

**FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.**

In the Matter of)	
)	
)	ORDER TO CEASE AND DESIST
FIRST STATE BANK OF KENSINGTON)	
KENSINGTON, MINNESOTA)	
)	FDIC-07-130b
)	
(Insured State Nonmember Bank))	
)	

First State Bank Of Kensington, Kensington, Minnesota ("Bank"), 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 Bank, as well as of 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 23, 2007, with counsel for the Federal Deposit Insurance Corporation ("FDIC"), whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices and violations of law and regulation, the Bank 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 Bank 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 Bank, 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 insufficient to prevent violations of the Bank Secrecy Act, 31 U.S.C. §§ 5311 et seq., and implementing regulations including 12 C.F.R. Part 326 and Part 353, and 31 C.F.R. Part 103 (hereafter collectively "Bank Secrecy Act" or "BSA");
- B. Operating with inadequate policies and procedures reasonably designed to identify and report suspicious activities to Bank directors and others;
- C. Operating without an effective system of independent testing for compliance with BSA requirements;
- D. Operating without an adequate BSA training program for appropriate Bank personnel; and
- E. Violating BSA law(s) and regulation(s), including:
 - 1. Part 103 of the Treasury Department's Financial Record-keeping and Reporting of Currency and Foreign Transactions Regulation, 31 C.F.R. Part 103; and
 - 2. Sections 326.8 and 353 of the FDIC Rules and Regulations, 12 C.F.R. §§ 326.8 and 353, respectively.

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

1. **BSA Officer.**

Within 30 days from the effective date of this ORDER, the Bank shall designate a qualified officer responsible for managing, coordinating, and monitoring the Bank's BSA compliance program ("BSA Officer"). The BSA Officer shall have the responsibility and necessary authority to ensure the Bank's compliance with the BSA rules and regulations and related matters, including without limitation:

- (a) reporting suspicious criminal activity to the board of directors;
- (b) training Bank employees regarding BSA compliance;
- (c) testing the Bank's compliance with BSA requirements;
- (d) gathering and verifying information to confirm the identity of new Bank customers; and
- (e) providing information when sought through the Financial Crimes Enforcement Network ("FinCEN").

2. **Review of the BSA Compliance Program.**

- (a) Within 60 days from the effective date of this ORDER, Bank management shall review the analysis of the Bank's BSA compliance program set forth in the joint FDIC/Minnesota Department of Commerce Report of Examination of the Bank ("Report of Examination"), as of March 12, 2007, and make written recommendations to the board of directors to revise the Bank's BSA policies and procedures to enhance the Bank's compliance.
- (b) Within 30 days from receipt of the BSA Officer's recommendations, the board of directors shall:
 - (i) review and revise policies and procedures to correct BSA violations and other deficiencies,

and to enhance the Bank's compliance with BSA requirements, including in particular the policies and procedures noted in paragraphs 3 through 6 of the ORDER; and

- (ii) submit the revised policies and procedures to the FDIC's Regional Director ("Regional Director") and Commissioner of the Minnesota Department of Commerce ("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 board of directors shall adopt the policies and procedures with the approval recorded in the minutes of the board of directors' meeting. Thereafter, the Bank shall implement and fully comply with the policies and procedures adopted.

3. Training Program.

Within 60 days from the effective date of this ORDER, the Bank shall enhance and update its training program to provide for periodic training for Bank personnel and appropriate recordkeeping to document such training. The Bank's training program shall ensure that all appropriate Bank personnel have information and knowledge of, and can comply with the requirements of the BSA compliance program.

4. Independent Testing.

- (a) Within 90 days, the Bank shall independently test its revised BSA compliance program to ensure proper controls are in place and are effective. Independent

testing shall be completed on a periodic basis by an outside auditor, or qualified consultant(s).

- (b) The Bank shall document the scope, procedures performed, transactions tested, and findings of the testing required by paragraph 4(a) of the ORDER in a report to the board of directors. The report shall include all audit documentation and workpapers. The report shall specifically address any violations, policy or procedures exceptions, or other deficiencies noted during the independent testing.
- (c) The board of directors shall:
 - (i) review the report;
 - (ii) identify the action to be taken to ensure proper and effective controls are in place; and
 - (iii) record their review and conclusions in the minutes of the board of directors' meeting.

Thereafter the Bank shall implement the controls, including the actions identified by the board of directors.

5. Customer Identification Program.

- (a) Within 60 days of the effective date of this ORDER, the Bank shall develop, adopt, and implement a revised, written Customer Identification Program designed to ensure compliance with 31 C.F.R. § 103.121 of the Department of the Treasury's Financial Recordkeeping and Reporting Regulations.
- (b) The Customer Identification Program (and any subsequent modification) shall be submitted to the FDIC and the Commissioner for review and comment. Within 30 days from receipt of any comment from the FDIC and the Commissioner, and after due consideration of any recommended changes, the Bank shall approve the

program, with its approval recorded in the minutes of the board of directors' meeting. Thereafter, the Bank shall implement and fully comply with the program.

6. Information Sharing Between Federal Law Enforcement Agencies and Financial Institutions.

- (a) Within 60 days of the effective date of this ORDER, the Bank shall search required records pursuant to 31 C.F.R. § 103.100 of the Department of the Treasury's Financial Recordkeeping and Reporting Regulation to satisfy information requests from the FinCEN made within the 12 months preceding the effective date of this ORDER. If the Bank identifies an account or transaction identified with any individual, entity, or organization named in a request from FinCEN, it shall report to FinCEN, in the manner and in the time frame specified in FinCEN's request, the information required by 31 C.F.R. § 103.100
- (b) While the ORDER is in effect, the Bank shall respond to any information request received from FinCEN as required by paragraph 6(a) of the ORDER.

7. Suspicious Activity Reports.

Within 30 days from the effective date of this ORDER, the Bank shall establish policies and procedures reasonably designed to identify and report suspicious activities ("SAR policies"). At a minimum, the SAR policies shall satisfy the requirements of Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353, and shall be reasonably designed to identify misconduct from both internal and external sources and to ensure that all suspicious activity report filings are reported to the board of directors. The

SAR policies shall be reviewed, revised as appropriate, and approved by the board of directors on an annual basis, or more frequently as appropriate.

8. Violations of Law and Regulation.

Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all BSA violations of law which are more fully set out on page(s) 32 through 35 of the Report of Examination. For each violation that is not eliminated or corrected, the board of directors at its next meeting subsequent to the 90 day corrective period shall review and document in the minutes of their meeting why the violations were not corrected.

9. Disclosure of Order to Shareholders.

Following the effective date of this ORDER, the Bank shall provide to its shareholders or otherwise furnish a description of this ORDER, (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. 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.

10. **Progress Reports Detailing Compliance with ORDER.**

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 Bank 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.

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: 7/26/2007

By:

Thomas J. Dujenski
Deputy Regional Director
Kansas City Regional Office