FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF MICHIGAN

OFFICE OF FINANCIAL AND INSURANCE REGULATION

In the Matter of UNIVERSITY BANK ANN ARBOR, MICHIGAN (Michigan Chartered Insured Nonmember Bank)	)	CONSENT ORDER FDIC-12-246b

University Bank, Ann Arbor, Michigan ("**Bank**"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law or regulation alleged to have been committed by the Bank related to the Bank Secrecy Act, 31 U.S.C. §§ 5311-5330, and regulations implementing the Bank Secrecy Act, including 12 C.F.R. Part 326, Subpart B, and 31 C.F.R. Part 103 (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 Section 2304 of the Banking Code of 1999, Mich. Comp. Laws § 487.12304, regarding hearings before the Michigan Office of Financial and Insurance Regulation ("**OFIR**"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER (“**STIPULATION**”) with representatives of the Federal Deposit Insurance Corporation (“**FDIC**”) and OFIR, dated September 19, 2012, 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 or regulation relating to the Bank Secrecy Act, the Bank consented to the issuance of a CONSENT ORDER (“**ORDER**”) by the FDIC and OFIR.

The FDIC and OFIR considered the matter and determined that they had reason to believe the Bank had engaged in unsafe or unsound banking practices related to the Bank Secrecy Act and therefore accepted the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Section 2304 of the Banking Code of 1999, Mich. Comp. Laws § 487.12304, have been satisfied, the FDIC and OFIR **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:

QUALIFIED MANAGEMENT

1. Within thirty (30) days from the effective date of this ORDER, the Bank shall have employed a BSA Compliance Officer qualified to oversee all aspects of the Bank’s BSA

Compliance Program and to assure compliance with all applicable BSA laws and regulations.

(a) Each member of management with responsibilities relating to section 326.8 of the FDIC Rules and Regulations, 12 C.F.R. § 326.8, or the Treasury Department's Financial Recordkeeping Regulations, 31 C.F.R. Part 103, shall have the qualifications and experience commensurate with his or her duties and responsibilities under those regulations.

(b) All management personnel 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; and

ii. Comply with applicable laws, rules, and regulations.

BOARD COMPOSITION AND PARTICIPATION

2. (a) Within one hundred-twenty (120) days of the effective date of this ORDER, the Bank shall retain two additional directors with prior bank board experience who are independent with respect to the Bank. "Independent with respect to the Bank" shall mean an individual who is not:

(i) Employed in any capacity by the Bank, any of its subsidiaries, or affiliated organizations;

(ii) Related by blood or marriage to an officer or director of the Bank or its affiliates, and who does not otherwise share a common financial interest with such officer or director;

(iii) Indebted, directly or indirectly, to the Bank or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding ten percent of the Bank’s total Tier 1 capital and allowance for loan and lease losses.

(b) As of the effective date of this ORDER, the Bank’s board of directors shall be fully responsible for the ongoing approval of sound policies for the supervision of all of the Bank's BSA/AML functions, consistent with the role and expertise commonly expected for directors of Banks of comparable size and similar banking activities.

(c) Within thirty (30) days from the effective date of this ORDER, the Bank’s board of directors shall adopt and implement a program that will provide for monitoring of the Bank's compliance with this ORDER.

(d) Following the effective date of this ORDER, the Bank's board of directors shall review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled monthly board of directors' meeting.

WRITTEN BSA COMPLIANCE PROGRAM

3. Within sixty (60) days of the effective date of this ORDER, the Bank shall adopt and implement a revised written BSA compliance program, which fully meets all applicable requirements of section 326.8 of the FDIC's Rules and Regulations ("**FDIC Rules**"), 12 C.F.R. § 326.8, and which is designed to, among other things, assure and maintain full compliance by the Bank with the BSA and all implementing rules and regulations issued pursuant thereto.

(a) The program shall:

i. Require the Bank to implement a system of internal controls and policies to ensure full compliance with the BSA and all implementing rules and regulations, including policies and procedures related to shell banks, foreign banks, and customers with high-risk activities;

ii. Require comprehensive independent testing of compliance with all applicable rules and regulations related to the BSA, annually. All Audits should be fully documented, require a comprehensive scope, and be conducted with the appropriate segregation of duties by a qualified and independent third party. Written findings of each audit shall be presented to the Bank's Board of Directors ("**Board**") and noted in the minutes of the Board meeting at which received;

iii. Require due diligence practices and written guidelines for all customers that are commensurate with the level of BSA and AML risk posed by each customer; and

iv. Require effective and documented training of all appropriate personnel, including, without limitation, tellers, customer service representatives, lending officers, private and personal banking officers, and all other customer contact personnel. Required training shall be conducted by qualified staff and independent contractors and shall include training in all aspects of regulatory and internal policies and procedures related to the BSA. The required training curriculum shall be updated on a regular basis, not less frequent than annually, to assure that all personnel are provided with the most current and up to date information. Additionally, appropriate staff members shall be properly trained with regards to BSA prior to the bank entering into any new products or services.

(b) Within sixty (60) days of the effective date of this ORDER the Bank shall provide the Regional Director of the Chicago Regional Office of the FDIC ("**Regional Director**") and OFIR with a copy of the Bank's current written BSA compliance program for review and comment. After adoption of any recommended changes, the Board shall approve and implement the Program in a manner acceptable to OFIR and the Regional Director.

INDEPENDENT TESTING

4. Within one hundred twenty (120) 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. Part 103 is completed. The independent testing should thereafter be conducted on an annual basis.

(a) The Bank shall provide to the Regional Director and OFIR 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 Currency Transaction Reports ("**CTRs**") have been filed within the prescribed time frames;

iii. Testing to ensure the Bank is reviewing all applicable reports;

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

v. Testing to ensure Bank personnel are reviewing and monitoring reports for unusual activities and, if applicable, that appropriate Suspicious Activity Reports

("**SARs**") are filed in a timely manner with the appropriate law enforcement agencies;

vi. Testing of the Bank's recordkeeping system for compliance with the BSA;

vii. Testing to ensure that the Bank is in compliance with rules and regulations related to:

- Foreign banks;
- Identifying and reporting suspicious activities;
- Funds transfer operations;
- On-going training of appropriate personnel;
- OFAC restrictions and requirements;
- High-risk activities related to customers and other areas of the Bank;
- Compliance with information sharing requirements;
- Testing of the accuracy and validity of the automated large transaction identification system;

- Confirming the integrity and accuracy of management information reports used in the AML compliance program;
- Retention of required records; and

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

LOOK BACK REVIEW

5. 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 third party consultant ("**Reviewer**"), a review of deposit account and transaction activity for the time period beginning January 1, 2010 through the effective date of this ORDER, to ensure that all suspicious activity involving any accounts of, or transactions through, the Bank were properly identified and reported in accordance with all applicable BSA reporting requirements, including any transactions or messages involving cash intensive business accounts, customers with high, frequent, or international wire transactions, and customers with transactions potentially linked to any suspicious activity ("**Look Back Review**").

(a) The plan for the Look Back Review, and the subsequent contract or engagement letter entered into with the

Reviewer performing the Look Back Review, shall include, at a minimum:

i. The scope of the review to be conducted, which shall specify the types of accounts and transactions to be reviewed, including (1) Any transactions or accounts identified in the Joint Report of Examination dated October 31, 2011 (“**Joint Report**”) as requiring additional investigation or documentation, (2) cash intensive customers whether businesses or individuals, (3) Money Service Business customers, (4) customers with international wire transactions, (5) non-governmental organizations(NGOs) and charitable organizations, (6) all customers identified by the Bank as high risk, and (7) customers on whom the bank has ever filed a suspicious activity report, and all customers related to any of these types of customers;

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 Reviewer work papers; and

vi. A provision that the Reviewer will present its findings from the Look Back Review directly to both the Bank’s Audit Committee and 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 OFIR. For this purpose, the draft plan shall be submitted to the Regional Director and OFIR for review and comment prior to implementation. After consideration of all such comments, and adoption of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board meeting at which approved.

(c) Within thirty (30) days of receipt of written notice from the Regional Director and OFIR indicating acceptability of the plan, the Bank shall implement the plan and commence the Look Back Review.

(d) Within thirty (30) days of implementing the plan and commencing the Look Back Review and thereafter by the tenth (10^{th}) day of each month while the Look Back Review is being conducted, the Bank shall provide to the Regional Director and OFIR a written report detailing the actions taken under the Look Back Review and the results obtained since commencing the Look Back Review or since the prior monthly report, whichever is applicable.

(e) Within one hundred, twenty (120) days from the effective date of this ORDER, the Look Back Review shall be completed and the Reviewer shall be required to provide a copy of its report detailing its findings to the Regional Director and OFIR at the same time the report is provided to the Audit Committee and Board.

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

(g) Within ninety (90) days of the Bank’s receipt of the Look Back Review, the Bank shall ensure that all matters or transactions identified as requiring further resolution are in fact resolved in accordance with applicable laws and regulations. Copies of any additional required BSA filings made by the Bank as a result of the Look Back Review shall be provided to the Regional Director and OFIR.

DUE DILIGENCE PROGRAM

6. Within ninety (90) days from the effective date of this ORDER, the Bank shall adopt and implement a revised written Customer Due Diligence ("**CDD**") Program. The CDD Program and its implementation shall be prepared and conducted in a manner acceptable to the Regional Director and OFIR as determined at subsequent examinations and/or visitations of the Bank.

(a) The revised CDD Program shall continue to require a risk focused assessment of the customer base of the Bank to determine the appropriate level of ongoing monitoring required to ensure that the Bank can reasonably detect suspicious activity, and determine which customers require Enhanced Due Diligence ("**EDD**") necessary for those categories of customers that pose a heightened risk of illicit activity.

(b) The revised CDD Program shall continue to require:

i. Risk rating of the Bank's customers, based on the potential for AML 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 offered, and locations and markets served by the customer;

ii. Obtaining, analyzing, 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;

iii. Guidance for documenting the analysis conducted under the CDD process, including guidance for resolving issues when insufficient or inaccurate information is obtained;

iv. Monitoring procedures required for each customer category under the BSA/AML risk ratings;

v. 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; and

vi. Periodic, risk-based monitoring of customer relationships to determine whether the original risk profile remains accurate.

(c) These procedures shall continue to include General and EDD procedures as applicable and required by 31 C.F.R. 103.176 regarding foreign correspondent accounts.

SUSPICIOUS ACTIVITY MONITORING AND REPORTING

7. Within sixty (60) days of the effective date of this ORDER, the Bank shall 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's Rules and Regulations, 12 C.F.R. § 353, and which is designed to, among other things, ensure and maintain full compliance by the Bank with the rules and regulations issued pursuant thereto for monitoring and reporting suspicious activity. The bank shall further review for accuracy and thoroughness, and amend as necessary, all SARs previously filed since January 1, 2010.

INTERNAL AUDIT PROGRAMS

8. Within sixty (60) days from the effective date of this ORDER, the Board shall formulate and submit to the Regional Director and OFIR for review and comment its comprehensive

written internal audit program, which includes independent third party review, addressing compliance with all audit requirements pertaining to the BSA. The internal audit program shall require:

(a) BSA reviews of all of the Bank's high-risk and international customers, with any exceptions to be reported directly to the Board;

(b) That internal auditors make written monthly reports of audit findings directly to the Audit Committee, which findings and any action taken as a result of the findings shall be recorded in the minutes of the meetings of the Audit Committee;

(c) That there shall be ongoing timely and formal follow-up and reporting on management's resolution of identified problems or weaknesses;

(d) That the Bank shall provide the Regional Director and OFIR with a copy of all independent third party audit reports within ten (10) days of the Bank's receipt of such report(s); and

(e) Within thirty (30) days of receipt of any comments from the Regional Director or OFIR, and after adoption of any required changes, the Bank shall approve, implement, and enforce the internal audit programs in a manner acceptable to the Regional Director and OFIR as determined at subsequent examinations or visitations of the Bank.

CORRECTION OF VIOLATIONS

9. Within ninety (90) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law or regulation and contraventions of policy related to BSA detailed in the Joint Report, or provide a written explanation acceptable to the Regional Director and OFIR as to why they cannot be corrected and/or eliminated.

DISCLOSURE TO SHAREHOLDERS

10. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description 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. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to J. Kevin Clinton, Commissioner, Office of Financial and Insurance Regulation, 611 W. Ottawa Street, Lansing, Michigan, 48933, and to the FDIC’s Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, for review at least twenty (20) days prior to dissemination to shareholders. Any changes requested to be made by OFIR or the FDIC shall be made prior to

dissemination of the description, communication, notice or statement.

PROGRESS REPORTS

11. 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 OFIR written progress reports approved by the Board as noted in the Board’s minutes and signed by the Chairman of the Board and CEO of the Bank, detailing the actions taken to secure compliance with the ORDER and the results thereof. Along with each progress report, the Bank shall also provide reports on the Look Back Review, detailing the findings and actions taken as required under this ORDER. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and OFIR have, in writing, released the Bank from making further reports.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the day of its issuance by the FDIC and OFIR.

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 OFIR.

Pursuant to delegated authority.

Dated: September 26, 2012.

/S/	/S/
M. Anthony Lowe Regional Director Chicago Regional Office Federal Deposit Insurance Corporation	Karen K. Lawson Deputy Commissioner Office of Financial and Insurance Regulation State of Michigan