

#2017-019

AGREEMENT BY AND BETWEEN
First National Bank and Trust Company
Bottineau, ND
and
The Comptroller of the Currency

First National Bank and Trust Company of Bottineau, ND (“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 credit administration practices, the Allowance for Loan and Lease Losses methodology, strategic planning, and information technology controls 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)(7)(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) This Agreement shall cause the Bank to not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(6) 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 Field Office
222 Ninth St South, Suite 800
Minneapolis, MN 55402

ARTICLE II

HIGHER CAPITAL MINIMUMS

(1) The Bank shall continue to achieve and maintain at all times the following minimum capital ratios (as defined in 12 C.F.R. Part 3):

(a) Total risk-based capital to risk-weighted assets at least equal to twelve percent (12%);

(b) Common equity tier 1 capital to risk-weighted assets at least equal to ten percent (10%); and

(c) Tier 1 capital to adjusted total assets at least equal to eight percent (8%).

(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 III

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets identified as classified or special mention in any Report of Examination (“ROE”), 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, and the Bank, subject to Board review and ongoing monitoring, shall immediately implement, and thereafter ensure adherence to individual problem loan workout plans designed to eliminate the basis of criticism of assets identified as classified or special mention in any ROE, 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.” The problem loan workout plans shall cover an entire credit relationship, and shall include, at a minimum:

- (a) an identification of the expected sources of repayment and an analysis of their adequacy;
- (b) the appraised value of supporting collateral and the position of the Bank’s lien on such collateral where applicable as well as other necessary documentation to support the collateral valuation;
- (c) an analysis of current and satisfactory credit information (to the extent that such information is obtainable based on reasonable and diligent efforts), including cash flow analysis where loans are to be repaid from operations;
- (d) results of any impairment analysis required under Accounting Standards Codification (“ASC”) 310-10; and

- (e) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including, if appropriate, an exit strategy.

(3) Upon adoption, a copy of the problem loan workout plans for all assets rated Special Mention or classified Substandard equal to or exceeding two hundred and fifty thousand dollars (\$250,000), and all assets rated Doubtful of any size shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board, or a designated committee, shall conduct a documented review, on at least a quarterly basis, of those assets covered in item (3) above, to determine:

- (a) the status of each of the assets, in a format similar to Appendix A, attached hereto;
- (b) management's adherence to the individual problem loan workout plans adopted pursuant to this Article;
- (c) the status and effectiveness of the individual problem loan workout plans;
- (d) the need to revise the individual problem loan workout plan, or take alternative action; and
- (e) the effectiveness of the aggregate program on reducing criticized asset levels, and whether adjustments are necessary to ensure such reduction.

(5) Within thirty (30) days of the end of each calendar quarter, a copy of the review required under item (4) shall be forwarded to the Assistant Deputy Comptroller.

(6) Effective as of the date of this Agreement, 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 identified as classified or special mention 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 two hundred and fifty thousand (\$250,000) 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 problem loan workout plan adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the classified or special mention asset will not be compromised.

(7) A copy of the approval of the Board or of the designated committee required in item (6) shall be maintained in the file of the affected borrower.

ARTICLE IV

CREDIT ADMINISTRATION

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to an annual credit review program for credit exposures in excess of two hundred and fifty thousand dollars (\$250,000) to individual borrowers. The annual review shall be retained in the file of the affected borrower. The content of each annual credit review shall include, at a minimum:

- (a) a description of the borrower's business or farm operation including acres farmed and primary crops (as applicable);

- (b) a description of the borrowing need, whether for operating expenses, term chattel financing, inventory carry, real estate financing, or other;
- (c) past financial data on the borrower, including a minimum of three (3) years of spread and analyzed financial data from balance sheets and income statements;
- (d) trend analysis including leverage ratio, current ratio, and debt service coverage ratio along with conclusions regarding financial trends shown by those ratios;
- (e) detail of the borrower's other debts at the Bank and at other financial institutions or creditors;
- (f) payment history including detail of loans re-amortized and those where payments have been extended or where partial payments have been accepted;
- (g) analysis of current collateral coverage, including collateral description and supported estimated values;
- (h) documentation of the Bank's security interest in that collateral;
- (i) identification of any loans made with exceptions to the loan policy, including the detail and documented approval of the exception(s); and,
- (j) projections for the borrower's current year operations.

(2) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a loan quality review process conducted by an independent third party to review, at least annually, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The process shall provide for a written report to be filed

with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in “Rating Credit Risk” (April 2001) and “Allowance for Loan and Lease Losses” (June 1996) booklets of the *Comptroller’s Handbook*. The independent review report shall include, at a minimum, conclusions regarding:

- (a) the loan review scope and coverage parameters;
- (b) the overall quality of the loan and lease portfolio, underwriting and approval process, and credit administration process;
- (c) an assessment of credit quality and risk rating of individual credits using regulatory definitions and standards;
- (d) verification of the reasonability of values assigned to the collateral as well as liquidation values of that collateral;
- (e) verification of the accuracy of financial analysis conducted by the Bank;
and
- (f) identification of any loan file exceptions or non-compliance with the Bank’s loan policy.

(3) The Board shall, within thirty (30) days, document Board-approved credit concentration limits in the Bank’s loan policy. Management shall report to the Board its adherence to each of the concentration limits on a quarterly basis.

(4) The Board shall, within ninety (90) days, establish procedures to ensure the status of taxes due on real estate in which there is a collateral interest is monitored and recorded at least annually. The status of real estate tax payments must be recorded in credit presentations and annual credit reviews.

(5) The Board shall, within ninety (90) days, establish procedures to identify all loans secured by real estate for which the loan-to-value ratio exceeds those established by the Board pursuant to 12 C.F.R. Part 34, subpart D. Once identified, those loans must be aggregated and reported to the Board at least annually, with that report documented in Board minutes.

(6) The Board shall, within ninety (90) days, develop, implement, and thereafter ensure adherence to a policy requiring that stress testing is completed on credits where exposure to the Bank exceeds two hundred and fifty thousand (\$250,000) dollars.

- (a) Variables to be stressed, as appropriate, include: crop yield, commodity prices, and major production cost items.
- (b) Stress test results must be documented in annual credit reviews.
- (c) At least annually the Bank must evaluate the effect of portfolio stresses on capital levels and the adequacy of the Allowance for Loan and Lease Losses. Stress testing of portfolios of loans must be reported to the Board and documented in Board minutes at least annually.

ARTICLE V

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days, the Board shall revise the Bank's program for the maintenance of an adequate Allowance for Loan and Lease Losses (ALLL). The revisions shall be designed in light of (i) the comments on maintaining a proper Allowance found in the "Allowance for Loan and Lease Losses" booklet of the *Comptroller's Handbook*; (ii) U.S. generally accepted accounting principles ("GAAP"); (iii) OCC Bulletin 2006-47, *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (December 13, 2006); and (iv) the

instructions for reporting the Allowance on the Call Report. At a minimum, the program must be revised to incorporate the following:

- (a) procedures to insure that the measurement for impairment is conducted using one of the three acceptable methods specified under ASC 310-10: discounted cash flows, observable market price, or fair value of collateral less estimated cost to sell; and
- (b) procedures for determining loan pools under ASC 450-20 and an analysis of those loan pools with accurate loss rates and qualitative factor adjustments, including adjustments related to exposures to concentrations of credit, for each pool.

(2) The ALLL program shall provide for a review of the ALLL by the Board at least once each quarter. Any deficiency in the ALLL shall be corrected in the quarter it is discovered, prior to filing the Call Report, by additional provisions from earnings. Written documentation of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL shall be maintained.

ARTICLE VI

STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall forward to the Assistant Deputy Comptroller a written Strategic Plan for the Bank that is acceptable to the Assistant Deputy Comptroller, covering at least a three-year period. The Strategic Plan shall establish objectives and projections for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, reduction in

the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives, and it shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) the development of strategic goals and objectives to be accomplished over the short and long term, including key financial indicators, risk tolerances, and realistic strategies to improve the overall condition of the Bank;
- (c) an assessment of the Bank's strengths, weaknesses, opportunities, and threats that impact strategic goals and objectives;
- (d) an evaluation of the Bank's internal operations, staffing requirements, Board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(b) of this Article;
- (e) the development of a management employment and succession program to identify future senior executive management staffing requirements for the Bank and to promote the continuity of capable management;
- (f) review of current staffing needs and distribution of loan servicing work among personnel;
- (g) an identification and prioritization of initiatives and opportunities, including timeframes that take into account the requirements of this Agreement; and

(h) a realistic and comprehensive budget, to include quarterly projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the Strategic Plan, that corresponds to the Strategic Plan's goals and objectives.

(2) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan that includes a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Upon completion of each of its evaluations, the Board shall submit a copy to the Assistant Deputy Comptroller.

(3) The Board shall review and update the Strategic Plan at least annually, no later than January 31 each year, and more frequently if necessary or if required by the Assistant Deputy Comptroller in writing, to cover the next three-year period.

ARTICLE VII

INFORMATION TECHNOLOGY

(1) Within ninety (90) days, the Board shall revise, implement, and thereafter ensure adherence to the Bank's customer information security program ("ISP") to ensure the safety and soundness of its operations and the Bank's compliance with the Interagency Guidelines Establishing Information Security Standards set forth in 12 C.F.R. Part 30, Appendix B. At a minimum, the revisions must address the corrective actions described in the Matters Requiring Attention section of the ROE dated as of June 30, 2016 related to Information Technology.

ARTICLE VIII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review, 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/her 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 his hand on behalf of the Comptroller.

/s/

Jay Branger
Assistant Deputy Comptroller
Minneapolis Field Office

1/26/2017

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/

Orin Behrens

1-26-2017

Date

/s/

Dennis Burud

January 26 - 2017

Date

/s/

David Geiszler

1-26-2017

Date

/s/

John Gregg

1/26/2017

Date

/s/

Harvey Hoff

1-26-2017

Date

/s/

Charles Refling

1/26/2017

Date

APPENDIX A

First National Bank and Trust Company
of Bottineau
Bottineau, ND

CRITICIZED ASSET REPORT AS OF: _____

BORROWER(S):

ASSET BALANCE(S) AND OCC RATING (SM, SUBSTANDARD, DOUBTFUL OR LOSS):

\$ _____ CRITICISM _____

AMOUNT CHARGED OFF TO DATE _____

FUTURE POTENTIAL CHARGE-OFF _____

PRESENT STATUS (Fully explain any increase in outstanding balance; include past due status, nonperforming, significant progress or deterioration, etc.):

FINANCIAL AND/OR COLLATERAL SUPPORT (include brief summary of most current financial information, appraised value of collateral and/or estimated value and date thereof, bank's lien position and amount of available equity, if any, guarantor(s) info, etc.):

PROPOSED PLAN OF ACTION TO ELIMINATE ASSET CRITICISM(S) AND TIME FRAME FOR ITS ACCOMPLISHMENT:

IDENTIFIED SOURCE OF REPAYMENT AND DEFINED REPAYMENT PROGRAM (repayment program should coincide with source of repayment):

Use this form for reporting each asset rated Special Mention or classified Substandard that exceeds two hundred and fifty thousand dollars (\$250,000), and any asset rated Doubtful. Retain the original in the credit file for review by the examiners. Submit your reports **quarterly** until notified otherwise, in writing, by the Assistant Deputy Comptroller.

