

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

ILLINOIS DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
DIVISION OF BANKING
SPRINGFIELD, ILLINOIS

Written Agreement by and among

PORT BYRON STATE BANK
Port Byron, Illinois

FEDERAL RESERVE BANK
OF CHICAGO
Chicago, Illinois

and

ILLINOIS DEPARTMENT OF FINANCIAL
AND PROFESSIONAL REGULATION,
DIVISION OF BANKING
Springfield, Illinois

Docket No. 13-016-WA/RB-SM

2013-DB-13

WHEREAS, in recognition of their common goal to maintain the financial soundness of Port Byron State Bank, Port Byron, Illinois (the "Bank"), a state-chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Chicago (the "Reserve Bank"), and the Illinois Department of Financial and Professional Regulation, Division of Banking (the "Division") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on June 21, 2013, the Bank's board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing ROGER W. CURRY to consent to this Agreement on behalf of the Bank, and consenting to compliance with each and

every applicable provision of this Agreement by the Bank, and its institution-affiliated parties, as defined in sections 3(u) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. §§ 1813(u)).

NOW, THEREFORE, the Bank, Reserve Bank, and the Division agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Division a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank's condition and maintain effective control over, and supervision of, the Bank's major operations and activities, including but not limited to, credit risk management, lending and credit administration, asset quality, capital, and earnings;

(b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations and to monitor exceptions to approved policies and procedures;

(c) steps to improve the information and reports that will be regularly reviewed by the full board of directors and its committees in their oversight of the operations and management of the Bank, including information on the Bank's credit risk management, lending and credit administration, adversely classified assets, allowance for loan and lease losses ("ALLL"), capital, and earnings;

(d) improvements to the Bank's management information systems to ensure that senior management and the full board of directors obtain timely and accurate information regarding the condition of the Bank's loan portfolio;

(e) distribution of reports to the full board of directors;

(f) the maintenance of adequate and complete minutes of all board and committee meetings, approval of such minutes, and their retention for supervisory review; and

(g) assessment of the structure, qualifications, and staffing of the Bank's credit function.

Management Plan

2. Within 60 days of this Agreement, the board of directors shall submit to the Reserve Bank and the Division a written plan to improve senior management that addresses the findings and conclusions of the recently completed independent management review and describes the specific actions the board of directors will take to strengthen the Bank's management and to hire, as necessary, additional or replacement personnel.

Credit Risk Management

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) Procedures to identify, limit and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1);

(b) strategies to minimize credit losses and reduce the level of problem assets;

(c) the responsibility of the board of directors to establish appropriate risk tolerance guidelines and risk limits; and

(d) periodic review and revision of risk exposure limits to address changes in market conditions.

Lending and Credit Administration

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written enhanced lending and credit administration program that shall, at a minimum, address, consider, and include:

(a) Loan underwriting procedures that include and provide for, at a minimum, documented analysis of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;

(b) steps to ensure compliance with loan documentation and collateral requirements;

(c) steps to minimize exceptions including, but not limited to, review and approval of exceptions by the loan committee;

(d) standards for underwriting and renewing interest only loans;

(e) enhancements to the loan workout process to ensure that workout plans for problem loans are consistent with the Interagency Guidance on Prudent Commercial Real Estate Loan Workouts, dated October 30, 2009 (SR 09-7);

(f) policies and procedures to ensure the timely recognition of collateral impairment; and

(g) standards for the timely movement of loans to non-accrual status.

Loan Review

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program for the effective, ongoing review of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall provide for policies and procedures for the timely identification and categorization of problem loans. The program shall, at a minimum, address, consider, and include:

- (a) The scope, depth, and frequency of the independent loan review;
- (b) clearly defined responsibilities for the loan review function; and
- (c) an objective and timely assessment of the overall quality of the loan portfolio and the accuracy of assigned loan grades.

6. The board of directors, or a committee thereof, shall evaluate the loan review report(s) and take appropriate steps to ensure that management takes prompt action to address findings noted in the report(s).

Asset Improvement

7. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of the joint examination conducted by the Reserve Bank and the Division that commenced on November 26, 2012 (the "Report of Examination") or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices

for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review.

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of \$200,000, including other real estate owned ("OREO"), that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan, relationship, or other asset in excess of \$200,000, including OREO, becomes past due as to principal or interest for

more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Division to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report.

Allowance for Loan and Lease Losses

9. (a) The Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the Division.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the Division. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience,

evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Division, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

- (b) the volume of adversely classified assets;
- (c) the adequacy of the loan loss reserve;
- (d) any planned asset growth;
- (e) the anticipated level of retained earnings;
- (f) anticipated and contingent liquidity needs; and
- (g) the source and timing of additional funds to fulfill the Bank's future

capital requirements and loan loss reserve needs.

11. The Bank shall notify the Reserve Bank and the Division, in writing, no more than 30 days after the end of any calendar quarter in which any of the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the Bank shall submit an acceptable written plan that details the steps the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

Strategic Plan and Budget

12. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a strategic plan for the remainder of 2013 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

- (i) Identification of the major areas where, and means by which, the board of directors will seek to improve the Bank's operating performance;

(ii) a realistic and comprehensive budget for the remainder of calendar year 2013, including income statement and balance sheet projections; and

(iii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A strategic plan and budget for each calendar year subsequent to 2013 shall be submitted to the Reserve Bank and the Division at least 30 days prior to the beginning of that calendar year.

Dividends

13. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the Division.

(b) Any request to declare or pay dividends must be consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). All requests for prior approval shall be received by the Reserve Bank and the Division at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and loan loss reserve needs of the Bank.

Compliance with Laws and Regulations

14. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall obtain the Reserve Bank's and the Division's approval and shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and

Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*). The Bank shall not appoint any individual to the Bank's board of directors or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank or the Division notifies the Bank of disapproval.

(b) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

15. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Division written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans and Programs

16. (a) The Bank shall submit written plans and programs that are acceptable to the Reserve Bank and the Division within the applicable time periods set forth in paragraphs 3, 4, 5, 8(a), 9(c), and 10 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Division, the Bank, shall adopt the approved plans and programs. Upon adoption, the Bank shall promptly implement the approved plans and programs and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Communications

17. All communications regarding this Agreement shall be sent to:
- (a) Mr. Richard C. Brunskill
Assistant Vice President
Federal Reserve Bank of Chicago
230 S. LaSalle Street
Chicago, Illinois 60604
 - (b) Mr. Scott D. Clarke
Assistant Director, Division of Banking
Illinois Department of Financial and Professional Regulation
320 West Washington Street
Springfield, Illinois 62786
 - (c) Mr. Roger Curry
Chairman of the Board
Port Byron State Bank
124 North Main Street
Port Byron, Illinois 61275

Miscellaneous

18. Notwithstanding any provision of this Agreement, the Reserve Bank and the Division may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

19. The provisions of this Agreement shall be binding upon the Bank and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

20. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Division.

21. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Division, or any other federal or state agency from taking any other action affecting the Bank or any of their current or former institution-affiliated parties and their successors and assigns.

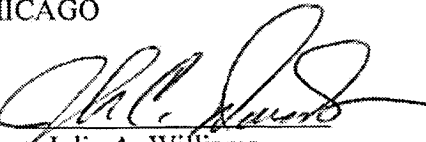
22. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818) and section 48 of the Illinois Banking Act (205 ILCS 5/48).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 23rd day of July, 2013.

PORT BYRON STATE BANK

By: 

FEDERAL RESERVE BANK OF
CHICAGO

By: 
Julie A. Williams
Senior Vice President

ILLINOIS DEPARTMENT OF
FINANCIAL AND PROFESSIONAL
REGULATION

By: 
Manuel Flores
Acting Secretary