

AGREEMENT BY AND BETWEEN  
The Somerville National Bank  
Somerville, Ohio  
and  
The Comptroller of the Currency

The Somerville National Bank, Somerville, 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 has found unsafe or unsound banking practices relating to asset quality, loan administration, Board and management oversight, and risk management, as well as violations of law at the Bank.

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 at all times operate 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) This Agreement shall cause the Bank to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(6), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(6) 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:

Assistant Deputy Comptroller  
Cincinnati Field Office  
Westlake Center  
4555 Lake Forest Drive, Suite 610  
Cincinnati, OH 45242

## ARTICLE II

### INTERNAL AUDIT

(1) Within sixty (60) days, the Board shall adopt an annual, independent, risk-based internal audit program in conformance with the Federal Financial Institutions Examination Council’s “Interagency Policy Statement on the Internal Audit Function and its Outsourcing,” dated March 17, 2003 (OCC Bulletin 2003-12). The program shall cover all areas of the Bank, and be sufficient to:

- (a) detect irregularities and weak practices in the Bank's operations and internal controls, and ensure adequate segregation of duties;
- (b) determine the Bank's compliance with all applicable laws, rules and regulations;
- (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (d) ensure that management information systems (MIS) are accurate and contain all information necessary for the Board's decision-making; and
- (e) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its risk management programs, construction and retail loan administration, problem loan identification and classification.

(2) As part of this audit program, the Board or the Audit Committee shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed, and shall assess the performance of the department or outside firm at least annually.

(4) The Board shall ensure that the entire audit program is independent (including consumer compliance audits). The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to engage such personnel and to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board or the Audit Committee and not through any intervening party,

including any individual who is a director.

(5) All audit reports shall be in writing and shall identify the reasons for any negative findings. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, that auditors maintain a written record describing those actions and tracking the timeliness and effectiveness of such actions, and that the Board monitors efforts to remedy deficiencies.

(6) The audit staff shall have access to any records necessary for the proper conduct of its activities. The OCC shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(7) Upon adoption, a copy of the internal audit program, or any subsequent amendments or changes to the program, shall be submitted to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the program.

### ARTICLE III

#### INCENTIVE COMPENSATION COMMITTEE

(1) Within thirty (30) days, the Board shall form a Compensation Committee, independent of inside directors, to review and revise the Bank's written incentive compensation program to be consistent with OCC Bulletin 2010-24, *Interagency Guidance on Sound Incentive Compensation Policies*. At a minimum, the Bank's incentive compensation program shall:

- (a) prohibit the payment of excessive compensation, as defined in 12 C.F.R. Part 30, Appendix A;
- (b) provide for effective controls and risk management, and ensure compliance with all applicable laws and regulations;
- (c) provide for (at least annual) evaluation of officers' salary and bonus structure, considering the size and complexity of the bank and the officer's duties;
- (d) balance risks and financial results in a manner that does not encourage employees to expose the Bank to imprudent risks (including requiring review of loan officer and loan originator salaries and bonuses to take into account asset quality and risk factors); and
- (e) provide a process requiring the Board Compensation Committee to oversee the program and evaluate the effectiveness and benefits of the Bank's incentive compensation program on at least an annual basis.

(2) Within one hundred twenty (120) days, the Board Compensation Committee shall submit a copy of the revised program required by this Article, or any subsequent amendments or changes to that program, to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the program.

#### ARTICLE IV

##### INVESTMENT AND INTEREST RATE RISK MANAGEMENT

(1) Within thirty (30) days, the Board shall review and revise the Bank's **investment policy**. The policy shall contain the basic elements of a sound investment policy consistent with

regulatory guidance provided in “An Examiner’s Guide to Investment Products and Practices,” (December 1992), 12 C.F.R. Part 1, and OCC Bulletin 98-20, *Investment Securities: Policy Statement*, and shall include:

- (a) an investment portfolio strategy that is consistent with Board approved Bank asset and liability management policies and interest rate risk tolerances;
- (b) approval procedures that include dollar size limits, quality limitations, maturity limitations, and concentration or diversification guidelines;
- (c) a requirement that investment securities be supported by adequate credit and interest rate risk measurement information as described in the “Interest Rate Risk” booklet of the Comptroller’s Handbook and in OCC Bulletin 98-20, *Investment Securities: Policy Statement*;
- (d) periodic reports to and approval by the Board for all investment portfolio purchases and sales and strategy changes; and
- (e) monthly review by the Board of the Bank's investment portfolio activity to ensure adherence to the investment policy and to applicable banking and securities laws and regulations.

(2) The revised investment policy, or any subsequent amendments or changes to the program, shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the policy.

(3) Within sixty (60) days, the Board shall adopt a written **interest rate risk policy**. In formulating this policy, the Board shall refer to the “Interest Rate Risk” booklet of the

Comptroller's Handbook and OCC Bulletin 2011-12, *Sound Practices of Model Risk*

*Management.* The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of accurate, complete, and timely management reports on which the Board can base sound interest rate risk management decisions;
- (b) establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk;
- (c) implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile, including an accurate interest rate risk model that fully captures the risk in the investment portfolio and balance sheet;
- (d) validation of the interest rate risk model to ensure that it conforms to guidance and is completed in a timely manner;
- (e) assignment of competent personnel to manage interest rate risk;
- (f) prudent limits on the nature and amount of interest rate risk that can be taken, including economic value of equity and net interest income risk limits for all rate scenarios; and
- (g) quarterly review of the Bank's adherence to the policy.

(4) Upon adoption, a copy of the written interest rate risk policy, or any subsequent amendments or changes to the program, shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the policy.

## ARTICLE V

### CONSTRUCTION LOAN ADMINISTRATION

(1) The Bank may not engage in construction lending unless and until the Board adopts and implements an adequate construction lending administration program. Within thirty (30) days, the Board shall develop and adopt a written program to improve its construction loan administration. The program shall conform to practices outlined in the “Commercial Real Estate and Construction Lending” booklet of the Comptroller’s Handbook, and include, but not be limited to, procedures for ensuring that:

- (a) market feasibility analyses are performed on construction projects;
- (b) cash flow analyses are performed on construction loan borrowers, and updated on a periodic basis;
- (c) current rental and sales information is maintained in all construction projects;
- (d) project plans and specifications are thoroughly documented;
- (e) the Bank has control of all funds necessary to complete construction;
- (f) disbursement checks are jointly payable to contractors and borrowers, and are disbursed only upon completion of an appropriate inspection and title update;
- (g) change orders are not paid without appropriate adjustment of construction plans;  
and
- (h) all construction loans are either in conformity with the Bank's construction loan policies and procedures, or are reported to the Board as policy exceptions and receive Board approval prior to origination.

(2) Upon adoption, the Board shall submit a copy of the program, or any subsequent amendments or changes to the program, to the Assistant Deputy Comptroller for review and



determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the program.

## ARTICLE VI

### CONCENTRATIONS RISK MANAGEMENT

(1) Within one hundred twenty (120) days, the Board shall establish and adopt a written program designed to identify, measure, monitor, and control concentrations of credit consistent with the “Concentrations of Credit” booklet of the Comptroller’s Handbook, dated December 2011. The policies and procedures shall include, but not necessarily be limited to, the following:

- (a) an identification of the Bank’s known and potential concentrations of credit, including, but not limited to, the Bank’s concentrations identified on page 34 of the most recent Report of Examination (ROE);
- (b) an analysis of the risk that the Bank’s known and potential concentrations of credit pose to the Bank’s earnings, capital, and operating strategy under stressed market conditions, economic downturns, and periods of general market illiquidity as well as normal market conditions;
- (c) review of existing limits to determine whether the limits are reasonable and reflect the Board’s risk tolerance, and if necessary, revision of existing limits for each of the Bank’s known and potential concentrations relative to capital based on the analysis performed under subparagraph (1)(b) of this Article;

- (d) development and implementation of action plans, approved by the Board, to reduce the risk of any concentration that approaches or exceeds the limitations established pursuant to subparagraph (1)(c) of this Article; and
- (e) management information systems designed to ensure timely and accurate reporting of concentrations to the Board.

(2) The Board shall ensure that all concentrations of credit are subjected to the analysis required by subparagraph (1)(b) of this Article at least annually, and, if that analysis demonstrates that the concentration subjects the Bank to undue risk, the Board shall take appropriate steps to mitigate such risk.

(3) For purposes of this Article, a concentration of credit is as defined in the “Concentrations of Credit” booklet of the Comptroller's Handbook.

(4) A copy of the program, or any subsequent amendments or changes to the program, shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall promptly implement and thereafter ensure adherence to the program.

## ARTICLE VII

### LOAN RISK RATINGS

(1) Within sixty (60) days, the Board shall develop and adopt an effective and on-going internal loan risk rating system that accurately identifies and categorizes problem loans, with a particular emphasis on commercial loans. The system shall use a loan grading system consistent with the guidelines set forth in the “Rating Credit Risk” booklet of the Comptroller's

Handbook. The system shall provide for a monthly written report to the Board detailing the loan risk ratings of the bank's assets, with aggregate totals for each category in a dollar and percent of capital format.

(2) Upon adoption, the Board shall submit a copy of the risk rating system, or any subsequent amendments or changes to that system, to the Assistant Deputy Comptroller for determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the system.

## ARTICLE VIII

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall adopt a written program for maintaining an adequate Allowance for Loan and Lease Losses ("ALLL") in accordance with U.S. generally accepted accounting principles ("GAAP"). The ALLL policies and procedures shall be consistent with the guidelines set forth in the Federal Financial Institutions Examination Council's "Interagency Policy Statement on the Allowance for Loan and Lease Losses" dated December 13, 2006 (OCC Bulletin 2006-47) ("Interagency Statement") and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with GAAP (including FASB ASC 310-10, *Receivables - Overall - Subsequent Measurement - Impairment*);
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans that are consistent with GAAP (including FASB ASC 450-20, *Loss Contingencies*). These procedures shall require the Bank to document its

estimation of credit losses, including but not limited to an analysis of qualitative factors set forth in the Interagency Statement;

- (c) a process to accurately measure historical loss calculations;
- (d) a process to measure impairment for impaired collateral dependent loans, as required on pages 31-32 of the most recent ROE;
- (e) procedures to ensure that correct inputs, including modified repayment terms, are used to calculate net present value of future cash flows;
- (f) procedures for validating the ALLL methodology; and
- (g) a process for summarizing and documenting, for the Board's prior review and approval, the amount to be reported in the Consolidated Reports of Condition and Income ("Call Reports") for the ALLL.

(2) A copy of the ALLL program, or any subsequent amendments or changes to the program, shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the program.

(3) Within sixty (60) days, and thereafter on an ongoing basis, the Board shall ensure that all official and regulatory reports filed by the Bank accurately reflect an adequate ALLL balance as of the date that such reports are submitted.

## ARTICLE IX

### RETAIL LOAN ADMINISTRATION

(1) Within sixty (60) days, the Board shall develop and adopt a written program to improve the Bank's retail credit underwriting and administration process. The program shall

conform to OCC Bulletin 2000-20, *Uniform Retail Credit Classification and Account Management Policy*, and include, at a minimum:

- (a) guidelines for evaluating and monitoring a borrower's capacity to meet an appropriate repayment program from liquidity and cash flow;
- (b) standards for minimally acceptable financial information on borrowers and guarantors prior to making credit decisions and on an ongoing basis as necessary to monitor the Bank's credit risk, properly account for loans, and assign accurate risk-ratings in a timely manner;
- (c) a process to obtain updated appraisals or evaluations for severely past due retail loans and take appropriate charge-offs of any portions of loan balances not covered by the value less estimated costs to sell; and
- (d) guidelines for the identification of and accounting treatment for nonaccrual loans that are consistent with the accounting requirements contained in the Call Report Instructions.

(2) Upon adoption, the Board shall submit a copy of the program required by this Article, or any subsequent amendments or changes to that program, to the Assistant Deputy Comptroller for determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the program.

ARTICLE X  
CONSUMER COMPLIANCE

(1) Within ninety (90) days, the Board shall adopt a written consumer compliance program designed to ensure that the Bank is operating in compliance with the Flood Disaster Protection Act (FDPA) and all applicable consumer protection laws, rules and regulations. This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer;
- (b) adequate internal controls to ensure compliance with the FDPA and all other applicable consumer protection laws, rules, and regulations;
- (c) a process to ensure that all loans (including loans outstanding as of the date of the ROE and all new loans) secured by properties located in a flood zone have adequate flood insurance coverage, as directed in the most recent ROE, and if flood insurance coverage is found to be less than the amount required by 12 C.F.R. § 22.3, the bank must obtain coverage in accordance with 12 C.F.R. § 22.7;
- (d) a process to monitor loans in special flood hazard areas throughout the life of those loans, identify loans that have inadequate coverage, and force place flood insurance when needed, in accordance with 12 C.F.R. Part 22;
- (e) an internal audit program to test for compliance with FDPA and other applicable consumer protection laws, rules and regulations;
- (f) procedures to ensure that exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;

- (g) the education and training of all appropriate Bank personnel in the requirements of FDPA and all other applicable federal and state consumer protection laws, rules, and regulations; and
- (h) periodic reporting of the results of the consumer compliance audit to the Board or a committee thereof.

(2) Upon adoption, a copy of the program, or any subsequent amendments or changes to the program, shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the program.

(3) Within thirty (30) days, the Bank shall notify and provide documentation to the Assistant Deputy Comptroller of all loans outstanding as of September 30, 2012, and all subsequent loans that did not have adequate flood insurance at origination or at any subsequent time during the life of the loan.

## ARTICLE XI

### VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in the most recent ROE, any subsequent ROE, or brought to the Board's or Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts. Within thirty (30) days after any violation is cited or brought to the Board's or appropriate committee's attention, the Board shall ensure that the Bank's senior management provides the Board a list of corrected violations with written

explanations of steps taken to correct each violation. For any violation not corrected within thirty (30) days, the Board shall ensure that the Bank's senior management provides the Board a written explanation of the actions taken to correct each violation, the reasons why the violation has not yet been corrected, and a plan to correct each violation by a specified date.

(2) Within ninety (90) days of the date of this Agreement, the Board shall develop:

- (a) specific procedures to prevent violations cited in the most recent ROE and future ROEs; and
- (b) general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

(3) Upon adoption, a copy of these procedures, or any subsequent amendments or changes to the procedures, shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the procedures.

#### CLOSING

(1) Although the Board has agreed to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, 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 by written mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement, including ensuring that the Bank has adequate processes, personnel, and control systems;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) 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 Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his 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 Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his 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 her hand on behalf of the Comptroller.

/s/

6/12/13

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Julie A. Blake

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Date

Assistant Deputy Comptroller

Cincinnati Field Office

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.

/s/  
Lou Armstead

6-12-13  
Date

/s/  
Bernard Bubnis, PhD.

12 June 13  
Date

/s/  
Richard Davis

6/12/2013  
Date

/s/  
Jerry Gerber

\_\_\_\_\_  
Date

/s/  
Norman Hughes

\_\_\_\_\_  
Date

/s/  
Steven Ingram

06/12/2013  
Date

/s/  
Harry Ogle

6/12/13  
Date

/s/  
James R.T. Smith

June 12, 13  
Date

/s/  
Gary Stahlheber

6/12/2013  
Date

/s/  
Paul Taylor

6-12-13  
Date

/s/  
Doug Ulrich

6-12-13  
Date