

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

Written Agreement by and between

NORTHWESTERN BANCORP
Traverse City, Michigan

and

FEDERAL RESERVE BANK OF CHICAGO
Chicago, Illinois

Docket No. 13-011-WA/RB-HC

WHEREAS, Northwestern Bancorp, Traverse City, Michigan (“NWBC”), a registered savings and loan holding company, owns and controls Northwestern Bank, Traverse City, Michigan (the “Savings Bank”), a state-chartered savings bank, Northwestern Capital Trust II, Traverse City, Michigan (“Trust II”), and various other nonbank subsidiaries;

WHEREAS, it is the common goal of NWBC and the Federal Reserve Bank of Chicago (the “Reserve Bank”) to maintain the financial soundness of NWBC so that NWBC may serve as a source of strength to the Savings Bank;

WHEREAS, NWBC and the Reserve Bank have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on May 15, 2013, the board of directors of NWBC, at a duly constituted meeting, adopted a resolution authorizing and directing Harry C. Calcutt, III to enter into this Agreement on behalf of NWBC, and consenting to compliance with each and every provision of this Agreement by NWBC and its 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, NWBC and the Reserve Bank agree as follows:

Source of Strength

1. The board of directors of NWBC shall take appropriate steps to fully utilize NWBC’s financial and managerial resources, pursuant to section 38A of the FDI Act (12 U.S.C. § 1831o-1) and section 238.8(a) of Regulation LL of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 238.8(a)), to serve as a source of strength to the Savings Bank, including, but not limited to, taking steps to ensure that the Savings Bank complies with the Consent Order entered into with the Federal Deposit Insurance Corporation (“FDIC”) and the State of Michigan Office of Financial and Insurance Regulation on August 24, 2012 and any other supervisory action taken by the Savings Bank’s federal or state regulator.

Board Oversight

2. Within 60 days of this Agreement, NWBC’s board of directors shall submit to the Reserve Bank a written plan to strengthen board oversight of the management and operations of the consolidated organization, including NWBC, the Savings Bank, and NWBC’s nonbank subsidiaries. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to maintain effective control over, and supervision of, the consolidated organization’s major operations and activities, including, but not limited to, governance, risk management, accounting, financial controls and reporting, and regulatory reporting;

- (b) a training program for NWBC's board of directors on governance and fiduciary responsibilities;
- (c) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations;
- (d) steps to develop a formal independent internal audit function; and
- (e) 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 NWBC and its nonbank subsidiaries.

Risk Management

3. Within 60 days of this Agreement, NWBC shall submit to the Reserve Bank an acceptable written plan to enhance the consolidated organization's risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Measures to strengthen board and senior management oversight of risks of the organization on a consolidated basis;
- (b) written policies and procedures designed to identify, assess, manage, and monitor risk exposures, including, but not limited to, risks in new activities and products, investments, and liquidity; and
- (c) steps to improve the information and reports that will be regularly reviewed by the board of directors, committees, and senior executive officers of NWBC in their oversight and operation of the consolidated organization.

Internal Controls

4. Within 60 days of this Agreement, NWBC shall submit to the Reserve Bank acceptable written policies and procedures designed to strengthen NWBC's system of internal

controls and to maintain the accuracy of the organization's books and records that shall, at a minimum, address, consider, and include:

(a) Measures to ensure the completeness and accuracy of all NWBC's and the nonbank subsidiaries' books and records, including consistent application of generally accepted accounting principles ("GAAP");

(b) measures to ensure an appropriate number of properly trained and knowledgeable staff are allocated to the performance of accounting and regulatory reporting functions;

(c) guidelines and procedures for review and approval of all transactions between NWBC or its affiliates and the Savings Bank; and

(d) an independent internal audit program appropriate for the overall organization that provides for the proper safeguarding of assets, the accuracy of financial reports, and conformance with established accounting principles.

Regulatory Reporting

5. Within 60 days of the Agreement, NWBC shall submit an acceptable written plan to ensure that all regulatory reports filed with the Federal Reserve accurately reflect the organization's financial condition and are filed in accordance with applicable instructions for preparation. At a minimum the plan shall include formal policies and procedures for the preparation and maintenance of regulatory reporting, including, but not limited to:

(a) Responsibilities and deadlines for report preparation;

(b) procedures to document explanations for adjustments to general ledger accounts and regulatory filings;

(c) review procedures to ensure the validity and accuracy of final reports; and,

(d) procedures for both NWBC and its nonbank subsidiaries to ensure the company's financial reports are completed in accordance with GAAP.

Dividends and Distributions

6. (a) NWBC 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 (the "Director") of the Board of Governors.

(b) NWBC shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Savings Bank without the prior written approval of the Reserve Bank.

(c) NWBC and Trust II shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information on NWBC's capital, earnings, and cash flow; the Savings Bank's capital, asset quality, earnings, and allowance for loan and lease losses; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, NWBC 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).

Debt and Stock Redemption

7. (a) NWBC and Trust II 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) NWBC shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Affiliate Transactions

8. (a) NWBC shall take all necessary actions to ensure that the Savings Bank complies with section 23A and 23B of the Federal Reserve Act (12 U.S.C. §§ 371c and 371c-1), sections 10 and 11 of the Home Owners' Loan Act (12 U.S.C. §§ 1467a(d) and 1468), and the Board's Regulation W (12 C.F.R. Part 223) in all transactions between the Savings Bank and its affiliates, including, but not limited to, NWBC and its nonbank subsidiaries.

(b) NWBC and its nonbank subsidiaries shall not cause the Savings Bank to violate any provision of sections 23A and 23B of the Federal Reserve Act, sections 10 and 11 of the Home Owners' Loan Act, or the Board's Regulation W.

Cash Flow Projections

9. Within 60 days of this Agreement, NWBC shall submit to the Reserve Bank a written statement of its planned sources and uses of cash for debt service, operating expenses, and other purposes ("Cash Flow Projection") for 2013. NWBC shall submit to the Reserve Bank a Cash Flow Projection for each calendar year subsequent to 2013 at least one month prior to the beginning of that calendar year.

Compliance with Laws and Regulations

10. (a) 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, NWBC shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation LL of the Board of Governors (12 C.F.R. §§ 238.71 *et seq.*).

(b) NWBC 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 FDIC's regulations (12 C.F.R. Part 359).

Progress Reports

11. Within 45 days after the end of each calendar quarter following the date of this Agreement, the board of directors shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement and the results thereof, and a parent company only balance sheet, income statement, and, as applicable, report of changes in stockholders' equity.

Approval and Implementation of Plans, Policies, and Procedures

12. (a) NWBC shall submit the plans, policies, and procedures that are acceptable to the Reserve Bank within the applicable time period set forth in paragraphs 3, 4, and 5 of this Agreement.

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

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

Communications

13. All communications regarding this Agreement shall be sent to:

- (a) Mr. Andre Reynolds
Assistant Vice President
Federal Reserve Bank of Chicago
230 S. LaSalle Street
Chicago, IL 60604
- (b) Mr. Harry C. Calcutt, III
President and Chief Executive Officer
Northwestern Bancorp
625 S. Garfield Avenue
Traverse City, MI 49686

Miscellaneous

14. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to NWBC to comply with any provision of this Agreement.

15. The provisions of this Agreement shall be binding upon NWBC, its nonbank subsidiaries, and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

16. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

17. 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 NWBC, the Savings Bank, any nonbank subsidiary of NWBC, or any of their current or former institution-affiliated parties and their successors and assigns.

18. 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 7th day of June, 2013.

NORTHWESTEN BANCORP

FEDERAL RESERVE BANK
OF CHICAGO

By: /s/ Harry C. Calcutt, III
Harry C. Calcutt, III
President and CEO

By: /s/ Mark H. Kawa
Mark H. Kawa
Vice President