#2016-091

AGREEMENT BY AND BETWEEN
The First National Bank of Lacon
Lacon, Illinois
and
The Comptroller of the Currency

The First National Bank of Lacon, Lacon, Illinois ("Bank") and the Comptroller of the Currency of the United States of America ("Comptroller") wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has found unsafe or unsound banking practices relating to concentrations of credit, credit administration, strategic planning, and executive compensation at the Bank, as detailed in the March 21, 2016, Report of Examination ("ROE").

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 at all times operate in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

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

(2) This Agreement shall be construed to be a "written agreement between such

depository institution and such agency" within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a "formal written agreement" within the meaning of 12 C.F.R. § 5.51(c)(7)(ii). See 12 U.S.C. § 1831i.

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

(5) This Agreement shall cause the Bank not to be designated as an "eligible depository institution" for purposes of 12 C.F.R. § 5.3(h), unless otherwise informed in writing by the Comptroller.

(6) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller ("ADC") pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Peoria Field Office
One Technology Plaza
211 Fulton Street, Suite 604
Peoria, IL 61602-1350

ARTICLE II

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by September 30, 2016, and thereafter maintain the following capital ratios as defined in 12 C.F.R. Part 3:

(a) A tier 1 leverage ratio at least equal to eight percent (8%);

(b) A common equity tier 1 capital ratio at least equal to eleven percent (11%); and

(c) A total capital ratio at least equal to twelve percent (12%).

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be "well capitalized" for purposes of 12 U.S.C. § 1831(o) and 12 C.F.R. Part 6, pursuant to 12 C.F.R. § 6.4(c)(l)(v). In addition, the Bank may not solicit or accept any brokered deposit (as defined in 12 C.F.R. § 337.6(a)(2)) except in compliance with the applicable restrictions of 12 U.S.C. § 183lf and 12 C.F.R. § 337.6.

(3) Within sixty (60) days of the date of this Agreement, the Board shall forward to the Assistant Deputy Comptroller for his review, pursuant to paragraph five (5) of this Article, a written Capital Plan for the Bank, covering at least a three-year period. The written Capital Plan shall be consistent with OCC Bulletin 2012-16 (Guidance for Evaluating Capital Planning and Adequacy) (June 7, 2012) and, 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 one (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 if necessary 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 Agreement that will have an impact on the Bank's capital.

(4) 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; and

(b) following receipt of prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

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

ARTICLE III

CONCENTRATIONS

(1) Within eighty (80) days from the date of this Agreement, the Board shall submit to the Assistant Deputy Comptroller, for review and prior written determination of no supervisory objection, a written program designed to identify, measure, monitor, and control concentrations of credit consistent with the “Concentrations of Credit” booklet of the Comptroller’s Handbook,

dated December 2011. The program shall include, at a minimum:

(a) identification of the Bank's known and potential concentrations of credit (potential concentrations are those approaching 25 percent of capital), focusing on the Bank's concentration in agricultural loans;

(b) analysis of the risk that the Bank's known concentration of agricultural credit and any potential concentrations of credit pose to the Bank's earnings, capital, and operating strategy under stressed market conditions, economic downturns, and periods of general market illiquidity as well as normal market conditions;

(c) review of the existing concentration limit on agricultural loans and any other concentrations to determine whether the limits are reasonable and reflect the Board's risk tolerance, and if necessary, revision of the existing limits relative to capital based on the analysis performed under subparagraph (1)(b) of this Article;

(d) development and implementation of action plans, approved by the Board, to reduce the risk of any concentration that approaches or exceeds the limitations established pursuant to subparagraph (1)(c) of this Article; and

(e) management information systems designed to ensure timely and accurate reporting of concentrations to the Board.

(2) The Board shall ensure that all concentrations of credit are subjected to the analysis required by subparagraph (1)(b) of this Article at least annually, and, if that analysis demonstrates that the concentration subjects the Bank to undue risk, the Board shall take appropriate steps to mitigate such risk.

(3) For purposes of this Article, a concentration of credit is as defined in the "Concentrations of Credit" booklet of the <u>Comptroller's Handbook</u>.

(4) Immediately upon receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection to the Concentrations Program, the Board shall adopt, implement, and thereafter ensure Bank adherence to the program. Beginning December 31, 2016, the Bank shall send quarterly updates to the Assistant Deputy Comptroller on its progress in complying with this Article. Any subsequent amendments or changes to the Program shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

ARTICLE IV

COMMERCIAL LOAN ADMINISTRATION AND PROBLEM LOAN MANAGEMENT

(1) Within eighty (80) days from the date of this Agreement, the Board shall submit to the Assistant Deputy Comptroller, for review and prior written determination of no supervisory objection, a written program to improve the Bank's commercial loan underwriting and administration and effectively manage problem loans. The Program shall include, at a minimum:

(a) procedures to ensure that extensions of credit are granted to commercial borrowers only after obtaining, analyzing, and documenting current and complete financial information, including identifying the expected sources of repayment, conducting a detailed cash flow analysis of all sources of repayment, and using financial statements and tax returns in a consistent manner, as outlined in the Matters Requiring Attention section of the March 21, 2016, ROE;

(b) a requirement for annual financial analysis, completed no longer than every 18 months and within 90 days of receipt of financial information, of all existing commercial credit relationships of $100,000 or more, with the exception that management may increase the threshold to $250,000 for loans secured by agricultural real estate, if the loan-to-value ratio is 70 percent or less and the borrower is farming the land;

(c) an assessment of staffing levels in the loan department and the addition of staff if warranted to ensure thorough initial and ongoing financial analysis and monitoring as required under 1(a) and 1(b) of this Article;

(d) a process to improve management of problem loans and collections, including development of written action plans that include: a summary of events leading to the loan(s) problem status, financial analysis of the borrower, collateral information, specific actions to be taken, and timeframes for taking those actions; and

(e) a requirement for quarterly review of problem loan action plans by the Board or a committee thereof, beginning December 31, 2016, to assess reasonableness of the action plans and determine whether management is adhering to the stated timeframes.

(2) Immediately upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall adopt, implement and thereafter ensure adherence to the Program. Any subsequent amendments or changes to the Program shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

ARTICLE V

STRATEGIC PLANNING

(1) Within eighty (80) days from the date of this Agreement, the Board shall submit to the Assistant Deputy Comptroller, for review and prior written determination of no supervisory objection, a written Strategic Plan for the Bank 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, and reduction in the volume of classified assets, together with strategies to achieve those objectives and, at a minimum, include:

(a) a statement of strategic goals and objectives for the Bank;

(b) assessment of the Bank's present and future operating environment;

(c) identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(a) of this Article;

(d) evaluation of the Bank's staffing requirements (including staffing in the agricultural lending area), internal operations, Board and management information systems, and policies and procedures for their adequacy and contribution to the accomplishment of goals and objectives developed under (1)(a) of this Article;

(e) a management and Board succession program to ensure the continuity of capable management and Board oversight;

(f) an action plan to improve Bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability, and specific time frames;

(g) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the Strategic Plan;

(h) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and

(i) systems to monitor the Bank's progress in meeting the Plan's goals and objectives.

(2) Immediately upon receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection to the Strategic Plan, the Board shall adopt, implement, and thereafter ensure Bank adherence to the Strategic Plan.

(3) The Board shall monitor and review the Bank's actual results against the projections of the Strategic Plan on at least a quarterly basis, or more frequently if necessary or if required by the Assistant Deputy Comptroller, and provide for appropriate and specific adjustments. The Board shall review and update the Bank's Strategic Plan at least annually, or more frequently if directed in writing to do so by the Assistant Deputy Comptroller or warranted under the circumstances. Any revisions to the Strategic Plan shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall promptly implement the proposed changes and thereafter ensure Bank adherence to the revised Strategic Plan.

ARTICLE VI

EXECUTIVE AND MANAGEMENT COMPENSATION

(1) Within eighty (80) days from the date of this Agreement, the Board shall submit to the Assistant Deputy Comptroller, for review and prior written determination of no supervisory objection, a written compensation program that includes, at a minimum:

(a) safeguards to prevent the payment of compensation, fees, and benefits (including post-employment benefits) (collectively, "Compensation") to executive officers, members of management, directors, and principal shareholders that are excessive or that could lead to material financial loss;

(b) a comprehensive review of Compensation that the Bank is paying to executive officers (with focus on the Chairman of the Board), considering the factors listed in 12 C.F.R. Part 30, Appendix A, and a requirement that the Board conduct its initial review of Compensation within one hundred twenty (120) days from the date of this Agreement, and subsequent reviews at least annually thereafter, to ensure Compensation is not excessive;

(c) establishment of written duties and responsibilities for all executives and members of senior management;

(d) a requirement that, upon completion of each compensation review, the Board provide a written determination as to whether Compensation amounts are commensurate with the duties and responsibilities performed by each individual;

(e) justification of any Compensation deemed excessive, or not commensurate with, the individual's duties and responsibilities as a result of the compensation review, and;

(f) a requirement that, to the extent the Board concludes as a result of the initial or any subsequent compensation review that Compensation paid to any individual is excessive, the Board will detail in writing the actions it will take to adjust the Compensation amount to a reasonable level.

(2) Immediately upon receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection to the compensation program, the Board shall adopt, implement, and thereafter ensure Bank adherence to the compensation program.

CLOSING

(1) Although the Board has agreed to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, 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. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(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 by written mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) 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, including ensuring that the Bank has adequate processes, personnel, and control systems;

(b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;

(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.

(6) 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/	9/13/16
Gary L. Baranowski Assistant Deputy Comptroller Peoria Field Office	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.

/s/	9-13-16
Charles Allen	Date
/s/	9-14-16
Dennis Herridge	Date
/s/	9-13-16
William Kenyon	Date
/s/	9/13/16
Norman Nelson	Date
/s/	9-13-16
Thomas Peugh	Date
/s/	9-13-16
Carol Schultz	Date