

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

Written Agreement by and among

WEST CONCORD BANCSHARES, INC.
West Concord, Minnesota

FARMERS STATE BANK OF
WEST CONCORD
West Concord, Minnesota

and

FEDERAL RESERVE BANK OF
MINNEAPOLIS
Minneapolis, Minnesota

Docket Nos. 09-092-WA/RB-HC
09-092-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of West Concord Bancshares, Inc., West Concord, Minnesota (“Bancshares”), a registered bank holding company, and its subsidiary bank, Farmers State Bank of West Concord, West Concord, Minnesota (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, Bancshares, the Bank, and the Federal Reserve Bank of Minneapolis (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on October 28, 2009, the boards of directors of the Bancshares and the Bank, at a duly constituted meeting, adopted resolutions authorizing and directing Mr. Allan Organ to enter into this Agreement on behalf of Bancshares and the Bank, and consenting to compliance with each and every provision of this Agreement by Bancshares, the Bank, and their

institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, Bancshares, the Bank, and the Reserve Bank agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including but not limited to, credit risk management, loan policies and procedures, loan review; and

(b) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s adversely classified assets, concentrations of credit, status of collection on past due loans, allowance for loan and lease losses (“ALLL”), capital, liquidity, and earnings.

Corporate Governance and Management Review

2. (a) Within 30 days of this Agreement, the board of directors of the Bank shall retain an independent consultant acceptable to the Reserve Bank to conduct a review of the effectiveness of the Bank’s corporate governance and management structure (the “Review”) and to prepare a written report of findings and recommendations (the “Report”). The Review shall, at a minimum, address, consider, and include:

- (i) the qualifications and performance of each of the Bank's senior executive officers to determine whether the individual possesses the ability, experience, and other qualifications to competently perform present and anticipated duties, including their ability to: adhere to applicable laws and regulations and the Bank's established policies and procedures; restore and maintain the Bank to a safe and sound condition; and comply with the requirements of this Agreement;
- (ii) the identification of present and future management and staffing needs for each area of the Bank, particularly in the areas of loan administration, workout, and credit risk management; and
- (iii) an assessment of the current structure and composition of the board of directors and its committees, and a determination of the structure and composition needed to adequately supervise the affairs of the Bank.

(b) Within 10 days of the Reserve Bank's approval of the independent consultant selection, the Bank shall submit an engagement letter to the Reserve Bank for approval. The engagement letter shall require the independent consultant to submit the Report within 30 days of regulatory approval of the engagement letter and to provide a copy of the Report to the Reserve Bank at the same time that it is provided to the Bank's board of directors.

3. Within 30 days of receipt of the Report, the Bank's board of directors shall submit a written management plan to the Reserve Bank that fully addresses the findings and recommendations in the Report and describes the specific actions that the board of directors

propose to take in order to strengthen the Bank's management, and to hire, as necessary, additional or replacement officers or staff to properly manage and operate the Bank.

Credit Risk Management

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Procedures to periodically review and revise risk exposure limits to address changes in market conditions;
- (b) strategies to minimize credit losses;
- (c) procedures for timely and accurate identification of credit risk in the loan portfolio; and
- (d) procedures to identify, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1).

Loan Policies and Procedures

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable revised written loan policies and procedures that shall, at a minimum, address, consider, and include:

- (a) Underwriting standards that are appropriate for each type of loan product offered by the Bank and include and provide for, at a minimum, documented analysis of the borrower's repayment source, creditworthiness, cash flow, and debt service ability;
- (b) procedures to identify loans with a common repayment source or credit relationship and to aggregate such loans in monthly reports to the board of directors;

- (c) compliance with state legal lending limits and loan to value ratios;
- (d) procedures to strengthen the timely gathering of loan and collateral documentation;
- (e) procedures designed to minimize loan documentation exceptions; and
- (f) compliance with the Real Estate Lending and Appraisal Standards set forth in Subpart E and Appendix C of Regulation H of the Board of Governors of the Federal Reserve (the “Board of Governors”)(12 C.F.R. § 208 Subpart E and Appendix C) as well as the requirements of Subpart G of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart G).

Loan Review

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the ongoing review and grading of the Bank’s loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank’s lending function. The program shall, at a minimum, address, consider, and include:

- (a) The scope and frequency of the loan review;
- (b) standards and criteria for assessing the credit quality of the loans;
- (c) identification of any loan that is not in compliance with the Bank’s loan policy;
- (d) an assessment of compliance with state lending laws; and
- (e) quarterly written reports to the board of directors that identify the status of those loans that are adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

7. The Bank shall submit a plan that fully addresses the findings and recommendations of the current review of the Bank's loan portfolio within 30 days of receipt of the independent consultant's report.

Asset Improvement

8. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, "loss" in the report of examination by the Reserve Bank that commenced on November 10, 2008 ("Report of Examination") or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified "doubtful" or "substandard" in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank's interest in the ultimate collection of the credit already granted; or (ii) the extension of credit is in full compliance with the Bank's written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or

renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review.

9. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$150,000, including other real estate owned ("OREO"), that: (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$150,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current

problem loan list, extension report, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

10. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and

provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

11. Within 60 days of this Agreement, Bancshares and the Bank shall submit to the Reserve Bank an acceptable joint written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors

(12 C.F.R. Part 208, App. A and B);

(b) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(c) the source and timing of additional funds to fulfill Bancshares's and the Bank's future capital requirements; and

(d) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Bancshares serve as a source of strength to the Bank.

12. Bancshares and the Bank shall notify the Reserve Bank, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, Bancshares and the Bank shall submit an acceptable written plan that details the steps Bancshares and the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

Earnings Plan and Budget

13. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank a written business plan for 2010 to improve the Bank's earnings and overall condition.

The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for calendar year 2010, including income statement and balance sheet projections; and
- (ii) the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business plan and budget for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank at least 30 days prior to the beginning of that calendar year.

Liquidity Management

14. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

Dividends

15. (a) Bancshares and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors.

(b) Bancshares shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank

(c) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date. All requests shall contain, at a minimum, current and projected information, as appropriate, on Bancshares's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment. Bancshares and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

Regulatory Reports

16. Bancshares and the Bank shall immediately take steps to ensure that all required regulatory reports and notices filed with the Federal Reserve and the FFIEC accurately reflect Bancshares's and the Bank's financial condition and are filed in accordance with the applicable instructions for preparation.

Debt and Stock Redemption

17. (a) Bancshares shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written

approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bancshares shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Compliance with Laws and Regulations

18. (a) The Bank shall immediately take all necessary steps to correct all violations of law and regulation cited in the Report of Examination. In addition, the board of directors of the Bank shall take the necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

(b) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

(c) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

19. (a) Within 10 days of this Agreement, the boards of directors of Bancshares and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, Bancshares and the Bank shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans, Policies and Procedures, and Programs

20. (a) The Bank and, as applicable, Bancshares shall submit written plans, policies and procedures, programs and an engagement letter, that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2(b), 4, 5, 6, 9, 10(c), 11, and 14 of this Agreement. An independent consultant acceptable to the Reserve Bank shall be retained within the time period set forth in paragraph 2(a).

(b) Within 10 days of approval by the Reserve Bank, the Bank and, as applicable, Bancshares shall adopt the approved plans, policies, procedures, programs and engagement letter. Upon adoption, the Bank and, as applicable, Bancshares shall promptly implement the approved plans, policies and procedures, and programs, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies and procedures, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Communications

21. All communications regarding this Agreement shall be sent to:
 - (a) Diann Townsend
Enforcement Officer
Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401
 - (b) Mr. Allan Organ
President, West Concord Bancshares, Inc.
Chief Executive Officer and President,
Farmers State Bank of West Concord
181 Main Street
West Concord, Minnesota 55985

Miscellaneous

22. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to Bancshares and the Bank to comply with any provision of this Agreement.
23. The provisions of this Agreement shall be binding upon Bancshares and the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.
24. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.
25. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

26. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 6th day of November, 2009.

WEST CONCORD BANCSHARES , INC.
FARMERS STATE BANK OF
WEST CONCORD

FEDERAL RESERVE BANK
OF MINNEAPOLIS

By: /s/ Allan Organ
Allan Organ
President and Chief Executive Officer

By: /s/ James Barnes
James Barnes
Vice President