

AGREEMENT BY AND BETWEEN  
The First National Bank of Buhl  
Buhl, Minnesota  
and  
The Comptroller of the Currency

The First National Bank of Buhl, Buhl, Minnesota (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has found unsafe and unsound banking practices relating to loan administration, accounting, and internal controls.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination for the examination that commenced on May 16, 2005 (“ROE”).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

**JURISDICTION**

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller  
Minneapolis North Field Office  
920 Second Avenue South, Suite 800  
Minneapolis, Minnesota 55402

## ARTICLE I

### CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of any credit relationship exceeding fifty thousand dollars (\$50,000) and criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

(a) the Board’s decision to implement an exit strategy or a strategy to continue to work to rehabilitate the credit;

- (b) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment;
- (c) an identification of the expected source(s) of repayment;
- (d) an analysis of current and satisfactory credit information, and;
- (e) the appraised value of supporting collateral and the position of the Bank's lien on such collateral, where applicable.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(4) The Board, or a designated committee, shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds fifty thousand dollars (\$50,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(5) A copy of each review shall be maintained in a central location available for review by the OCC upon request in a format similar to Appendix A, attached hereto.

(6) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed fifty thousand dollars (\$50,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(7) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

## ARTICLE II

### LOAN RISK RATING SYSTEM

(1) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of commercial and commercial real estate credit relationships in excess of twenty-five thousand dollars (\$25,000) ("covered relationships") are timely, accurate, and consistent with the regulatory credit classification criteria set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook.

(2) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure the classification of retail loans consistent with the guidance set forth in the "Uniform Retail Credit Classification and Account Management Policy" dated June 20, 2000 (OCC Bulletin 2000-20).

### ARTICLE III

#### CREDIT AND COLLATERAL EXCEPTIONS

(1) Within sixty (60) days, the Board shall ensure that all existing loans exceeding five thousand dollars (\$5,000) have been reviewed by management and applicable credit and collateral documentation exceptions have been identified.

(2) Within sixty (60) days, the Board shall obtain current and satisfactory credit information on loans lacking such information, ensure proper collateral documentation is maintained on all loans, and correct collateral exceptions, including but not limited to those credit and collateral exceptions listed in the ROE.

### ARTICLE IV

#### BOOKS AND RECORDS

(1) The Board shall immediately take all necessary actions to ensure that, within sixty (60) days, the Bank's books, records and management information systems (MIS) are restored to a complete and accurate condition. At a minimum, the Board must ensure that the following areas are satisfactorily completed:

- (a) a reconciliation of items in the Escrow and Loans in Process general ledger accounts with any items aged greater than ninety (90) days appropriately accounted for or written-off the Bank's books;
- (b) a reconciliation of loan and deposit nonpost, suspense, official checks, and miscellaneous general ledger accounts with any items aged greater than ninety (90) days appropriately accounted for or written-off the Bank's books; and

(c) reconciliations of all due from correspondent bank accounts with any items aged greater than ninety (90) days appropriately accounted for or written-off the Bank's books.

(2) The Board shall ensure that, once restored to complete and accurate condition, the Bank's books, records and MIS are maintained in a complete and accurate condition.

## ARTICLE V

### INTERNAL CONTROLS

(1) The Board shall immediately take all necessary actions to ensure that, within ninety (90) days, the Bank's internal routines and controls satisfactorily protect bank assets and assure sound recordkeeping practices. At a minimum, the Board must ensure that the following areas are appropriately addressed:

- (a) segregation of duties and proper recordkeeping practices for official checks;
- (b) segregation of duties between origination of transactions and proof of the same transactions;
- (c) segregation of duties for employees involved in sending and verifying wire transfers;
- (d) dual control and officer activation requirements for dormant accounts;
- (e) job titles and written responsibilities assigned to each bank officer and employee and included with the employee's personnel policy; and
- (f) an organizational chart of employees and officers is developed showing levels of authority and reporting responsibilities.

(2) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## ARTICLE VI

### BANK SECRECY ACT AUDIT

(1) Within ninety (90) days, the Board shall expand the Bank's existing Bank Secrecy Act ("BSA") audit procedures to include:

- (a) development of a program to test the adequacy of internal controls designed to ensure compliance with the provisions of the BSA, the rules and regulations of the Office of Foreign Assets Control ("OFAC"), and the requirements of the USA Patriot Act;
- (b) prompt management response and follow-up to all audit exceptions or other recommendations of the Bank's auditor; and
- (c) a risk based approach to BSA compliance that includes transactional testing and verification of data for higher risk accounts, products, services, and geographic areas of specific concern.

(2) Within one hundred twenty (120) days, the Board shall ensure that a comprehensive and independent audit of the BSA is completed, specifically ensuring that internal controls, training, high risk accounts, and processes to identify money laundering and suspicious activities are within the scope of the review.

## ARTICLE VII

### BANK SECRECY ACT - INTERNAL CONTROLS

(1) Within sixty (60) days, the Board shall revise, implement, and thereafter ensure Bank adherence to a written program of policies and procedures to ensure compliance with the Bank Secrecy Act (“BSA”), as amended (31 U.S.C. §§ 5311 - 5330), the regulations promulgated thereunder at 31 C.F.R. Part 103, as amended, and 12 C.F.R. Part 21, Subparts B and C (collectively referred to as the BSA). At a minimum, this written program shall be revised to include:

- (a) a system of internal controls and independent testing and auditing to ensure ongoing compliance with the BSA;
- (b) adequate controls and procedures to ensure that suspicious and large currency transactions are identified and reported. Procedures should be comprehensive as to all points of cash entry and exit;
- (c) a comprehensive training program for all employees and management to ensure their awareness of and compliance with the requirements of the BSA and the OFAC, including the currency reporting requirements pursuant to 12 C.F.R. Part 21, Subpart B;
- (d) a process for responding to FinCEN’s requests under Section 314(a) of the USA Patriot Act including the designation of a point of contact for receiving requests, a process to ensure that the confidentiality of the information/request is safeguarded, procedures for determining whether and when SAR(s) should be filed, and documentation requirements.

(2) Upon completion, a copy of this program shall be submitted to the Assistant Deputy Comptroller for review. In the event the Assistant Deputy Comptroller recommends changes to the program, the Board shall immediately incorporate those changes into the program.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## ARTICLE VIII

### CAPITAL MAINTENANCE

(1) The Bank shall achieve by September 30, 2005, and thereafter maintain ratios of:

- (a) Tier 1 Capital at least equal to ten percent (10%) of Adjusted Total Assets;<sup>1</sup> and
- (b) Total Risk Based Capital at least equal to fifteen percent (15%) of Risk Weighted Assets.

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

---

<sup>1</sup> Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets.

## ARTICLE IX

### PROGRESS REPORTING - QUARTERLY

(1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller, Minneapolis North Field Office, 920 Second Avenue South, Suite 800, Minneapolis, Minnesota 55402. These reports shall set forth in detail:

- (a) actions taken since the prior progress report to comply with each Article of the Agreement;
- (b) results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(2) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the ROE or in any future Report of Examination.

(3) The first progress report shall be submitted for the period ending September 30, 2005 and will be due within twenty (20) days of that date. Thereafter, progress reports will be due within twenty (20) days after the quarter end.

### CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.



