FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

In the Matter of	)	CONSENT ORDER
WAUKEGAN SAVINGS BANK WAUKEGAN, ILLINOIS	)	FDIC-10-144b 2010-DB-38
(ILLINOIS CHARTERED INSURED MUTUAL SAVINGS BANK)	)	

Waukegan Savings Bank, Waukegan, Illinois ("**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, 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 sections 9009, 9015, 9016, 9018, 11001, and 11002 of the Savings Bank Act ("SBA"), 205 ILCS 205/9009, 9015, 9016, 9018, 11001, and 11002, 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 the Illinois Department of Financial and Professional Regulation, Division of Banking ("**Division**"), dated April 8, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to Capital, Asset Quality, Management, and Earnings, the Bank consented to the issuance of a CONSENT ORDER ("**ORDER**") by the FDIC and the Division.

The FDIC and the Division 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 the SBA, 205 ILCS 205/1001 et seq., have been satisfied, the FDIC and the Division **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), or in sections 1007.05 and 11005 of the SBA, 205 ILCS 205/1007.05 and 11005, and its successors and assigns, take affirmative action as follows:

BOARD PARTICIPATION

1. (a) As of the effective date of this ORDER, the board of directors 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; investment activity; adoption or modification of operating policies; audit reports; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

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

(c) During the life of this ORDER, 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 request and obtain the Division's written approval. For purposes of this ORDER, "senior executive officer" is defined in section 32 of the 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).

CAPITAL

2. (a) Within one hundred twenty (120) days 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 eight (8.0%) percent, and its level of total qualifying total capital as a percentage of risk-weighted assets ("**total risk based capital ratio**") at a minimum of twelve (12.0%) 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) Any such increase in Tier 1 capital may be accomplished by the following:

(i) Merger with another mutually-owned FDIC-insured depository institution acceptable to the Regional Director of the Chicago Regional Office of the FDIC ("**Regional Director**") and the Division after complying with all application and publication requirements; or

(ii) Conversion from mutual to stock form or mutual holding company reorganization, including, if the Bank is eligible, a transaction pursuant to Section 1075.2170 of the Savings Bank Rules, 38 Ill. Adm. Code 1075.2170; or

(iii) The elimination of all or part of the assets classified "Loss" as of June 1, 2009, or thereafter, 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

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

(v) The direct contribution of cash by the directors and/or the members of the Bank; or

(vi) Any other means acceptable to the Regional Director and the Division; or

(vii) Any combination of the above means.

(c) If all or part of the increase in capital required by this paragraph is to be accomplished by the sale of common stock or noncumulative perpetual stock, the board of directors of the Bank shall adopt and implement a plan for the sale of such stock after complying with the state and federal statutory or regulatory requirements relating to the conversion from a mutual form of ownership to stock ownership or reorganization to a mutual holding company structure, including filing all required applications. Should the implementation of the plan involve public distribution of Bank securities, and in addition to the requirements relating to a conversion or mutual holding company reorganization, 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 twenty (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 Scott D. Clarke, Assistant Director, Illinois Department of Financial and Professional Regulation, Division of Banking, 122 S. Michigan Avenue, Suite 1900, Chicago, Illinois 60603, for their review. Any changes requested to be made in the materials by the FDIC or the Division shall be made prior to their dissemination.

(d) In complying with the provisions of this paragraph, and in addition to the requirements relating to a conversion or mutual holding company reorganization, the Bank shall provide to any subscriber and/or purchaser of Bank stock 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 ten (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.

(e) 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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

3. (a) Within sixty (60) days from the effective date of this Order, the Bank shall develop a written plan to reduce the Bank's risk exposure in each asset adversely classified "Substandard" as of June 1, 2009, or thereafter, including all outstanding loan commitments to a level of acceptable asset quality. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to

warrant its removal from adverse classification by the Regional Director and the Division. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each such adversely classified loan or lease, 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) A copy of the written plan required by this paragraph shall be submitted to the Regional Director and the Division.

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

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

4. (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" as of June 1, 2009, or thereafter, 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, in whole or in part, "Substandard" or "Doubtful" 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 signed by each director, and incorporated in the minutes of the applicable board of directors' meeting. A copy of the statement shall be placed in the appropriate loan file. The Board shall not approve any extension of credit or additional credit to such borrowers without first collecting in cash all past due interest.

ALLOWANCE FOR LOAN AND LEASE LOSSES

5. (a) Within thirty (30) days from the effective date of this Order, the Board shall review the appropriateness of the Bank's allowance for loan and lease losses ("**ALLL**") and establish a comprehensive policy for determining an appropriate level of the ALLL, including documenting its analysis according to the standards set forth in the July 25, 2001 Interagency Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Associations. For the purpose of this determination, an

appropriate ALLL shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the ALLL at least once each calendar quarter. Said review shall be completed in order that the findings of the Board with respect to the ALLL are properly reported in the quarterly Reports of Condition and Income. The review of the ALLL by the board shall focus on the Financial Accounting Standard Board Accounting Standards Codification ("**FASB ASC**") Subtopic 450-10 and FASB ASC Subtopic 310-10 (which now supersedes prior FAS 5 and FAS 114 guidance), the results of the Bank's internal loan review, loan and lease loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The minutes of the Board meeting at which such ALLL review is undertaken shall indicate the results of the review. The Bank's policy for determining the adequacy of the Bank's ALLL and its implementation shall be satisfactory to the Regional Director and the Division as determined at subsequent examinations and/or visitations.

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

STRATEGIC PLAN

6. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall formulate adopt, and implement a realistic, and comprehensive written 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 three (3) year pro forma statements for asset growth, capital adequacy, and earnings. The following areas related to earnings should be addressed in the bank's pro forma statements:

a) Specific plans, including a timeline, for the sale of the Grayslake vacant lot and former branch office. Specific plans should include accepting any reasonable offer that would not result in a loss of capital.

b) Updates on the condition of the Shay Mutual Fund including the auditor's impairment calculation results, redemption of shares or substitution of collateral within the fund.

c) Specific plans to overcome the high level of fixed assets.

d) Specific plans to address the high level of non-interest expenses.

e) Provisions to measure the results of these specific plans quarterly, with such review noted in the respective Board minutes.

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

(c) Copies of the plan and any revisions as required by this paragraph shall be submitted to the Regional Director and the Division.

PROFIT PLAN AND BUDGET

7. (a) Within sixty (60)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 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) At each monthly board meeting 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. An income statement showing the Bank's operating results for the previous month compared to the Bank's budget shall be submitted to the Regional Director and the Division

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

(e) The plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division.

LIQUIDITY PLAN

8. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Division for review and comment, a written plan addressing liquidity and rate sensitivity objectives. Annually thereafter during the life of this ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions in the plan that are necessary to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs. A copy of the

revised plan shall also be submitted to the Regional Director and Division upon its completion.

DIVIDEND RESTRICTION

9. Upon any conversion of the Bank from mutual to stock form, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Division.

PROGRESS REPORTS

10. 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 the Division 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 its issuance by the FDIC and the Division.

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 Division.

Pursuant to delegated authority.

Dated: April 19, 2010.

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

Jorge A. Solis
Director
Division of Banking
Illinois Department of Financial and Professional Regulation