

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)	AA-EC-2014-114
First National Bank)	
Waupaca, Wisconsin)	

CONSENT ORDER

The Comptroller of the Currency of the United States of America (“Comptroller”), through his authorized representative, has supervisory authority over First National Bank, Waupaca, Wisconsin (“Bank”).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated December 17, 2014, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

Pursuant to the authority vested in it by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

COMPLIANCE COMMITTEE

(1) By December 31, 2014, the Board shall appoint a Compliance Committee of at least three (3) directors, of which employees, former employees, inside directors, or controlling shareholders of the Bank (as the term “controlling shareholder” is defined in 12 C.F.R. Part 215) or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person cannot constitute a majority. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the

name of any new member, shall be submitted in writing to the Director of Special Supervision (“Director”). The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order.

(2) The Compliance Committee shall meet at least monthly.

(3) By January 31, 2015, and monthly thereafter or within such other time period as the Director requires in writing, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) a description of the action needed to achieve full compliance with each Article of this Order;

(b) specific actions taken to comply with each Article of this Order; and

(c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Director within ten (10) days of receiving such report.

ARTICLE II

BOARD TO ENSURE EFFECTIVE OVERSIGHT OF MANAGEMENT AND IMPROVE BOARD GOVERNANCE

(1) The Board shall immediately ensure that it receives and reviews sufficient information from management (including scope, frequency, timing and content), regarding the operation of the Bank and the Bank’s compliance with this Order, to enable the Board to provide oversight and fulfill their fiduciary duties and other responsibilities under law and as outlined in the OCC’s “The Directors Book: The Role of a National Bank Director” (October 2010) and “Duties and Responsibilities of Directors” booklet (Section 501) of the *Comptroller’s Handbook*.

(2) By March 31, 2015, the Board shall ensure an adequate process is in place to evaluate, at least annually, the Bank's overall internal operations, staffing, Board and management oversight, and management information systems ("MIS"), policies, procedures, and other risk management systems, with time sensitive strategies to address any deficiencies.

(3) By March 31, 2015, the Board shall prepare:

(a) an assessment of the Board's strengths and weaknesses along with a director education program designed to strengthen identified weaknesses;

and

(b) an assessment of the current Board members and Board committee structure, to include a review of the charter/scope of the committees and to determine if the Board members have sufficient expertise and time to provide sufficient and appropriate oversight of the affairs of the Bank. The assessment of the Board's committee structure shall include:

(i) an analysis of the number of committees and responsibilities assigned to each;

(ii) the composition of each committee with regard to the number of members and the technical expertise required for each committee; and

(iii) specific recommendations to improve the efficiency and responsiveness of each committee.

(4) The Board shall ensure that the management report required to be submitted to the Board pursuant to 12 C.F.R. Part 363 is compliant with the regulation.

(5) The Board shall ensure that the Bank has sufficient processes, management, personnel, and control systems to ensure implementation of and adherence to the plans, programs and policies developed pursuant to this Order, and that Bank management and personnel have sufficient training and authority to execute their duties under this Order.

ARTICLE III

BOARD TO ENSURE EFFECTIVE MANAGEMENT AND ADEQUATE STAFFING

(1) The Board shall ensure that the Bank has competent senior executive management in place on a full-time basis to: (i) carry out the Board's policies; (ii) take the necessary steps to implement corporate governance and decision making processes to correct the Bank's deficiencies in management, leadership, and Board oversight, as described in the 2014 Reports of Examination ("2014 ROEs")¹ and any subsequent ROEs; and (iii) ensure compliance with this Order, applicable laws, rules, and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner. By March 31, 2015, the Board shall ensure the following:

- (a) that capable senior executive officers as defined in 12 C.F.R. § 5.51(c)(ii)(3) (including, but not limited to, the President, Chief Executive Officer ("CEO")², Chief Financial Officer, Chief Credit Officer, Chief Lending Officer, Chief Operations Officer, and Special Assets Manager positions) are in place on a full-time basis to perform present and anticipated duties, with particular emphasis on their responsibilities to execute the Strategic Plan required by Article VII of this Order, achieve and maintain the minimum capital ratios required by Article VIII of this

¹ Collectively, the January 27, 2014 Report of Examination and the July 14, 2014 Interim Report of Examination.

² The CEO and President may be the same individual.

Order, and address all matters requiring attention and violations of law noted in the 2014 ROEs and any subsequent ROEs;

- (b) the identification of future senior executive management and staffing requirements of each area of the Bank;
- (c) that clear lines of responsibility and authority exist for each member of senior executive management;
- (d) that a management employment and succession program is in place to promote the retention and continuity of capable management;
- (e) that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Order;
- (f) that an adequate process is in place to evaluate, at least annually, the Bank's overall internal operations, staffing, Board and management oversight, and MIS, policies, procedures, and other risk management systems with time sensitive strategies to address any deficiencies; and
- (g) that a sufficient process is in place to ensure that management appropriately responds to any audit, compliance, and/or regulatory criticisms.

(2) The Board shall engage a qualified independent third party to assist the Board in preparing an annual written performance appraisal for any senior executive officer that is also a member of the Board. The Board or designated committee shall ensure an annual written performance appraisal is performed and prepared for all other Bank senior executive officers. Each annual written performance appraisal shall evaluate the performance of each senior executive officer according to the position's job description and responsibilities. If necessary

and as appropriate, the Board shall engage a qualified independent third party to assist the Board in preparing the written performance appraisals. Each annual written performance appraisal also must evaluate the following as it applies to each senior executive officer:

- (a) compliance with objectives established by the Board;
- (b) compliance with Board approved policies and procedures;
- (c) compliance with Board approved business and capital plans;
- (d) development and implementation of action plans to remedy issues raised in ROEs, audit reports, or loan review reports; and
- (e) compliance with laws, regulations, regulatory guidance, and the Order.

(3) The Board shall ensure that the Bank addresses any deficiencies identified pursuant to paragraph (2) of this Article.

ARTICLE IV

BOOKS AND RECORDS

(1) The Board shall immediately take all necessary action to ensure that the Bank's books, records and internal MIS are complete and accurate.

(2) By January 30, 2015, the Board shall develop an Action Plan, including a timetable for the implementation of the Action Plan, detailing how the Board and Management will ensure that the books, records, and internal MIS will be maintained in a complete and accurate condition. The Action Plan shall address, at a minimum, the following:

- (a) procedures to ensure Consolidated Reports of Condition and Income (“Call Reports”) and other regulatory reports are accurate;
- (b) timing and frequency of auditing and transaction testing of reports presented to the Board by management;

- (c) procedures to ensure MIS is accurate; and
- (d) standards for which Bank personnel will be held accountable to ensure compliance with the requirements of this Article.

(3) A copy of all written policies, procedures, and programs developed as a result of this Order, and all reports from auditors, consultants, contractors, and loan review shall be maintained in a readily accessible manner at the Bank for review by the OCC.

ARTICLE V

COMPENSATION PROGRAM

(1) By January 30, 2015, the Board shall identify an independent consultant (“IC”) to perform a review and evaluation of the Bank’s compensation program for all Bank officers and directors. Prior to engaging the IC, the Board shall submit the name and qualifications of the IC, and a copy of the proposed contract, including the proposed scope, with the IC, to the Director for prior written determination of no supervisory objection. The IC must complete and submit a written report to the Board within sixty (60) days of the Board’s receipt of the Director’s written determination of no supervisory objection to the engagement. Immediately following completion, the Bank shall submit the results of the IC report to the Director. At a minimum, the IC shall review, make recommendations, and evaluate in writing the reasonableness of compensation for each Bank officer and director, including individual components (e.g., base salary, incentive compensation, bonuses, director fees, other fees, etc.) and other fringe benefits (e.g., insurance, bank-owned life insurance, retirement, vacation, free office space, travel allowances, car allowances, reimbursement for travel expenses, etc.) to ensure that compensation for each officer and director, at a minimum:

- (a) is market-based, reasonable, and proportionate to the services rendered, including any responsibilities to serve on Board committees;
- (b) considers the financial condition of the Bank;
- (c) is consistent with the Strategic and Capital Plans required under the Order;
- (d) is consistent with OCC Bulletin 2010-24; and
- (e) is consistent with 12 C.F.R. Part 30.

(2) The contract with the IC shall state that and the IC shall ensure all work papers are available to examiners for review.

(3) Within thirty (30) days of the receipt of the IC's report, the Board shall develop a plan that addresses the findings and recommendations noted in the IC report. Both the IC's report (including any draft report submitted to the Board) and the Board's plan to address the findings shall be submitted to the Director.

(4) The Board shall develop a compensation program that includes all employees that, at a minimum:

- (a) is market based, reasonable, and proportionate to the services rendered;
- (b) is consistent with the approved Strategic and Capital Plans required under the Order;
- (c) considers the condition of the Bank; and
- (d) complies with OCC Bulletin 2010-24 and 12 C.F.R. Part 30.

(5) The Board shall review the Bank's compensation plan annually and ensure that it is compliant with 12 C.F.R. § 30, Appendix A, Section III. The Board's annual review shall be written and forwarded to the Director by January 31 of each year.

ARTICLE VI

INTERNAL AUDIT AND CONTROLS

(1) The Board shall take immediate and continuing action to ensure that the Bank implements and maintains adequate and effective internal controls. By March 31, 2015, the Board shall develop, implement, and thereafter maintain a satisfactory internal control program in accordance with the guidance set forth in: (i) Section II.A of the Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A to 12 C.F.R. Part 30; and (ii) the “Internal Control” booklet of the *Comptroller’s Handbook* (January 2001). The Board shall ensure that the Bank addresses all corrective actions set forth in the 2014 ROEs and any subsequent ROEs relating to internal controls. At a minimum, the program shall include:

- (a) an organizational structure that establishes clear lines of authority and responsibility for monitoring adherence to prescribed policies;
- (b) effective risk management;
- (c) timely and accurate financial, operational, and regulatory reports;
- (d) adequate procedures to safeguard and manage assets;
- (e) custody of and control over Bank documents;
- (e) compliance with applicable laws and regulations; and
- (f) appropriate segregation of duties and authorization structure for the approval and payment of business expenses.

(2) By April 30, 2015, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program that: (i) comports with the standards for Internal Audit Systems set forth in Section II.B of the Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A to 12 C.F.R. Part 30; and (ii) is consistent with

the guidance set forth in OCC Bulletin 2003-12, *Interagency Policy Statement on the Internal Audit Function and Its Outsourcing* (March 17, 2003). At a minimum, the program shall include:

- (a) an audit universe that ensures all auditable entities are identified, assessed, and audited in a timely manner, including but not limited to Bank-issued credit cards or credit card expenses paid by the Bank, Bank paid donations or charitable giving, telephones or electronic device expenses paid by the Bank, car expenses paid by the Bank, legal expenses, prepaid assets, insider reimbursements, insider expense-related accounts, and cash disbursements to employees and directors from Bank funds;
- (b) an audit plan that incorporates a current audit schedule and ensures timely audits;
- (c) a risk assessment process that: (i) details inherent risks and includes any mitigating control factors, (ii) provides supporting narrative for risk scores in the inherent risk categories, and (iii) includes business-line specific narratives detailing mitigating factors and any other components used to determine level of risk for each audit entity;
- (d) a process to track and validate the resolution of deficiencies;
- (e) a plan to improve staffing in the internal audit department or to engage in appropriate outsourcing arrangements to ensure the maintenance of a satisfactory audit program;
- (f) appropriate oversight of the audit program by the Audit Committee;

- (g) revised and updated audit policies and procedures to reflect all changes made to the Bank's audit program; and
- (h) contingency plans to mitigate any significant continuity issues in audit coverage.

(3) As part of this audit program, Internal Audit or Loan Review must conclude on the adequacy of the Bank's allowance for loan and lease losses ("ALLL").

(4) 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.

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

(6) The Board shall ensure that the audit program is independent. The persons responsible for implementing the audit program described above shall report directly to the Board or a designated committee thereof, 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 intermediary.

(7) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.(8) The audit staff shall have access to any records necessary for the proper conduct of its activities. Bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

ARTICLE VII

STRATEGIC PLAN

(1) By April 30, 2015, the Board shall prepare and forward to the Director for his review, pursuant to paragraph (6) of this Article, a written Strategic Plan for the Bank that is acceptable to the Director, covering at least a three-year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) the strategic goals and objectives to be accomplished, including key financial indicators and risk tolerances;
- (c) an assessment of the Bank's strengths, weaknesses, opportunities, and threats that impact the strategic goals and objectives;
- (d) an identification and prioritization of initiatives and opportunities, including timeframes that take into account the requirements of this Order;
- (e) a risk profile that evaluates credit, interest rate, liquidity, price, operational, compliance, strategic, and reputation risks in relationship to capital;
- (f) a description of the Bank's targeted market(s), competitive factors in its identified target market(s), and a description of control systems to mitigate risk in the Bank's market(s);

- (g) an assessment of the Bank's present and planned products and services on or off balance sheet;
- (h) the identification of appropriate risk management systems to identify, measure, monitor, and control risks (including but not limited to policies and procedures over the credit, investment, funding, pricing, operational, and accounting functions that are consistent with safe and sound banking practices) within the Bank's present and planned products and services;
- (i) the identification of marketing strategies, marketing partners and funding strategies;
- (j) financial projections which shall be consistent with the Capital Plan required by Article VIII;
- (k) a description of the assumptions used to determine financial projections and growth targets;
- (l) assigned responsibilities and accountability for the strategic planning process;
- (m) a description of systems and metrics designed to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives; and
- (n) an evaluation of the Bank's internal operations, management structure, compensation, staffing requirements, Board and MIS, and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed in the Strategic Plan.

(2) If the Board's Strategic Plan under paragraph (1) of this Article includes a proposed sale or merger of the Bank, the Strategic Plan shall, at a minimum, address the steps

that will be taken and the associated timeline to ensure that within ninety (90) days after receipt of the Director's written determination of no supervisory objection to the Strategic Plan, a definitive agreement for the sale or merger is executed.

(3) Prior to adoption by the Board, a copy of the Strategic Plan and any subsequent amendments or revisions thereto shall be submitted to the Director for review and prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Strategic Plan and any amendments or revisions thereto.

(4) The Bank may not initiate any action that deviates significantly from the Strategic Plan (that has received no supervisory objection from the Director and that has been adopted by the Board) without a written determination of no supervisory objection from the Director. The Board must give the Director at least thirty (30) days advance written notice of its intent to deviate significantly from the Strategic Plan, along with an assessment of the impact of such change on the Bank's condition including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan. For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's products and services, marketing strategies, marketing partners, underwriting practices and standards, credit administration, collection strategies or operations, fee structure or pricing, accounting processes and practices, or funding strategies, any of which, alone or in aggregate, may have a material impact on the Bank's operations or financial performance; or any other

changes in personnel or operations that may have a material impact on the Bank's operations or financial performance.

(5) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan that includes a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Within ten (10) days of completing its evaluation, the Board shall submit a copy to the Director.

(6) The Board shall review and update the Bank's Strategic Plan at least annually, no later than January 31 of each year, and more frequently if necessary or if requested in writing by the Director.

(7) Until the Strategic Plan required under this Article has received a written determination of no supervisory objection from the Director, the Bank shall not significantly deviate from the products, services, asset composition and/or size, funding sources, structure, operations, policies, procedures, and/or market(s) of the Bank that existed before this Order without first obtaining the Director's prior written determination of no supervisory objection to such significant deviation. Any request to the Director for prior written determination of no supervisory objection to a significant deviation must be submitted to the Director at least thirty (30) days in advance of the significant deviation, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change.

ARTICLE VIII

CAPITAL PLAN and HIGHER MINIMUMS

(1) The Bank shall achieve by December 31, 2014, and thereafter maintain, the following capital ratios as defined in 12 C.F.R. Parts 3 and 6:

(a) Total capital at least equal to thirteen percent (13%) of risk weighted assets; and

(b) Tier 1 capital at least equal to nine percent (9%) of adjusted total assets.

(2) The requirement in this Order to meet and maintain specific capital levels means the Bank shall not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6, pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) By April 30, 2015, the Board shall develop and implement an effective internal capital planning process to assess the Bank’s capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels, which shall in no event be less than the requirements of paragraph (1) of this Article. The capital planning process shall be consistent with OCC Bulletin 2012-16, *Guidance for Evaluating Capital Planning and Adequacy* (June 7, 2012), and shall ensure the integrity, objectivity, and consistency of the process through adequate governance. The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least quarterly or more frequently if requested by the Director in writing.

(4) By April 30, 2015, the Board shall forward to the Director for his review and written determination of no supervisory objection, a written Capital Plan for the Bank, consistent with the Strategic Plan developed pursuant to Article VII of this Order, covering at least a three-year period. The written Capital Plan shall, at a minimum:

- (a) include specific plans for the maintenance of adequate capital, which shall in no event be less than the requirements of paragraph (1) of this Article;
 - (b) identify and evaluate all material risks;
 - (c) determine the Bank's capital needs in relation to material risks and strategic direction;
 - (d) identify and establish a strategy to strengthen capital and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;
 - (e) include detailed quarterly financial projections; and
 - (f) include specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Order that will have an impact on the Bank's capital.
- (5) The Bank may declare or pay a dividend or make a capital distribution only:
- (a) when the Bank is in compliance with its approved written Capital Plan and would remain in compliance with its approved written Capital Plan immediately following the declaration or payment of any dividend or the capital distribution;
 - (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (c) following the prior written determination of supervisory no objection by the Director.

(6) The Bank shall not pay any directors' fees unless the Bank is in compliance with the minimum capital ratios identified in paragraph (1) of this Article and would remain in compliance immediately following the payment of fees.

(7) Prior to adoption by the Board, a copy of the Bank's written Capital Plan shall be submitted to the Director for prior written determination of no supervisory objection by the Director. The Board shall review and update the Bank's written Capital Plan at least quarterly, and more frequently if they deem necessary and/or if required by the Director in writing. Revisions to the Bank's written Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank (subject to the Board's review and ongoing monitoring) shall implement and thereafter ensure adherence to the written Capital Plan and any amendments or revisions thereto.

(8) At least quarterly, the Board shall:

- (a) review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the Capital Plan, as well as the Bank's written explanation of significant differences between the actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items; and
- (b) prepare a written evaluation of the Bank's performance against the written Capital Plan, which shall include a description of the actions the Board will require the Bank to take to address any deficiencies.

The Board's review and preparation of the written evaluation shall be documented in the Board meeting minutes. The Board shall forward a copy of these quarterly written evaluations and Board meeting minutes to the Director within ten (10) days of completion of its written evaluation.

(9) If the Bank fails to maintain the capital ratios required by paragraph (1) of this Article, fails to submit a Capital Plan as required by paragraph (4) of this Article, or fails to implement or adhere to a Capital Plan for which the OCC has taken no supervisory objection, then the Bank may, in the OCC's sole discretion, be deemed undercapitalized for the purposes of this Order. The Bank shall take such corrective measures as the OCC may direct in writing from among the provisions applicable to undercapitalized depository institutions under 12 U.S.C. § 1831o(e) and 12 C.F.R. Part 6. For purposes of this requirement, an action "necessary to carry out the purpose of this section" under 12 U.S.C. § 1831o(e) shall include restoration of the Bank's capital to the minimum ratios required by this Order and any other action deemed advisable by the OCC to address the Bank's capital deficiency or the safety and soundness of its operations.

ARTICLE IX

INSIDER/NON-INSIDER TRANSACTIONS AND CONFLICT OF INTEREST POLICY

(1) By January 30, 2015, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written, comprehensive conflict of interest policy applicable to the Bank and the Bank's directors, principal shareholders, executive officers, affiliates, and employees ("Insiders") and related interests of such Insiders. The conflict of interest policy shall comport with: (i) 12 C.F.R. Part 215 (Regulation O); (ii) 12 U.S.C. § 1828(z) (General prohibition on the sale of assets to or the purchase of assets from an executive officer, director, or principal

shareholder of the insured depository institution, or any related interest of such person); (iii) 12 C.F.R. Part 223 (Regulation W); (iv) *The Directors Book: The Role of a National Bank Director* (Oct. 2010); and (v) "Duties and Responsibilities of Directors" booklet (Section 501) of the *Comptroller's Handbook*. In addition to defining a conflict of interest, the policy shall address and include:

- (a) avoidance of conflicts of interest and breaches of fiduciary duty, and the appearance of conflicts of interest;
- (b) involvement in the loan approval process of Insiders who may benefit directly or indirectly from the decision to grant credit;
- (c) disclosure of actual and potential conflicts of interest to the Board, and periodic disclosure of "related interests" as defined by 12 C.F.R. Part 215;
- (d) a proscription on the forgiveness of interest or fees on extensions of credit to Insiders, unless done so pursuant to a widely available employment benefit or compensation program;
- (e) parameters for the reimbursement of expenses claimed by executive officers or directors, including a requirement that expenses in excess of five hundred dollars (\$500) be approved in advance by the Board of Directors, or a specifically designated committee thereof;
- (f) parameters on charitable contributions, including the following:
 - (i) contributions must be paid directly by the Bank;
 - (ii) can be paid only from retained earnings;
 - (iii) must be reported to the Board on a quarterly basis; and

- (iv) contributions in excess of two thousand five hundred dollars (\$2,500), either in a single act of donation or, in the aggregate, to the same charitable organization in a fiscal year, may be paid only with the prior written approval of the Board of Directors;
- (g) policies and procedures on the use of Bank-guaranteed or Bank-issued credit cards for use by Insiders or Directors, including a proscription on the use of such cards for expenses unrelated to the Bank or for non-Insiders should the Bank establish Bank-guaranteed or Bank-issued credit cards;
- (h) requirements for arms-length dealing in any transactions by Insiders, or their related organizations, involving the Bank's sale, purchase, or rental of property and services;
- (i) disclosure of any Insider's material interest in the business of or relationship to a borrower, an applicant, or other customer of the Bank;
- (j) restrictions on and disclosure of receipt of anything of value by Insiders, directly or indirectly, from borrowers, loan applicants, other customers, or suppliers of the Bank;
- (k) measures to maintain the Bank's separate corporate identity from any associated companies or third parties providing services to the Bank;
- (l) development and implementation of specific policies, procedures, and controls and documentation regarding the contracts for services and payment of invoices to third-party vendors or consultants of the Bank in

conformance with OCC Bulletin 2013-29, Third-Party Relationships: Risk Management Guidance (October 30, 2013);

- (m) development and implementation of specific policies, procedures, and controls and documentation regarding extensions of credit to any persons or companies conducting business or providing services to the Bank to include: (i) disclosure in the credit approval file of the borrowers relationship with the Bank and/or the Bank's insiders, and (ii) an analysis and documentation in the credit approval file that the transaction was at arms-length; and
- (n) specific requirements for the types, amount and timing of information to be supplied to the Board of the Bank.

(2) By February 27, 2015, the Compliance Committee shall conduct a review of the Bank's existing relationships with its directors, executive officers, affiliates, principal shareholders, employees, and their related interests for the purpose of identifying relationships not in conformance with the policy. The Board shall ensure that:

- (a) any nonconforming relationships are brought into conformance with the policy within thirty (30) days; and
- (b) a Board committee made up of a majority of non-interested members shall be formed to review all proposed transactions, or modifications of existing relationships, between the Bank and any of its directors, executive officers, affiliates, principal shareholders, employees, and their related interests. Documentation supporting these reviews shall be in writing and preserved in the Bank.

(3) By April 1, 2015, the Board shall ensure that the Bank takes all appropriate and available steps to seek and obtain reimbursement for any excessive or improper payments made to Insiders or their related interests, associated companies, or related organizations, and for any excess or improper payments for services provided by Insiders or their related interests since January 1, 2010.

ARTICLE X

VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall promptly take all necessary steps to correct each violation of law, rule, or regulation cited in the 2014 ROEs or any subsequent ROE, or brought to the Board's or the Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts. Within thirty (30) days after a violation is cited or brought to the Board's or the Bank's attention, the Bank shall provide to the Board a list of any violations that have not been corrected. This list shall include an explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and a plan to correct the violation by a specified date.

(2) The progress reports required by Article I of this Order shall include the date and manner in which each correction has been effected during that reporting period. The progress reports required by Article I of this Order shall also include violations that have not been corrected, with an explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and a plan to correct the violation by a specified date.

(3) Within thirty (30) days after the day of the Order and, thereafter within thirty (30) days after a violation is cited or brought to the Board's or the Bank's attention, the Board shall

adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to:

- (a) specific procedures to prevent future violations as cited in the 2014 ROEs and subsequent ROEs; and
- (b) general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

ARTICLE XI

LIQUIDITY RISK MANAGEMENT

(1) By February 27, 2015, the Board shall develop, adopt, and thereafter ensure compliance with a comprehensive liquidity risk management policy (“Liquidity Policy”) that incorporates prudent risk management standards as set forth in the “Liquidity” booklet of the *Comptroller’s Handbook* (June 2012) and OCC Bulletin 2010-13, *Interagency Policy Statement on Funding and Liquidity Risk Management* (March 22, 2010). The Liquidity Policy shall emphasize the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and a formal, well-developed contingency funding plan as primary tools for measuring and managing liquidity risk. In addition to the general requirements set forth above, the Liquidity Policy shall, at minimum:

- (a) assess, on an ongoing basis, the Bank’s current and projected funding needs, including the development of cash flow projections (Sources and Uses Report) that include discrete and cumulative cash flow mismatches or gaps over specified time horizons under both expected and adverse business conditions;

- (b) ensure that sufficient funds or access to funds exist to meet those needs;
- (c) assess the risks related to brokered deposit restrictions, runoff, or rollovers as well as core deposit runoff;
- (d) detail action plans to identify and obtain sources of liquidity, including loan portfolio sales, investment portfolio liquidation and other lending, to meet projected shortfalls from existing sources;
- (e) identify responsible Bank personnel to declare, manage, and resolve a liquidity crisis;
- (f) provide for an internal and external communication process, including a process for reporting to the Board, for disseminating relevant information;
- (g) provide for a process of regular testing to ensure that the plan is operationally robust;
- (h) require Management to prepare, on a quarterly basis, liquidity risk management reports that provide sufficient liquidity information over at least a one-year time horizon to enable the Board and Asset Liability Committee to recognize longer-term liquidity needs; and
- (i) include a Contingency Funding Plan that incorporates, at a minimum, a quantitative projection and evaluation of expected funding needs and funding capacity based on realistic assessments of the behaviors of funding providers during stress events; a definition of a liquidity crisis for the Bank; and an identification of early warning liquidity triggers.

ARTICLE XII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall revise the Bank's written ALLL policies and procedures, and maintain an adequate ALLL in accordance with generally accepted accounting principles ("GAAP"). The Board shall adopt revised ALLL policies and procedures that are consistent with the guidelines set forth in OCC Bulletins 2001-37 (July 20, 2001), 2006-47 (December 13, 2006), and 2012-6 (January 31, 2012), and with the "Allowance for Loan and Lease Losses" booklet of the *Comptroller's Handbook*, and any subsequent regulatory releases, and shall incorporate the following:

- (a) internal risk ratings of loans;
- (b) results of the Bank's independent loan review;
- (c) criteria for determining which loans will be reviewed under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310 Receivables, how impairment will be determined, and procedures to ensure that the analysis of loans complies with ASC 310 requirements;
- (d) criteria for determining loan pools under ASC 450 and an analysis of those loan pools;
- (e) recognition of non-accrual loans in conformance with GAAP and regulatory guidance;
- (f) loan loss experience;
- (g) trends of delinquent and non-accrual loans;
- (h) concentrations of credit in the Bank;
- and (i) present and projected economic and market conditions.

(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 filing the Call Report, by additional provisions from earnings. Written documentation shall be maintained of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL and made available for review by Bank Examiners.

(3) A copy of the Board's ALLL program, and any subsequent revisions to the program, shall be submitted to the Director for no supervisory objection.

ARTICLE XIII

CREDIT RISK IDENTIFICATION

(1) By January 30, 2015, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's credit risk identification process.

The program shall include, but not be limited to:

- (a) procedures to ensure the Bank's credit risk ratings are consistent with applicable regulatory risk ratings defined in the "Rating Credit Risk" booklet of the *Comptroller's Handbook* (April 2001);
- (b) procedures to ensure accurate and timely risk grades, including loss recognition and identification of nonaccrual loans;
- (c) procedures for establishing loan officer and credit administration accountability for failure to assign accurate and timely risk grades on loans, including recognition of non-accrual status, under their respective supervision;
- (d) training for loan officers regarding the Bank's risk rating process; and

(e) policies and procedures to ensure the Bank's ALLL methodology complies with: (i) OCC Bulletin 2006-47, *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (December 13, 2006); (ii) U.S. GAAP; and (iii) the Instructions for Preparation of Consolidated Reports of Condition and Income ("Call Report Instructions"); and

(2) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article. A copy of the written program and all Loan Review Reports shall be forwarded to the Director and be maintained in a readily accessible manner at the Bank for review by the OCC.

ARTICLE XIV

TROUBLE DEBT RESTURTURE ("TDR") AND NONACCRUAL LOANS

(1) By January 30, 2015, the Board shall reverse or charge off all interest that has been accrued contrary to the requirements contained in the Call Report Instructions governing nonaccrual loans. Further, by January 30, 2015, the Board shall reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(2) By January 30, 2015, the Board shall adopt and implement written policies and procedures governing the identification, monitoring, reporting, and analysis for TDRs that conform to GAAP and is consistent with OCC Bulletin 2012-10, "*Supervisory Guidance on Accounting and Reporting Requirements.*"

(3) By January 30, 2015, the Board shall adopt and implement written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:

- (a) be consistent with the accounting requirements contained in the Call Report Instructions;
 - (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured;
 - (c) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria; and
 - (d) incorporate procedures for periodically testing the Bank's identification of and accounting for nonaccrual loans and troubled debt restructurings.
- (4) Upon adoption, a copy of the written policies and procedures adopted pursuant to this Article shall be forwarded to the Director for review.

ARTICLE XV

CREDIT UNDERWRITING AND ADMINISTRATION

- (1) The Board shall, by March 31, 2015, revise, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management (credit underwriting and administration). The program shall include, but not be limited to:
- (a) a description of the types of credit information required from borrowers and guarantors, including, but not limited to, annual audited statements, interim financial statements, personal financial statements, and tax returns with supporting schedules;
 - (b) procedures that require any extensions of credit are granted, by renewal or otherwise, to any borrower, only after obtaining and validating current credit information about the borrower and any guarantor sufficient to fully

assess and analyze the borrower's and guarantor's cash flow, debt service requirements, contingent liabilities, and global liquidity condition, and only after the credit officer prepares a documented credit analysis;

- (c) procedures that require adequate collateral coverage, particularly for revolving lines-of-credit;
- (d) a system to track, analyze, and report to the Board all exceptions, including but not limited to, financial exceptions, collateral exceptions, policy exceptions, and underwriting exceptions. The number of exceptions and aggregate dollar value of all exceptions shall be reported to the Board quarterly;
- (e) procedures to track, test, and approve any covenant waivers in accordance with the applicable loan agreements;
- (f) policies and procedures must address acceptable loan types, terms, covenants, concentration limits, collateral valuation analysis and shall ensure conformance with regulatory guidance including, but not limited to, Banking Circular 181 (REV), *Purchase of Loans In-whole or In-Part Participations* (October 10, 2013);
- (g) policies and procedures to address weak credit underwriting and administration practices such as liberal repayment programs (e.g. extended amortizations, multiple extensions, and capitalization of interest);
- (h) specific assignment of responsibility and accountability over the credit administration process to ensure the program developed pursuant to this Article is effectively implemented. The Board must review the experience

level of lending staff to ensure employees have the requisite knowledge to perform their duties, and must implement a plan to hire additional staff and/or provide training where staffing or knowledge gaps exist;

- (i) implementation of a plan to complete ongoing annual reviews of commercial lending relationships to support or revise current risk ratings; and
- (j) establishment of an independent loan review process reporting to the Board or a designated committee thereof.

ARTICLE XVI

CREDIT AND COLLATERAL EXCEPTIONS

(1) By March 31, 2015, the Board shall obtain current and satisfactory credit information on all loans lacking such information in the 2014 ROEs and any subsequent ROEs, in any internal or external loan review, or in any listings of loans lacking such information provided to management by Bank Examiners.

(2) By March 31, 2015, the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the 2014 ROEs, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the Bank Examiners.

(3) If the Board and management are unable to obtain the credit information or collateral documentation required by paragraphs (1) and (2) of this Article within ninety (90) days, the Board and management shall document their efforts to obtain such information or documentation, and maintain documentation of their efforts in the Bank's files.

(4) By April 30, 2015, the Board shall implement a formal process for

tracking credit and collateral exceptions with reporting to the Board.

ARTICLE XVII

PROBLEM ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the 2014 ROEs, in any subsequent ROEs, by internal or external loan review, or in any list provided to management by the Bank Examiners during any examination.

(2) By February 27, 2015, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to reduce the level of and to eliminate the basis of criticism of assets classified or listed as special mention in the 2014 ROEs, in any subsequent ROEs, or by any internal or external loan review, or in any list provided to management by the Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This written program shall comport with the Federal Financial Institutions Examination Council's *Policy Statement on Prudent Commercial Real Estate Workouts* (October 30, 2009).

(3) The written program shall include the development and implementation of specific workout plans for loan relationships with total committed exposure equal to or greater than \$250,000 and risk rated as "doubtful", "substandard", or "special mention". The workout plans shall include, at a minimum:

- (a) an analysis of the repayment capacity of the borrower including identification of the expected sources of repayment and cash flow analysis where loans are to be repaid from the borrower's operations;
- (b) an assessment of collateral supporting the loan, including an evaluation of the appraised value of such collateral and the position of the Bank's lien on such collateral where applicable;

- (c) an evaluation of any guarantees, including the guarantor's financial capacity and willingness to provide support for the credit;
- (d) the proposed actions to eliminate the basis of criticism;
- (e) identification of employees responsible for implementing the actions; and
- (f) the time frame for accomplishment of the proposed actions.

(4) The Board, or a designated committee thereof, shall conduct a review of the program and workout plans on at least a quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds \$250,000;
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(5) A copy of each review (in a format similar to Appendix A, attached hereto) shall be maintained in the file of the affected borrower as well as in a consolidated binder for OCC review.

(6) By April 30, 2015, the Board, or a designated committee thereof, shall conduct an assessment of the level and expertise of the problem asset workout staff to ensure that resources are sufficient to address the increasing volume of problem assets.

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the 2014 ROEs, in any subsequent ROEs, in any internal or external loan review, or in any list provided to management by the Bank Examiners during any examination and whose aggregate loans or other extensions exceed \$250,000 only if the Board (or a designated

committee thereof) approves the extension and fully documents, in writing, the reasons the extension of additional credit is necessary to promote the best interests of the Bank and will not compromise the formal workout plan to collect or strengthen the criticized asset.

(8) A copy of the approval of the Board, or of the designated committee, shall be maintained in the file of the affected borrower.

ARTICLE XVIII

LOAN REVIEW

(1) By January 30, 2015, the Board shall adopt, and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to an effective, independent, and ongoing independent loan review program to review, at least quarterly, the Bank's loan and lease portfolios, to assure the timely identification and categorization of problem credits. The program shall provide for a written report to be filed with the Board or designated committee thereof promptly after each review and shall employ a loan and lease rating system consistent with the guidelines set forth in the "Rating Credit Risk" and "Allowance for Loan and Lease Losses," booklets of the *Comptroller's Handbook*. Such written reports shall include, at a minimum, conclusions regarding the following:

- (a) the loan review scope and coverage parameters;
- (b) the overall quality of the consumer and commercial loan and lease portfolios relative to the Bank's risk profile and capital levels;
- (c) the overall underwriting and approval process;
- (d) the overall credit administration process;
- (e) the volume and types of concentrations of credit and corresponding internal risk management;

- (f) the identification, type, rating, and amount of problem loans and leases;
- (g) the identification and amount of delinquent and nonaccrual loans and leases;
- (h) the Bank's compliance with regulatory and accounting guidelines for managing and accounting for its Other Real Estate Owned;
- (i) loans and leases to the directors, executive officers, and principal shareholders of the Bank and to their related interests;
- (j) credit underwriting and collateral documentation exceptions;
- (k) credit analysis and documentation of such analysis;
- (l) accuracy of internal risk ratings and nonaccrual recognition;
- (m) completeness and effectiveness of problem loan workout plans;
- (n) the independence and appropriateness of the collateral valuation process;
- (o) the accuracy of the Bank's recognition of TDRs;
- (p) the identity of the loan officers(s) of each of the loans reported in accordance with subparagraphs (b) through (o);
- (q) the identification and status of credit-related violations of law, rule, or regulation;
- (r) adequacy of the Bank's ALLL (either by Loan Review or Internal Audit);
and
- (s) loans and leases and other extension of credit that are exceptions to or not in compliance with the Bank's lending and leasing policies and procedures.

(2) By December 31, 2014, the Board shall employ an independent external loan review firm to conduct a review of the Bank's loan portfolio for all commercial loan relationships with committed exposure that equals or exceeds \$250,000 to ensure that current risk ratings and corresponding accrual statuses are appropriate. The Board must submit the qualifications of the loan review firm and the loan review scope to the Director for prior written no supervisory objection.

(3) The Board shall submit the qualifications and scope of the loan review to the Director for prior written determination of no supervisory objection should the Board make any changes in the loan review firm or the scope going forward after the Board receives prior written no supervisory objection from the Director pursuant to paragraph (2) of this article.

(4) The Board shall evaluate the loan and lease review written reports, and shall ensure that the Bank takes immediate, adequate, and continuing remedial action, as appropriate, to correct deficiencies noted in the reports. At least quarterly, management shall provide written reports to the Board on the remedial actions taken by the Bank regarding findings noted in the loan review reports. The Board must forward those quarterly reports to the Director within ten (10) days of reporting to the Board along with the loan review reports.

ARTICLE XIX

APPRAISALS OR EVALUATIONS OF REAL PROPERTY

(1) By March 31, 2015, the Board shall obtain a current appraisal or evaluation, as applicable, of the real estate securing each of the loans on any list provided to management by Bank Examiners or by the Bank's internal loan review.

(2) The appraisals obtained pursuant to paragraph (1) of this Article shall conform to the minimum appraisal standards set forth at 12 C.F.R. § 34.44 and the evaluations shall conform

to the guidelines for evaluations set forth in the *Interagency Appraisal and Evaluation Guidelines* (December 10, 2010).

(3) Within thirty (30) days of receipt of each appraisal or evaluation obtained pursuant to paragraph (1) of this Article, the Board shall reassess the risk rating and accrual status of the loan, as well as the amount of impairment, if any, in accordance with GAAP (including FASB ASC 310-10, *Receivables - Overall - Subsequent Measurement - Impairment*).

(4) The Board must ensure that the appraisal review process is expanded to include a written determination of appropriateness of the appraisal and the underlying assumptions supporting the market value.

ARTICLE XX

CONCENTRATIONS OF CREDIT

(1) By March 31, 2015, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with OCC Concentration Handbook, OCC Bulletin 2006-46, CRE Concentrations and OCC Bulletin 2012-16, Capital Planning. The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet to identify any concentrations of credit;
- (b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) policies and procedures to control and monitor concentrations of credit;
and
- (d) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in the “Loan Portfolio Management” booklet of the *Comptroller's Handbook*.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (b) of paragraph (1) of this Article and that the analysis demonstrate that the concentration will not subject the Bank to undue credit or interest rate risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Director immediately following the review.

ARTICLE XXI

THIRD-PARTY CONTRACTS INVOLVING SALE, MERGER, OR RECAPITALIZATION OF THE BANK

(1) Effective immediately, the Bank shall not enter into any contract with a third party to assist in the sale, merger, or recapitalization of the Bank that requires the payment of anything other than expenses prior to such sale, merger, or recapitalization, or that requires the Bank to pay, directly or indirectly, the cost of performing due diligence, or other services related to the transaction, unless the Bank first receives the Director's written determination of no supervisory objection.

(2) Any request for the Director's written determination of no supervisory objection shall be in writing and shall include:

- (a) a description of the due diligence credit review, fairness opinion, or any other services to be performed by the third party, including a copy of the proposed contract or engagement;
- (b) a description of the Bank's due diligence process for agreeing to the services to be performed by a potential purchaser or merger partner; and

- (c) a determination by the Board that:
 - (i) the activities to be performed by the third party as part of the sale or merger requirements are fair and reasonable to the Bank;
 - (ii) the parties are able to perform under the contract or commitment;
 - (iii) the fees the Bank is required to pay to the third party are reasonable for the services provided; and
 - (iv) the contract is in the best interests of the Bank.

Following any written determination of no supervisory objection by the Director, the Board shall regularly monitor the contractor or service provider's performance to ensure that the contractor or service provider is complying with the written contract or engagement. The Board shall immediately take appropriate action if the contractor or service provider is not complying with the written contract or engagement and shall maintain documentation of any such actions.

ARTICLE XXII

ENGAGEMENT OF THIRD PARTIES

(1) The Bank shall not renew or enter into new contracts or engagements with a third party company, entity, or person to perform critical activities (including but not limited to internal audit, interest rate risk management, loan review, liquidity risk management, information technology, legal services, financial services or any type of consulting services) for or on behalf of the Bank unless the engagements are in compliance with OCC Bulletin 2013-29, *Third-Party Relationships: Risk Management Guidance* (October 30, 2013).

(2) The Bank must routinely monitor and document its review of the performance and activities of each third party, including ensuring that committed goods and services are received,

that the third party is in compliance with the written contract, and that the third party remains a viable provider of services. The Board shall immediately take appropriate action if the third party is not complying with the written contract or engagement and shall maintain documentation of any such action.

ARTICLE XXIII

CLOSING

(1) Although the Board is by this Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Director, 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 it by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) Except as otherwise expressly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order.

(4) If the Bank requires a waiver or suspension of any relevant provision, or an extension of any timeframe within this order, the Board shall submit a written request to the Director asking for the 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 waiver or suspension of any provision or an extension of a timeframe within this Order. The Director's decision concerning a request submitted pursuant to this paragraph is final and not subject to further review.

(5) The provisions of this Order are effective upon issuance of this Order by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(6) In each instance in this Order 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, direct 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 Order;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(7) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

(8) The terms of this Order, 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.

(9) Each citation or referenced guidance included in this Order includes any

subsequent guidance that replaces, supersedes, amends, or revises the cited law, regulation or guidance.

(10) The OCC and the Bank entered into a Formal Agreement on June 7, 2013 (“Formal Agreement”). This Order replaces the Formal Agreement in its entirety and, therefore, the Formal Agreement is hereby terminated. Provided however, no provision in this Order shall bar or otherwise limit any enforcement action the OCC may choose to initiate, in its discretion, against the Bank or its institution-affiliated parties for any failure to comply with the Formal Agreement while it was effective.

(11) All reports or plans that the Bank or Board has agreed to submit to the Comptroller shall be forwarded, by overnight mail or via email, to the following:

Director for Special Supervision
Comptroller of the Currency
400 7th Street, SW
Suite 3E-218, MS 8E-12
Washington, DC 20219

with a copy to:
Chicago North Field Office
Comptroller of the Currency
1700 East Golf Road, Suite 800
Schaumburg, IL 60173

IT IS SO ORDERED, this 17th day of December, 2014.

/s

Henry Fleming
Director for Special Supervision
Office of the Comptroller of the Currency

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)	AA-EC-2014-114
First National Bank)	
Waupaca, Wisconsin)	

**STIPULATION AND CONSENT TO THE ISSUANCE
OF A CONSENT ORDER**

WHEREAS, the Comptroller of the Currency of the United States of America ("Comptroller" or "OCC") intends to initiate cease and desist proceedings against First National Bank, Waupaca, Wisconsin ("Bank"), pursuant to 12 U.S.C. § 1818, through the issuance of a Notice of Charges for unsafe or unsound banking practices relating to asset quality and management, violations of law and regulation, and for the failure to comply with the Formal Agreement, dated June 7, 2013;

WHEREAS, the Bank, in the interest of compliance and cooperation consents to the issuance of a Consent Order, dated December 17, 2014 ("Order"), by executing this Stipulation and Consent to the Issuance of a Consent Order;

NOW THEREFORE, in consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I

JURISDICTION

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

(2) The Comptroller is "the appropriate Federal banking agency" regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

ARTICLE II

AGREEMENT

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further agrees that said Order shall be deemed an “order issued with the consent of the depository institution,” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i).

(3) 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(i), 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.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of the Consent Order and/or execute the Consent Order.

(5) The Bank also expressly acknowledges that no officer or employee of the Comptroller 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.

(6) The terms and provisions of this Stipulation and the Consent Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or the Consent Order, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Stipulation or the Consent Order.

ARTICLE III

WAIVERS

(1) The Bank, by signing this Stipulation and Consent, hereby waives in connection with the issuance of the Order:

- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
- (b) any and all procedural rights available;
- (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i) and 12 C.F.R. Part 19;
- (d) all rights to seek any type of administrative or judicial review of the Order; and
- (e) any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

CLOSING PROVISIONS

(1) The provisions of this Stipulation and Consent Order shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon it by the several laws of the United States of America.

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

/s

Henry Fleming
Director
Special Supervision Division

12/17/2014

Date

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

/s _____ 12/17/14
Richard G. Johnson Date

/s _____ 12/17/14
Stephen E. Johnson Date

/s _____ 12/17/14
Roman M. Jungers, II Date

/s _____ 12/17/14
James T. Olsen Date

/s _____ 12/17/14
Archie G. Overby Date

/s _____ 12/17/14
Jeffrey M. Petersen Date

/s _____ 12/18/14
Thomas A. Shambeau Date

/s _____ 12/17/14
Donald H. Sorenson Date

/s _____ 12/19/14
Sylvia C. Thoe Date

/s _____ 12/17/14
Gary L. Thoe Date

/s _____ 12/17/14
Robert J. Wagner Date