

AGREEMENT BY AND BETWEEN  
Peoples National Bank of Mora  
Mora, MN  
and  
The Comptroller of the Currency

Peoples National Bank of Mora, Mora, MN (“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 or unsound banking practices relating to asset quality and credit risk management at the Bank.

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.

ARTICLE I

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) Unless otherwise informed in writing by the Comptroller, all information, reports, reviews, plans, systems, or procedures which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Nancy M. Sundstrom  
Assistant Deputy Comptroller  
Minneapolis Field Office  
Campbell Mithun Tower  
222 South 9th Street, Suite 800  
Minneapolis, MN 55402-3371

## ARTICLE II

### SENIOR CREDIT OFFICER

(1) Within ninety (90) days, the Board shall employ, appoint, or designate a Senior Credit Officer who shall be vested with sufficient executive authority to develop and implement credit risk management policies, procedures, and systems.

(2) If the Senior Credit Officer position mentioned in paragraph (1) of this Article becomes vacant in the future, the Board shall within ninety (90) days of such vacancy employ, appoint, or designate a capable person to the vacant position who shall be vested in the authority and responsibilities outlined in paragraph (1) of this Article.

(3) If the Board is unable to employ any qualified candidates within the timeframes set forth above, the Board shall document its efforts to locate such candidates. Thereafter, the Board shall provide quarterly reports to the Assistant Deputy Comptroller summarizing its continuing efforts to locate such candidates.

(4) Prior to the appointment of any individual to the Senior Credit Officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

(a) the information sought in the “Changes in Directors and Senior Executive Officers” and “Background Investigations” booklets of the Comptroller’s Licensing Manual, together with a legible fingerprint card for the proposed individual;

(b) a written statement of the Board's reasons for selecting the proposed officer; and

(c) a written description of the proposed officer's duties and responsibilities.

(5) Pursuant to 12 U.S.C. § 1831i and 12 C.F.R. § 5.51, the Assistant Deputy Comptroller shall have the authority to issue a notice of disapproval with respect to the appointment of the proposed new senior executive officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed officer.

(6) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Assistant Deputy Comptroller to complete his or her review and act on any such information or authority within ninety (90) days.

### ARTICLE III

#### CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the Report of Examination dated September 21, 2009 (“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 thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to individual workout plans designed to eliminate the basis of criticism of assets 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) an identification of the expected sources of repayment;
- (b) the current value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) actions designed to eliminate the basis of criticism of and protect the Bank's interest in the asset, including timeframes for implementing and evaluating the effectiveness of those actions.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding one hundred thousand dollars (\$100,000) shall be forwarded to the Assistant Deputy Comptroller.

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

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds one hundred thousand dollars (\$100,000);
- (b) management's adherence to the workout plans adopted pursuant to this Article;

- (c) the status and effectiveness of the workout plans; and
- (d) the need to revise the workout plans or take alternative action.

(5) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis (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 one hundred thousand dollars (\$100,000) 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 workout plans adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(7) Copies of the approvals and comparisons of the Board or designated committee obtained pursuant to Paragraph (6) of this Article shall be maintained in the file of the affected borrower.

## ARTICLE IV

### LOAN REVIEW PROGRAM

(1) Within sixty (60) days, the Board shall establish, implement, and thereafter ensure Bank adherence to an effective, independent, and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. This system shall provide for a written report to be filed with the Board after each review. Such reports should include, at a minimum, conclusions regarding:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent and nonaccrual loans and leases;
- (c) credit and collateral documentation exceptions;
- (d) the identification and status of credit-related violations of law, rule, or regulation;
- (e) concentrations of credit;
- (f) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (g) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(2) Upon adoption, a written description of the system called for in this Article shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

(3) The Board shall evaluate the loan and lease review reports, and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report.

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved at the Bank.

## ARTICLE V

### CREDIT AND COLLATERAL EXCEPTIONS

(1) Within sixty (60) days the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Within sixty (60) days the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(3) If the Board is unable to obtain the credit information or collateral documentation required by paragraphs (1) and (2) of this Article within (60) days, the Board shall document its efforts to obtain such information or documentation, and maintain the documentation of its efforts in the loan file, to comply with paragraphs (1) and (2) of this Article.

(4) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit exceeding one hundred thousand dollars (\$100,000) only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing, in writing, current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
  - (i) Failure to obtain the information in (4)(d) shall require a majority of the full Board or its delegated committee to certify in writing the specific reasons why the Bank did not obtain and analyze the information in (4)(d);
  - (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

## ARTICLE VI

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the methodology and adequacy of the Bank's Allowance for Loan and Lease Losses ("ALLL") and shall establish a program for the maintenance of an

adequate ALLL balance in accordance with generally accepted accounting principles. This review and program shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council's "Interagency Policy Statement on the Allowance for Loan and Lease Losses" dated December 13, 2006, (OCC Bulletin 2006-47) ("Interagency Statement") and shall at a minimum include;

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB ASC 310-10, Receivables – Overall – Subsequent Measurement – Impairment, formerly known as FASB Statement of Financial Accounting Standards No. 114), Accounting by Creditors for Impairment of a Loan;
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans that are consistent with FASB ASC 450-20, Loss Contingencies, formerly known as FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, and address the nine qualitative factors set forth in the Interagency Statement;
- (c) procedures for validating the ALLL methodology; and
- (d) a process for summarizing and documenting, for the Board's review and approval, the amount to be reported in the Consolidated Reports of Condition and Income ("Call Reports") for the ALLL. Any deficiency between the ALLL balance as determined by the analysis required by this Article and the Bank's actual ALLL balance, regardless of the amount of such deficiency, shall be remedied through additional provision expense in the quarter it is discovered, prior to filing the Call Report.

## ARTICLE VII

### VIOLATIONS OF LAW - INSIDER CREDITS

(1) Within sixty (60) days, the Bank shall adopt, implement, and thereafter ensure Bank adherence to a written plan, including audit procedures, approved by a majority of the Board which outlines the means by which corrective action will be taken, to the extent possible, to correct the violations 12 C.F.R. § 215 reported in the ROE and prevent the recurrence of such violations. For violations of 12 C.F.R. § 215.4 (a)(1)(ii) regarding “more than normal risk of repayment” or “other unfavorable features”, the plan shall specify ways in which risks will be reduced or mitigated and unfavorable features corrected.

(2) Upon adoption, a copy of the plan shall be promptly forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

## ARTICLE VIII

### APPRAISAL VIOLATIONS

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of the appraisal regulation cited in the ROE and in any subsequent Report of Examination. The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller detailing the date and manner in which each violation has been corrected.

(2) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future appraisal violations and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance

management which incorporate internal control systems and education of employees regarding the appraisal laws, rules and regulations applicable to their areas of responsibility.

(3) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

## ARTICLE IX

### HIGHER CAPITAL MINIMUMS

(1) The Bank shall achieve by March 31, 2009, and thereafter maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) Total capital at least equal to twelve percent (12%) of risk-weighted assets;
- (b) Tier 1 capital at least equal to eight and one-half percent (8.5%) of adjusted total assets.<sup>1</sup>

(2) The requirement in this Agreement to 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).

## ARTICLE X

### CLOSING

(1) Although the Board has agreed to submit certain information, reports, reviews, plans, systems, and procedures to the Assistant Deputy Comptroller for review or prior written

---

<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.

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.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set her hand on behalf of the Comptroller.

/s/  
\_\_\_\_\_  
Nancy M. Sundstrom  
Assistant Deputy Comptroller  
Minneapolis Field Office

1/22/2010  
\_\_\_\_\_  
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/ _____ Mike Bergren	1/22/10 _____ Date
/s/ _____ Jon Gorham	1/22/10 _____ Date
/s/ _____ Jeff Gorham	1/22/2010 _____ Date
/s/ _____ Gary Hushagen	1/22/10 _____ Date
/s/ _____ Doyle Jelsing	1/22/10 _____ Date
/s/ _____ Kevin Nikodym	1/22/10 _____ Date
/s/ _____ Rod Rangen	1/22/10 _____ Date
_____ Judy Radeke	_____ Date