

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

STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL INSTITUTIONS
MADISON, WISCONSIN

Written Agreement by and among

SECURITY FINANCIAL SERVICES
CORPORATION
Durand, Wisconsin

SECURITY FINANCIAL BANK
Durand, Wisconsin

FEDERAL RESERVE BANK OF
MINNEAPOLIS
Minneapolis, Minnesota

and

WISCONSIN DEPARTMENT OF
FINANCIAL INSTITUTIONS
Madison, Wisconsin

Docket Nos. 09-109-WA/RB-HC
09-109-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Security Financial Services Corporation, Durand, Wisconsin (“Security”), a registered bank holding company, and its subsidiary bank, Security Financial Bank, Durand, Wisconsin (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, Security, the Bank, the Federal Reserve Bank of Minneapolis (the “Reserve Bank”), and the Wisconsin Department of Financial Institutions (the “DFI”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on August 28, 2009, the boards of directors of Security and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing James F. Mayo to enter into this Agreement on behalf of Security and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by Security, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, Security, the Bank, the Reserve Bank, and the DFI 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 DFI 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, loan underwriting, credit administration, securities investment, asset management, liquidity, and funds management;

(b) measures to improve risk management, including, but not limited to, establishment of appropriate written risk tolerance guidelines and risk limits;

(c) the establishment of a compliance program with respect to the retail sale of nondeposit investment products; and

(d) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank's adversely classified assets, allowance for loan and lease losses ("ALLL"), capital, earnings, and liquidity.

Lending and Credit Administration

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan to improve loan underwriting and credit administration that, at a minimum, addresses, considers, and includes:

(a) Credit administration procedures that include and provide for, at a minimum, documented analysis of the borrower's repayment source and overall debt service ability, and global cash flow analysis for related borrowers;

(b) procedures to improve the accuracy and timeliness of the Bank's internal credit risk rating system;

(c) procedures to enhance the Bank's monitoring and controlling of problem assets, including, but not limited to, purchased real estate loans;

(d) procedures to enhance the real estate appraisal and evaluation functions;

(e) procedures to improve the independent review and analysis of purchased loan participations;

(f) procedures to report loan-to-value exceptions consistent with the supervisory limits set forth in the Interagency Guidelines for Real Estate Lending Policies, Appendix C of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. C); and

(g) written reports to the board of directors, at least quarterly, that identify and report the status of those loans that are nonperforming or adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

Asset Improvement

3. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” in the report of the examination of the Bank conducted by the examination of the Bank by the Reserve Bank that commenced on January 12, 2009 (“Report of Examination”) or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the Bank’s board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the

extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes 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 board of directors meetings, 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. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. § 215.2(n)).

4. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$150,000, 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. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$150,000, 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 DFI 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 DFI 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, extension report, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and the DFI and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

5. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter 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 DFI.

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for 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 DFI. 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 collectability.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI 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 DFI, 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

6. Within 60 days of this Agreement, Security and the Bank shall submit to the Reserve Bank and the DFI 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 ALLL;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs;

(g) the source and timing of additional funds to fulfill the future capital and ALLL needs of the Bank; and

(h) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Security serve as a source of strength to the Bank.

7. The Bank shall notify the Reserve Bank and the DFI, in writing, no more than 30 days after the end of any quarter in which the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the approved plan's minimum ratios. Together with the notification, Security and the Bank shall submit an acceptable capital

plan that details the steps Security and the Bank will take to increase the Bank's capital ratios to or above the approved plan's minimums.

Liquidity and Funds Management

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan designed to improve management of the Bank's liquidity position. The plan shall, at a minimum, address, consider, and include:

- (a) Measures to enhance the monitoring and reporting of the Bank's liquidity position;
- (b) measures to diversify funding sources; and
- (c) establishment of meaningful benchmarks for the Bank's liquidity position and risk limits commensurate with the Bank's funding structure.

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable revised written contingency funding plan that includes, at a minimum: (i) analysis of additional liquidity sources; and (ii) adverse scenario analyses to assess possible liquidity events that the Bank may encounter and identify responses to the potential impact of such events on the Bank's short-term, intermediate-term, and long-term liquidity profile.

Investment Policy

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable revised written investment policy and procedures that shall, at a minimum, address, consider, and include:

- (a) Procedures for the periodic review of the credit quality of the Bank's securities portfolio and documentation of the review;

- (b) procedures to properly account for securities that may be other than temporarily impaired; and
- (c) reporting, review, and approval procedures to and by the board of directors.

Strategic Plan and Budget

11. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI a strategic plan to improve the Bank's condition and a budget for the remainder of 2009 that shall, at a minimum, provide for or describe:

- (i) goals and strategies for improving the Bank's condition;
- (ii) the responsibilities of the board of directors regarding the definition, approval, implementation, and monitoring of the strategic plan and budget;
- (iii) an identification of the major areas in, and means by which the board of directors and management shall seek to improve the Bank's earnings and operating performance; and
- (iv) a realistic and comprehensive budget for the remainder of calendar year 2009 that includes 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 2009 shall be submitted to the Reserve Bank and the DFI at least 30 days prior to the beginning of that calendar year.

Dividends and Distributions

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

(b) Security shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date. All requests shall contain, at a minimum, current and projected information, as appropriate, on Security's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment. Security and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is 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).

Debt and Stock Redemption

13. (a) Security shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Security shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve 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, Security and the Bank 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.*).

(b) Security and 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).

Progress Reports

15. Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the DFI 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, Policies, Procedures, and Program

16. (a) The Bank and, as applicable, Security shall submit written plans, policies, procedures, and a program that are acceptable to the Reserve Bank and the DFI within the applicable time periods set forth in paragraphs 2, 4, 5(c), 8, 9, and 10 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the DFI, the Bank and, as applicable, Security shall adopt the approved plans, policies, procedures, and program. Upon adoption, the Bank and, as applicable, Security shall promptly implement the approved plans, policies, procedures, and program, and thereafter fully comply with them.

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

Communications

17. All communications regarding this Agreement shall be sent to:

(a) Ms. Diann Townsend
Division of Supervision, Regulation and Credit
Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

(b) Mr. Michael J. Mach
Administrator
Division of Banking
Wisconsin Department of Financial Institutions
P.O. Box 7876
Madison, Wisconsin 53707-7876

(c) Mr. James F. Mayo
President and Chief Executive Officer
Security Financial Services Corporation
President and Director
Security Financial Bank
212 West Prospect Street
Durand, Wisconsin 54736

Miscellaneous

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

19. The provisions of this Agreement shall be binding upon Security, 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 DFI.

21. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the DFI, or any other federal or state agency from taking any other action affecting Security, 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).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 14th day of September, 2009.

SECURITY FINANCIAL SERVICES
CORPORATION

FEDERAL RESERVE BANK OF
MINNEAPOLIS

By: /s/ James F. Mayo
James F. Mayo
President and Chief Executive Officer

By: /s/ James Barnes
James Barnes
Vice President

SECURITY FINANCIAL BANK

WISCONSIN DEPARTMENT OF
FINANCIAL INSTITUTIONS

By: /s/ James F. Mayo
James F. Mayo
President and Director

By: /s/ Michael J. Mach
Michael J. Mach
Administrator