FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF INDIANA

DEPARTMENT OF FINANCIAL INSTITUTIONS

INDIANAPOLIS, INDIANA

In the Matter of OWEN COUNTY STATE BANK SPENCER, INDIANA (STATE CHARTERED INSURED NONMEMBER BANK)	CONSENT ORDER FDIC-16-0161b

Owen County State Bank, Spencer, Indiana ("**Bank**"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, including those related to the Bank Secrecy Act, 31 U.S.C. §§ 5311-5330, and its implementing regulations including 12 C.F.R. Part 326, Subpart B, and 31 C.F.R. Chapter X (hereinafter collectively, the "**Bank Secrecy Act**" or "**BSA**"), and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("**Act**"), 12 U.S.C. § 1818(b),and under Indiana Code §§ 28-11-4 *et seq.*, regarding hearings before the Department of Financial

Institutions for the State of Indiana ("**DFI**"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("**CONSENT AGREEMENT**") with representatives of the Federal Deposit Insurance Corporation ("**FDIC**") and the DFI dated August 29, 2016, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law and regulation, the Bank consented to the issuance of a CONSENT ORDER ("**ORDER**") by the FDIC and the DFI.

The FDIC and the DFI considered the matter and determined to accept the CONSENT AGREEMENT.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Indiana Code §§ 28-11-4 *et seq.* have been satisfied, the FDIC and DFI **HEREBY ORDER** that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. During the life of this ORDER and thereafter, the Bank shall have and retain management qualified to oversee all aspects of the Bank's BSA Compliance Program and to assure compliance with all applicable laws and regulations related thereto. Each member of management with responsibilities relating to section 326.8 of the FDIC Rules and Regulations

("**FDIC Rules**"), 12 C.F.R. § 326.8, or the Treasury Department's Financial Recordkeeping Regulations, 31 C.F.R. Chapter X, shall have the qualifications and experience commensurate with his or her duties and responsibilities under those regulations.

BSA STAFF

2. Within forty-five (45) days from the effective date of this ORDER, the Bank shall analyze and assess the Bank's staffing needs in order to provide for an adequate number of qualified staff for the Bank's BSA department, including provision for succession of BSA responsibilities. The BSA department staff shall be evaluated to determine whether these individuals possess the ability, experience, training and other necessary qualifications required to perform present and anticipated duties, including adherence to the Bank's BSA Compliance Program, the requirements of the BSA regulations, and the provisions of this ORDER.

WRITTEN BSA COMPLIANCE PROGRAM

3. Within ninety (90) days of the effective date of this ORDER, the Bank shall develop, adopt, and implement a revised written BSA compliance program, which fully meets all applicable requirements of section 326.8 of the FDIC Rules, 12 C.F.R. § 326.8, and is designed to, among other things, assure and maintain full compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto.

(a) The Bank shall provide the Regional Director of the FDIC's Chicago Regional Office ("**Regional Director**") and the Director of DFI ("**Director**") with a copy of the revised written BSA compliance program for review. Thereafter, the revised program and its implementation shall be conducted in a manner acceptable to the Director and Regional Director, as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall:

i. Require the Bank to develop, adopt and implement a revised, effective written policy designed to assure full compliance with all provisions of the BSA. Specifically, the policy should provide for written, detailed guidelines regarding the administration of high risk customer relationships, including the solicitation, opening, and ongoing monitoring of all such accounts for suspicious activity and the filing of all required reports resulting there from.

ii. Require the Bank to develop a system of internal controls to assure full compliance with the BSA and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions to assure the identification and proper reporting of all known or suspicious criminal activity, money laundering activity, or violations of the BSA.

iii. Require all Suspicious Activity Reports (”**SARs**”) to be timely and comprehensively prepared in full compliance with all applicable requirements of section 353 of the FDIC’s Rules and Regulations and 12 C.F.R. § 353.

iv. Provide for accurate and comprehensive risk assessments for BSA compliance which fully take into account the nature of the Bank’s customer base including, but not limited to, customers with privately-owned automated teller machines (“**ATMs**”) and non-bank financial institution (“**NBFI**”) customers.

ACCOUNT TRANSACTION MONITORING

4. Within one hundred and twenty (120) days from the effective date of this ORDER, the Bank shall develop, adopt, and implement detailed written procedures and controls, which are focused on the Bank's automated account transaction monitoring system. Such detailed written procedures and controls shall include, at a minimum:

a. Procedures to validate that all applications from the Bank’s core processing software are appropriately interfaced into the automated account transaction monitoring system;

b. Procedures to ensure timely reviews of system generated alerts/cases for potentially suspicious activity;

c. Procedures, controls, and delegations of authority for determining when alerts/cases should be closed or further evaluated;

d. Procedures detailing the minimum level of documentation supporting the basis for decisions to close alerts/cases with no further investigation; and

e. Procedures and controls for establishing or making changes to the various settings and parameters used by the system to generate transaction alerts/cases.

BSA OFFICER TRAINING

5. Within ninety (90) days from the effective date of this ORDER, the Bank shall ensure that the BSA Officer obtains specialized training specific to the Bank's automated account transaction monitoring system.

SUSPICIOUS ACTIVITY REPORTING

6. Within one hundred and eighty (180) days from the effective date of this ORDER, the Bank shall develop, adopt, and

implement a revised written program for monitoring and reporting suspicious activity, which fully meets all applicable requirements of section 353 of the FDIC Rules, 12 C.F.R. § 353, and is designed to, among other things, assure and maintain full compliance by the Bank with FDIC Rules regarding monitoring and reporting suspicious activity.

(a) The written procedures shall address, at a minimum, the following: reports, logs, and other records used to monitor suspicious account activity, such as automated reports (cash aggregation, large fluctuations of account balances, insufficient and overdrawn accounts, kiting suspect), funds transfers (domestic and international), monetary instrument sales, subpoenas, FINCEN 314(a) requests, and all SARs and CTRs that have been filed.

(b) The revised procedures shall require that responsible BSA personnel review all current and expanded reports on an established, fixed time frame. Secondary reviews should be conducted and determinations made within a fixed, reasonable time period, and the dates on which the review and determination were made shall be documented, including decisions not to file a SAR. All SARs shall be filed within thirty (30) days of the determination being made and shall be completed with sufficient detail in the narrative and completion of all items (a) through (m) in Section V of the form.

CUSTOMER DUE DILIGENCE

7. Within ninety (90) days from the effective date of this ORDER, the Bank shall develop, adopt, and implement customer due diligence ("**CDD**") procedures necessary to fully address all BSA deficiencies noted in the Report. A risk focused assessment of the Bank's customer base and records shall also be conducted to determine the appropriate level of ongoing monitoring required. The CDD procedures shall ensure that personnel can reasonably detect suspicious activity and determine which customers pose a heightened risk of illicit activity, including, but not limited to, high-risk business accounts. The program should provide enhanced due diligence ("**EDD**") procedures for high risk accounts. At a minimum, the CDD procedures shall require:

(a) Assigning a risk rating of the Bank's customers based on the potential for money laundering risk or other unlawful activity posed by the customer's activities, with consideration given to the purpose of the account, the anticipated type and volume of account activity, types of products and services utilized, and locations and markets served by the customer;

(b) Obtaining, analyzing, documenting, and maintaining sufficient customer information necessary to allow effective suspicious activity monitoring, including, but not limited to documentation of: normal and expected transactions of the customer; nature of business activities; customer’s occupation/employment; ACH activity; wire transfer activity; and whether the customer operates as a money service business or private ATM;

(c) Documenting the analysis conducted under the CDD and EDD processes, including guidance for resolving issues when insufficient or inaccurate information is obtained;

(d) Monitoring procedures required for each customer category under the BSA risk ratings and periodic risk-based monitoring of customer relationships to determine whether the original risk profile remains accurate; and

(e) Providing guidelines to reasonably ensure the identification and timely, accurate reporting of known or suspected criminal activity, as required by the suspicious activity reporting provisions of Part 353 of the FDIC Rules, 12 C.F.R. § 353;

INDEPENDENT TESTING

8. Within one hundred eighty (180) days of the effective date of this ORDER, the Bank shall ensure that an effective and comprehensive independent test of compliance with the BSA and 31 C.F.R. Chapter X is completed. The independent testing should thereafter be conducted on an annual basis.

(a) The Bank shall provide to the Regional Director and Director a copy of the written reports documenting the scope of testing procedures performed, the findings and results made, and any recommendations for improvement based on those findings. At a minimum, the independent testing shall include, and the contract or engagement letter entered into with any third party performing the testing shall provide for, the following:

i. Testing of the Bank's internal procedures for monitoring BSA compliance;

ii. Testing to ensure all reportable transactions have been identified and CTRs have been filed within the prescribed time frames and in accordance with form instructions;

iii. Testing to ensure the Bank has implemented an effective Customer Due Diligence program;

iv. Testing to ensure Bank personnel are reviewing and monitoring reports for unusual activities and, if applicable, that appropriate SARs are filed in a timely and complete manner with the appropriate law enforcement agencies;

v. Allowing unrestricted examiner access to auditor work papers if testing is conducted by an outside third party.

LOOK BACK REVIEW

9. Within ninety (90) days of the effective date of this ORDER, the Bank shall develop a written plan detailing how it will conduct, through an independent and qualified auditor, a review of deposit account and transaction activity for the time period beginning August 1, 2015, through the effective date of this ORDER to determine whether suspicious activity involving any accounts of, or transactions through, the Bank were properly identified and reported in accordance with the applicable suspicious activity reporting requirements ("**Look Back Review**").

(a) The plan for the Look Back Review, and the subsequent contract or engagement letter entered into with the auditor performing the Review, shall include, at a minimum:

i. The scope of the review, which shall specify the types of accounts and transactions to be reviewed and include customers meriting an elevated risk rating;

ii. The methodology for conducting the Look Back Review, including any sampling procedures to be followed;

iii. The resources and expertise to be dedicated to the Look Back Review;

iv. The anticipated date of completion of the Look Back Review;

v. A provision for unrestricted examiner access to auditor workpapers; and

vi. A provision that the audit firm will present its findings from the Look Back Review directly to the Bank's Board.

(b) The plan for the Look Back Review, and any subsequent modifications thereof, shall be prepared and implemented in a manner acceptable to the Regional Director and DFI. For this purpose, the draft plan shall be submitted to the Regional Director and Director for review and comment prior to implementation. After consideration of all such comments, and after adoption of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board's meeting the plan was approved.

(c) Within ten (10) days of receipt of written notice from the Regional Director and Director indicating acceptability of the plan, the Bank shall implement the plan and commence the Look Back Review.

(d) By the 10th day of each month while the Look Back Review is being conducted, the Bank shall provide to the Regional Director and Director a written report detailing the actions taken under the Look Back Review and the results obtained since the prior monthly report.

(e) Within thirty (30) days of completion of the Look Back Review, the Bank shall provide a list to the Regional Director and Director, specifying all outstanding matters or transactions identified by the Look Back Review which have yet to be reported, and detailing how and when these matters will be reported in accordance with applicable law and regulation.

APPARENT VIOLATIONS

10. Within sixty (60) days from the date of this ORDER, the Bank shall take all steps necessary to correct or eliminate the violations of law and regulation detailed in the Report of Examination dated May 16, 2016 ("**ROE**").

BOARD REPORTING

11. While this ORDER is in effect, the Bank's BSA Officer shall provide monthly reports to the Board regarding compliance with this ORDER. The BSA Officer's report will also address any material findings or weaknesses noted in regulatory examination reports and BSA audit reports. Further, the report will include any relevant transactions identified through internal suspicious activity monitoring or discovered as part of the Bank's "look back" review. The Board must ensure that the BSA Officer has the resources and support necessary to address these findings.

Finally, the Board will be responsible for ensuring that any exceptions are addressed in a timely manner.

NOTIFICATION OF SHAREHOLDER

12. Following the effective date of this ORDER, the Bank shall send to its holding company, as the Bank's sole shareholder, a copy of this ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice of proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

13. Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and Director written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the date of issuance by the FDIC and the DFI.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the DFI and the FDIC.

Pursuant to delegated authority.

Dated: __August 31________________, _2016_____.

/S/___________________________	/S/_________________________
M. Anthony Lowe	Thomas C. Fite
Regional Director	Director
Chicago Regional Office	Department of Financial
Federal Deposit Insurance	Institutions
Corporation	State of Indiana