

AGREEMENT BY AND BETWEEN
First National Bank of Waverly
Waverly, Ohio
and
The Office of the Comptroller of the Currency

First National Bank of Waverly, Waverly, Ohio (“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 her National Bank Examiner, has examined the Bank, and her findings include: inadequate credit analysis; improper treatment of nonaccrual loans; inadequate lending policies, ineffective loan review, and noncompliance with the appraisal regulation.

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 her 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 “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(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 the:

Comptroller of the Currency
Assistant Deputy Comptroller
Central Ohio Field Office
4555 Lake Forest Drive, Suite 610
Cincinnati, Ohio 45242

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least four (4) directors, of which no more than one (1) shall be employees 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 Agreement

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the appointment of the Committee and quarterly 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 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

UPDATED FINANCIAL INFORMATION

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a system to obtain updated financial information on existing commercial and commercial real estate borrowers.

- (a) The system shall include obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations. Financial information obtained shall include that for joint makers and guarantors.
- (b) Management shall come to a written determination as to whether or not the borrower's financial condition is satisfactory;
- (c) The Board shall be provided the initial list of borrowers from whom financial information has been requested.
- (d) The Board shall be provided a monthly, written status report of all updated financials received, since that last monthly report, and management's determination as to whether or not the borrower's financial performance is deemed satisfactory to extinguish the borrower's debt load.
- (e) Documentation of the analysis of the financial information shall be placed in the obligor's credit file.

(2) 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 (2)(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 (2)(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;
- (f) providing narrative discussion including strengths and weaknesses; and how the proposed debt, or refinance, affects the obligor's repayment capacity; and
- (g) placing documentation in the obligor's credit file.

ARTICLE IV

NONACCRUAL LOANS

(1) The Bank shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the Instructions for Preparation of Consolidated Reports of Condition and Income (“Call Report Instructions”) governing nonaccrual loans. Further, the Bank shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(2) Within ninety (90) days, the Board shall adopt and implement written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:

- (a) be consistent with the accounting requirements for non-accrual loans contained in the Call Report Instructions;
- (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured; and
- (c) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

(3) Within ninety (90) days, the Board shall develop and implement a written policy governing the identification of and accounting treatment for nonaccrual loans. The policy shall address paragraph (2) above as well as the comments contained in the Report of Examination (ROE) dated August 6, 2003 and shall be consistent with the accounting requirements contained in the Call Report Instructions.

(4) Within ninety (90) days, the Board shall develop and implement a written policy that shall provide for auditing accrued interest on loans. The policy shall, at a minimum, provide for quarterly audits of loan accruals and incorporate procedures for periodically testing the Bank's identification of nonaccrual loans as governed by the policy adopted pursuant to paragraph (3) above.

(5) Upon adoption, a copy of the written policies and procedures shall be forwarded to the Assistant Deputy Comptroller.

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

ARTICLE V

LENDING POLICY

(1) Within ninety (90) days, the Board shall review and revise the Bank's written lending policy. In revising this policy, the Board shall refer to the Loan Portfolio Management booklet, A-LPM, of the Comptroller's Handbook. This policy shall incorporate, but not necessarily be limited to, the following:

- (a) a description of acceptable types of lending;
- (b) a provision that current and satisfactory credit information will be obtained on each borrower;
- (c) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;

- (d) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (e) measures to correct the deficiencies in the Bank's lending procedures noted in any ROE;
- (f) guidelines consistent with Banking Circular 255, setting forth the criteria under which renewals of extensions of credit may be approved. At a minimum the policy shall:
 - (i) ensure that renewals are not made for the sole purpose of reducing the volume of loan delinquencies; and
 - (ii) provide guidelines and limitations on the capitalization of interest;
- (g) charge-off guidelines, by type of loan or other asset, including Other Real Estate Owned, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery;
- (h) unsecured lending guidelines for all departments;
- (i) 90-day note guidelines including maximum number of allowable renewals and amortization;
- (j) guidelines and underwriting criteria for the origination of consumer purpose loans that incorporate information contained in the Uniform Retail Classification and Account Management Policy Statement dated June 12, 2000; and
- (k) guidelines for periodic review of the Bank's adherence to the revised lending policy.

(2) Upon adoption, the lending policy shall be implemented, the Board shall thereafter ensure Bank adherence to the policy including conformance with the Uniform Retail Classification and Account Management Policy Statement, and a copy of the 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 lending policy developed pursuant to this Article.

ARTICLE VI

LOAN REVIEW

(1) Within sixty (60) days the Board shall employ or engage a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases.

(2) Within ninety (90) days, the Board shall establish and implement an effective, independent and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook. The report shall be completed in conjunction with quarterly assessment of the Allowance for Loan and Lease Losses (ALLL). Such reports shall, at a minimum, include conclusions regarding:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) credit and collateral documentation exceptions;

- (d) the identification and status of credit related violations of law, rule or regulation;
- (e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) and (d) of this Article;
- (f) concentrations of credit;
- (g) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (h) loans and leases not in conformance with the Bank's lending policy, and exceptions to the Bank's lending policy.

(3) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program providing for an independent review of problem loans and leases in the Bank's loan and lease portfolios for the purpose of monitoring portfolio trends, on at least a quarterly basis. The program shall require a quarterly report to the Board. At a minimum the program shall provide for an independent reviewer's assessment of the Bank's:

- (a) timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, division, group, indirect dealer, and individual lending officer;
- (c) system for monitoring previously charged-off assets and their recovery potential;

- (d) system for monitoring compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and
- (e) system for monitoring the adequacy of credit and collateral documentation.

(4) A written description of the program called for in this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation.

(5) 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.

(6) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(7) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE VII

APPRAISALS OF REAL PROPERTY

(1) Effective immediately, the Board shall engage the services of an independent, professionally certified, or licensed appraiser(s) to provide and shall obtain:

- (a) a written or updated appraisal, completed in accordance with 12 C.F.R. Part 34, for each parcel of real property that represents primary collateral securing any new or renewed extension of credit prior to credit origination where an appraisal is required pursuant to 12 C.F.R. Part 34.

(b) a written appraisal completed on each parcel of Other Real Estate Owned where it is needed to bring the Bank into conformity with the provisions of 12 C.F.R. Part 34.

(2) Effective immediately, prior to originating or renewing any credit transaction where an evaluation is required subject to 12 C.F.R. Part 34, the Bank shall obtain an appropriate evaluation of the real property completed in accordance with the Commercial Real Estate and Construction Lending booklet, A-CRE, of the Comptroller's Handbook.

ARTICLE VIII

ADMINISTRATIVE APPEALS AND EXTENSIONS OF TIME

(1) If the Bank determines that an exception to any provision of this Agreement is in the best interests of the Bank, or requires an extension of any timeframe within this Agreement, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief.

(2) Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with any provision, that require the Assistant Deputy Comptroller to exempt the Bank from any provision, or that require an extension of any timeframe within this Agreement. All such requests shall be accompanied by relevant supporting documentation.

(3) The Assistant Deputy Comptroller's decision in granting the request is final and not subject to further review.

ARTICLE IX

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior determination of no supervisory objection, 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 her 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 to be, 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 prior arrangements 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/ Larry L. Hattix

Larry L. Hattix
Assistant Deputy Comptroller
Central Ohio Field Office

11/9/04

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.

<u>/s/</u> Anthony C. Fish	<u>11-09-04</u> Date
<u>/s/</u> Carl L. Fleser	<u>11/9/04</u> Date
<u>/s/</u> Fred L. Foill, Jr.	<u>11-9-04</u> Date
<u>/s/</u> Robert E. Foster	<u>Nov 9, 2004</u> Date
<u>/s/</u> W. Chris Hanners	<u>11/12/04</u> Date
<u>/s/</u> Thomas Parfitt	<u>11/9/04</u> Date
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