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

Written Agreement by and among TENNESSEE STATE BANCSHARES, INC. Pigeon Forge, Tennessee TENNESSEE STATE BANK Pigeon Forge, Tennessee and FEDERAL RESERVE BANK OF ATLANTA Atlanta, Georgia	Docket Nos. 09-115-WA/RB-HC 09-115-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Tennessee State Bancshares, Inc. ("Bancorp"), Pigeon Forge, Tennessee, a registered bank holding company, and its subsidiary bank, Tennessee State Bank, Pigeon Forge, Tennessee (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, Bancorp, 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 August 27, 2009, Bancorp's and the Bank's boards of directors, at duly constituted meetings, adopted resolutions authorizing and directing Richard T. Proffitt to consent to this Agreement on behalf of Bancorp and the Bank, respectively, and consenting to compliance with each and every applicable provision of this Agreement by Bancorp, 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, Bancorp, the Bank, and the Reserve Bank agree as follows:

Credit Risk Management

1. Within 60 days of this agreement the board of directors of the Bank shall hire a chief credit risk officer with the qualifications and experience needed to strengthen credit underwriting, loan review, and credit risk management.

2. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) Procedures to identify, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1);

(b) the establishment by the board of directors of the Bank of appropriate written risk tolerance guidelines and risk limits, and controls to ensure adherence thereto;

(c) the establishment of a special asset group with sufficient experienced staff to resolve problem credits, and that reports regularly to the Bank's special asset committee;

(d) procedures to periodically review and revise risk exposure limits to address changes in market conditions and strategies to minimize credit losses;

(e) frequency of periodic credit grading; and

(f) credit grading practices that include timely receipt and analysis of the borrower's and guarantor's financial statements, as well as analyses of collateral, consolidated cash flows, and borrower's ability to service and repay debt.

Lending and Credit Administration

3. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable plan to improve loan underwriting and credit administration practices that, at a minimum, addresses, considers, and includes:

(a) Underwriting standards that are appropriate for each type of loan product offered by the Bank, including, at a minimum:

(i) Documented analysis of the borrower's and guarantor's repayment sources, credit worthiness, global cash flow, leverage, liquidity, and overall debt services ability; and

(ii) the appropriate use of loan covenants, including, but not limited to, requiring borrowers to meet and maintain certain financial standards, submit periodic audited or unaudited financial statements, or provide other needed information.

(b) standards for renewing, extending, or modifying existing loans;

(c) ongoing reporting, review, and assessment of real estate development project status;

(d) appropriate controls on loan draws, including, but not limited to, a description of the documents necessary to support the draw;

(e) a separation of duties between credit administration, underwriting, and lending functions;

(f) adequate staffing of the credit underwriting and loan workout functions by qualified individuals;

(g) procedures to ensure that appraisals conform to Uniform Standards of Professional Appraisal Practice, and comply with the Interagency Appraisal and Evaluation

Guidelines, dated October 27, 1994 (SR 94-55), the Real Estate Appraisal Requirements for Other Real Estate Owned, dated March 28, 1995 (SR 95-16), as well as the requirements of Subpart G of Regulation Y of the Board of Governors of the Federal Reserve System (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

(h) enhanced appraisal review procedures to ensure the quality of appraisals and the independence of appraisers and persons reviewing appraisals.

Loan Review Program

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

(i) policies and procedures that are consistent with regulatory guidelines;

(ii) the scope and frequency of loan review;

(iii) standards and criteria for assessing the credit quality of loans;

(iv) application of loan grading standards and criteria to the loan portfolio, including procedures to re-evaluate loans in the event of material changes in the borrower's performance or value of the collateral;

(v) controls to ensure the consistent adherence to the loan grading standards and criteria and the revised review program; and

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

Asset Improvement

5. (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 conducted by the Reserve Bank that commenced on January 26, 2009 ("Report of Examination") 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 "doubtful" or "substandard" in the Report of Examination or in any subsequent report of examination, without the prior approval of the Bank's 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 of the Federal Reserve System (the "Board of Governors") (12 C.F.R. § 215.2(n)).

6. (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 $750,000, including OREO, that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the date that any additional loan or other asset in excess of $750,000, including OREO, that (i) becomes past due as to principal or interest for more than 90 days; (ii) is on the Bank's problem loan list; or (iii) 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. The board of directors shall review the progress reports before submission to the Reserve Bank and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

7. (a) Within 10 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 allowance for loan and lease losses ("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 90 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 ALLL for that quarter.

Capital Plan

8. Within 90 days of this Agreement, Bancorp and the Bank shall submit to the Reserve Bank an acceptable joint written plan to maintain sufficient capital at Bancorp on a consolidated basis, and the Bank as a separate legal entity on a stand-alone basis. The plan shall, at a minimum, address, consider, and include:

(a) Bancorp's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D);

(b) the Bank's current and future capital requirements, including 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);

(c) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(d) the source and timing of additional funds to fulfill Bancorp's and the Bank's future capital requirements; and

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Bancorp serve as a source of strength to the Bank.

9. Bancorp and the Bank shall notify the Reserve Bank and the Department, in writing, no more than 30 days after the end of any calendar quarter in which any of Bancorp's consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the Bancorp and the Bank shall submit an acceptable written plan that details the steps Bancorp or the Bank, as appropriate, will take to increase Bancorp's or the Bank's capital ratios to or above the approved capital plan's minimums.

Brokered Deposits

10. (a) At all times during the term of this Agreement that the Bank is well capitalized, the Bank shall not increase the level of brokered deposits. For purposes of this subparagraph, the term "brokered deposits" is defined as set forth in section 337.6(a) of the regulations of the Federal Deposit Insurance Corporation (the "FDIC") (12 C.F.R. § 337.6(a))

and includes deposits funded by third party agents or nominees for depositors; and the term "new brokered deposits" is defined not to include renewals or rollovers of brokered deposits.

(b) Within 30 days of this Agreement, the Bank shall submit an acceptable plan to the Reserve Bank for reducing its reliance on brokered deposits. The plan shall detail the current composition of the Bank's brokered deposits by maturity and explain the means by which such deposits will be paid at maturity.

Dividends and Distributions

11. (a) Bancorp and 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) Bancorp shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Bancorp and its nonbank subsidiary shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on the parent'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 or distribution. For requests to declare or pay dividends, Bancorp and the Bank, as appropriate, 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

12. (a) Bancorp 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) Bancorp 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

13. (a) 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, Bancorp 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 (12 C.F.R. §§ 225.71 *et seq.*).

(b) Bancorp 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).

Progress Reports

14. 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 the provisions of this Agreement and the results thereof.

Approval and Implementation of Plans and Programs

15. (a) The Bank and, as applicable, Bancorp shall submit written plans and programs that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2, 3, 4, 6(a), 6(b), 7(c), 8, 9, and 10(b) of this Agreement.

(b) Within 10 days of approval by the Reserve Bank, the Bank and, as applicable, Bancorp shall adopt the approved plans and programs. Upon adoption, the Bank and, as applicable, Bancorp shall promptly implement the approved plans and programs, and thereafter fully comply with them.

(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

16. 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. Richard T. Proffitt
Chairman, President, and CEO
Tennessee State Bancshares, Inc.
2210 Parkway
Pigeon Forge, Tennessee 37868

Miscellaneous

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

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

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

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

21. 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 31st day of August, 2009.

TENNESSEE STATE BANCSHARES, INC.

By: /s/ Richard T. Proffitt
Richard T. Proffitt
Chairman, President, and CEO

FEDERAL RESERVE BANK OF ATLANTA

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

TENNESSEE STATE BANK

By: /s/ Richard T. Proffitt
Richard T. Proffitt
Chairman, President, and CEO