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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 26th day of June, 1991, by and between Security Financial Banking and Savings, F.S.B., Saint Cloud, Minnesota, Docket No. 02419 (hereinafter referred to as the "Institution") and the Office of Thrift Supervision ("OTS"). This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution and the OTS. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 USC §§ 1818(b), (e) and (i), as amended.

WHEREAS, the OTS is of the opinion that Institution has engaged in certain unsafe or unsound practices in conducting its business, and that such practices provide grounds for the initiation of cease and desist proceedings against Institution by the OTS, and

WHEREAS, without admitting or denying any violation of law or regulation, nevertheless, in the interest of regulatory compliance and cooperation, Institution is willing to enter into this Agreement to avoid the initiation of cease and desist proceedings, and

WHEREAS, the OTS is willing to forbear from the initiation of cease and desist proceedings on the subjects covered by this Agreement for so long as Institution is in compliance with the provisions of the Agreement that pertain to such subjects,

NOW, THEREFORE, in consideration of the OTS's above-stated forbearance from initiation of cease and desist proceedings against Institution, it is agreed between the parties hereto as follows:

1. <u>**Reduction of Problem Assets**</u>

a. Within 60 days after the effective date of this Agreement, the Institution shall develop a written plan to reduce Classified Assets and Assets Subject To Special Mention, specifically, individual classified and special mention assets with gross book values greater than $250,000 and groups of classified and special mention assets, such as loans to one borrower, with aggregate gross book values exceeding $250,000, as of March 18, 1991. At a minimum, the plan shall include:

(i) A schedule providing quarterly goals to reduce the remaining adversely classified and special mention assets as of March 18, 1991, to levels representing not more than a specified percentage of core capital as reported each quarter by the Institution in its Thrift Financial Report and shall include no less than eight consecutive quarterly target dates;

(ii) An explanation showing the complete rationale used by the Institution in constructing the reduction schedule;

(iii) Specific strategies and time frames for resolution of each classified and special mention asset; and,

(iv) A provision requiring, at a minimum, quarterly reviews by the Institution's Board of Directors whereby the extent of the Institution's compliance with the plan is expressly addressed with the results of each review to be recorded in the corporate minutes of the Board of Directors.

b. The written plan and any subsequent modifications thereto shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the Board of Directors shall approve such plan, which approval shall be recorded in the minutes of the meeting of the Board of Directors. Thereafter, the Institution and its directors, officers, and employees shall implement and follow such plan and any modifications thereto.

c. The Board of Directors shall provide the Regional Deputy Director with a copy of its quarterly or more frequent review of the Institution's compliance with the plan within 10 days of such review.

2. **Limits on Commercial Lending**

Except for legally binding commitments that existed prior to May 28, 1991, the Institution shall not without the prior approval of the Regional Deputy Director originate, purchase, or enter into commitments to originate or purchase, any new commercial loans or commercial real estate loans, or advance additional funds to existing commercial or commercial real estate borrowers. As used in this Agreement, the term "commercial real estate loans" means all loans secured by real estate, other than those secured by 1-4 family residential property.

Within 30 days of the Effective Date of this Agreement, the Institution shall prepare and submit to the Regional Deputy Director a list of commercial and/or commercial real estate loan commitments outstanding as of May 28, 1991. The Institution shall obtain an opinion from its legal counsel, stating that these commitments represent legally binding commitments. The opinion shall be submitted to the Regional Deputy Director with the commitment list. The Institution shall provide an updated commitment list to the Regional Deputy Director, listing commitments that existed as of the last day of the preceding month, by the tenth (10th) of each calendar month. Nothing in this paragraph 2 restricts the Institution from renewing existing loans, provided that:

(i) interest due is not capitalized on the loans, and

(ii) no additional funds are advanced,

(iii) the existing borrowers are not released from their repayment obligations, and

(iv) the existing collateral and/or real estate securing the loans is not released.

3. **Limits on Consumer Lending**

Except for legally binding commitments that existed prior to May 28, 1991, the Institution shall not without prior approval of the Regional Deputy Director originate, purchase, or enter into commitments to originate or purchase, any new consumer loans to borrowers whose principal residence is more than 50 miles from any branch office of the Institution, other than those secured by 1-4 family residential property.

Within 30 days of the Effective Date of this Agreement, the Institution shall prepare and submit to the Regional Deputy Director, as of May 28, 1991, a list of consumer loan commitments outstanding to borrowers whose principal residence is more than 50 miles from any branch of the Institution. The Institution shall obtain an opinion from its legal counsel, stating that these commitments represent legally binding commitments. The opinion shall be submitted to the Regional Deputy Director with the commitment list. The Institution shall provide an updated commitment list to the Regional Deputy Director, listing commitments that existed as of the last day of the preceding month, by the tenth (10th) of each calendar month. Nothing in this paragraph 3 restricts the Institution from renewing existing loans, provided that:

(i) interest due is not capitalized on the loans, and

(ii) no additional funds are advanced,

(iii) the existing borrowers are not released from their repayment obligations, and

(iv) the existing collateral securing the loans is not released.

4. **Investments**

a. Without the prior written approval of the Regional Deputy Director, the Institution or its subsidiaries shall not make any investments in high-risk mortgage derivative products, as that term is used in OTS Thrift Bulletin 12 and any appendices thereto, or in any successor bulletins or appendices.

b. Within 30 days of the date of this Agreement, the Board of Directors shall amend its investment resolution, which allows management to invest in stocks, bonds, options, or securities with no indicated limitation, to clarify that all authorization is subject to the limitations of the Institution's Investment Policy.

5. **Institution Operating Policies and Procedures**

Within 60 days of the date of this Agreement, the Board of Directors shall develop and/or revise the following policies and procedures.

a. Conflict-of-Interest Policy. This policy shall be revised to include, but not be limited to, a review and documentation of all future transactions with affiliates for compliance with Sections 23A and 23B of the Federal Reserve Act.

b. Appraisal Policy. This policy shall be revised to include, but not be limited to, reviews of all approved appraisers and define the level of expertise required of the Institution's review appraiser.

c. Interest-Rate Risk Policy. This policy and accompanying procedures shall be revised to include, but not be limited to, that the Institution's management of interest-rate risk ("IRR") be commensurate with the Institution's activities, that the Institution's IRR exposure be limited to a prudent level, and that management report to the Board of Directors quarterly the level of the Institution's IRR in relation to the Board of Directors' established goals, limits, and policy.

d. Adjustable Rate Loan Policy. This policy shall be revised to include, but not be limited to, procedures and internal controls to ensure accurate rate-change adjustments on variable rate mortgage loans.

e. Loans-to-One-Borrower Policy. This policy shall be revised to include, but not be limited to, an identification system that will adequately identify potential violations, and require that management document efforts to bring non-conforming loans into compliance.

These written polices and procedures and any subsequent modifications thereto shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the Board of Directors shall approve such policies and procedures, which approval shall be recorded in the minutes of the meeting of the Board of Directors. Thereafter, the Institution and its directors, officers, and employees shall implement and follow such policies and procedures and any modifications thereto.

6. **Operating Expenses**

Within 60 days of the date of this Agreement, the Board of Directors shall undertake a review of the Institution's operating expenses and submit a plan to reduce such expenses to the Regional Deputy Director.

7. **Service Corporation Activity**

The Institution shall cease any further investments in service corporations and/or service corporation activity. There shall be no change in present service corporation activity without the prior approval of the Regional Deputy Director.

8. **Qualified Management**

Within ~~90~~ 180 days of the date of this Agreement, the Institution shall have and retain qualified management acceptable to the Regional Deputy Director. At a minimum, such management shall include a Chief Executive Officer ("CEO") with proven ability in managing an Institution of comparable size, and a Chief Financial Officer ("CFO") with proven ability in analytical, investment, accounting, reporting, and management knowledge and skill commensurate with that required at an Institution of greater or equal size. Also, within 90 days of the date of this Agreement, the Institution shall determine the need to retain additional lending officer(s) with proven ability and experience in upgrading a low quality loan portfolio. The CEO, CFO, and lending officer(s) shall be provided the necessary written authority to implement measures designed to improve the quality of the loan portfolio, and to assure compliance with applicable laws and regulations and the Institution's policies and procedures. The qualifications of management shall be assessed on their ability to, among other things, (i) comply with the requirements of this Agreement, (ii) operate the Institution in a safe and sound manner, (iii) comply with applicable laws and regulations, and (iv) maintain all aspects of the Institution in a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, and liquidity. During the life of this Agreement, the Institution shall notify the Regional Deputy Director in writing of any changes in the officers noted above. The notification must include the names and background of any replacement personnel and must be provided prior to the individual assuming the new position.

The Institution shall provide the Regional Deputy Director with a written monthly progress report during this 180 day period on its progress in retaining qualified management.

c. The Board of Directors shall review quarterly compliance reports and this review shall be made part of the minutes of the Board of Directors. The Board of Directors shall promptly correct any compliance deficiencies disclosed in such reports.

10. **Asset Valuation Allowances and Classification**

a. Within 60 days of the date of this agreement, the Board of Directors shall develop detailed written policies, procedures, and methodology for establishment and maintenance of adequate asset valuation allowances. These written polices and procedures and any subsequent modifications thereto shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the Board of Directors shall approve such policies and procedures, which approval shall be recorded in the minutes of the meeting of the Board of Directors. Thereafter, the Institution and its directors, officers, and employees shall implement and follow such policies and procedures and any modifications thereto.

b. The Institution and any service corporation or subsidiary thereof shall comply with 12 C.F.R. 563.172.

9. **Compliance System**

a. Within 60 days of this agreement, the institution shall develop a detailed written plan for monitoring compliance with all laws and regulations, including both safety and soundness and consumer regulations, and internal operating policies and procedures of the Institution. The plan shall require a detailed quarterly report of the monitoring and review function. This plan and any subsequent modifications thereto shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the Board of Directors shall approve such plan, which approval shall be recorded in the minutes of the meeting of the Board of Directors. Thereafter, the Institution and its directors, officers, and employees shall implement and follow such policies and procedures and any modifications thereto.

b. Within 60 days of the date of this agreement, the Board of Directors of the Institution shall appoint a compliance officer responsible for performing the compliance monitoring and review function and shall develop a position description outlining the position's responsibilities. The compliance officer must be independent from the Institution's operations. The compliance officer shall report directly to the Board of Directors on compliance matters.

c. Asset classification shall be completed no less often than quarterly. Net realizable value calculations for real estate owned and for troubled debt restructurings shall be performed quarterly. Commercial real estate owned shall be valued utilizing a fair value calculation. Management is not to upgrade any of the examiners asset classifications prior to the submission of supporting written information to the Regional Deputy Director, and receipt of written approval thereof.

d. The Institution shall increase its asset general valuation allowances to a minimum level of $3.08 million, as of May 31, 1991.

11. **Defined Benefit Plan**

Within 60 days of the date of this Agreement, the Board of Directors shall submit to the Regional Deputy Director a written statement of whether or not it was cognizant of the level of financial benefit that President Teigen received as a result of the Defined Benefit Plan amendment and termination. The Board of Directors shall submit a written report supporting the propriety of the payment of excess plan assets, including but not limited to the advice of legal counsel, tax accountants, and actuarial consultants. The Board of Directors shall obtain an opinion from independent legal counsel that the plan amendment and termination was in conformance with all applicable laws, rules, regulations, and the terms and provisions of the Defined Benefit Plan.

12. **Business Plan**

The Board of Directors is responsible for the continuous monitoring of adherence to the Institution's Business Plan. Any material or significant change in the Business Plan will be at the direction and with the approval of the Board of Directors. There will be no material or significant changes in or deviations from the Business Plan unless and until such changes or deviations have been approved by the Regional Deputy Director. A request for changes or deviations from the Business Plan, certified by the Board of Directors, shall be submitted to the Regional Deputy Director for consideration. A material or significant change in or deviation from the Business Plan will be considered to have occurred if the Institution engages in any type of activity inconsistent with its Business Plan or exceeds the level of any activity contemplated in its Business Plan by more than 10%. The 10% variance will be determined by comparing the individual line items in the institution's Thrift Financial Report Statement of Condition to individual line items, for the same period ending, contained in the institution's business plan balance sheet pro forma statements. For income and expense items, the 10% deviation shall be cumulative year-to-date basis beginning with the first period set forth in the Business Plan.

13. **Reports**

The institution shall file all financial reports required by the OTS, including monthly and quarterly reports, on the required date, and such other reports requested by the Regional Deputy Director on the requested date.

14. **Violation Not Condoned**

Nothing in this Agreement shall be construed as allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject.

15. **Board of Director Responsibility**

a. Each member of the Board of Directors owes fiduciary duties to the Institution and its depositors and stockholders. Notwithstanding that certain provisions of this Agreement require the Board of Directors to submit various matters to the Regional Deputy Director for the purpose of receiving approval, notice of acceptability or non-objection, such regulatory oversight does not derogate or supplant the fiduciary duties owed by the members of the Board of Directors of the Institution. The Board of Directors, at all times, shall have the ultimate responsibility for overseeing the safe and sound operation of the Institution.

b. In connection with its oversight of the Institution, the Board of Directors shall obtain and consider the Director Information Guidelines, published by the OTS in December, 1989. The Institution shall make such information available to the Regional Deputy Director upon request.

c. The Board of Directors of the Institution shall take immediate action for the purposes of causing the Institution to comply with this Agreement.

16. **Board of Directors' Review of Compliance with Agreement**

The Board of Directors shall, at a regular meeting, once each quarter, formally resolve that, to the best of its knowledge and belief, and based on a detailed review, during the previous quarter, the Institution and its subsidiaries complied with each provision of this Agreement currently in effect, except as otherwise stated. The resolution shall specify in detail how, if at all, full compliance was found not to exist. The resolution further shall set forth any exceptions to any requirements of this Agreement approved by the Regional Deputy Director. Within twenty (20) days of the Board of Directors' meeting at which compliance with this agreement is reviewed, the Institution shall submit to the Regional Deputy Director a copy of the minutes of the Board of Directors' meeting, including a copy of the quarterly criticized asset review report, copies of the monthly criticized asset reports prepared for the Board of Directors, and the aforementioned resolution. Each director shall at such time either provide the Regional Deputy Director with certification that, to the best of his or her knowledge and belief, and based upon a detailed review, the above-referenced resolution is accurate or provide the Regional Deputy Director with a written statement providing in detail the reason(s) for disagreement with the resolution.

17. **Notices**

Except as otherwise noted, any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with either OTS, or the Regional Deputy Director, or the Institution, shall be in writing and mailed first class, airmail postage prepaid, or physically delivered, or telecopied, telexed, or sent by other means of electronic transmission and confirmed by first class mail, airmail postage prepaid, or physically delivered and addressed to the Regional Deputy Director, Office of Thrift Supervision, Regency West 2, Suite 300, 1401 50th Street, West Des Moines, Iowa, 50265-5924, or the Institution at 1010 West St. Germain, Post Office Box 10, Saint Cloud, Minnesota, 56301-3402.

18. **Definitions**

a. All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall, insofar as applicable, have meanings as defined in 12 C.F.R. Parts 500 to End (revised January 1, 1990) as updated by any amendments published in the Federal Register through the effective date of this Agreement, and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations or Federal Register shall have meanings that accord with the best custom and usage in the savings and loan industry.

b. As used in this Agreement, the term "independent" shall mean a person or entity not related to the Institution, its subsidiaries, or its affiliated persons, who is not an affiliate or associate as those terms are defined in 12 C.F.R. 563b.2(a)(2) and (5).

19. **Termination**

This Agreement shall remain in effect until terminated by the OTS, acting through its Regional Deputy Director. The Regional Deputy Director will grant written requests for termination if, in his opinion, the Institution has satisfactorily complied with the terms of this Agreement for two years.

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized officer or designated agent. A certified copy of the Resolution of the Board of Directors of Institution authorizing the execution of this Agreement is attached hereto and made part hereof.

SECURITY FINANCIAL BANKING AND SAVINGS, FSB
SAINT CLOUD, MINNESOTA

By: /S/
Its: PRESIDENT

OFFICE OF THRIFT SUPERVISION

By: /S/
Regional Deputy Director I