

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

Written Agreement by and between

FIRST NATIONAL FINANCIAL SERVICES,
INC.
Elk River, Minnesota

and

FEDERAL RESERVE BANK OF
MINNEAPOLIS
Minneapolis, Minnesota

Docket No. 10-029-WA/RB-HC

WHEREAS, First National Financial Services, Inc., Elk River, Minnesota (“First National”), a registered bank holding company, owns and controls First National Bank of Elk River, Maple Lake, Minnesota (“Bank”), and two nonbank subsidiaries;

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

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

WHEREAS, on April 1, 2010, the board of directors of First National, at a duly constituted meeting, adopted a resolution authorizing and directing John K. Houlton to enter into this Agreement on behalf of First National, and consenting to compliance with each and every provision of this Agreement by First National 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, First National and the Reserve Bank agree as follows:

Source of Strength

1. The board of directors of First National shall take appropriate steps to fully utilize First National’s financial and managerial resources, pursuant to section 225.3 (a) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Formal Agreement entered into with the Office of the Comptroller of the Currency dated July 14, 2009, and any other supervisory action taken by the Bank’s federal regulator.

Dividends and Distributions

2. (a) First National 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 of the Federal Reserve System (the “Board of Governors”).

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

(c) First National and its nonbank subsidiaries 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 First National's capital, earnings, and cash flow; the 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, First National 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

3. (a) First National and its nonbank subsidiaries 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) First National shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Affiliate Transactions

4. Within 45 days of this Agreement, First National shall submit to the Reserve Bank an acceptable written plan to reimburse the Bank for all payments made by the Bank in violation of sections 23A and 23B of the Federal Reserve Act (12 U.S.C. §§ 371c and 371c-1). The plan shall specify the amount to be reimbursed to the Bank, the method used to calculate the amount, including interest, and a schedule for repayment.

5. (a) First National shall take all necessary actions to ensure that the Bank complies with sections 23A and 23B of the Federal Reserve Act (12 U.S.C. §§ 371c and 371c-1) and Regulation W of the Board of Governors (12 C.F.R. Part 223) in all transactions between the Bank and its affiliates, including but not limited to First National and the nonbank subsidiaries.

(b) First National and the nonbank subsidiaries shall not cause the Bank to violate any provision of sections 23A and 23B of the Federal Reserve Act or Regulation W of the Board of Governors.

Regulatory Reports

6. Within 75 days of this Agreement, First National shall submit to the Reserve Bank acceptable written procedures to strengthen and maintain internal controls to ensure that all required regulatory reports and notices filed with the Reserve Bank and Board of Governors are accurate and filed in accordance with the applicable instructions for preparation.

Compliance with Laws and Regulations

7. (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, First National 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.*).

(b) First National 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).

Progress Reports

8. Within 30 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 Plan and Procedures

9. (a) First National shall submit a written plan and procedures that are acceptable to the Reserve Bank within the applicable time period set forth in paragraphs 4 and 6 of this Agreement.

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

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

Communications

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

(a) Ms. Diann G. Townsend
Assistant Vice President
Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, MN 55401-1804

(b) Mr. John K. Houlton
President
First National Financial Services, Inc.
812 Main Street
Elk River, MN 55330

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

12. The provisions of this Agreement shall be binding upon First National and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

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

14. 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 First National, the Bank, the nonbank subsidiaries of First National, or any of their current or former institution-affiliated parties and their successors and assigns.

15. 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 12th day of April, 2010.

FIRST NATIONAL FINANCIAL
SERVICES, INC.

FEDERAL RESERVE BANK OF
MINNEAPOLIS

By: /s/ John K. Houlton
John K. Houlton
President

By: /s/ James M. Barnes
James M. Barnes
Vice President