FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **FIRST STATE BANK OF KENSINGTON** **KENSINGTON, MINNESOTA** **(Insured State Nonmember Bank)**	))))))))	 **ORDER TO** **CEASE AND DESIST** **FDIC-06-101b**

First State Bank of Kensington, Kensington, Minnesota, (Insured Institution, or Institution) having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and regulation alleged to have been committed by the Institution, as well as its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act (Act), 12 U.S.C. §1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST (CONSENT AGREEMENT) dated July 14, 2006, with counsel for the Federal Deposit Insurance Corporation (FDIC), whereby solely for the purpose of this proceeding and without admitting or denying any unsafe or unsound banking practices and violations of law and regulation, the Institution consented to the issuance of an ORDER to CEASE AND DESIST (ORDER) by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Institution had engaged in unsafe and unsound banking practices and violations of law and regulation. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Institution, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of law and regulation:

A. Operating with management whose policies and practices are detrimental to the Institution and jeopardize the safety of its deposits.

B. Operating with a board of directors that has failed to provide adequate supervision over and direction to the management of the Institution.

C. Operating with an inadequate level of capital protection for the kind and quality of assets held.

D. Operating with an inadequate allowance for loans and lease losses held, and/or failing to make provision for an adequate allowance for possible loan and lease losses.

E. Engaging in hazardous lending and lax collection practices, including, but not limited to:

(1) the failure to obtain proper loan documentation;

(2) the failure to obtain adequate collateral;

(3) the failure to establish and enforce adequate loan repayment programs;

(4) the failure to obtain current and complete financial information;

(5) the extension of credit with inadequate diversification of risk; and

(6) other poor credit administration practices.

F. Operating with an excessive level of adversely classified loans or assets, and/or delinquent loans and/or non-accrual loans.

G. Operating with inadequate earnings to cover losses, support operations and augment capital.

H. Operating with inadequate internal routines and controls.

I. Operating with an inadequate audit program.

J. Failing to keep accurate books and records.

K. Violating laws and/or regulations, including:

   (1) the legal lending limit restrictions of the State of Minnesota as set forth in Minn. Stat. § 48.24;

   (2) the “unfavorable feature” prohibition(s) of section 215.4(a)(1) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(a)(1); and

   (3) the aggregate lending limit restrictions of section 215.4(d) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(d).

IT IS FURTHER ORDERED, that the Institution, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

1. (a) Within 120 days from the effective date of this ORDER, after establishing an adequate allowance for loan and lease losses, the Institution shall achieve and maintain Tier 1 capital at least equal to seven (7) percent of the Institution’s average total assets (leverage ratio).

(b) In the event the leverage ratio falls below 7 percent, the Institution shall notify the Regional Director and the Minnesota Department of Commerce (Commissioner)and shall increase capital in an amount sufficient to comply with this provision within 30 days.

(c) Any increase in capital necessary to meet the requirements of the provisions of this paragraph may be accomplished by the following:

  (i) The sale of new securities in the form of common stock;

  (ii) The sale of noncumulative perpetual preferred stock;

  (iii) The direct contribution of cash by the directors, shareholders, or parent holding company of the Institution; or

  (iv) Any other method acceptable to the Regional Director and Commissioner and approved in advance in writing by the Regional Director.

(d) No increase in Tier 1 capital necessary to meet the requirements of this ORDER may be accomplished through a deduction from the Institution’s allowance for loan and lease losses or other reserve accounts. Further, the Institution shall not lend funds directly or indirectly, whether secured or unsecured, to any purchaser of Institution or affiliate stock or other securities, or to any investor by any other means for any portion of any increase in Tier 1 capital required herein.

(e) If all or part of the increase in capital required by the provisions of this paragraph is accomplished by the sale of new securities, the board of directors of the Institution shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Institution's securities (including a distribution limited only to the Institution's existing shareholders), the Institution shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Institution and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted for review to the Regional Director and the Commissioner, and the FDIC’s Registration, Disclosure, and Securities Unit, 550 17th Street, N.W., Room F-6053, Washington, D.C. 20429. Any changes requested by the FDIC or the Commissioner to be made in the plan or materials by the FDIC shall be made prior to their dissemination. If the Regional Director allows any part of the increase in Tier 1 capital to be provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to the interest rate and any convertibility factor, shall be presented to the Regional Director and the Commissioner for prior approval.

(f) In complying with the provisions of this paragraph, the Institution shall provide to any subscriber and/or purchaser of the Institution's securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Institution securities. The written notice required by this paragraph shall be furnished within 15 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Institution's securities who received or was tendered the information contained in the Institution's original offering materials.

(g) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC’s Rules and Regulations.

2. While this ORDER is in effect, the Institution shall not declare or pay any cash dividends without the prior written approval of the Regional Director and the Commissioner.

3. (a) Within 10 days from the effective date of this ORDER, the Institution shall: (i) eliminate from its books, by charge-off or collection, all assets or portions of assets classified “Loss” in the January 17, 2006, FDIC Report of Examination (Report of Examination) that have not been previously collected or charged off; and (ii) increase its allowance for loan and lease losses by an amount equal to 50 percent of all loans or leases classified “Doubtful.”

(b) Within 10 days from the effective date of this ORDER, the Institution shall establish a reserve for contingent liabilities and charge all contingent liabilities classified "Loss" in the Report of Examination to this reserve. Alternatively, contingent liabilities classified “Loss” in the Report of Examination may be charged to the Institution’s allowance for loan and lease losses.

(c) Elimination or reduction of assets through proceeds of other loans made by the Institution is not considered collection for purposes of this provision.

4. (a) Within 90 days from the effective date of this ORDER, the Institution shall formulate a written plan to reduce the Institution’s risk exposure in each asset in excess of $100,000 classified “Substandard” or “Doubtful” in the Report of Examination. For purposes of this provision, “reduce” means to collect, charge off, or improve the quality of an asset so as to warrant its

removal from adverse classification by the FDIC or the Commissioner. In developing the plan mandated by this paragraph, the Institution shall, at a minimum, and with respect to each adversely classified loan or lease, 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 Institution's collateral position.

(b) In addition, the plan mandated by this provision shall also include, but not be limited to, the following:

(i) A schedule for reducing the outstanding dollar amount of each adversely classified asset, including timeframes for achieving the reduced dollar amounts. At a minimum, the schedule for each adversely classified asset must show its expected dollar balance on a quarterly basis;

(ii) Specific action plans intended to reduce the Institution's risk exposure in each classified asset;

(iii) A schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets, and the ratio of the consolidated balance to the Institution's projected Tier 1 capital plus the allowance for loan and lease losses;

(iv) A provision for the Institution’s submission of monthly written progress reports to its board of directors; and

(v) A provision mandating board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the board of directors.

(c) The Institution shall submit the plan to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Institution shall approve the plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution shall implement and fully comply with the plan.

5. (a) While this ORDER is in effect, the Institution shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Institution that has been, in whole or in part, charged off or classified "Loss" and is uncollected. The requirements of this paragraph shall not prohibit the Institution from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower. This provision shall not apply if the Institution's failure to extend further credit to a particular borrower would be detrimental to the

best interests of the Institution. Prior to extending additional credit pursuant to this paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Institution's board of directors, who shall certify, in writing:

(i) Why failure of the Institution to extend such credit would be detrimental to the best interests of the Institution.

(ii) That the extension of such credit would improve the Institution's position, including an explanatory statement of how the Institution’s position would improve.

(iii) An appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

The signed certification shall be made a part of the minutes of the meeting of the board of directors with a copy retained in the borrower's credit file.

(b) While this ORDER is in effect, the Institution shall not make any further extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified "Substandard" or "Doubtful" by the FDIC and the Commissioner without prior approval by the Institution's board of directors. The Institution’s board of directors shall not approve the proposed extension without first making affirmative determinations that:

(i) The extension of credit is in full compliance with the Institution's loan policy;

(ii) The extension of credit is necessary to protect the Institution's interests, or is adequately secured;

(iii) The Institution found the primary and secondary obligors to be creditworthy based on a credit analysis; and

(iv) All necessary loan documentation is on file, including, at a minimum, current financial and cash flow information, and satisfactory appraisal, title and lien documents.

(c) The affirmative determination shall be recorded in the minutes of the meeting of the board of directors, with a copy retained in the borrower’s credit file.

6. (a) Within 90 days from the effective date of this ORDER, the Institution shall correct the exceptions listed on the “Assets with Credit Data or Collateral Documentation Exceptions” pages of the Report of Examination. “Correct” shall include documented attempts to collect missing information. All attempts to correct exceptions shall be documented in the borrowers’ credit files. In all future operations, the Institution shall ensure that all necessary supporting documentation is obtained and evaluated before any credit or loan is extended by the Institution.

(b) Progress reports detailing each outstanding exception and the Institution’s plan for corrective action shall be submitted to the board for review during each regularly scheduled meeting. The review shall be noted in the minutes of the meeting of the board of directors.

7. (a) Within 30 days from the effective date of this ORDER, the Institution shall appoint a loan committee, which shall meet as frequently as necessary to carry out the responsibilities assigned to the committee, but in no event less frequently than every two weeks.

(b) The loan committee shall, at a minimum, perform the following functions:

(i) Evaluate and act upon requests for loans or other extensions of credit, and assess the administration of outstanding loans or other extensions of credit, in accordance with the Institution’s loan policy as amended to comply with this ORDER;

(ii) Provide a thorough, written explanation of any deviations from the loan policy, which shall:

a) Address how such exceptions are in the Institution’s best interest;

b) Be included in the minutes of the corresponding committee meeting; and

c) Be maintained in the borrower’s credit file.

(iii) Review and monitor the status of repayment and collection of overdue and maturing loans, all loans classified “Substandard” or “Doubtful” in the regulatory reports of examination, and all loans included on the Institution’s internal watch list; and

(iv) Maintain written minutes of the committee meetings, including a record of the review and status of the loans considered.

(c) All loan committee minutes shall be reviewed by the Institution’s board of directors during the next scheduled meeting.

8. (a) Within 60 days from the effective date of this ORDER, the board shall develop a program of independent loan review that will provide for a periodic review of the Institution's loan portfolio and the identification and categorization of problem credits. At a minimum, the system shall provide for:

(i) Identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention, and assessment of the degree of risk that the loan will not be fully repaid according to its terms;

(ii) Action plans to reduce the Institution’s risk exposure from each identified relationship;

(iii) Identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from the aggregate relationship;

(iv) Identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;

(v) Identification and status of violations of laws, rules, or regulations with respect to the lending function and an action plan to address the identified violations;

(vi) Identification of loans that are not in conformance with the Institution's lending policy and an action plan to address the identified deficiencies; and

(vii) A mechanism for reporting periodically, but in no event less than quarterly, the information developed in (i) through (vi) above to the board of directors. The report should also describe the action(s) taken by management with respect to problem credits.

(b) The Institution shall submit the program to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Institution shall approve the program, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Institution shall implement and fully comply with the program.

9. (a) Within 120 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Institution shall review the Institution’s loan policies and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policies and procedures necessary to strengthen the Institution’s asset quality and lending functions and to prevent further deterioration. As required by this paragraph, the Institution’s loan policies shall be enhanced to address, at a minimum, the list of recommendations on page **20**, paragraph 2, of the Report of Examination.

(b) The Institution shall submit the revised policy to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Institution shall approve the policy, with its approval recorded in the minutes of the board of directors meeting. Thereafter, the Institution shall implement and fully comply with the policy.

10. (a) Within 10 days from the effective date of this ORDER, the Institution’s board of directors shall make a provision which will replenish the allowance for loan and lease losses (allowance)

for the loans classified as “Loss” in the Report of Examination and reflect the potential for further losses in the remaining loans or leases classified “Substandard” and “Doubtful” as well as all other loans and leases in its portfolio.

(b) Within 60 days from the effective date of this ORDER, the board shall establish a comprehensive policy and methodology for determining the adequacy of the allowance. The policy shall provide for a review of the allowance at least once each calendar quarter and be completed at least 20 days prior to the end of each quarter in order that the results of the review conducted by the board may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, include the following:

(i) The Federal Financial Institutions Examination Council’s Instructions for the Reports of Condition and Income, the Interagency Statement of Policy on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the adequacy of the Institution’s allowance, and any analysis of the Institution’s allowance provided by the FDIC and the Commissioner;

(ii) The volume and mix of the overall loan portfolio, including trends in the portfolio mix by loan type and geography, trends in the severity of nonperforming or delinquent loans, trends in the severity of weaknesses in extensions of credit identified as "Special Mention" and adversely classified in the Report of Examination;

(iii) Previous loan loss experience by loan type, including the level, trends, and severity of overdrafts, trend of net charge-offs as a percent of average loans over the past several years, as well as an analysis of net charge-offs experienced on previously adversely classified loans;

(iv) The degree of risk associated with renewed and extended loans;

(v) The volume, trend, rate and duration of loan growth;

(vi) The results of internal loan reviews;

(vii) Concentrations of credit and significant individual credits;

(viii) Present and prospective economic conditions, generally and locally;

(ix) Off-balance sheet credit risks; and

(x) Any other factors appropriate in determining future allowances, including changes in the Institution's strategic plan, and loan products and markets.

(c) A deficiency in the allowance shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any Tier 1 capital determinations required by this ORDER and prior to the Institution's submission of its Report of Condition and Report of Income. The board shall thereafter maintain an adequate allowance.

(d) The Institution shall submit the policy to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Institution shall approve the policy, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Institution shall implement and fully comply with the policy.

11. Within 90 days from the effective date of this ORDER, the Institution shall have qualified management, including a chief executive officer and an appropriate number and type of senior officers, with the requisite knowledge, skills, ability, and experience, giving consideration to the size and complexity of the Institution, to operate the Institution in a safe and sound manner, and in compliance with applicable laws and regulations, and restore the Institution to a safe and sound financial condition.

12. (a) Within 90 days of the effective date of this ORDER, the board of directors shall develop a written Management Plan. At a minimum, the Management Plan shall:

(i) Identify the type and number of officer positions needed to manage and supervise the affairs of the Institution, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Institution;

(ii) Identify the type and number of staff positions needed to carry out the Institution’s strategic plan, detailing any vacancies or additional needs;

(iii) Identify the authorities, responsibilities, and accountabilities attributable to each position, as well as the appropriateness of the authorities, responsibilities, and accountabilities, giving due consideration to the relevant knowledge, skills, abilities, and experience of the incumbent (if any) and the existing or proposed compensation;

(iv) Present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;

(v) Identify the appropriate level of current and deferred compensation to each officer and staff position, including executive officer positions;

(vi) Establish requirements and methodologies to periodically evaluate each individual's job performance;

(vii) Identify training and development needs, and incorporate a plan to provide such training and development;

(viii) Contain a current organizational chart that identifies all existing and proposed staff and officer positions, delineates related lines of authority and accountability, and establishes a written plan for addressing any identified needs; and

(ix) Contain a current management succession plan.

(b) A copy of the Management Plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment, and after due consideration of such comment, the board of directors shall approve the Management Plan which approval shall be recorded in the minutes of the board of directors. Thereafter, the Institution and its directors, officers and employees shall implement and follow the Management Plan and any modification thereto.

13. The board of directors shall meet at least monthly while this ORDER is in effect.

14. (a) No more than 90 days from the effective date of this ORDER, the board of directors shall prepare a list of potential candidates for the board of directors, for consideration by the shareholders of the Institution. The list of potential candidates shall include individuals who are independent with respect to the Institution, in such number that, if elected, would cause a majority of the board of directors to be independent with respect to the Institution. The actions taken in identifying potential candidates, including any communication with such individuals, shall be documented and made a part

of the minutes of the board of directors. Copies of the board minutes shall be provided to the Regional Director and Commissioner for review and comment no more than 120 days from the effective date of the ORDER. For purposes of this ORDER, an individual who is "independent with respect to the Institution" shall be any individual who:

(i) Is not employed in any capacity by the Institution, any of its subsidiaries, or affiliated organizations, other than as a director;

(ii) Does not own or control more than five percent of the outstanding shares of the Institution or its parent company;

(iii) Is not related by blood or marriage to an officer or director of the Institution or its affiliates, or to any shareholder owning more than 10 percent of the outstanding shares of the Institution or its parent company, and who does not otherwise share a common financial interest with such officer, director or shareholder; and

(iv) Is not indebted, directly or indirectly, to the Institution or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding five percent of the Institution's total Tier 1 capital and allowance for loan and lease losses.

(b) At the next meeting of the shareholders of the Institution, and at each succeeding meeting of the shareholders at which Institution directors are to be elected, the members of the board of directors who are also shareholders shall nominate and support the election of candidates to the board of directors who are independent with respect to the Institution and its affiliates, in such number as are necessary to cause a majority of the board of directors to be and to remain independent with respect to the Institution.

15. (a) Within 120 days from the effective date of this ORDER, the Institution shall formulate and adopt a comprehensive business/strategic plan covering at least an operating period of three years. The plan required by this paragraph shall contain an assessment of the Institution's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written strategic plan shall address short-term goals and operating plans to comply with the terms of this ORDER and to correct all regulatory criticisms, intermediate goals and project plans, and long-range goals and project plans. In addition, the plan shall address, at a minimum:

(i) Strategies for pricing policies and asset/liability management;

(ii) The anticipated average maturity and average yield on loans and securities, the average maturity and average cost of deposits, the level of earning assets as a percentage of total assets, and the ratio of net interest income to average earning assets;

(iii) The dollar volume of total loans, total investment securities, and total deposits;

(iv) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;

(v) Goals for reducing problem loans;

(vi) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions;

(vii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

(viii) Formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Institution shall submit the strategic plan to the Regional Director and the Commissioner for review and comment. Within 30 days of receipt of all such comments from the Regional Director and the Commissioner, and after due consideration of all such comments, the Institution shall approve the revised plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution shall implement and follow the strategic plan.

16. Within 90 days from the effective date of this ORDER, the Institution shall develop an internal audit

program that establishes procedures to protect the integrity of the Institution's operational and accounting systems. The program shall be in a form and manner acceptable to the Regional Director and the Commissioner, and, at a minimum, shall conform to the Interagency Policy Statement on the Internal Audit Function and its Outsourcing and provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records. In addition, the program shall provide for monthly reports of audit findings from the internal auditor directly to the Institution’s board of directors. The minutes of the meetings of the board of directors shall reflect consideration of these reports and describe any discussion or action taken as a result thereof. The Institution shall submit the program to the Regional Director and the Commissioner for review and comment. Within 30 days from the receipt of any such comments from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Institution shall approve the program, which approval shall be recorded in the minutes of the meeting of the board of directors. The Institution shall thereafter implement and enforce the program.

17. (a) Within 90 days from the effective date of this ORDER, the board shall develop a written external audit program as well as a system for reporting audit results to the board. The audit program shall conform to the Interagency Policy Statement on External Auditing Programs of Banks and

Savings Associations. The program shall be submitted to the Regional Director and the Commissioner for review and comment. Within 30 days from the receipt of any comment from the Regional Director or the Commissioner, and after due consideration of any recommended changes, the Institution shall approve the program, which approval shall be recorded in the minutes of the meeting of the board of directors. The Institution shall thereafter implement and enforce the program.

(b) Within 60 days from the effective date of this ORDER, the Institution shall contract for an external opinion audit of its financial statements, internal controls, and operating procedures to be performed by a qualified, independent public accounting firm acceptable to the Regional Director and the Commissioner. The Institution shall require, as part of its agreement with the accepted firm, that the firm complete the audit within 120 days after the effective date of this ORDER. The accounting firm’s initial written report, whether in draft or final form, shall be submitted concurrently to the Regional Director, the Commissioner, and the Institution.

(c) During the life of this ORDER, the Institution shall forward copies of any external audit reports required by this paragraph, the engagement letter and any Institution response to the Regional Director and the Commissioner within

15 days from the Institution's receipt of such documents.

(d) Within 30 days from the Institution's receipt of the audit report, the Institution shall carry out all recommendations made therein, including any and all financial adjustments to the Institution's books and records. If the Institution believes that complying with a recommendation(s) contained in the audit report would result in a violation of law, would be contrary to best banking practices, or would be harmful to the safety and soundness of the Institution, it may request, in writing, from the Regional Director and the Commissioner either a modification of the recommendation(s) or relief from compliance with the recommendation(s). Any such request shall be made within 45 days of receipt of the audit report and shall identify such recommendation(s), provide a detailed statement as to why the Institution believes it should not be required to carry out the recommendation(s) and what alternatives the Institution believes may be used in lieu of the recommendation(s) in order to accomplish the same result. The Institution shall carry out the recommendation(s) until such time as it receives in writing from the Regional Director and the Commissioner relief from the recommendation(s) or a modification thereof.

18. Within 90 days from the date of this ORDER, the board of directors shall correct the internal routine and

control deficiencies detailed in the Report of Examination, page 21. Additionally, policies and procedures shall be established and enforced to prevent the recurrence of any deficiencies noted.

19. Within 30 days from the effective date of this ORDER, the Institution shall eliminate and/or correct all violations of laws, rules and regulations cited in the Report of Examination on page 21. In addition, within 60 days from the effective date of this ORDER, the Institution shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules and regulations.

20. (a) Within 90 days from the effective date of this ORDER, and at least 30 days before the beginning of each calendar year thereafter, the board of directors shall develop and fully implement a written profit plan consisting of goals and strategies, consistent with sound banking practices, and taking into account the Institution’s other written plans, policies, or other actions as required by this ORDER. The profit plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. No more than 30 days after the receipt of any comment from the Regional Director or the Commissioner, and after due consideration of any recommended changes, the board of directors shall approve the profit plan which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution, its directors, officers and employees shall fully

implement the profit plan and any subsequently approved modification. The written profit plan shall include, at a minimum:

(i) Identification of the major areas in and means by which the board of directors will seek to improve the Institution's operating performance;

(ii) Specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings, as well as maintain adequate provisions to the allowance for loan and lease losses;

(iii) Realistic and comprehensive budgets for all categories of income and expense items;

(iv) A description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;

(v) Coordination of the Institution’s loan, investment, funds management, and operating policies, strategic plan, and allowance for loan and lease loss methodology with the profit and budget planning;

(vi) A budget review process to monitor the revenue and expenses of the Institution whereby actual performance is compared against budgetary projections not less than quarterly, recording the results of the evaluation and any actions taken by the Institution in the minutes of the board of directors meeting at which such evaluation is undertaken; and

(vii) Individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

21. (a) Within 30 days from the effective date of this ORDER, the Institution shall review all Consolidated Reports of Condition and Income filed with the FDIC on and after December 31, 2005, and shall amend and file with the FDIC amended Consolidated Reports of Condition and Income, in accordance with the Reports of Condition and Income Instructions, which accurately reflect the financial condition of the Insured Institution as of the date of each such Report. Amended Reports of Condition and Income are to be filed if previously submitted reports contain significant errors as dictated by the Instructions for Preparation of Consolidated Reports of Condition and Income.

(b) In addition and during the life of this ORDER, the Institution shall file with the FDIC Consolidated Reports of Condition and Income that accurately reflect the financial condition of the Institution as of the reporting period. In particular, such Reports shall incorporate any adjustment in the Institution's books made necessary or appropriate as a consequence of any State or FDIC examination of the Institution during that reporting period, to include:

(i) Provision for loan losses and an allowance for loan and lease losses which are adequate considering the condition of the Institution’s loan portfolio;

(ii) The elimination from the Institution’s books of any asset in compliance with Provision 3(a) of this ORDER; and

(iii) Other restatements as detailed in any regulatory report of examination of the Institution, or as required under this ORDER.

22. Within 90 days from the effective date of this ORDER, the Institution shall develop, adopt and implement a written conflict of interest policy. The conflict of interest policy will state the standards expected of directors, officers, employees, agents and other persons participating in the conduct of the affairs of the Institution. The conflict of interest policy will prohibit self-dealing by insiders or their advancing personal, business, or other interests, or those of others, at the expense of the Institution.

23. Within 180 days from the effective date of this ORDER, the Institution shall develop a written information security program that meets or exceeds the requirements of Part 364, Appendix B, of the FDIC’s Rules and Regulations. The written information security program shall at a minimum require the Institution to take the following actions to protect

confidential and sensitive customer information and critical institution assets:

(i) Conduct a thorough risk assessment of information assets and operational practices (“Risk Assessment”);

(ii) Adopt policies and procedures necessary to manage and control the risks identified in the Risk Assessment; and

(iii) Implement an audit program to assess the effectiveness of the Institution’s information security program.

All documents comprising the written security program shall be submitted to the Regional Director, and after due consideration of any recommended changes, the Institution shall approve the information security program, which approval shall be noted in the minutes of the board of directors meeting. Thereafter, the Institution shall implement and fully comply with the program.

24. Following the effective date of this ORDER, the Institution shall provide to its shareholders or otherwise furnish a description of this ORDER, (i) in conjunction with the Institution's next shareholder communication, and (ii) in conjunction with its notice or proxy statement preceding the Institution's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC,

Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

25. (a) Within 30 days of the end of the first quarter following the effective date of this ORDER, and within 30 days of the end of each quarter thereafter, the Institution shall furnish written progress reports to the Regional Director and the Commissioner detailing the form, manner and results of any actions taken to secure compliance with this ORDER. Such written progress reports shall provide cumulative detail of the Institution's progress toward achieving compliance with each provision of the ORDER, including at a minimum:

(i) Description of the identified weaknesses and deficiencies;

(ii) Provision(s) of the ORDER pertaining to each weakness or deficiency;

(iii) Actions taken or in-process for addressing each deficiency;

(iv) Results of the corrective actions taken;

(v) The Institution's status of compliance with each provision of the ORDER; and

(vi) Appropriate supporting documentation.

(b) Progress reports may be discontinued when the Regional Director has, in writing, released the Institution from making additional reports.

The effective date of this ORDER shall be immediately upon its issuance by the FDIC.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

Issued Pursuant to Delegated Authority

Dated: July 17th, 2006

By: ______________________________
Thomas J. Dujenski
Deputy Regional Director