

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

WEST VIRGINIA DIVISION OF BANKING
CHARLESTON, WEST VIRGINIA

Written Agreement by and among)
)
BANK OF GASSAWAY)
Gassaway, West Virginia)
)
FEDERAL RESERVE BANK) Docket No. 03-029-WA/RB-SM
OF RICHMOND)
Richmond, Virginia)
)
and)
)
WEST VIRGINIA DIVISION)
OF BANKING)
Charleston, West Virginia)
)

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of, and to ensure full compliance with all applicable laws and regulations by, the Bank of Gassaway, Gassaway, West Virginia (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Richmond (the "Reserve Bank"), and the West Virginia Division of Banking (the "Division") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on the 21st day of October, 2003, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing John D. Heater, Chairman of the Board and President, to enter into this Agreement on behalf of

the Bank, and consenting to compliance 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)), with each and every provision of this Agreement.

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

Management Review

1. (a) The board of directors shall continue to work with the independent consultant previously retained by the Bank to evaluate its officers to determine whether each officer possesses the ability, experience, and other qualifications required to competently perform present and anticipated duties, adhere to the Bank's policies and procedures, maintain the Bank in a safe and sound condition, and comply with the requirements of this Agreement.

(b) Within 60 days of this Agreement, the board of directors shall submit a written management plan to the Reserve Bank and the Division describing specific actions that the board of directors proposes to take in order to strengthen Bank management and to improve the board of directors' supervision over the Bank's officers and the major operations and activities of the Bank. The plan shall fully address the findings and recommendations of the independent consultant and shall provide training to the directors to enhance their knowledge of their duties and responsibilities to monitor management's adherence to approved policies and procedures and ensure compliance with applicable laws and regulations.

(c) Within 90 days of this Agreement, and thereafter semi-annually, the board of directors shall review management's adherence to the Bank's written policies and procedures and shall prepare written findings and conclusions of this review along with written descriptions of any management, operational, or policy changes that are made as a result of the review. These written findings shall be included in the minutes of the board of directors meetings.

Loan Policies and Procedures

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable revised written loan policies and procedures that address the deficiencies noted in the report of the examination of the Bank conducted by the Reserve Bank, commenced on January 21, 2003 (the "Report of Examination"), and that, at a minimum, address, consider, and include:

(a) Underwriting standards for retail loans that require employment and income verification, the acquisition of current credit reports and such other financial data as may be necessary to establish a borrower's ability to repay the loan, and the retention of underwriting documentation in each credit file;

(b) underwriting standards for floor plan loans that include maximum loan-to-value based upon generally accepted industry practices, periodic curtailments considering model year and condition, and regular inspections documenting vehicle mileage and condition;

(c) real estate lending policies that are consistent with the requirements of Subpart E of Regulation H (12 C.F.R. Part 208, Subpart E) of the Board of Governors of the Federal Reserve System (the "Board of Governors"), the requirements of Subpart G of Regulation Y (12 C.F.R. Part 225, Subpart G) of the Board of Governors, and the Guidelines for Real Estate Appraisal Policies and Review Procedures of the Board of Governors;

(d) underwriting standards for commercial loans that include:

(i) a written credit memorandum that includes each loan's purpose, a cash flow analysis assessing the borrower's repayment ability, sources of repayment, and debt service coverage of all debt; and an evaluation of collateral adequacy; and

(ii) a periodic written review, conducted at least annually, of all credit relationships in excess of \$150,000 to be retained in the Bank's credit files; and

(e) controls to ensure uniform adherence to all loan policies and procedures, and management information and reporting systems to ensure that exceptions to loan policies and procedures are promptly reported to the board of directors.

Loan Review

3. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to strengthen loan review. The plan, shall, at a minimum, address, consider, and include:

- (a) A description of the risk grades to be assigned to each loan;
- (b) identification of the scope and frequency of loan grading; and
- (c) the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993, and July 6, 2001, addressing the minimum requirements of loan review and credit grading systems.

Lending Limitations on Classified Borrowers

4. The Bank shall not directly or indirectly make or renew any extension of credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated in any manner to the Bank on any extension of credit or portion thereof that has been charged-off by the Bank or classified in the Report of Examination or in any subsequent report of examination, for so long as the charged-off or classified credit remains uncollected, without the prior approval of the board of directors. The board of directors shall document in each case the reasons for the extension of credit or renewal and certify that: (a) the extension of credit or renewal is necessary to protect the Bank's interest in the ultimate collection of the credit already

granted; and (b) the extension of credit or renewal is in full compliance with the Bank's written loan policy and is adequately secured; 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 or renewal 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 board of directors' written certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank for subsequent supervisory review.

Allowance for Loan and Lease Losses

5. The Bank shall conduct an assessment of its loan loss reserve at a minimum on a calendar quarterly basis. The adequacy of the reserve shall be determined in light of the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 6, 2001, and the guidance provided by Financial Accounting Standards Board ("FASB") Statement No. 114, "Accounting by Creditors for Impairment of a Loan," and FASB Statement No. 5, "Accounting for Contingencies." The Bank shall maintain for subsequent supervisory review documentation to support the methodology used in determining the amount of loan loss reserve for each quarterly assessment.

Asset/Liability Management

6. (a) The Bank's Asset/Liability Committee (the "ALCO") shall review, on a monthly basis, all asset/liability management decisions made by the Bank's management, paying particular attention to whether each decision was made in accordance with approved policies. The ALCO shall document all exceptions to the policies, the reasons for the exceptions, and the

continuance of the exceptions, taking into account the Bank's overall goals and strategies. The continuance of any exception shall be approved by a majority of the ALCO members.

(b) The ALCO shall maintain full and complete minutes of its actions and shall provide monthly written reports to the board of directors to enable the board to make informed decisions about the Bank's management of market risk and liquidity.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and Division acceptable written asset/liability management policies and procedures designed to improve management of the Bank's sensitivity to interest rate risk. The policies and procedures shall conform to the guidelines established by the Interagency Policy Statement on Interest Rate Risk dated June 26, 1996.

(d) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and Division an acceptable written liquidity policy that shall, at a minimum, address, consider, and include:

(i) specific liquidity targets and parameters that provide for the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands; and

(ii) an appropriate contingency funding plan.

Information Technology

7. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve its information technology function and address the deficiencies noted in the Report of Examination. The plan shall, at a minimum, address, consider, and include:

- (a) Risk management procedures that assess technology risks, including security and integrity risk, and their potential impact on operational risks;
- (b) the appropriate scope for information technology audits;
- (c) an information security risk assessment, as required by Appendix D-2 to Regulation H of the Board of Governors (12 C.F.R. Part 208, App. D-2) and Appendix F to Regulation Y of the Board of Governors (12 U.S.C. Part 225, App. F), to enable the Bank to meet all applicable requirements for protecting nonpublic customer information and to assist the Bank in making future appropriate adjustments to its information security safeguards;
- (d) vendor risk management procedures that conform to the guidelines established by the Board of Governors in SR Letter 00-4, dated February 29, 2000, “Outsourcing of Information and Transaction Processing,” and in SR Letter 00-17, dated November 30, 2000, “Guidance on the Risk Management of Outsourced Technology Services”;
- (e) procedures and controls that address physical and logical information security, including but not limited to, physical access to work areas, and user access to business applications;
- (f) procedures and standards for handling operations and basic systems support, including but not limited to, the daily transfer of back-up tapes to an off-site storage facility; and
- (g) development and testing of a disaster recovery plan for all Bank operations.

Bank Secrecy Act and Regulation H Compliance

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program designed to improve the Bank’s system of internal

controls to ensure compliance with the Currency and Foreign Transactions Reporting Act (31 U.S.C. 5311 et seq.) (the Bank Secrecy Act (the “BSA”)) and the rules and regulations issued thereunder by the Department of the Treasury (31 C.F.R. Part 103), and with the anti-money laundering (“AML”) provisions of Regulation H (12 C.F.R. 208.62 and 208.63) of the Board of Governors. The program shall include procedures to identify and incorporate, on an ongoing basis, the requirements of any amendments to the BSA and rules and regulations issued thereunder. The program, at a minimum, shall provide for:

- (a) Adequate anti-money laundering and other internal controls to ensure compliance with the BSA and the rules and regulations issued thereunder, including but not limited to currency transaction reporting exemption procedures (31 C.F.R. 103.22(d));
- (b) independent testing of compliance with the BSA and the rules and regulations issued thereunder and compliance audits that are comprehensive and performed frequently, are fully documented, are conducted with the appropriate segregation of duties, and are reviewed at an appropriate senior level; and
- (c) training of all appropriate personnel conducted on a regular basis by personnel competent in all aspects of regulatory requirements and internal policies and procedures related to the BSA and anti-money laundering compliance.

Suspicious Activity and Customer Due Diligence

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written customer due diligence program designed to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law and suspicious activities against or involving the Bank to law enforcement and

supervisory authorities, as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62). At a minimum, the program shall include:

(a) An effective system to ensure that all known or suspected violations of law and suspicious activities are properly identified, reviewed, documented, and reported in accordance with applicable regulations and guidelines;

(b) a risk-focused assessment of the Bank's customer base to:

(i) identify the categories of customers whose transactions and banking activities are routine and usual; and

(ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank; and

(c) for those customers whose transactions require enhanced due diligence, additional procedures to:

(i) determine the appropriate documentation necessary to confirm the business activities of the customer;

(ii) understand the normal and expected transactions of the customer; and

(iii) report known or suspected violations of law and suspicious activities in compliance with the reporting requirements set forth in Regulation H of the Board of Governors (12 C.F.R. 208.62).

OFAC Compliance

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to ensure compliance with the regulations of the

Department of the Treasury's Office of Foreign Assets Control ("OFAC") (31 C.F.R. 500 et seq.), as well as any rules and guidelines issued or administered by OFAC. The plan shall include, at a minimum, procedures to ensure that customer transactions are processed in accordance with a regularly updated list of entities and individuals whose transactions or assets are required to be blocked, frozen or monitored. The plan shall also include training for all appropriate personnel conducted on a regular basis by personnel competent in all aspects of OFAC requirements.

Compliance with Laws and Regulations

11. The Bank shall promptly take all necessary steps consistent with sound banking practices to correct all violations of laws and regulations set forth in the Report of Examination. In addition, the board of directors of the Bank shall take necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

Compliance with Agreement

12. Within 30 days after the end of each calendar quarter (December 31, March 31, June 30, and September 30) following the date of this Agreement, the board of directors of 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. Each progress report shall provide detailed information on all loans criticized in the Report of Examination or in any subsequent report of examination and all loans on the Bank's internal watch list. The Bank shall provide, at a minimum, information on the current loan balance, date and amount of payments received, the current collateral value, discussions with the borrower, the borrower's commitment to repayment, and estimates of any losses. Such reports may be discontinued when the corrections required by this Agreement have been accomplished

and the Reserve Bank and the Division have, in writing, released the Bank from making further reports.

Approval of Plans, Programs, Policies, and Procedures

13. The written plans, programs, policies and procedures required by paragraphs 2, 3, 6(c), 6(d), 7, 8, 9, and 10 of this Agreement shall be submitted to the Reserve Bank and the Division for review and written approval. Acceptable plans, programs, policies and procedures shall be submitted within the time periods set forth in the Agreement. The Bank shall adopt all approved plans, programs, policies and procedures within 10 days of approval by the Reserve Bank and the Division and then shall fully comply with them. During the term of this Agreement, the approved plans, programs, policies and procedures shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Communications

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

- (a) Mr. Malcolm C. Alfriend
Senior Vice President
Federal Reserve Bank of Richmond
P.O. Box 27622
Richmond, Virginia 23261
- (b) Mr. Larry A. Stark
Commissioner
West Virginia Division of Banking
1900 Kanawha Boulevard, East
State Office Building #3
Charleston, WV 25305-0240
- (c) Mr. John D. Heater
Chairman of the Board and President
Bank of Gassaway
700 Elk Street
Gassaway, WV 26624

Miscellaneous

15. Notwithstanding any provision of this Agreement to the contrary, 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.

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

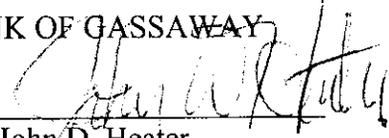
17. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank and the Division.

18. 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.

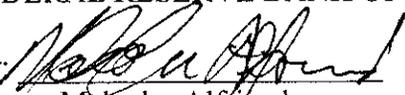
19. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 24 day of Oct, 2003.

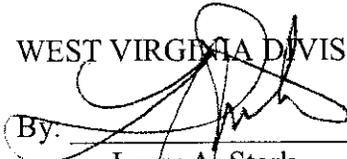
BANK OF GASSAWAY

By: 
John D. Heater
Chairman of the Board and President

FEDERAL RESERVE BANK OF RICHMOND

By: 
Malcolm Alfriend
Senior Vice President

WEST VIRGINIA DIVISION OF BANKING

By: 
Larry A. Stark
Commissioner