parameters for loan structure that, at a minimum:
 - (i) require that each loan have a clearly defined and reasonable repayment program;
 - (ii) require that a loan's maturity and amortization period be consistent with the purpose of the loan, the available cash flow from the source of repayment, and the collateral pledged;
 - (iii) require principal curtailment from secondary sources of repayment or collateral re-margin if the original source of repayment is not sufficient to retire the debt in accordance with its original terms; and
 - (iv) prohibit the extension of amortization periods to improve a borrower's debt service coverage ratios or to match competition, unless supported by prudent underwriting as defined by the

appendix to 12 C.F.R. § 160.101 and other appropriate supervisory guidance.

(2) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan, lease, or other extension of credit only after:

- (a) documenting the specific purpose for the extension of credit;
- (b) identifying the primary and secondary source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment for the extension of credit;
- (d) obtaining and accurately analyzing current and satisfactory credit information to appropriately assess the borrower's cash flow and financial position, and where repayment is dependent, in whole or in part, on one or more guarantors, performing an appropriate analysis of the guarantors' current financial position; and
- (e) documenting the current value of collateral with adequate supporting material, in compliance with 12 C.F.R. Part 164 where applicable, and documenting that the Bank's security interest has been properly attached and recorded.

(3) Failure to obtain and analyze the information in paragraph (2)(d) of this Article shall not constitute a violation of this Article if, prior to granting the extension of credit, a majority of the full Board (or a delegated committee thereof) reasonably determines that not obtaining and analyzing the information required in paragraph (2)(d), would not be detrimental to the best interests of the Bank. Any such determination must be documented in a written certification that includes specific and adequate reasons for the Board's determination. A copy

of the Board certification shall be maintained in the Bank's credit file of the respective borrower(s) for subsequent review by the OCC.

Article VIII

COMMERCIAL LENDING EXCEPTIONS

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to ensure the Bank obtains and analyzes current financial information and collateral documentation on commercial loans in a timely manner. At a minimum, the program shall require the Bank to:

- (a) obtain and analyze current and satisfactory credit information;
- (b) maintain proper collateral documentation;
- (c) correct exceptions; and
- (d) substantiate, where necessary, the current value of collateral.

(2) Failure to obtain information pursuant to paragraph (1)(a) of this Article shall not constitute a violation of this Article if, prior to granting the extension of credit, a majority of the full Board (or a delegated committee thereof) reasonably determines that not obtaining the information required by paragraph (1)(a) would not be detrimental to the best interests of the Bank. Any such determination must be documented in a written certification that includes specific and adequate reasons for the Board's determination. A copy of the Board certification shall be maintained in the Bank's credit file of the respective borrower(s) for subsequent review by the OCC.

(3) Failure to correct an exception pursuant to paragraph (1)(c) of this Article shall not constitute a violation of this Article if the Bank exercises reasonable and ongoing efforts to

correct the exception, documents those efforts, and maintains that documentation in the Bank's credit file of the respective borrower(s) for subsequent review by the OCC.

(4) Within ninety (90) days, the Board must establish, implement, and thereafter ensure adherence to a tracking and monitoring system to ensure that financial, collateral, and policy exceptions for the Bank's commercial loans are tracked and reported to the Board in a timely manner. This tracking and monitoring system, at a minimum, must include:

- (a) maintenance of a detailed listing of all financial and collateral exceptions and the actions taken to correct the exceptions;
- (b) maintenance of a detailed list of loans, leases, or extensions of credit not in conformance with the Bank's commercial lending and leasing policies, with a notation as to whether the exceptions were properly granted in accordance with the Bank's policy; and
- (c) identification of the loan officer who originated each loan, lease, or extension of credit tracked pursuant to paragraphs (4)(a) and (4)(b) of this Article.

(5) The Board shall receive a monthly report addressing the information required pursuant to paragraph (4) of this Article. The report shall identify the number of exceptions compared to total loans, aggregate exceptions compared to the Board-established limits for exceptions, and the volume of exceptions for each originating loan officer.

Article IX

ANNUAL CREDIT REVIEWS

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure adherence to an annual credit review program for borrowers with aggregate commercial loan relationships over \$400,000. The annual credit review shall appropriately document, at a minimum:

- (a) the specific reason or purpose of the loan;
- (b) the primary source of repayment;
- (c) past repayment performance;
- (d) terms and covenants related to each loan and borrower performance;
- (e) an accurate analysis of the borrower's current financial position, cash flow, and repayment ability, including an appropriate analysis of the guarantor's repayment ability where repayment is dependent in whole or in part on any guarantor;
- (f) an accurate analysis of collateral coverage and documentation of the Bank's lien position; and
- (g) the assigned credit risk rating, including accrual designation and the amount of any impairment reserve, if necessary.

Article X

PROGRESS REPORTING - QUARTERLY

(1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller. These reports shall set forth in detail:

- (a) actions taken to comply with each Article of the Agreement;
- (b) results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(2) The progress reports shall also include any actions initiated by the Board or the Bank pursuant to the criticisms and comments in the ROE or in any subsequent Report of Examination.

(3) The first progress report shall be submitted for the period ending June 30, 2013 and will be due within thirty (30) days of that date. Thereafter, progress reports will be due within thirty (30) days after the quarter end.

Article XI

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) 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.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. If the Bank requires a suspension or waiver of any provision or an extension of any timeframe within this Agreement, the Board shall submit a written request to

the Assistant Deputy Comptroller asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the Bank's request for a suspension or waiver of any provision or an extension of a timeframe within this Agreement.

(4) 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.

(5) Each citation or referenced guidance included in this Agreement includes any subsequent guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(6) 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 the processes, personnel, and control systems to ensure implementation of and adherence to the Articles of 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.

(7) 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/

Curtis D. Schuman
Assistant Deputy Comptroller
Louisville Field Office

April 17, 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> Paul Allemeier	<u> April 17, 2013 </u> Date
<u> /s/ </u> Dana Dunbar	<u> April 17, 2013 </u> Date
<u> /s/ </u> Joseph C. Etzler	<u> April 17, 2013 </u> Date
<u> /s/ </u> Trent L. Fisher	<u> April 17, 2013 </u> Date
<u> /s/ </u> Charles W. Lamb	<u> April 17, 2013 </u> Date
<u> /s/ </u> Michael Smith	<u> April 17, 2013 </u> Date
<u> /s/ </u> Benjamin F. Weathers	<u> April 17, 2013 </u> Date

