

AGREEMENT BY AND BETWEEN
First National Bank of the North
Sandstone, Minnesota
and
The Comptroller of the Currency

First National Bank of the North, Sandstone, 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 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, 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:

Nancy M. Sundstrom
Assistant Deputy Comptroller
Minneapolis Field Office
222 South Ninth Street, Suite 800
Minneapolis, Minnesota 55402

ARTICLE II

INDEPENDENT LOAN REVIEW

(1) Within ninety (90) days, the Board shall establish an effective, independent and on-going loan review system to review, at least quarterly for the first year and at least semi-annually thereafter, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The 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* Booklet of the Comptroller's Handbook. Such reports shall include, at a minimum, conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification of credit and collateral exceptions;
- (d) the identification and amount of delinquent and nonaccrual loans and leases; and

(e) loans and leases not in conformance with the Bank's lending and leasing policies.

(2) The Board shall ensure that the loan review is conducted by staff or other outside parties who are independent of the decision making or approval process for the loans reviewed.

(3) The Board shall evaluate the independent internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

(5) A written description of the program called for in this Article shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

ARTICLE III

NONACCRUAL LOANS

(1) The Bank shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the Instructions for Preparation of Consolidated Reports of Condition and Income ("Call Report Instructions") governing nonaccrual loans. Further, the Bank shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(2) Within sixty (60) days, the Board shall revise, adopt, and implement written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:

- (a) be consistent with the accounting requirements contained in the Call Report Instructions;
- (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured; and
- (c) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

(3) In no event, shall the Board approve any exception to the policy adopted pursuant to paragraph (2) of this Article that is inconsistent with the accounting requirements contained in the Call Report Instructions.

(4) Upon adoption, a copy of the written policies and procedures shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

ARTICLE IV

CREDIT RISK AND NONACCRUAL IDENTIFICATION

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

- (a) Early problem loan identification to assure the timely identification and rating of loans based on lending officer submissions; and
- (b) Timely identification of loans that warrant nonaccrual accounting treatment.

ARTICLE V

CRITICIZED ASSETS/WORKOUT PLANS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the Report of Examination dated as of December 31, 2009 (“ROE”), in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to individual workout plans designed to eliminate the basis of criticism of assets criticized¹ in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination. 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 a global cash flow analysis of the borrower's repayment ability; and

¹ 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.

- (d) actions designed to eliminate the basis of criticism of and protect the bank's interest in the asset, including timeframes for implementing and evaluating the effectiveness of those actions.

(3) 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 (in a format similar to Appendix A, attached hereto).

(4) The Board 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 one hundred thousand dollars (\$100,000);
- (b) management's adherence to the workout plans adopted pursuant to this Article;
- (c) the status and effectiveness of the plans; and
- (d) the need to revise the plans or take alternative action.

(5) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

(6) The Bank may extend credit, directly or indirectly, including renewals or extensions (including loan modifications and payment extensions), 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 in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed one hundred thousand dollars (\$100,000) only if each of the following conditions is met:

- (a) the Board finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing,

extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and

- (b) a comparison to the plans adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(7) A copy of the approval of the Board pursuant to paragraph (6) in this Article shall be maintained in the file of the affected borrower.

ARTICLE VI

REAL ESTATE APPRAISALS AND EVALUATIONS

(1) Within ninety (90) days, the Board shall obtain a current appraisal or evaluation, as applicable, of the real estate securing each of the loans on the list provided in the Violations of Laws and Regulations section of the ROE, any subsequent Report of Examination, or in any list provided to management by the National Bank Examiners as a result of any examination and shall implement procedures to prevent future appraisal violations.

(2) The appraisals obtained pursuant to paragraph (1) above shall conform to the minimum appraisal standards set forth at 12 C.F.R. § 34.44 and the evaluations shall conform to the guidelines for evaluations set forth in the Interagency Appraisal and Evaluation Guidelines dated October 27, 1994. (See also, Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions, dated March 22, 2005.)

(3) Within thirty (30) days of receipt of each appraisal or evaluation obtained pursuant to paragraph (1) above, the Board shall reassess the risk rating and accrual status of the loan, as well as the amount of impairment, if any, in accordance with FASB ASC 310-10, Receivables – Overall – Subsequent Measurement – Impairment, (formerly known as FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan).

ARTICLE VII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall review the methodology and adequacy of the Bank's Allowance for Loan and Lease Losses ("Allowance") and shall establish a program for the maintenance of an adequate Allowance for Loan and Lease Losses (ALLL) balance in accordance with generally accepted accounting principles. This review and program 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) ("Interagency Statement") and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB ASC 310-10, Receivables – Overall – Subsequent Measurement – Impairment, (formerly known as 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 that are consistent with FASB ASC 450-20, Loss Contingencies, (formerly known as FASB Statement of Financial Accounting Standards

No. 5, Accounting for Contingencies), and address the nine qualitative factors set forth in the Interagency Statement; and

- (c) 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 between the ALLL balance as determined by the analysis required by this Article and the Bank's actual ALLL balance, regardless of the amount of such deficiency, shall be remedied through additional provision expense in the quarter it is discovered, prior to filing the Call Report.

ARTICLE VIII

CALL REPORTS

(1) Within sixty (60) days, the Board shall cause the Bank to refile amended Reports of Condition and Income for the periods ending December 31, 2009, and March 31, 2010 as requested in the ROE.

(2) Within ninety (90) days, the Board shall adopt and cause the Bank to implement policies and procedures, in accordance with the Call Report Instructions, to ensure that all official and regulatory reports filed by the Bank accurately reflect the Bank's condition as of the date that such reports are submitted. Thereafter the Board shall ensure Bank adherence to the policies and procedures adopted pursuant to this Article.

(3) Upon completion of the policies, the Board shall submit a copy of the policies to the Assistant Deputy Comptroller.

ARTICLE IX

INVESTMENT POLICY

(1) Within sixty (60) days, the Board shall review and revise the Bank's investment policy and implement the revised policy, and thereafter ensure Bank adherence to the policy. The policy shall contain the basic elements of a sound investment policy consistent with regulatory guidance provided in An Examiner's Guide to Investment Products and Practices (December 1992), 12 C.F.R. Part 1, OCC Bulletin 2002-19 (May 22, 2002), and OCC Bulletin 98-20 (April 27, 1998) and shall include:

- (a) an investment portfolio strategy that is consistent with Board approved Bank asset and liability management policies and interest rate risk tolerances;
- (b) individual and committee investment portfolio purchase and sale authority;
- (c) approval procedures that will include dollar size limits, quality limitations, maturity limitations, and concentration or diversification guidelines;
- (d) requirements for documented pre-purchase analysis;
- (e) requirements for documented ongoing monitoring of high risk investments;
- (f) a requirement that investment securities be supported by adequate credit and interest rate risk measurement information as described in the "Interest Rate Risk" booklet of the Comptroller's Handbook and in OCC Bulletin 98-20 (April 27, 1998);
- (g) required reviews and use of securities dealers;

- (h) quarterly reports to and approval by the Board for all investment portfolio purchases and sales and strategy changes; and
- (i) quarterly review by the Board of the Bank's investment portfolio activity to ensure adherence to the investment policy and to applicable banking and securities laws and regulations.

(2) The revised investment policy shall be forwarded to the Assistant Deputy Comptroller.

ARTICLE X

CLOSING

(1) Although the Board has agreed to submit certain programs, reviews, reports or 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 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, including ensuring that the Bank has necessary processes, personnel, and control systems;
- (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/
Nancy M. Sundstrom
Assistant Deputy Comptroller
Minneapolis Field Office

8/2/2010
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/ _____ William P. Loew	7/30/10 _____ Date
/s/ _____ John D. O'Brien	7/30/10 _____ Date
/s/ _____ James J. O'Brien	7/30/10 _____ Date
/s/ _____ Roy Sebald	7/30/10 _____ Date
/s/ _____ John E. Thinesen	7/30/10 _____ Date
/s/ _____ Dennis Volden	7/30/10 _____ Date
/s/ _____ Robert Waletzko	7/30/10 _____ Date
_____ _____ _____	_____ _____ _____