

AGREEMENT BY AND BETWEEN  
Heritage Bank N.A.  
Holstein, Iowa  
and  
The Comptroller of the Currency

Heritage Bank N.A., Holstein, Iowa (“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 a high credit risk level, and insufficient credit administration processes.

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 no more than one (1) shall be an employee or controlling shareholder 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. 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.

(2) 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.

(3) 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 each board meeting.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the requirements of this Formal Agreement.

### ARTICLE III

#### 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, in any subsequent Report of Examination, or written OCC correspondence, or by any internal or external loan review.

(2) The Board shall continue to 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, 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 two hundred thousand dollars (\$200,000);
- (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, in any subsequent Report of Examination, in any internal or external loan review, or any OCC correspondence and whose aggregate loans or other extensions exceed two hundred thousand dollars (\$200,000), only if each of the following conditions are met:

- (a) the Board or its designated committee approves the credit extension and records, in writing, the reasons why such extension is necessary to promote the best interests of the Bank, prior to renewing, extending, or capitalizing any additional credit; and
- (b) a comparison to the written program referenced in 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 written certification required by paragraph (4) of this article shall be maintained in the credit file of the borrower.

## ARTICLE IV

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall maintain its program for the maintenance of an appropriate Allowance and shall review the Allowance at least once each calendar quarter. The Board must continue to ensure that the Bank's Allowance methodology meets generally accepted accounting principles. The Allowance policies and procedures 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), and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with 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, consistent with FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies;
- (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 in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Call Reports, through additional provision expense, and
- (e) an appropriate range of potential losses.

## ARTICLE V

### CREDIT UNDERWRITING AND ADMINISTRATION

- (1) Within thirty (30) days of the date of this Agreement, the Board shall, at a minimum, take the following steps to improve commercial real estate monitoring:
  - (a) the establishment of policies and procedures that require that borrower/guarantor global cash flow information is obtained on guarantors when the Bank is relying on them as the primary source of repayment;
  - (b) amendment of the loan policy to provide specific guidance to lending staff regarding triggers for re-appraisal/updates to existing appraisal; and
  - (c) measures designed to ensure that the Bank's existing policy standards regarding obtaining appraisals on new loans are fully adhered to by all lending personnel.
- (2) The Board shall take immediate action to ensure that the Bank has the policies and procedures in place to comply with the requirements of 12 C.F.R. Part 34.

## ARTICLE VI

### CREDIT RISK RATINGS

- (1) Within forty five (45) days of the date of this Agreement, the Board shall review and refine the Bank's risk rating process to ensure that the risk associated with the Bank's loans is properly reflected and accounted for on the Bank's books and records, to include, at a minimum, provisions requiring that:
  - (a) the Bank's loans and other assets are appropriately and timely risk rated and charged-off by the lending officers using a loan grading system that is

based upon current facts, existing repayment terms and that is consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the *Comptroller's Handbook*;

- (b) the Bank's loan review system provides meaningful, detailed reports to the Board on portfolio quality, risks, and trends; and
- (c) loan officers are held accountable for failing to appropriately and timely risk rate loans.

## ARTICLE VII

### EXTERNAL LOAN REVIEW

(1) The Board shall continue to employ a qualified consultant to perform ongoing annual loan reviews of the Bank. Unless the Bank receives written notification from the Assistant Deputy Comptroller that the scope must be expanded, throughout the life of this agreement the scope of the external loan review shall remain as previously approved by the Assistant Deputy Comptroller. Within sixty (60) days of starting the loan review, 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 overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases including grading differences;
- (c) the identification and amount of delinquent loans and leases;

- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of the Article;
- (g) concentrations of credit;
- (h) loans and leases to affiliates and related parties;
- (i) loans and leases not in conformance with the Bank's Loan Policy, and exceptions to the Bank's Loan Policy; and
- (j) any recommendations for improvements.

## ARTICLE VIII

### CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program. The program shall include, but not necessarily be limited to, the following:

- (a) The development of concentration reporting for the entire portfolio that provides greater segmentation for all lending types;
- (b) a review of the balance sheet to identify any concentrations of credit;
- (c) an annual written analysis of any concentration of credit identified above in Agreement to identify and assess the inherent credit, liquidity, and interest rate risk;



- (d) policies and procedures to control and monitor concentrations of credit;  
and
- (e) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in the “Loan Portfolio Management” booklet of the *Comptroller's Handbook*.

(3) The Board shall ensure that concentrations of credit are subjected to the analysis required by paragraph (1), subparagraph (c) of this Article and that the analysis demonstrates that the concentration will not subject the Bank to undue credit or interest rate risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Assistant Deputy Comptroller immediately following the review.

## ARTICLE IX

### PARTICIPATIONS PURCHASED

(1) The Board shall continue to ensure the Bank’s adherence to its written policy that provides guidelines for credit participation activities. These guidelines must continue to include, at a minimum:

- (a) volume limitations that include specific limits for both the total dollar amount and the total number of participations purchased;
- (b) monitoring requirements;
- (c) documentation requirements;
- (d) geographic limits;
- (e) industry limits; and

- (f) limits based on originator;
- (2) The Bank may not grant, purchase, assume or acquire in any manner, directly or indirectly, or as a fiduciary or nominee, any loan, loan participation, loan obligation or other asset, unless the Bank has documented in writing that such grant, purchase, assumption, or acquisition is consistent with:
  - (a) the Bank's policy
  - (b) safe and sound banking practices;
  - (c) the guidelines set forth in Banking Circular 181 (Revised), dated August 2, 1984; and
  - (d) the requirements of 12 C.F.R. Part 34.
- (3) The Bank shall provide an annual report to the Board detailing the steps it has taken to ensure compliance with the requirements of this article. A copy of this report shall be forwarded to the Assistant Deputy Comptroller for review.

## ARTICLE X

### REAL ESTATE APPRAISAL REVIEWS

- (1) Effective as of the date of this Agreement, the Board shall ensure that the Bank's loan policy contains adequate appraisal review requirements for all commercial and residential real estate loans, including, at a minimum:
  - (a) a review process that ensures that appraisal reviews are completed before the credit is advanced;

- (b) a policy that all appraisal reviews must comply with the minimum appraisal standards and interagency guidelines, including appropriate supporting detail of the final estimate of value; and
- (c) a policy that all appraisal reviews should comport with the guidance found in OCC 2005-6, Appraisal Regulations and Interagency Statement on Independent Appraisal and Evaluation Functions.

(2) Upon revision of the loan policy, the policy shall be submitted to the Assistant Deputy Comptroller for a prior determination of no supervisory objection.

(3) Upon receiving a determination of no supervisory objection, the Board shall ensure that this policy is implemented and thereafter adhered to by the Bank.

## ARTICLE XI

### LIQUIDITY

(1) The Board shall continue to maintain the liquidity of the Bank at a level that is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base.

(2) The Board shall review the Bank's liquidity on a monthly basis. Such reviews shall consider:

- (a) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (b) the volatility of demand deposits;
- (c) the amount and type of loan commitments and standby letters of credit;

- (d) an analysis of the continuing availability and volatility of present funding sources; and
  - (e) an analysis of the impact of decreased cash flow from the Bank's loan portfolio resulting from delinquent and non-performing loans;
- (3) On at least an annual basis, or as conditions warrant, the Board will review the contingency funding plan to ensure its adequacy.

## ARTICLE XII

### CAPITAL PLAN

- (1) Within thirty (30) days, the Board shall take steps to amend the Bank's three year capital program. These amendments shall include, at minimum:
- (a) specific plans for the maintenance of adequate capital;
  - (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's risk profile, assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
  - (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
  - (d) the primary, non-credit sensitive, source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
  - (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available;

- (f) the amount of capital available to the Bank from the Bank's holding company and/or ownership along with an estimation of the amount of time necessary to access these sources; and
- (g) a dividend policy that permits the declaration of a dividend only:
  - (i) when the Bank is in compliance with its approved capital program;
  - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
  - (iii) with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller, which shall be granted or denied within thirty (30) days of the receipt of a dividend request from the Bank.

(2) Upon completion, the Bank's amended capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

### ARTICLE XIII

#### INTERNAL AUDIT

- (1) Within forty five (45) days of the date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:
- (a) adequately cover all areas; and

(b) establish an annual audit plan using a risk based approach sufficient to achieve these objectives;

(2) As part of this audit program, the Board shall ensure that the Bank provides adequate audit training to all Bank personnel necessary to carry out the requirements of this Article.

(3) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

(6) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(7) The audit staff shall have access to any records necessary for the proper conduct of its activities. National Bank Examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(8) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Assistant Deputy Comptroller.

## ARTICLE XIV

### BANK SECRECY ACT COMPLIANCE FUNCTION

- (1) Within ninety (90) days of the date of this Agreement, the Bank shall take the following steps, at a minimum, to improve compliance with the Bank Secrecy Act (BSA):
- (a) Expansion of the Bank's written BSA policy to define procedures for properly identifying and monitoring high risk accounts. This must include completing and retaining Customer Due Diligence (CDD) on all identified high risk customers as discussed in OCC Bulletin 2005-19;
  - (b) Expansion of the scope and documentation of the annual external and internal BSA/AML audits to include testing on all areas of BSA/AML audits to include testing on all areas of BSA. This expansion must include, at a minimum, testing of:
    - (i) suspicious activity reporting and monitoring;
    - (ii) identification of high risk accounts and monitoring; and
    - (iii) CDD on all identified high risk customers;
  - (c) Measures designed to ensure formal management responses to all audit reviews and a tracking system to ensure violations and findings are addressed and corrected in a timely manner; and
  - (d) The development and implementation of proper monitoring processes and procedures for suspicious activity identification and monitoring.
- (2) Within ninety (90) days of the date of this Agreement, the Board shall determine whether any changes are needed regarding the Bank's BSA Officer, including the responsibilities, authority, structure, independence or skills of the BSA Officer. In particular, the

Board shall ensure that the BSA Officer has sufficient training, authority, and skill to perform his/her assigned responsibilities.

## ARTICLE XV

### STAFFING

(1) Within sixty (60) days of the date of this Agreement, the Board shall take steps to hire employee(s) or consultant(s) who have the appropriate expertise to supervise the Bank's participations purchased loan portfolio.

(2) Should the Bank be unable to make the staffing changes here directed within sixty (60) days of the date of this Agreement, the Board shall report in writing the efforts it has made to add the required employee or consultant, as well as the results of those efforts. The Bank shall continue utilizing its best efforts to add the employee or consultant required by Paragraph one of this Article and it shall continue the written reporting on its efforts quarterly, until the required employee or consultant has been added.

## ARTICLE XVI

### 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/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 her hand on behalf of the Comptroller.

/s/

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Christine A. Hartman  
Assistant Deputy Comptroller  
Sioux Falls Field Office

October 30, 2009

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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/ _____ John Anfinson	10/30/09 _____ Date
/s/ _____ Jerry Corey	10/30/09 _____ Date
/s/ _____ Richard Friedrichsen	10/30/09 _____ Date
/s/ _____ Gary Geiger	10/30/09 _____ Date
/s/ _____ Tom Geiger	10/30/09 _____ Date
/s/ _____ Dwaine Hinkeldey	10/30/09 _____ Date
_____ James McGuire	_____ Date
/s/ _____ Allan Pithan	10/30/09 _____ Date
/s/ _____ Charles Wharton	10/30/09 _____ Date
/s/ _____ Randy Wilkinson	10/30/09 _____ Date
/s/ _____ Kenneth Wulf	10/30/09 _____ Date