

AGREEMENT BY AND BETWEEN  
First National Bank of the Lakes  
Navarre, Minnesota  
and  
The Comptroller of the Currency

First National Bank of the Lakes, Navarre, 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 found unsafe or unsound banking practices relating to credit administration, audit, and insider transactions 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 programs, reviews, or plans 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  
222 South Ninth Street, Suite 800  
Minneapolis, Minnesota 55402

## ARTICLE II

### STAFFING PLAN

(1) Within one hundred twenty (120) days, the Board shall develop a staffing plan that is consistent with the goals and objectives established by the Board and provides for the necessary training and staffing to address the findings identified in the Report of Examination dated as of December 31, 2009 (“ROE”). At a minimum, the plan will consist of the following:

- (a) develop job descriptions that for each position with defined duties, lines of authority, skills, and training to cover the scope of duties traditionally assigned to a Chief Executive Officer, Senior Lender or Credit Officer, Chief Financial Officer, Compliance Officer, Information Technology Officer, Internal Auditor, and other operational managerial positions needed to manage the day-to-day operations of the Bank in a safe and sound manner.
- (b) identification of the skills, expertise, and training of the Bank’s current staff and assigned responsibilities; and

(c) an assessment and comparison of the current staff's skills, expertise, and training identified in (1) (b) of this Article to the skills and expertise identified in (1)(a) of this Article as necessary to manage the day-to-day operations of the Bank consistent with this Article and to correct the findings identified in the ROE.

(2) Upon completion of the staffing plan, the Board will provide a copy of the plan to the Assistant Deputy Comptroller for a determination of no supervisory objection.

(3) Within thirty (30) days of the receipt of no supervisory objection, the Board will implement the plan and direct any changes necessary to provide the Bank with a staff that possesses the skills and expertise identified in (1)(a) this Article. Thereafter, the Board will ensure that the Bank adheres to the staffing plan.

(4) If the Board determines that an officer will continue in his/her position, but that the officer's depth of skills needs improvement, the Board will within thirty (30) days develop and implement a written program, with specific time frames, to improve the officer's skills. At a minimum, the written program shall include:

- (a) an education program;
- (b) objectives by which the officer's skills and effectiveness will be measured; and
- (c) a performance appraisal program for evaluating performance according to the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

(5) Upon completion of a written program under Paragraph (4) of this Article, the Board will provide a copy to the Assistant Deputy Comptroller for a determination of no supervisory objection.

(6) If a position mentioned in Paragraph (1) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (1) of this Article becomes vacant, the Board shall within one hundred twenty (120) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility. If the Board is unable to employ a qualified candidate within the timeframe set forth above, the Board shall document its efforts to locate such candidate.

### ARTICLE III

#### BOARD OF DIRECTOR OVERSIGHT

(1) Within sixty (60) days, the Board shall take immediate and continuing actions to improve Board oversight of the Bank. Such actions shall include: improvement of director Board meeting attendance; review of monthly Board reports; enhancements of Board minutes to provide sufficient detail of issues, discussions, and actions taken at Board meetings; review and attestation of Board minutes; and review of Bank management and operations consistent with the recommendations contained in the ROE and requirements of this Agreement.

## ARTICLE IV

### PROBLEM LOAN WORKOUTS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized<sup>1</sup> in the ROE in any subsequent Report of Examination, or in any list provided to management by the National Bank Examiners, or by internal or external loan review.

(2) Within ninety (90) 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 in any list provided to management by the National Bank Examiners, or by internal or external loan review as "doubtful," "substandard," or "special mention." Each workout plan 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) the proposed actions to eliminate the basis of criticism and the dates by which the actions will be taken.

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<sup>1</sup> The term "criticized" as used in this Article is meant to refer to assets rated the equivalent of "doubtful," "substandard," or "special mention" as defined in the "Rating Credit Risk" booklet of the Comptroller's Handbook.

(3) A copy of the workout plan adopted pursuant to this Article shall be maintained in the file of the affected borrower.

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

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, of each workout plan adopted pursuant to this Article for all criticized assets equal to or exceeding one hundred thousand dollars (\$100,000) to determine:

- (a) the status of each criticized asset or criticized portion thereof;
- (b) management's adherence to the workout plan adopted pursuant to this Article;
- (c) the status and effectiveness of the workout plan; and
- (d) the need to revise the workout plan or take alternative action.

(6) A copy of each review conducted pursuant to Paragraph (5) of this Article shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis (in a format similar to Appendix A, attached hereto).

(7) 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, or in any list provided to management by the National Bank Examiners, or by any internal or external loan review, and whose aggregate loans or other extensions exceed two hundred fifty thousand dollars (\$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 its 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 plan adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the credit extension.

(8) The restrictions of paragraph (7) do not apply to occasional, short-term advances of ten thousand dollars (\$10,000) or less to cover overdraft balances in the normal course of business.

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

## ARTICLE V

### LOAN RISK RATING SYSTEM

(1) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of commercial credit relationships in excess of one hundred thousand dollars (\$100,000) (covered relationship), as assigned by responsible loan officers and by internal loan review, are timely, accurate, and consistent with the regulatory credit classification criteria set forth in the Rating Credit Risk Booklet, A-RCR, of the Comptroller's Handbook. At a minimum, the Board must ensure, on an ongoing basis, that with respect to the assessment of credit risk of any covered relationship:

- (a) the primary consideration is the strength of the borrower's primary source of repayment (i.e., the probability of default rather than the risk of loss);
- (b) if the primary source of repayment is cash flow from the borrower's operations, the strength of the borrower's cash flow is determined through analysis of the borrower's historical and projected financial statements, past performance, and future prospects in light of conditions that have occurred;
- (c) collateral, non-government guarantees, and other similar credit risk mitigants that affect potential loss in the event of default (rather than the probability of default) are taken into consideration only if the primary source of repayment has weakened and the probability of default has increased;
- (d) collateral values should reflect a current assessment of value based on actual market conditions and project status;
- (e) credit risk ratings are reviewed and updated whenever relevant new information is received, but no less frequently than annually; and
- (f) the credit risk rating analysis is documented and available for review by the Board and the OCC upon request.

## ARTICLE VI

### 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 repeated written requests and other efforts to obtain such information or documentation in order to be in compliance with Paragraphs (1) and (2) of this Article, and shall maintain the documentation of its efforts in the loan file.

(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 VII

### LOAN PORTFOLIO MANAGEMENT

- (1) Within ninety (90) days, the Board shall develop and adopt a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:
  - (a) guidelines for the proper placement of loans on non-accrual status in accordance with the Instructions for Consolidated Reports of Condition and Income (Call Report Instructions) and Rating Credit Risk Booklet, A-RCR, of the Comptroller's Handbook;
  - (b) guidelines for the proper and consistent treatment of Other Real Estate Owned (OREO) in accordance with the Instructions for Consolidated Reports of Condition and Income (Call Report Instructions);
  - (c) guidelines for reviewing the overdraft report at loan committee meetings and ensuring charge-offs are taken after 60 days of nonpayment in accordance with Bank policy;
  - (d) guidelines for retail lending with underwriting and documentation requirements to include minimum acceptable credit bureau scores, loan-to-value ratios, debt-to-income ratios, and compliance with OCC Bulletin 2000-20;

- (e) requirements for the loan approval process to ensure reasonable review by Loan Committee and the Board of Directors, consistent with the recommendations in the ROE; and
- (f) guidelines for completion and review of real estate evaluations consistent with 12 CFR 34.43(b).

(2) Upon adoption, the program shall be implemented, the Board shall thereafter ensure Bank adherence to the written program, and a copy shall be forwarded to the Assistant Deputy Comptroller for review.

## ARTICLE VIII

### VIOLATIONS

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE. The Board shall forward a progress report to our office no later than thirty (30) days from the effective date of this Agreement, and quarterly thereafter until all violations are fully corrected. The report shall include the date and manner in which each outstanding violation has been corrected.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE. Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

## ARTICLE IX

### CONFLICT OF INTEREST POLICY

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written, comprehensive conflict of interest policy applicable to the Bank's and the Bank's holding company's directors, principal shareholders, executive officers, affiliates, and employees and related interests of such employees. The policy will address and correct the deficiencies described in the ROE.

(2) Within sixty (60) days, the Board shall prepare, implement, and thereafter ensure adherence to a written program designed to ensure all non-interest expenses of the Bank are for legitimate Bank purposes. The program shall include a requirement that the Bank not pay, or reimburse directors or employees, for non-interest expenses which are not reasonable, are not supported by a related invoice or other documentation, commensurate with the fair value of the goods or services provided, and incurred for a legitimate purpose of the Bank. Management shall provide the Board with monthly reports containing sufficient information to reasonably determine whether the Bank's non-interest expenses for the period were for legitimate Bank needs and reimbursements to directors or employees are consistent with this Article.

(3) Upon adoption, a copy of this conflict of interest policy shall be forwarded to the Assistant Deputy Comptroller for review.

## ARTICLE X

### INTERNAL AUDIT

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:

- (a) detect irregularities and weak practices in the Bank's operations;

- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
- (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (d) evaluate the Bank's adherence to established policies and procedures;
- (e) adequately cover all areas; and
- (f) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

(2) 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.

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

## ARTICLE XI

### INFORMATION TECHNOLOGY

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure adherence to a comprehensive, written information security program to ensure the safety and soundness of its operations and to support the Bank's efforts to comply with 12 C.F.R. Part 30, Appendix B, Safeguarding Customer Information. The information security program shall include administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information. The information security program shall be consistent with the security process described in the "Information Security" booklet of the FFIEC Information

Technology Examination Handbook. The information security program shall also address those weaknesses identified in the ROE, in any subsequent Report of Examination, or by internal or external auditors.

## ARTICLE XII

### BANK SECRECY ACT TRAINING

(1) Within ninety (90) days of the date of this Agreement, the Board shall enhance, implement, and thereafter ensure Bank adherence to a comprehensive training program for all appropriate operational and supervisory personnel to ensure their awareness of their responsibility for compliance with the requirements of the OFAC and the Bank Secrecy Act, including the reporting requirements associated with SARs pursuant to 12 C.F.R. Part 21, Subpart B, regardless of the size of the relationship or type of customer involved.

(2) This enhanced comprehensive training program shall include strategies for mandatory attendance, the frequency of training, procedures and timing for updating training programs and materials, and the method for delivering training.

## ARTICLE XIII

### CLOSING

(1) Although the Board has agreed to submit certain programs, reviews, and plans 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 that certain actions are taken, and to ensure adherence to certain programs, policies, and procedures, 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) ensure that the Bank has adequate and appropriate personnel, and that personnel receive sufficient training, to ensure compliance with the terms of this Agreement;
- (c) require Bank management to report on a timely basis on the results of such actions directed by the Board to be taken under the terms of this Agreement;
- (d) analyze the underlying reasons for any non-compliance with such actions in a timely and appropriate manner; and

(e) initiate corrective action deemed appropriate for any non-compliance with such actions in a timely manner.

(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

6/11/10  
\_\_\_\_\_  
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/  
\_\_\_\_\_  
David Delaney, Jr.

6/11/10  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
David J. Delaney, Sr.

6/11/10  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Tim Lacy

6/11/10  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Kirk Lilligren

6/11/10  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Darold G. Peterson

6/11/10  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Matthew Schrempp

6/11/10  
\_\_\_\_\_  
Date

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