

**REGULAR STATE BANKING BOARD MEETING
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

September 14, 2017

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Entringer called the meeting to order at 9:00 a.m., Thursday, September 14, 2017, by conference call.

MEMBERS PRESENT: Robert J. Entringer, Chairman (*Office*)
Nancy Baerwald, Member (*Cando*)
Linda Beall, Member (*Velva*)
Kim Larson, Member (*Casselton*)
John Schmid, Member (*Carson*)
Tom Stennes, Member (*Harwood*)
Cheryl Thompson, Member (*Fargo*)

MEMBERS ABSENT: None

ALSO PRESENT: Suzette Richardson, Acting Secretary (*Office*)
Jan Murtha, Assistant Attorney General (*Office*)
Lise Kruse, Chief Examiner – Banks (*Office*)
Peter Anderson (*Drayton*)
Anton Moch (*MN*)
Paul Sirek (*Fargo*)

APPROVAL OF ACTING SECRETARY

It was moved by Member Thompson, seconded by Member Beall, and unanimously carried that Suzette Richardson be approved as Acting Secretary.

CHANGE OF CONTROL APPLICATION – KODA BANCOR, INC., DRAYTON

Chairman Entringer indicated the Board received the application and Assistant Commissioner Webb's Memorandum dated August 15, 2017, regarding the application for change of control for Koda Bancor, Inc., (Koda) to merge with Pembina County Bankshares, LTD, (Pembina) and thereby acquire 100% control of Citizens State Bank – Midwest, Cavalier (Citizens State).

Chairman Entringer indicated the application was deemed complete on August 15, 2017; published jointly with the Federal Reserve Bank of Minneapolis on August 3, 2017, and August 7, 2017; the comment period ended September 6, 2017; and no comments or requests for a copy of the application were received.

Mr. Moch explained this a merger of the two holding companies (Koda and Pembina), with the survivor being Koda. Mr. Moch stated the transaction is part stock and cash, with the shareholders at Pembina who have more than 200 shares received stock and those with less than 200 shares received cash. Mr. Moch indicated as a result of the merger Koda will be a two-bank holding company (KodaBank and Citizens State) and indirectly acquire the two insurance subsidiaries of Citizens State. Mr. Moch indicated Koda will also assume the trust preferred debt instruments that were held by Pembina.

President Anderson explained in 2012 KodaBank purchased interstate branches from Citizens State located in Kennedy and Stephen, Minnesota, as well as injecting cash into Pembina. President Anderson indicated discussion regarding merging Koda and Pembina begin at that time, and because three of the top four executives of Citizens State have since left, it was concluded to proceed with the merger. President Anderson indicated the merger will be beneficial for both staffing and efficiency standpoints.

President Anderson indicated the banks will remain separate entities at this point. President Anderson stated all shareholders were given the opportunity to purchase more shares, and no negative feedback was received regarding the merger.

Mr. Sirek reviewed the pro forma balance sheets contained within the application, indicating the merged holding companies results in a strong balance sheet in the position of debt to equity ratio of approximately 13.5%. Mr. Sirek explained the merger transaction will result in approximately \$1.5 million of debt. Mr. Sirek concluded following the merger, Koda will have a strong balance sheet, KodaBank remains in a strong capital position, and Citizens State will obtain a strong capital position after purchase accounting adjustments.

Mr. Sirek indicated the pro forma balance sheet for Citizens State outlines its 50% stock ownership of Walhalla Insurance Agency and the pending request for approval to invest an additional \$400,000 to purchase the remaining 50%.

Mr. Moch reiterated that Citizens State currently owns 50% of Walhalla Insurance Agency, and because it is a requirement of the merger transaction that they either acquire complete ownership or sell, the request to purchase the remaining 50% ownership has been submitted to the State Banking Board. Mr. Moch indicated that KodaBank owns 100% of Dakota Insurance Agency and was not interested in a partnership in Walhalla Insurance Agency; therefore, the decision was made that Citizens State would purchase the remaining 50% of Walhalla Insurance Agency. Mr. Moch continued that Citizens State projects recouping the purchase price in approximately three years. Mr. Moch stated if the request for Citizens State to invest an additional \$400,000 to purchase the remaining 50% of Walhalla Insurance Agency is approved by the State Banking Board, the transaction will consummate on September 30, 2017.

Mr. Moch stated Koda is a Sub S corporation which has a 100-shareholder limitation; therefore, in order that the community could remain involved there was a buyup right for any shareholder who had 200 or less shares. Mr. Moch indicated the final pro forma shareholder list was submitted as part of the application to the Federal Reserve and Department of Financial Institutions. Mr. Moch continued that the both Koda and Pembina held special shareholder meetings at which the merger transaction was approved. Mr. Moch continued that the Federal Reserve approved the proposed transaction on September 12, 2017. Mr. Moch concluded that once the merger transaction is consummated the corporate structure will be Koda directly owning KodaBank, Citizens State, Koda Insurance Agency, and indirectly owning through Citizens State the Citizens Insurance Agency and Walhalla Insurance Agency.

Mr. Moch indicated there are no anticipated changes to the Board of Directors of either Koda or Citizens State, and the only change in management is that President Anderson will become the CFO of Citizens State and Doug Taylor will become the CCO of KodaBank. Mr. Moch stated there will be no changes of bank services or products, as well as no change to the financial condition of either bank.

Chairman Entringer indicated based on statutory criterion, the Department recommends approval of the change of control for Koda Bancor, Inc., Drayton, to merge with Pembina County Bankshares, LTD, Cavalier, and thereby acquire 100% control of Citizens State.

It was moved by Member Baerwald, seconded by Member Larson, and unanimously carried to approve the change of control application for Koda Bancor, Inc., Drayton, to merge with Pembina County Bankshares, LTD, Cavalier, and thereby acquire 100% control of Citizens State Bank – Midwest, Cavalier.

CITIZENS STATE BANK – MIDWEST, CAVALIER – ADDITIONAL INVESTMENT IN WALHALLA INSURANCE AGENCY

Chairman Entringer referred to Assistant Commissioner Webb's Memorandum dated September 7, 2017, which outlines the statutory criterion for the application by Citizens State Bank – Midwest, Cavalier, (Citizens State) to make an additional investment in its ownership of Walhalla Insurance Agency.

Chairman Entringer stated Citizens State initially purchased 50% of the outstanding membership units of Walhalla Insurance Agency on April 1, 2002; adding the proposed request is to acquire the remaining 50%.

It was moved by Member Beall, seconded by Member Baerwald, and unanimously carried to approve the request of Citizens State Bank – Midwest, Cavalier, to invest an additional \$400,000 to purchase the remaining 50% of Walhalla Insurance Agency.

Messrs. Moch, Sirek, and Anderson left the conference call at 9:24 a.m.

APPROVAL OF MINUTES

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on July 13, 2017.

It was moved by Member Beall, seconded by Member Stennes, and unanimously carried, to approve the minutes of the regular meeting held July 13, 2017, as presented.

ITEM TO BE NOTED

Chairman Entringer indicated on July 27, 2017, he approved, as Commissioner, the application by Bell Bank, Fargo, to relocate its facility from 3545 25th St S, Fargo, to 2870 52nd Ave S, Fargo.

BANK BUDGET UPDATE

Chairman Entringer indicated the Board received the July 31, 2017, Organizational Status Report by Summary Account for the bank division. Chairman Entringer indicated since the projected carryover was exceeded, a higher assessment discount should be offered next year.

REAL ESTATE OWNED FOR THE BENEFIT OF EMPLOYEES

Chairman Entringer indicated in response to a request at the July 2017 State Banking Board meeting, he reviewed his Memorandum dated August 11, 2017, outlining the status of approved bank owned housing for the benefit of employees.

CSBS MODEL RULE – STATE LENDING LIMITS APPLICABLE TO CREDIT EXPOSURE ON DERIVATIVE TRANSACTIONS

Chairman Entringer indicated in 2011 the lending limit statute was amended to include derivatives in the calculation so that the state lending limit would not default to the OCC's lending limit which is approximately 10% lower. Chairman

Entringer stated there must be a method for valuing those derivatives, even though no state-chartered banks are currently engaging in derivatives with borrowers. Chairman Entringer indicated it will be necessary in the future to educate the banks on requirements for this type of transaction.

Chairman Entringer referred to the Conference of State Bank Supervisors (CSBS) Model Rule for State Lending Limits Applicable to Credit Exposure on Derivative Transactions article included in the agenda packet. Chairman Entringer stated this a draft CSBS prepared which follows the OCC law.

Chairman Entringer stated the Conversion Factor Maxtrix for Calculating Potential Future Credit Exposure found on page 11 is apparently the easiest method for valuing a derivative.

Chairman Entringer indicated a derivative rule can be proposed; therefore, he suggests a Parity Order be drafted explaining if a bank is going to enter into a derivative transaction it must utilize the OCC's law and identify the section of the Code of Federal Regulations that should be used. Chairman Entringer stated Department staff will need to be trained in order to provide assistance to banks regarding this type of transaction.

NOVEMBER 2017 MEETING

Chairman Entringer stated he will not be available for the meeting scheduled for November 9, 2017. After discussion, it was agreed to reschedule the meeting to be held in the Department office at 9:00 a.m., Wednesday, November 29, 2017.

The Board went into closed session at 9:46 a.m. to review the Supervisory Reports of Examination pursuant to North Dakota Century Code 6-01-07.1, and to discuss any confidential records pursuant to North Dakota Century Code 44-04-19.2, and returned to open session at 10:15 a.m.

APPROVAL OF EXECUTIVE SESSION MINUTES

It was moved by Member Larson, seconded by Member Beall, and unanimously carried, to approve the executive session minutes of the regular meeting held July 13, 2017, as presented.

SPECIAL MEETING

Chairman Entringer stated a special meeting may need to be held prior to the regularly scheduled November meeting due to pending applications.

The meeting adjourned at 10:18 a.m.

Robert J. Entringer, Chairman

Suzette Richardson, Acting Secretary