

AGREEMENT BY AND BETWEEN
Heritage Bank, National Association, Spicer, Minnesota
and
The Comptroller of the Currency

Heritage Bank, National Association, Spicer, 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 determined that the Bank has engaged in unsafe and unsound banking practices relating to high levels of problem assets, deficient underwriting, poor supervision of the loan portfolio, strained liquidity and capital, and inadequate oversight by management and the Board.

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) 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
Sioux Falls Field Office
4900 Minnesota Avenue, Suite 300
Sioux Falls, SD 57108

Article II

COMPLIANCE COMMITTEE

(1) The Board shall continue to maintain a Compliance Committee of at least three (3) directors of which at least one (1) must not be an employee of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. In the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller.

(2) The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement and shall meet at least monthly.

(3) Within seven days from the end of every calendar month, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

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

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

Article III

THREE-YEAR PLAN

(1) The Board shall maintain adherence to a written capital plan for the Bank covering at least the next three years (hereafter the "Bank's Three-Year Plan"). Copies of the Bank's Three-Year Plan shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(2) The Bank's Three-Year Plan shall establish objectives and projections for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy,

together with specific strategies to achieve those objectives, that are specific, measurable, verifiable, and, at a minimum, address or include:

- (a) systems to monitor the Bank's progress in meeting the plan's goals and objectives;
 - (b) specific plans for the maintenance of adequate capital;
 - (c) projections for meeting the Bank's capital goals based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
 - (d) the primary source(s), especially those that are not credit sensitive, from which the Bank will strengthen its capital structure to meet the Bank's needs;
 - (e) a dividend policy that only permits the declaration of a dividend in accordance with this Article; and
 - (f) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the next three years that shall address or include consideration of the requirements of this Article.
- (3) Effective immediately, the Bank shall only declare dividends:
- (a) when the Bank is in compliance with the Bank's Three-Year Plan described in this Article;
 - (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and

- (c) with the prior written approval from the Assistant Deputy Comptroller, which shall be granted or denied within thirty (30) days of the receipt of a dividend request from the Bank.

Article IV

CREDIT UNDERWRITING AND ADMINISTRATION

(1) Effective as of the date of this Agreement, the Board shall ensure that all lending officers comply with all laws, rules, regulations, Bank policies and procedures, safe and sound banking practices, and fiduciary duties.

(2) The Board shall take the necessary steps to obtain current and satisfactory credit information on all loans lacking such information, including those listed in the Report of Examination conducted as of September 30, 2007 (the “ROE”), in any subsequent Report of Examination, in any internal or external loan review, or OCC correspondence.

(3) The Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, any subsequent Report of Examination, any internal or external loan review, or any OCC correspondence.

Article V

CREDIT RISK

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to reduce the high level of credit risk in the Bank. The program shall include, but not be limited to:

- (a) policies and procedures designed to aggregate and track exceptions to the Bank's Loan Policy. This includes at a minimum, monthly Board monitoring of policy exception reports that track the aggregate number and dollar amount of loans with policy exceptions by type of loan and loan officer.
- (b) the continued maintenance of an adequate, qualified staff for all lending operations;
- (c) procedures for strengthening collections of past due, nonaccrual, and charged-off loans; and
- (d) a commitment to limit loan growth to seven percent (7%) per annum (measured at the end of each calendar year, using gross loans) until the OCC determines in writing that the Bank's credit administration is satisfactory.

(2) The Board shall submit a copy of the program to the Assistant Deputy Comptroller.

(3) At least quarterly, the Board shall prepare a written assessment of the Bank's credit risk, which shall evaluate the Bank's progress under the aforementioned program. The Board shall submit a copy of this assessment to the Assistant Deputy Comptroller.

(4) 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

EXTERNAL LOAN REVIEW

(1) In every calendar year, the Board shall employ a qualified consultant to perform a loan review of the Bank. The external loan review system 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, A-RCR, of the Comptroller's Handbook. Such reports shall, at a minimum, include comments and conclusions regarding:

- (a) the loan review scope and coverage parameters;
- (b) the overall quality of the loan and lease portfolios;
- (c) the identification, type, rating, and amount of problem loans and leases including grading differences;
- (d) the identification and amount of delinquent loans and leases;
- (e) credit and collateral documentation exceptions;
- (f) the identification and status of credit related violations of law, rule or regulation;
- (g) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (c) through (f) of the Article;

- (h) concentrations of credit;
- (i) loans and leases to affiliates and related parties;
- (j) loans and leases not in conformance with the Bank's Loan Policy, and exceptions to the Bank's Loan Policy; and
- (k) any recommendations for improvements.

Article VII

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized (those listed as "special mention," "substandard," or "doubtful") in the ROE, any subsequent Report of Examination, any internal or external loan review, or any OCC correspondence.

(2) The Board shall take all necessary steps to ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets in the ROE, in any subsequent Report of Examination or OCC correspondence, or by any internal or external loan review. This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
 - (b) the appraised 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) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) The Board, or a designated committee, which may include or be constituted of, members of the current risk management team, 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 three hundred thousand dollars (\$300,000);
- (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.

(4) 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, any subsequent Report of Examination, any internal or external loan review, or any OCC correspondence and whose aggregate loans or other extensions exceed three hundred thousand dollars (\$300,000), only if each of the following conditions are met:

- (a) the Board or its 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 its designated

committee that must include at least one external director)
approves the credit extension and records, in writing, and
documents the reasons 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.

(5) A copy of the approval of the Board or its designated committee shall be
maintained in the credit file of the borrower.

Article VIII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall maintain its program for the maintenance of an
appropriate Allowance. The Board must continue to ensure that the Bank's Allowance
methodology meets Generally Accepted Accounting Principles and regulatory guidance
set forth in FAS 5, FAS 114, OCC Bulletin 2001-37, OCC Bulletin 2006-47, and the
"Allowance for Loan and Lease Losses" booklet of the Comptroller's Handbook.

(2) The program shall provide for a review of the Allowance by the Board at
least once each calendar quarter. Any deficiency in the Allowance shall be remedied in
the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition
and Income, by additional provisions from earnings. Written documentation shall be

maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

Article IX

LIQUIDITY

- (1) The Board shall take the necessary steps to ensure liquidity risk is controlled, to include at a minimum:
 - (a) an Asset Liability Committee (“ALCO”) that formally meets at least monthly;
 - (b) enhancements to the asset/liability management policy that incorporate forward-looking risk measurements and liability concentration limits such as limits on the amount of funds that may be sourced from any individual customer or groups of customers, or liability concentration limits by instrument;
 - (c) a sources and uses of funds report to assist with monitoring the funds flow in the Bank; and
 - (d) a contingency funding plan that forecasts funding needs and funding sources under a stressed scenario and should:
 - (i) represent management’s best estimate of balance sheet changes that may result from a liquidity or credit event.
 - (ii) provide for assumptions based on the possible cumulative reductions in the primary liquidity sources.

- (ii) include assumptions specifically providing for the impact a rate reduction in the Heritage Direct Savings account may have on the deposit base, along with an assumption that the Federal Home Loan Bank may restrict borrowing capacity.
- (iii) identify, quantify, establish, and rank all sources of funding by preference for the various scenarios including asset side funding; liability side funding and off-balance sheet funding; and
- (iv) ensure that administrative policies and procedures are consistent with the Board's guidance and risk tolerances.

(2) The Board shall take appropriate action to ensure adequate sources of liquidity in relation to the Bank's needs. Monthly reports shall set forth liquidity requirements and sources and establish a contingency plan.

(3) The Board shall submit a copy of the revised program required by this Article to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

Article X

VIOLATIONS OF LAW

(1) Within sixty (60) days of the date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations, practices, and breaches as cited in the ROE and shall adopt, implement,

and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules, regulations and duties applicable to their areas of responsibility.

(2) Within sixty (60) days of receipt of any subsequent Report of Examination or other OCC correspondence which cites violations of law, rule, or regulation, unsafe or unsound practice, or breach of fiduciary duty, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future citations in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules, regulations, and duties applicable to their areas of responsibility.

Article XI

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.

(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/

10/9/08

Christine A. Hartman
Assistant Deputy Comptroller for Bank Supervision
Sioux Falls Field Office

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/

10/2/08

Roland Boll

Date

/s/

10/2/08

Gary Geiger

Date

/s/

10/1/08

Thomas Geiger

Date

/s/

10/3/08

Burnie Mellema

Date

/s/

10/2/08

Steven NedreLOW

Date

/s/

10/2/08

Wayne Nelson

Date