

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

Written Agreement by and among

BANKEAST CORPORATION
Knoxville, Tennessee

BANKEAST
Knoxville, Tennessee

and

FEDERAL RESERVE BANK
OF ATLANTA
Atlanta, Georgia

Docket No. 09-015-WA/RB-HC
09-015-WA/RB-SM

WHEREAS, BankEast Corporation, Knoxville, Tennessee (“BankEast”), a registered bank holding company, owns and controls BankEast, Knoxville, Tennessee (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, and a nonbank subsidiary;

WHEREAS, in recognition of their common goal to maintain the financial soundness of BankEast and the Bank, BankEast, the Bank, and the Federal Reserve Bank of Atlanta (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on March 17, 2009, the boards of directors of BankEast and the Bank, at a duly constituted joint meeting, adopted resolutions authorizing and directing Fred Lawson, Chairman, to enter into this Agreement on behalf of BankEast and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by BankEast, the Bank,

and their 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, BankEast, the Bank, and the Reserve Bank agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including but not limited to, the Bank’s credit administration and processes to mitigate risks associated with credit concentrations;

(b) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s adversely classified assets, concentrations of credits, allowance for loan and lease losses (“ALLL”), capital, liquidity, and earnings; and

(c) the preparation of complete and accurate board minutes, committee minutes, and board reports.

Management and Staffing Review

2. Within 10 days of this Agreement, the board of directors of the Bank shall retain an independent consultant acceptable to the Reserve Bank to conduct a review of all managerial and staffing needs of the Bank and the qualifications and performance of all senior Bank management (the “Management Review”) and to prepare a written report of findings and recommendations (the “Consultant’s Report”). The primary purpose of the review shall be to aid in the development of a

suitable management structure that is adequately staffed by qualified and trained personnel. The terms of the consultant agreement shall require that the Management Review be completed within 45 days of retention of the independent consultant and that the Consultant's Report be submitted to the board of directors of the Bank and the Reserve Bank within 10 days of completion of the Management Review.

3. The Management Review shall, at a minimum, address, consider, and include:

(a) The identification of the type and number of officers needed to manage and supervise properly the affairs of the Bank; and

(b) the qualifications and performance of all senior executive officers, including their ability to adhere to applicable laws and regulations and the Bank's established policies and procedures, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Agreement.

4. Within 45 days of the Bank's receipt of the Consultant's Report, the board of directors of the Bank shall submit a written management plan (the "Management Plan") to the Reserve Bank that fully addresses the findings and recommendations in the Consultant's Report and describes the specific actions that the board of directors proposes to take in order to strengthen the Bank's management.

Concentrations of Credit

5. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to strengthen the Bank's management of commercial real estate ("CRE") concentrations, including steps to reduce or mitigate the risk of concentrations in light of current market conditions. The plan shall be consistent with the Interagency Guidance on Concentrations

in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07- 1), and, at a minimum, address, consider, and include:

(a) Establishment of concentration of credit risk tolerances or limits by types of loan products, geographic locations, and other common risk characteristics or sensitivities;

(b) ongoing risk assessments;

(c) enhanced periodic reporting to management and the board of directors;

(d) strategic planning regarding risks associated with CRE concentrations, including steps to control and mitigate such risks;

(e) enhanced stress testing of loans and portfolio segments; and

(f) measures to address the criticisms regarding concentrations of credit noted in the report of the examination of the Bank that was conducted jointly by the Reserve Bank and Tennessee Department of Financial Institutions commenced on September 22, 2008 (“Report of Examination”).

Lending and Credit Administration

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan that describes the specific actions that the board of directors proposes to take to strengthen lending and credit administration practices. The plan shall, at a minimum, address, consider, and include:

(a) Underwriting standards that are appropriate for each type of loan product offered by the Bank and credit administration procedures that require documented analysis of the borrower’s repayment source, creditworthiness, global cash flow, and overall debt service ability;

(b) the maintenance of credit files that adequately document the borrower's cash flow and overall ability to repay the loan according to its terms, including the identification and analysis of credit weaknesses, and the periodic submission by borrowers of current financial statements;

(c) procedures to ensure that the Bank obtains independent appraisals consistent with the Interagency Statement on Independent Appraisal and Evaluation Functions dated October 27, 2003 (SR 03-18), and the Interagency Appraisal and Evaluation Guidelines, dated October 27, 1994 (SR 94-55), as well as the requirements of Subpart G of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart G) made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R. § 208.50); and

(d) measures to address the deficiencies in lending and credit administration noted in the Report of Examination.

Loan Review Program

7. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the ongoing review and grading of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall at a minimum, address, consider, and include:

- (a) The scope and frequency of loan review;
- (b) standards and criteria for assessing the credit quality of loans;
- (c) application of loan grading standards and criteria to the loan portfolio;
- (d) documentation to support the decision not to downgrade or add a loan relationship to the Bank's watch list when recommended by loan review;

(e) the establishment of a Loan Review Committee consisting of a majority of outside directors who are not executive officers or principal shareholders of BankEast and the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)), responsible for ensuring that credit risks are accurately assessed and compliance with loan policies and procedures; and

(f) periodic written reports to the board of directors, at least quarterly, that identify the status of those loans that are adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

Asset Improvement

8. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” in the Report of Examination of the Bank or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “substandard” or “doubtful” in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted; or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified,

all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

9. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$500,000, including other real estate owned ("OREO"), that: (i) are past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) are on the Bank's problem loan list; or (iii) were adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$500,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and

changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, extension report, and past due/non-accrual report.

Allowance for Loan and Lease Losses

10. (a) Within 30 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program

shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of the ALLL for that quarter.

Capital Plan

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the ALLL;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and

ALLL needs of the Bank.

12. The board of directors shall monitor and review the sufficiency of the Bank's capital on a monthly basis and shall reflect such reviews in the minutes of the board of directors' meetings.

Earnings Plan and Budget

13. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank a written business plan for 2009 to improve the Bank's earnings and overall condition.

The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for calendar year 2009, including income statement and balance sheet projections; and
- (ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) The business plan shall be synchronized with the details of the budget and earnings forecasts.

(c) Upon adoption, the Bank shall implement the business plan. Bank management shall report quarterly to the Bank's board of directors on progress made in implementing the business plan. The written monthly reports shall compare actual financial results to those projected in the business plan. In the event that revisions to the plan are necessary, such revisions shall be forwarded to the Reserve Bank within 15 days of adoption.

(d) A business plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank at least one month prior to the beginning of that calendar year.

Liquidity Management

14. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity to the board of directors;
- (b) reduced reliance on non-core funding; and
- (c) establishment of meaningful benchmarks for the Bank's liquidity position and risk limits commensurate with the Bank's funding structure.

15. Within 60 days of this Agreement, the Bank shall revise and submit to the Reserve Bank an acceptable written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

Dividends and Distributions

16. (a) The Bank 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 of the Board of Governors (the "Director").

(b) BankEast shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director.

(c) BankEast and any nonbank subsidiary of BankEast 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.

(d) All requests for prior written approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date. All requests shall contain,

at a minimum, current and projected information on the BankEast's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment. For requests to declare or pay dividends, BankEast and the Bank 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

17. (a) BankEast and its nonbank subsidiary 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) BankEast shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Compliance with Laws and Regulations

18. (a) The Bank shall immediately take steps to correct all violations of law and regulation set forth in the Report of Examination. In addition, the Bank shall take necessary steps to ensure future compliance with all applicable laws and regulations.

19. 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, BankEast and the Bank 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 of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 225.71 *et seq.*).

20. BankEast and the Bank 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).

Compliance with the Agreement

21. (a) Within 30 days of this Agreement, the boards of directors of BankEast and the Bank shall appoint a joint committee (the “Compliance Committee”) to monitor and coordinate BankEast’s and the Bank’s compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of BankEast and the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the boards of directors of BankEast and the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans, Programs, and Independent Consultant

22. (a) The written plans, programs, and the identification of the independent consultant required by paragraphs 1, 2, 5, 6, 7, 9(a), 9(b), 10(c), 11, 14 and 15 of this Agreement shall be submitted to the Reserve Bank for review and approval. Acceptable plans and programs

shall be submitted within the time periods set forth in the Agreement and an acceptable independent consultant shall be retained within the period set forth in paragraph 2 of the Agreement.

(b) Within 10 days of approval by the Reserve Bank, the Bank shall adopt the approved plans and programs. Upon adoption, the Bank shall promptly implement the approved plans and programs.

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

Communications

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

(a) Mr. Robert D. Hawkins
Assistant Vice President
Federal Reserve Bank of Atlanta
1000 Peachtree Street, N.E.
Atlanta, Georgia 30309-4470

(b) Mr. Fred Lawson
Chairman
BankEast Corporation
Post Office Box 24
Knoxville, Tennessee 37901

(c) Mr. Fred Lawson
Chairman
BankEast
Post Office Box 24
Knoxville, Tennessee 37901

Miscellaneous

24. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to BankEast and the Bank to comply with any provision of this Agreement.

25. The provisions of this Agreement shall be binding upon BankEast, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

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

27. 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 BankEast, the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

28. 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 23rd day of March, 2009.

BANKEAST CORPORATION

FEDERAL RESERVE BANK
OF ATLANTA

By: /s/ Fred Lawson
Fred Lawson
Chairman

By: /s/ Robert D. Hawkins
Robert D. Hawkins
Assistant Vice President

BANKEAST

By: /s/ Fred Lawson
Fred Lawson
Chairman