

#2002-94

AGREEMENT BY AND BETWEEN
FIRST NATIONAL BANK OF SHELBY COUNTY
COLUMBIANA, ALABAMA
AND
THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

First National Bank of Shelby County, Columbiana, Alabama (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated February 25, 2002 (ROE).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “final order” within the meaning 12 U.S.C. § 1818(u).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Assistant Deputy Comptroller
Birmingham Field Office
100 Concourse Parkway Suite 240
Birmingham, Alabama 35244

with a copy to:

Deputy Comptroller
Comptroller of the Currency
Southeastern District
Marquis One Tower, Suite 600
245 Peachtree Center Avenue, NE
Atlanta, Georgia 30303

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within forty-five (45) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be an employee of the Bank or any of its affiliates (as the term "affiliate" is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Formal Agreement.

- (2) The Compliance Committee shall meet at least monthly.
- (3) Within thirty (30) days of the appointment of the Committee and monthly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:
 - (a) actions taken to comply with each Article of this Formal Agreement; and
 - (b) the results of those actions.
- (4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

ARTICLE III

CAPITAL PLAN

- (1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:
 - (a) specific plans for the maintenance of adequate capital;
 - (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
 - (c) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
 - (d) contingency plans that identify alternative methods should the primary source(s) under (c) above not be available; and
 - (e) a dividend policy that permits the declaration of a dividend only:

- (i) when the Bank is in compliance with its approved capital program; and
- (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60.

(2) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for approval. Upon approval by the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE IV

MANAGEMENT AND BOARD SUPERVISION

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan, with specific time frames, that will correct any deficiencies which were noted in the Management and Profitability Study of Duncan McFarlane, dated September 2002, that reviewed the Revised Report of the Consultants to the Management and Board of Directors of the Bank, dated June 2000.

(2) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

(3) Copies of the Board's written plan shall be forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement. In the event the written plan, or any portion thereof, is not implemented, the Board shall immediately advise the Assistant Deputy Comptroller, in writing, of specific reason for deviating from the plan.

ARTICLE V

INSIDER BUSINESS TRANSACTIONS

(1) The Bank may enter into a Business Transaction with an Insider only if the Business Transaction is:

- (a) made on terms and under circumstances that are substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other companies or individuals who are not Insiders or related interests of Insiders;
- (b) made, in the absence of comparable transactions, on reasonable commercial terms entered into in good faith and reflecting comparable service fees payable to similarly situated service providers (for example, professional service contracts);

- (c) preceded by a finding by the Board that the primary purpose of the Business Transaction is to further the best interests of the Bank; and
 - (d) approved in advance by a majority of the entire Board, not merely a quorum thereof, with any interested Insider abstaining from voting and participating directly or indirectly in the deliberations regarding the approval.
- (2) For purposes of this Formal Agreement, the following definitions shall apply:
- (a) "Related Interest" shall have the same meaning as set forth in 12 C.F.R. § 215.2.
 - (b) "Business Transaction" means any single transaction in excess of fifteen thousand dollars (\$15,000) or which creates an aggregate relationship in excess of fifteen thousand dollars (\$15,000), including any renewal of or changes to an existing transaction. "Business Transaction" applies to transactions and relationships other than as a depositor, borrower, employee or director, and excludes Bank income tax payments and dividends lawfully made to Columbiana Bancshares, Inc.
 - (c) "Company" shall have the same meaning as set forth in 12 C.F.R. § 215.2.
 - (d) "Person" shall mean an individual or a company.
 - (e) "Control" shall mean the power to vote directly or indirectly 25 percent or more of any class of voting securities of a company, the ability to control in any manner the election of a majority of a company's directors, or the ability to exercise a controlling influence over the management and

policies of a company. Any general partner of a partnership is presumed to control the partnership. A person who directly or indirectly owns, controls, or has power to vote at least 10 percent of any class of voting securities of a company and is an executive officer or director of that company is deemed to control that company by exercising a controlling influence over that company.

- (f) "Insider" shall have the same meaning as set forth in 12 C.F.R. § 215.2.

ARTICLE VI

CONFLICT OF INTEREST POLICY

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written, comprehensive conflict of interest policy applicable to the Bank's and the Bank's holding company's directors, principal shareholders, executive officers, affiliates, and employees (Insiders) and related interests of such Insiders. The policy, in addition to defining a conflict of interest, shall address:

- (a) avoidance of conflicts of interest and breaches of fiduciary duty, and the appearance of conflicts of interest;
- (b) involvement in the loan approval process of Insiders who may benefit directly or indirectly from the decision to grant credit;
- (c) disclosure of actual and potential conflicts of interest to the Board, and periodic disclosure of "related interests" as defined by 12 C.F.R. Part 215;

- (d) requirements for arms-length dealing in any transactions by Insiders, or their related organizations, involving the Bank's sale, purchase, or rental of property and services;
- (e) disclosure of any Insider's material interest in the business of a borrower, an applicant, or other customer of the Bank; and
- (f) restrictions on and disclosure of receipt of anything of value by Insiders, directly or indirectly, from borrowers, loan applicants, other customers, or suppliers of the Bank.

(2) Upon adoption, a copy of this conflict of interest policy shall be forwarded to the Assistant Deputy Comptroller for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

(4) Within ninety (90) days, the Compliance Committee shall conduct a review of the Bank's existing relationships with its and its holding company's directors, executive officers, affiliates, principal shareholders, employees and their related interests for the purpose of identifying relationships not in conformity with the policy. The Board shall ensure that:

- (a) any nonconforming relationships are brought into conformity with the policy within one hundred-twenty (120) days; and
- (b) that within one hundred-twenty (120) days the Bank is properly reimbursed for:

- (i) any excess or improper payments to Insiders and their related interests; and
- (ii) any excess or improper payments for services provided by Insiders and their related interests.

Thereafter, the Board shall review all proposed transactions, or modifications of existing relationships, between the Bank and any of its or its holding company's directors, executive officers, affiliates, principal shareholders, employees and their related interests. Documentation supporting these reviews shall be in writing and preserved in the Bank.

ARTICLE VII

MANAGEMENT FEES

- (1) Prior to the payment of any management and other fees to any affiliate of the Bank as defined in 12 U.S.C. § 221a and 12 U.S.C. § 371c (Affiliate), the Board, or delegated committee of the Board, shall document and support, in writing, that such fees:
 - (a) are reasonable;
 - (b) have a direct relationship to, and are based solely upon, the fair value of goods and services received by the Bank; and
 - (c) compensate the Affiliate only for providing goods and services which meet the legitimate needs of the Bank.
- (2) All documentation supporting the payment of management and other fees to an Affiliate, shall be preserved in the Bank.

(3) Prior to the payment of any salary, consulting fee, expense reimbursement or other type of compensation to a principal shareholder, director or related interest of such as defined in 12 C.F.R. Part 215 (Individual), the Board, or the Compensation and Benefits Committee, shall, at a minimum and in writing, determine that such remuneration:

- (a) is reasonable;
- (b) has a direct relationship to, and is based solely upon, the fair value of goods and services received by the Bank; and
- (c) compensates the Individual only for providing goods and services which meet the legitimate needs of the Bank.

(4) In addition to the requirements of the preceding paragraph of this Article, the Board shall review and maintain:

- (a) written documentation of all services rendered by the Individual;
- (b) records indicating the day(s) and time periods during which the Individual's services were performed;
- (c) expense vouchers and receipts for all reimbursable expenses; and
- (d) an analysis of the services rendered by the Individual to ensure that the Bank has received the full benefit to which it is entitled.

(5) All documentation supporting the payment of any salary, consulting fee, expense reimbursement or other type of compensation to an Individual shall be preserved in the Bank.

ARTICLE VIII

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE and in any subsequent Report of Examination. The monthly progress reports required by Article II of this Formal Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within forty-five (45) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Within forty-five (45) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(4) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

(5) The Board shall ensure that the Bank has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed pursuant to this Article.

ARTICLE IX

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within ninety (90) days, the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination. At the expiration of the ninety (90) day period, the Board shall list all loans for which it was unable to obtain such information, the reasons why such information has not been obtained and plans to obtain such information by a specified time.

(2) Within ninety (90) days, the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination. At the expiration of the ninety (90) day period, the Board shall list all loans for which it was unable to obtain such documentation, the reasons why such documentation has not been obtained and plans to obtain such documentation by a specific time.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

(a) documenting the specific reason or purpose for the extension of credit;

- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (d) shall require a majority of the full Board or a delegated committee thereof to certify in writing the specific reasons why obtaining and analyzing the information in (d) would be detrimental to the best interests of the Bank.
 - (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

ARTICLE X

LOAN REVIEW

(1) Within one hundred-twenty (120) days, the Board shall employ a qualified consultant to perform an ongoing asset quality review of the Bank. The consultant shall be utilized until such time as an ongoing internal asset quality review system is developed by the Board, implemented and demonstrated to be effective. Before terminating the consultant's asset

quality review services, the Board shall both assess the effectiveness of the internal asset quality review system, and receive prior determination of no supervisory objection from the Assistant Deputy Comptroller.

(2) Prior to hiring a consultant or entering into any contract with a consultant, the Bank shall submit the proposed terms of employment and the qualifications of the consultant to the Assistant Deputy Comptroller who shall have the power of veto. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed consultant.

(3) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. 1818(b) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

ARTICLE XI

OVERDRAFT POLICY

(1) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written policy concerning the extension of overdrafts that shall include, at a minimum:

- (a) conditions and circumstances under which overdrafts will be allowed, taking into consideration the requirements of 12 U.S.C. § 375b;
- (b) charges that will be levied against depositors using overdrafts;

- (c) conditions and circumstances under which overdrafts will be permitted to executive officers, directors, principal shareholders or their related interests (as that term is defined in 12 C.F.R. Part 215); and
 - (d) conditions and circumstances under which overdrafts will be charged off.
- (2) Upon adoption, a copy of this policy shall be forwarded to the Assistant Deputy Comptroller.
- (3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

ARTICLE XII

ALLOWANCE FOR LOAN AND LEASE LOSSES

- (1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:
- (a) results of the Bank's internal loan review;
 - (b) results of the Bank's external loan review;
 - (c) an estimate of inherent loss exposure on each credit in excess of one hundred thousand dollars (\$100,000);
 - (d) loan loss experience;

- (e) trends of delinquent and nonaccrual loans;
- (f) concentrations of credit in the Bank; and
- (g) present and prospective economic conditions.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE XIII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United

States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) This Agreement is intended, and shall be construed to be a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC’s exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to

amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/s/ Tommy R. Tucker

10/11/2002

Tommy R. Tucker
Assistant Deputy Comptroller
Birmingham Field Office

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

Signed

Hewitt L. Conwill

Date

Signed

James T. Davis

Date

Signed

Martha B. Ferguson

Date

Signed

William T. Harrison, Sr.

Date

Signed

Robert A. Hayes

10-11-02

Date

Signed

Jerry E. Oliver, Jr.

10-11-02

Date

Signed

Helen H. Phillips

10-11-02

Date

Signed

Carol H. Smith

10-11-02

Date

Signed

Joe L. Tidmore, Sr.

10-11-02

Date