FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **COMMERCE BANK** **GENEVA, MINNESOTA** **(Insured State Nonmember Bank)**	**CONSENT ORDER** **FDIC-11-380b**

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Commerce Bank, Geneva, Minnesota ("Bank"), under 12 U.S.C. § 1813(q). The Bank, by and through its duly elected and acting Board of directors ("Board"), has executed a "Stipulation to the Issuance of a Consent Order" ("Stipulation"), dated October 3, 2011, that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or any violations of law and/or regulation, to the issuance of this Consent Order ("ORDER") by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

1. Management.

(a) The Bank shall have and retain qualified management. For purposes of this paragraph, management includes the chief executive officer, senior lending officer, and chief financial officer. The qualifications of management shall be assessed on its ability to comply with the requirements of this ORDER, operate the Bank in a safe and sound manner, comply with applicable laws and regulations, and restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk. Each member of Bank management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank.

(b) Within 120 days from the effective date of this ORDER, the Bank shall develop and complete a “Management Plan,” which shall include, at a minimum: identification of both the type and number of officer positions needed to properly manage and supervise the lending operations of the Bank; identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management; and written action plans to address the additional lending and operations positions to be filled under the Management heading on the Examination Conclusions and Comments pages of the April 18, 2011, Report of Examination (“Report of Examination”), to recruit at least one additional, independent member to the Board, satisfactory to the Regional Director and to address any other staffing deficiencies identified pursuant to this paragraph.

(c) Upon completion, the Board shall submit the Management Plan, and any proposed amendments thereto, to the FDIC's Regional Director for the Kansas City Region ("Regional Director") and the Commissioner for the Minnesota Department of Commerce (collectively, "Supervisory Authorities") for review and comment. Within 30 days of receipt of any comment from the Regional Director, and after consideration of any such comment, the Board shall approve the Management Plan.

(d) The Bank and its institution-affiliated parties shall immediately implement and fully comply with the Board approved Management Plan, and any subsequent revisions thereof. It shall remain the responsibility of the Board to fully implement the Management Plan within the specified time frames. The Board shall review the Management Plan at least annually, and update it as necessary. In the event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise Supervisory Authorities, in writing, of specific reasons for deviating from the Management Plan.

2. Charge-off of Adversely Classified Assets.

(a) Within 10 days of the effective date of this ORDER and within 10 days after the receipt of any future reports of examination of the Bank from either of the Supervisory Authorities, 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 and such future reports of examination, that have not been previously collected or charged off.

(b) Elimination or reduction of assets through the proceeds of other loans or extensions of credit made by the Bank is not considered collection for purposes of this ORDER.

3. Reduction of Adversely Classified Assets.

(a) Within 60 days from the receipt of any future report of examination of the Bank from either of the Supervisory Authorities, the Bank shall formulate written plans to reduce the Bank's risk exposure in each asset in excess of $250,000 rated "5-Watch" or worse internally or adversely classified as "Substandard" or "Doubtful" in the Report of Examination and in such future reports 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 Supervisory Authorities.

(b) The plans mandated by subparagraph (a), the Bank shall include, at a minimum, specific action plans intended to reduce the Bank's risk exposure in each classified asset; and with respect to each loan or lease, review, analyze, and document the financial position of the borrower, including sources of repayment and repayment ability, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(c) The Board shall approve the plans as well as monthly written progress reports towards compliance with the plans. Board approval pursuant to this subparagraph shall be recorded in the minutes of the meeting of the Board at which such plans and progress reports are approved. Thereafter, a copy of the plan, progress report, or portions thereof that pertains to a specific borrower shall be maintained in the borrower's credit file, and the Bank shall implement and fully comply with the plan.

4. Restrictions on Advances to Adversely Classified Borrowers.

(a) The Bank shall not, without Board or Board committee approval, renew or extend existing extensions of credit (directly or indirectly) or advance any additional credit to, or for the benefit of, any borrower who has a loan or other obligation with the Bank that has been, in whole or in part, charged off or adversely classified “Substandard” or “Doubtful,” either internally or by either of the Supervisory Authorities in a report of examination.

(b) Prior to the renewal, extension, or advance of additional credit pursuant to this paragraph, such credit shall be approved by a majority of the Board or designated committee thereof, who shall certify in writing as follows:

(i) why the failure to renew, extend, or advance such credit would be detrimental to the best interests of the Bank;

(ii) that the Bank’s position would be improved, including an explanatory statement of how the Bank’s position would improve; and

(iii) that an appropriate workout plan has been developed and will be implemented in conjunction with, or furthered by, the additional credit to be extended.

(c) The signed certification shall be made a part of minutes of the Board or its designated committee and a copy of the signed certification shall be retained in the borrower’s credit file.

5. Elimination and/or Correction of Violations of Rules and Regulations.

(a) Within 120 days from the effective date of this ORDER, and within 90 days after receipt of any future report of examination by either of the Supervisory Authorities, the Bank shall eliminate and/or correct all violations of laws and rules and regulations cited in the Report of Examination or such future reports of examination.

(b) For any violation that cannot be corrected, the Bank shall document the reason for such inability, and why, for review by the Board. The Board's review and discussion and any action taken for the uncorrected violations shall be recorded in the minutes. A copy of the minutes shall be provided to the Supervisory Authorities with the next due progress report required below by this ORDER.

6. Independent Loan Review Program.

(a) Within 90 days from the effective date of this Order, the Board shall review and revise its written loan review program that provides for a periodic and external independent review of the Bank's loan portfolio and the identification and categorization of problem credits. At a minimum, the written program shall be consistent with "Review Systems" section of the December 13, 2006, revised Interagency Policy Statement of the Allowance for Loan and Lease Losses.

(b) The Bank shall submit the written program to the Supervisory Authorities for review and comment with the next due Progress Report required below in this ORDER. Within 30 days from receipt of any comment from the Regional Director, and after consideration of any such comment, the Board shall approve the program, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the loan review program.

(c) Upon implementation, written reports regarding independent loan review findings and actions taken, or to be taken, to address deficiencies and/or recommendations therein, shall be submitted to the Board, and the Board's review and approval of those reports shall be noted in the Board's minutes.

7. <u>Credit and Other Real Estate Administration</u>.

(a) Within 90 days of the effective date of this ORDER, the Board shall review and revise its written policy and procedures ("Revised Policies") to address the Loan Underwriting, Credit and ORE Administration deficiencies and recommendations presented on the Examination Conclusions and Comments pages of the Report of Examination.

(b) The Bank's Revised Policies, with all changes highlighted or otherwise clearly identified, shall be provided to Supervisory Authorities for review and comment with the next due progress report required below by this Order. Within 30 days of receipt of any comment from the Regional Director, and after consideration of any such comment, the Bank shall approve the Revised Policies, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the Revised Policies.

(c) In the event the Bank considers making a loan that would not conform with the Bank’s Revised Policies, the loan shall receive prior review and approval by the Board or an appropriate committee thereof. The reason for nonconformance and risk analysis of such nonconformance, and the Board’s or committee’s review and approval, shall be documented in the minutes of the Board or committee and in the loan file for that loan.

8. Allowance for Loan and Lease Losses (ALLL).

(a) The Bank shall accurately reflect its financial condition in its Consolidated Reports of Condition and Income (Call Report). Within 30 days, the Board shall revise Bank’s written policy and methodology for determining the ALLL, after due consideration of the comments in the Report of Examination, or in any future Report of Examination by either Supervisory Authority. The written policy shall provide for a review of the ALLL at least once each calendar quarter in order that the findings of the board may be properly reported in the Bank’s Call Reports. Such reviews shall, at a minimum, be made in accordance with the Call Report Instructions, the Interagency

Statement of Policy on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the appropriateness of the Bank’s ALLL, and any analysis of the Bank’s ALLL provided by either of the Supervisory Authorities.

(b) A deficiency in the Bank’s ALLL 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 Bank’s submission of its Call Report. The Board shall thereafter maintain an appropriate ALLL and fully comply with the policy.

9. Minimum Capital Requirements.

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital ratios (as defined in Part 325 of the FDIC’s Rules and Regulations), after establishing an appropriate ALLL:

(i) Tier 1 “leverage capital ratio” at least equal to 8.0 percent;

(ii) “Total risk-based capital ratio” at least equal to 11.0 percent.

(b) In the event any ratio is or becomes less than the minimum required by subparagraph (a) of this provision, the Bank shall immediately notify the Supervisory Authorities and within 30 days shall: (1) increase capital in an amount sufficient to comply with subparagraph (a), or (2) submit a written plan to the Supervisory Authorities, describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements of subparagraph (a) above, as well as a contingency plan in the event the primary sources of capital are not available. Within 30 days of receipt of any such comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the written plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the written plan.

(c) Any increase in Tier 1 leverage capital necessary to meet the requirements of subparagraph (a) of this provision may not be accomplished through a deduction from the ALLL.

10. Restrictions on Dividends.

While this ORDER is in effect, the Bank shall not declare or pay any dividends without the prior written approval of the Supervisory Authorities.

11. Contingency Liquidity Funding Plan and Asset/Liability Management Policy and Practices.

Within 45 days from the effective date of this ORDER, the Board shall review and revise its Contingency Funding Liquidity

Policy and Asset/Liability and Funds Management policies and practices ("Revised Funds Management Policies") to address the recommendations made under the Liquidity and Sensitivity to Market Risk headings on the Examination Conclusions and Comments pages of the Report of Examination. Thereafter, the Bank shall implement and fully comply with the Bank's Revised Funds Management Policies.

12. Business/Strategic Plan and Profit and Budget Plan.

(a) Within 45 days and within 45 days from the first day in each calendar year thereafter, the Board shall develop a written three-year business/strategic plan and one-year profit and budget plan, covering the overall operation of the Bank and its goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER.

(b) The business/strategic plan shall provide specific objectives for asset growth, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The profit and budget plan shall include goals and strategies for improving the earnings of the Bank. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(c) Upon completion, the business/strategic plan and the profit and budget plan, and any subsequent modification thereto, shall be submitted to the Supervisory Authorities for review and comment. No more than 30 days after the receipt of any comment from the Regional Director, and after consideration of any such comment, the Board shall approve the business/strategic plan and the profit and budget plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the plans.

(d) Within 45 days after each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan required by this provision and shall record the results of the evaluation, and any actions taken or planned by the Bank based on such evaluation, in the Board's minutes.

13. Disclosure of Order to Sole Shareholder.

Following the effective date of this ORDER, the Bank shall provide a copy or otherwise furnish a description of this ORDER to its sole shareholder, (i) in conjunction with the Bank's next shareholder communication, and (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

14. <u>Progress Reports Detailing Compliance with ORDER</u>.

(a) During the week of November 28, 2011, and within 45 days of the end of each calendar quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities 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 Bank's progress toward achieving compliance with each provision of the ORDER, including at a minimum:

(i) actions taken or in-process for addressing each provision;

(ii) results of the corrective actions taken;

(iii) the Bank's status of compliance with each provision of the ORDER; and

(iv) appropriate supporting documentation.

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

<u>MISCELLANEOUS</u>

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

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

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority

Dated: October 12, 2011

FEDERAL DEPOSIT INSURANCE CORPORATION

By:

/s/

Mark S. Moylan
Deputy Regional Director