FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF WISCONSIN

DEPARTMENT OF FINANCIAL INSTITUTIONS

In the Matter of	ORDER TO CEASE AND DESIST
STATE BANK OF GILMAN GILMAN, WISCONSIN	FDIC-06-114b
(Wisconsin Chartered Insured Nonmember Bank)	

State Bank of Gilman, Gilman, Wisconsin ("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, rule, or regulation 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, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE

AND DESIST ("CONSENT AGREEMENT") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and WDFI, dated August 8th, 2006, 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, rule, or regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and WDFI.

The FDIC and the WDFI considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws, rules, or regulations. The FDIC and the WDFI, therefore, accepted the CONSENT AGREEMENT and issued the following:

IT IS HEREBY ORDERED, 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, cease and desist from the following unsafe or unsound banking practices and violations of law, rule, or regulation:

A. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

B. Operating with an excessive level of adversely classified assets.

C. Engaging in hazardous lending and lax collection practices, including, but not limited to:

- The failure to obtain proper loan documentation;
- The failure to obtain current and complete financial information;
- The failure to provide for the type and quality of loan underwriting and credit analysis; and
- The failure to collect interest upon the renewal or extension of loans.

D. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.

E. Operating with an inadequate level of capital protection for the kind and quality of assets held.

F. Operating in such a manner as to produce low earnings.

G. Operating with inadequate provisions for liquidity.

H. Operating with an inadequate audit program.

I. Operating in violation of law, rule, or regulation, including:

- The independent testing requirement for compliance with the Bank’s BSA program as set forth in section 326.8(c)(2) of the FDIC’s Rules and Regulations 12 C.F.R.§ 326.8(c)(2)

- The prior approval requirements for loans to bank insiders as set forth in section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System (“Regulation O”) 12 C.F.R. § 215.4(b).
- The overdraft restrictions of section 215.4(e) of Regulation O of the Board of Governors of the Federal Reserve System (“Regulation O”), 12 C.F.R. § 215.4(e).
- The recordkeeping requirements of section 215.8 of Regulation O of the Board of Governors of the Federal Reserve System (“Regulation O”), 12 C.F.R. § 215.8.
- The lending limit restrictions of section 23A of the Federal Reserve Act (“section 23A”), 12 U.S.C. § 371c(a)(1)(A).
- The collateral requirements of section 23A of the Federal Reserve Act (“section 23A”), 12 U.S.C. § 371c(c)(1)(D).
- The requirements of section 103.22 of the Treasury Department’s Financial Recordkeeping and Reporting of Currency and Foreign Transactions Regulation, 31 C.F.R. § 103.22.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

1. (a) The board of directors, shall develop a plan for management succession. At a minimum, the plan of succession shall:

(i) provide a minimum number of directors and officers of the Bank;

(ii) establish minimum qualifications for directors and officers of the Bank; and

(iii) contain a specific timetable for the implementation of the plan of succession.

(b) The plan shall be submitted to the Regional Director and Administrator for review and comment. After incorporating any regulatory comments, the board of directors shall approve the plan of succession and note the approval in the minutes of the board of directors no sooner than thirty (30) days, but no later than sixty (60) days after the plan is submitted to regulators. The Bank, its directors, officers and employees shall implement and follow the plan of succession. The plan shall be revised to incorporate any recommendations made at subsequent examinations.

2. Within ninety (90) days from the effective date of this ORDER, the Bank shall have and retain qualified management.

(a) Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Bank's board of directors to implement the provisions of this ORDER.

(b) 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 and regulations, and

(iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness and liquidity.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Administrator, Division of Banking of the WDFI ("Administrator") in writing of any changes in the Bank's directors or senior executive officers. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the FDI Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b), and includes any person identified by the FDIC or the WDFI, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(d) Prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104. Further, the Bank shall request and obtain the Administrator's written approval prior to the addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

3. (a) Within thirty (30) days from the effective date of this Order, the Bank shall develop job descriptions for Directors Ernest Gerber, Franz Gerber and Kempton Spooner, detailing the specific duties they perform for the bank. In conjunction with the job descriptions, the Bank shall determine whether any compensation is appropriate for any services

provided by these directors and, if so, shall determine the proper amount of compensation.

(b) The job descriptions and compensation determinations shall be submitted to the Regional Director and Administrator for review and comment. After incorporating any regulatory comments, the board of directors shall approve the job descriptions and compensation and note the approval in the minutes of the board of directors no sooner than thirty (30) days, but no later than sixty (60) days after the information is submitted to regulators. Any recommendations made at subsequent examinations regarding the job descriptions, compensation or implementation thereof shall be adopted by the Bank.

4. (a) Within (sixty) 60 days from the effective date of this ORDER, the Bank shall formulate a written plan to reduce the Bank’s risk position in each asset in excess of $50,000 which is classified “Substandard” or “Doubtful” or listed for “Special Mention” on pages 25 through 50 in the January 9, 2006, Report of Examination (“Report”). In developing such plan, the Bank shall, at a minimum:

(i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and

(ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) Such plan shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce each asset within six months from the effective date of this ORDER; and

(ii) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

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

(d) The plan shall be submitted to the Regional Director and Administrator for review and comment. After incorporating any regulatory comments, the board of directors shall approve the plan and note the approval in the minutes of the board of directors no sooner than thirty (30) days, but no later than sixty (60) days after the plan is submitted to regulators. Thereafter, the Bank, its directors, officers and employees shall implement and follow the plan. While this Order remains in effect, the plan shall be revised to include assets adversely classified and asset listed for Special Mention at each subsequent examination.

5. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall revise its lending policy. The revised policy shall include the following:

(i) Requirements for current collateral appraisals which conform to the standards established by Part 323 of the FDIC’s Rules and Regulations;

(ii) Requirements and procedures for board prior-approval of loans made outside of policy guidelines, and;

(iii) Procedures for enforcing loan policy standards and for identifying and correcting existing loan policy exceptions.

(b) The policy shall be submitted to the Regional Director and Administrator for review and comment. After incorporating any regulatory comments, the board of directors shall approve the policy and note the approval in the minutes of the board of directors no sooner than thirty (30) days, but no later than sixty (60) days after the policy is submitted to regulators. Thereafter, the Bank, its directors, officers and employees shall implement and follow the policy. Any recommendations for policy revisions made at subsequent examinations shall be adopted by the Bank.

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 extension of credit (including any portion thereof) that has been charged-off the books of the Bank or classified “Loss” 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” and is uncollected unless the Bank’s board of directors 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 placed in the appropriate loan file and shall be incorporated into the minutes of the applicable board of directors’ meeting.

(c) The Bank shall not accrue interest on any loan that is, or becomes, ninety (90) days or more delinquent as to principal or interest, and the Bank shall reverse on its books all previously accrued but uncollected interest on any loan that has ceased to accrue interest, as instructed by WDFI Banking Letter #40, dated May 8, 1985.

(d) Within thirty (30) days from the effective date of this ORDER, the Bank shall develop and implement a plan to prevent loan documentation exceptions and to eliminate within sixty (60) days the exceptions listed in the Report.

7. (a) Within 30 days from the effective date of this ORDER, the Bank shall make an additional provision for loan and lease losses which, after review and consideration by the board of directors, reflects the potential for further losses in the remaining loans or leases classified “Substandard” and “Doubtful” and all other loans and leases in its portfolio. In making this determination, the board of directors shall consider the prevailing Instructions for the Preparation of Reports of Condition and Income and any analysis of the Bank’s ALLL provided by the FDIC or the WDFI.

(b) Within 30 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC and filed by the Bank subsequent to September 30, 2005, but prior to the effective date of this ORDER, shall be amended and refiled if they do not reflect a provision for loan and lease losses and an ALLL which are adequate considering the condition of the Bank’s loan portfolio.

(c) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank 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 of directors shall require the review to address the following factors: the results of internal loan review, loan loss experience, trends of delinquent and non accrual loans, an estimate of potential loss exposure on significant credits, concentrations of credit, present and prospective economic conditions, frequency of review, and the prevailing Instructions for the Preparation of Reports of Condition and Income, as well as any analysis of the Bank’s ALLL provided by the FDIC or the WDFI.

(d) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

8. During the life of this ORDER, the Bank shall not increase its total assets by more than two (2) percent during any consecutive three-month period unless a growth plan has been submitted to and approved by the Regional Director and 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. For the purpose of this paragraph, “total assets” shall be defined as in the prevailing Instructions for the Preparation of Reports of Condition and Income.

9. (a) During the life of this Order, the Bank shall maintain Tier 1 Capital in such an amount to equal or exceed 8.0% of the Bank’s total assets.

(b) The level of Tier 1 Capital to be maintained during the life of this Order pursuant to this paragraph shall be in addition to a fully-funded allowance for lease and loan losses, the adequacy of which shall be satisfactory to the Regional Director and Administrator, as determined at subsequent examinations.

(c) Any increase in Tier 1 capital may be accomplished by the following:

(i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325; or

(ii) The elimination of all or part of the assets classified “Loss” or “one-half of Doubtful” as of January 6, 2006, without loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that portion of the asset which was not charged off pursuant to this ORDER; or

(iii) The collection in cash of assets previously charged off; or

(iv) The direct contribution of cash by the directors and/or the shareholders of the Bank;

(v) Any other means acceptable to the Regional Director and Administrator; or

(vi) Any combination of the above means.

(d) If all or part of the increase in capital required by this paragraph is to be accomplished by the sale of new securities, the board of directors of the Bank 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 WDFI, 345 West Madison Avenue, 4th Floor, P.O. Box 7876, Madison, Wisconsin 53707-7876. Any changes requested to be made in the materials by the FDIC or WDFI shall be made prior to their dissemination.

(e) 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.

(f) The capital ratio analysis required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

10. The Bank shall not pay or declare any dividends that would result in the Bank’s Tier 1 leverage capital ratio falling below 8.00% without the prior written consent of the Regional Director and Administrator.

11. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall formulate a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2006 and 2007. 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 30 days from the end of each calendar quarter following completion of the profit plans and budgets required by this paragraph, the Bank’s board of directors 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 of directors’ meeting at which such evaluation is undertaken.

(d) The profit plan and budgets shall be submitted to the Regional Director and Administrator for review and comment. After incorporating any regulatory comments, the board of directors shall approve the profit plan and budgets, and note the approval in the minutes of the board of directors no sooner than thirty (30) days, but no later than sixty (60) days after the plan is submitted to regulators. Thereafter, the Bank, its directors, officers and employees shall implement and follow the profit plan and budgets.

(e) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and Administrator for review and comment. After incorporating any regulatory comments, the board of directors shall approve the profit plan and budgets, and note the approval in the minutes of the board of directors no sooner than thirty (30) days, but no later than sixty (60) days after the plan is submitted to regulators. The Bank, its directors, officers and employees shall implement and follow the profit plan and budgets.

12. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall improve its policies and practices with respect to liquidity and funds management. At a minimum, the Bank shall:

(i) Establish guidelines for the calculation of the liquidity ratio;

(ii) Establish guideline for the calculation of the dependency ratio;

(iii) Revise the Asset Liability Management Policy to include a standard of risk for non-core funding dependency, and;

(iv) Develop a plan to reduce liquidity risk ("Liquidity Plan"). The Liquidity Plan shall include contingency options for dealing with unexpected liquidity events.

(b) The Liquidity Plan shall be submitted to the Regional Director and Administrator for review and comment. After incorporating any regulatory comments, the board of directors shall approve the Liquidity Plan and note the approval in the minutes of the board of directors no sooner than thirty (30) days, but no later than sixty (60) days after the plan is submitted to regulators. Thereafter, the Bank, its directors, officers and employees shall implement and follow the plan. Any recommendations for revisions made at subsequent examinations shall be adopted by the Bank.

13. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall cause an external audit of its

financial statements and operating procedures to be performed by an independent public accounting firm acceptable to the Regional Director and Administrator.

(b) The Bank shall provide the Regional Director and Administrator with a copy of the proposed engagement letter with the accounting firm for review before it is executed. The engagement letter, at a minimum, should include:

(i) A description of the work to be performed under the engagement letter;

(ii) The responsibilities of the accounting firm;

(iii) An identification of the professional standards covering the work to be performed;

(iv) Identification of the specific procedures to be used when carrying out the work to be performed;

(v) The qualifications of the employee(s) who are to perform the work;

(vi) The time frame for completion of the work;

(vii) Any restrictions on the use of the reported findings; and

(viii) A provision for unrestricted examiner access to work papers.

(c) All audit findings shall be presented to the board of directors for review and comment and shall be recorded in the minutes of the board of directors. In the event the board of directors disagrees with the audit findings or refuses to implement corrective action, the reasons for such decision shall be noted in the minutes of the board of directors, with each director’s vote duly noted.

(d) During the life of this ORDER, the Bank shall forward copies of any external audit reports it receives to the Regional Director and Administrator within 10 days from the Bank’s receipt of such reports.

14. Within ninety (90) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed on pages 19 through 23 in the Report.

15. Within thirty (30) days from the effective date of this ORDER, and, thereafter, within thirty (30) days from the end of each calendar quarter, the Bank shall furnish written progress reports to the Regional Director and Administrator detailing the form and manner of any action taken to secure compliance with this ORDER and the results thereof. In

addition, the Bank shall furnish such other reports as requested by the Regional Director and Administrator. All progress reports and other written responses to this ORDER shall be reviewed by the board of directors of the Bank and made a part of the minutes of the board meeting.

16. 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; and (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 the FDIC Registration and Disclosure Section 550 17th Street, N.W., Washington, D.C. 20429 and to WDFI, 345 W. Washington Avenue, 4th Floor, P.O. Box 7876, Madison, Wisconsin 53707-7876, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and WDFI shall be made prior to dissemination of the description, communication, notice or statement.

The effective date of this ORDER shall be ten (10) calendar days from the date of its issuance by FDIC and WDFI.

The provisions of this ORDER shall be binding upon the Bank and 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: August 11, 2006.

Sylvia H. Plunkett Regional Director Chicago Regional Office Federal Deposit Insurance Corporation	Michael J. Mach Administrator Division of Banking Department of Financial Institutions State of Wisconsin