

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

OHIO DIVISION OF FINANCIAL INSTITUTIONS  
COLUMBUS, OHIO

Written Agreement by and among

NORTH VALLEY BANK  
Zanesville, Ohio

FEDERAL RESERVE BANK OF  
CLEVELAND  
Cleveland, Ohio

and

OHIO DIVISION OF FINANCIAL  
INSTITUTIONS  
Columbus, Ohio

Docket No. 10-032-WA/RB-SMB

WHEREAS, in recognition of their common goal to maintain the financial soundness of North Valley Bank, Zanesville, Ohio (the “Bank”), a state member bank, the Bank, the Federal Reserve Bank of Cleveland (the “Reserve Bank”), and the Ohio Division of Financial Institutions (the “Division”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on May 3 2010, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing James W. Ransbottom to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every provision of this Agreement by the Bank and its institution-affiliated parties, as defined in

section 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1813(u)), and its regulated persons, as defined in section 1121.01(B) of the Ohio Revised Code.

NOW, THEREFORE, the Bank, the Reserve Bank, and the Division agree as follows:

**Credit Administration**

1. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable policies and procedures designed to ensure that (i) all impaired commercial real estate loans are appraised at appropriate periodic intervals, (ii) such intervals are periodically reviewed for appropriateness based on market and other relevant conditions, and (iii) appraisals are periodically reviewed for quality assurance.

**Asset Improvement**

2. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination of the Bank conducted jointly by the Reserve Bank and the Division that commenced on September 8, 2009 (the “Report of Examination”) or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank’s risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank’s interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank

has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and 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 meetings of the board of directors or its committee, as appropriate, 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)).

3. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division 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 \$100,000, including other real estate owned ("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.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000, 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 and the Division 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 and the Division 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 the Division, and shall document the review in the minutes of the board of directors' meetings.

#### **Allowance for Loan and Lease Losses**

4. (a) 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 and the Division. 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.

(b) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division 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 and the Division, 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**

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to maintain sufficient capital at the bank. The plan shall, at a minimum, address, consider, and include:

(a) The Bank's current and future capital needs, 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);

(b) 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; and

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements and loan loss reserve needs.

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

### **Strategic Plan and Budget**

7. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written strategic plan and budget concerning the Bank's proposed business activities for the remainder of 2010. The plan and budget shall, at a minimum, provide for or describe:

- (i) the responsibilities of the Bank's board of directors regarding the definition, approval, implementation and monitoring of the strategic plan and budget;
- (ii) management, lending, and operational objectives;
- (iii) an earnings improvement plan;
- (iv) the operating assumptions that form the bases for major projected income and expense components, and the sources and uses of new funds;
- (v) financial performance objectives, including plans for asset growth, earnings, liquidity, and capital supported by detailed quarterly and annual pro forma financial statements, including projected budgets, balance sheets and income statements; and

(vi) the establishment of a monthly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections.

(b) The Bank shall submit to the Reserve Bank and the Division the strategic plan and budget for any calendar year subsequent to 2010 at least one month prior to the beginning of that calendar year.

### **Internal Audit**

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to enhance the Bank's audit function, such plan to include, but not be limited to ensuring that:

(i) All internal audit issues are tracked through resolution;

(ii) the closure of all audit issues is supported by appropriate rationale and adequate documentation; and

(iii) the rationale for the closure of audit issues is fully reported to the Audit Committee.

### **Dividends**

9. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director"), and the Division.

(b) All requests for prior written approval shall be received at least 30 days prior to the proposed dividend declaration date. All requests shall contain, at a minimum, current and projected information on the Bank's capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment. 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), and section 1107.15 of the Ohio Revised Code .

### **Compliance with Laws and Regulations**

10. (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, 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.*), and also provide written notice to the Division. The Bank shall not appoint any individual to the board of directors or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank or the Division notifies the Bank of disapproval within the time limits prescribed by Subpart H of Regulation Y.

(b) 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).

### **Approval and Implementation of Policies, Procedures, Plans and Program**

11. (a) The Bank shall submit written policies, procedures, plans and a program to the Reserve Bank and the Division within the applicable time periods set forth in paragraphs 1, 3(a), 3 (b), 4, 5 and 8 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Division, the Bank shall adopt the approved policies, procedures, plans and program. Upon adoption, the



Bank shall implement the approved policies, procedures, plans and program, and thereafter fully comply with them.

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

### **Compliance with the Agreement**

12. (a) Within 10 days of this Agreement, the Bank's board of directors shall appoint a committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall consist of at least three directors, one of whom shall be an outside director who is not an executive officer or principal shareholder of 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 board of directors of 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 and the Division written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

### **Communications**

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

(a) Mr. Bryan S. Huddleston  
Assistant Vice President  
Federal Reserve Bank of Cleveland  
P.O. Box 6387  
Cleveland, Ohio 44101-6387

- (b) Mr. Kenneth N. Koher  
Deputy Superintendent of Banks  
Ohio Division of Financial Institutions  
77 South High Street  
21<sup>st</sup> Floor  
Columbus, Ohio 43215-6120
  
- (c) Mr. James W. Ransbottom  
Chairman  
North Valley Bank  
2775 Maysville Pike  
Zanesville, Ohio 43701

**Miscellaneous**

14. Notwithstanding any provision of this Agreement, the Reserve Bank and the Division may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

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

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

17. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Division, or any other federal or state agency from taking any other action affecting the Bank, or any of its current or former institution-affiliated parties and their successors and assigns.

18. 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). This

Agreement is enforceable by the Division pursuant to the authority granted to the Superintendent under section 1121.43 of the Ohio Revised Code.

19. This Agreement shall supersede the Written Agreement between the Bank, the Reserve Bank and the Division dated March 15, 2007.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 4<sup>th</sup> day of May, 2010.

NORTH VALLEY BANK

FEDERAL RESERVE BANK  
OF CLEVELAND

By: /s/ James W. Ransbottom  
James W. Ransbottom  
Chairman

By: /s/ Stephen H. Jenkins  
Stephen H. Jenkins  
Senior Vice President

OHIO DIVISION OF FINANCIAL  
INSTITUTIONS

By: /s/ John B. Reardon  
John B. Reardon  
Superintendent of Financial Institutions

By: /s/ Kenneth N. Kohler  
Kenneth N. Kohler  
Deputy Superintendent of Banks