

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF WISCONSIN

DEPARTMENT OF FINANCIAL INSTITUTIONS

_____	)	
In the Matter of	)	CONSENT ORDER
	)	
CITIZENS BANK OF MUKWONAGO	)	FDIC-10-357b
MUKWONAGO, WISCONSIN	)	
	)	
(STATE CHARTERED	)	
INSURED NONMEMBER BANK)	)	
_____	)	

Citizens Bank of Mukwonago, Mukwonago, Wisconsin ("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, 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 section 220.04(9) of the Wisconsin Statutes, Wis. Stat. § 220.04(9), regarding hearings before the Department of Financial Institutions for the State of Wisconsin ("WDFI"), and having waived those rights, by and through its duly elected and acting Board of Directors ("Board") entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation

("FDIC") and the WDFI, dated July 28, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to weaknesses in capital and asset quality, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the WDFI.

The FDIC and the WDFI considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Wisconsin Statutes § 220.04(9) have been satisfied, the FDIC and the WDFI **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. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Management shall be provided the necessary written authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Operate the Bank in a safe and sound manner;

- (iii) Comply with applicable laws, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including asset quality, management effectiveness, and earnings.

(b) During the life of this ORDER, prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall request and obtain the WDFI's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act, 12 U.S.C. § 1831i, and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

MANAGEMENT PLAN

2. (a) Within 30 days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director and the Administrator, Division of Banking, WDFI ("Administrator"), who will develop a written analysis and assessment of the Bank's management needs ("Management Study") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and the Administrator with a copy of the proposed engagement letter or contract with the independent third party for review.

(c) The Management Study shall be developed within 90 days from the effective date of this ORDER. The Management Study shall include, at a minimum:

- (i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
- (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) Evaluation of all executive Bank officers and senior lending staff to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition;
- (iv) Evaluation of all Bank officers' compensation, including salaries, director fees, and other benefits; and
- (v) A plan to recruit and hire any additional or replacement personnel with the requisite

ability, experience and other qualifications to fill those officer or staff member positions identified by this paragraph of this ORDER.

(d) Within 30 days after receipt of the Management Study the Bank shall formulate a plan to implement the recommendations of the Management Study.

(e) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Administrator.

BOARD PARTICIPATION

3. (a) As of the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of Banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including managements responses; and compliance with

this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Bank's Board shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

4. (a) From the effective date of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of 9 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12 percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) In the event any ratio is or falls below the minimum required by paragraph (a) above, the Bank shall immediately notify the Regional Director and the Administrator and within 30 days shall:

- (i) increase capital in an amount sufficient to comply with paragraph (a), or
- (ii) submit a written plan to the Regional Director and the Administrator describing

the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements set forth above, as well as contingency plans. Within 10 days of the receipt of any comments from the Regional Director or Administrator the Bank shall incorporate any changes required by the Regional Director and/or the Administrator and thereafter, adopt, implement, and adhere to the plan. The Board shall approve the written plan and record such approval in its minutes.

(c) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal

securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to the Wisconsin Department of Financial Institutions, 345 West Washington Avenue, 4th Floor, P.O. Box 7876, Madison, Wisconsin 53707-7876, for their review. Any changes requested to be made in the materials by the FDIC or the WDFI shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

LOSS CHARGE-OFF

5. As of the effective date of this Order the Bank shall charge off from its books and records any loan classified "Loss"

in the Report of Examination dated as of December 31, 2009 ("ROE").

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

6. (a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the ROE, so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard", "Doubtful", or is listed for Special Mention in the ROE, and is uncollected unless the Bank's Board has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. A copy of the statement shall be signed by each Director, and incorporated in the minutes of the applicable Board meeting. A copy of the statement shall be placed in the appropriate loan file.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$500,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the ROE. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;
- (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;
- (iii) Delineate areas of responsibility for loan officers;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets within 6 and 12 months from the effective date of this ORDER; and
- (v) Provide for the submission of monthly written progress reports to the Bank's Board

for review and notation in minutes of the meetings of the Board.

(b) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the WDFI.

(c) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Administrator.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become more than 90 days delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

CONCENTRATIONS OF CREDIT

8. Within 90 days from the effective date of this ORDER, the Bank shall revise operating policies and procedures consistent with recommendations contained in the ROE and the guidance outlined in the Financial Institution Letters 104-2006 (Commercial Real Estate Lending - Joint Guidance) and 22-2008 (Managing Commercial Real Estate Concentrations in a Challenging Environment). The aggregate results of the Bank's stress tests should be reported to the Board at least quarterly and the Board's review duly noted in the minutes.

DIVIDEND RESTRICTION

9. During the life of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Administrator.

ALLOWANCE FOR LOAN AND LEASE LOSSES

10. (a) Within 30 days of the effective date of this ORDER, the Bank shall make or have made since the date of the last examination by the FDIC, a provision of at least \$8,246,000 to its ALLL.

(b) After the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, the Board shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the Board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the Board shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or WDFI.

(c) ALLL entries required by this paragraph shall be made prior to any capital determinations required by this ORDER.

LENDING POLICIES AND PRACTICES

11. Within 120 days from the effective date of this ORDER, the Bank shall:

(a) Ensure that appraisals for all real estate loans in excess of \$250,000 that are adversely classified in the ROE are supported by current appraisals (less than one year old). For those adversely classified real estate loans for \$250,000 or less, the Bank shall obtain updated evaluations, as defined in Part 323 of the FDIC's Rules and Regulations. The updated collateral values obtained for all real estate loans adversely classified in the ROE should be used in the Bank's ALLL adequacy calculation.

(b) Provide for an internal loan review and grading system to periodically review the Bank's loan portfolio and identify and categorize problem credits.

(c) Correct deficiencies identified in the section of the ROE entitled "Management/Administration."

PROFIT PLAN AND BUDGET

12. (a) Within 90 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2010 and 2011. The plans required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices,

to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written profit plan shall address, at a minimum:

- (i) Realistic and comprehensive budgets;
- (ii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iii) Identification of major areas in, and means by which, earnings will be improved; and
- (iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) Within 60 days from the end of each calendar quarter following completion of the profit plans and budgets required by this paragraph, the Bank's Board shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(e) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the Administrator.

STRATEGIC PLAN

13. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate adopt, and implement a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components. The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management; and
- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) Within 60 days from the end of each calendar quarter following the adoption and implementation of the Strategic Plan described in (a) above, the Bank's Board shall evaluate the Bank's actual performance in relation to the

strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

(c) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a Board meeting, and the Bank shall implement and adhere to the revised plan.

(d) Copies of the plan and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Administrator.

CORRECTION OF VIOLATIONS

14. Within 30 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed in the ROE.

RESTRICTION ON GROWTH

15. During the life of this ORDER, the Bank shall not increase its total assets by more than 5 percent during any consecutive three-month period without providing, at least 30 days prior to its implementation, a growth plan to the Regional Director and the Administrator. Such growth plan, at a minimum, shall include the funding source to support the projected

growth, as well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent of the Regional Director and the Administrator. For the purpose of this paragraph, "total assets" shall be defined as in the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income.

NOTIFICATION TO SHAREHOLDER

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

PROGRESS REPORTS

17. Within 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 the Administrator written progress reports signed by each member of the Bank's Board, detailing the actions taken to secure compliance with the ORDER and the results thereof.

This ORDER shall be effective on the date of issuance.

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 FDIC and the WDFI.

Pursuant to delegated authority.

Dated: July 30, 2010

_____/s/_____
M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

_____/s/_____
Michael J. Mach
Administrator, Division of Banking
Department of Financial
Institutions
State of Wisconsin