

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)	
)	
THE CUSTAR STATE BANK)	Docket No. 04-003-WA/RB-SM
Custar, Ohio)	
)	
FEDERAL RESERVE BANK)	
OF CLEVELAND)	
Cleveland, Ohio)	
)	
and)	
)	
OHIO DIVISION OF)	
FINANCIAL INSTITUTIONS)	
Columbus, Ohio)	
_____)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of The Custar State Bank, Custar, Ohio (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, 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");

WHEREAS, after being advised of the deficiencies identified by the Reserve Bank and the Division, the Bank is taking corrective measures to enhance and improve its programs and procedures for complying 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 U.S. Department of the Treasury (31 C.F.R. Part 103), and with the anti-money

laundering (“AML”) provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62 and 208.63); and

WHEREAS, on Feb 11, 2004 the board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing Raymond Goris, to enter into this Agreement on behalf of the Bank and consenting to compliance by the Bank, 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 the Bank’s regulated persons, as defined in Ohio Revised Code section 1121.01(B), with each and every provision of this Agreement.

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

Management

1. (a) Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written management plan (the “Management Plan”) that fully addresses the findings and recommendations of the independent consultant’s July 2003 management assessment report and describes the specific actions that the board of directors proposes to take in order to strengthen the Bank’s management and to improve the operation and condition of the Bank.

(b) The Management Plan shall also provide for orderly management succession, and, at a minimum, shall identify the individual(s) at the Bank who are considered to have the potential for advancement or promotion, the area(s) in which such individual(s) may assume new duties or responsibilities or the position(s) to which they may be promoted, and the training to be provided such individual(s) to ensure adequate successor management.

2. (a) Within 60 days of this Agreement, the Bank shall take such steps as are necessary to appoint a qualified, full-time chief lending officer with demonstrated experience in lending operations and credit administration appropriate to the Bank's size and complexity.

(b) In appointing any senior executive officer or director, 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.

(c) 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) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Loan Policies and Procedures

3. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written revised loan policies and procedures that shall, at a minimum, address, consider, and include corrective steps to address the deficiencies in loan policies and procedures noted in the report of the examination of the Bank conducted by the Reserve Bank and the Division, as of September 8, 2003 (the "Report of Examination").

(b) The Bank's board of directors and management shall take all steps necessary to ensure compliance with the Bank's written loan policies and procedures, including, but not limited to:

- (i) Underwriting standards;
- (ii) comprehensive analysis of current credit and cash flow information for new extensions of credit or renewals;
- (iii) current financial statements appropriate to the type and nature of the borrows; and
- (iv) adequate loan file documentation, including memoranda by loan officers and other analysts.

Loan Review

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written loan review program. The program shall be designed to identify, categorize, and monitor problem credits, to assess the overall quality of the Bank's loan portfolio, and to address the loan review deficiencies described in the Report of Examination.

The program shall, at a minimum, address, consider, and include the following:

- (a) A description of the risk grades to be assigned to each loan;
- (b) the designation of the individuals responsible for determining loan grades;
- (c) the requirements outlined in Attachment I of the Interagency Policy Statement on the Allowance of Loans and Lease Losses, issued December 21, 1993, addressing the minimum requirements of loan review and credit grading systems; and
- (d) periodic reporting to the board of directors of the status of the loan reviews and the actions taken by management to improve the Bank's position on each loan adversely graded.

Allowance for Loan and Lease Losses

5. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a description of the methodology used to determine the adequacy of the reserve for loan and lease losses. The methodology shall address the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 2, 2001 and the criticisms noted in the Report of Examination. Thereafter, at a minimum on a calendar quarterly basis, the Bank shall conduct an assessment of its loan loss reserve and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the Division the quarterly assessment, including the methodology used in determining the amount of loan loss reserve for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Audit

6. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written internal audit program that is suitable to the Bank's risk profile. The program shall, at a minimum, address, consider, and include:

- (a) Generally accepted auditing standards, including, but not limited to, the scope and frequency of audits and periodic reporting to the board of directors;
- (b) direct lines of reporting between the auditors and the board of directors;
- (c) periodic review of the Bank's internal controls and information technology function;
- (d) the requirements outlined in the Interagency Guidance on the Internal Audit Function and its Outsourcing, issued December 22, 1997; and
- (e) corrective steps to address the criticisms of the audit function noted in the Report of Examination.

BSA, Regulation H, and OFAC Compliance

7. (a) Within 20 days of this Agreement, the Bank shall engage the services of a qualified independent firm (the "Consultant"), acceptable to the Reserve Bank and the Division, to conduct a comprehensive review of the Bank's AML compliance. The comprehensive review shall include, at a minimum:

- (i) A review of the Bank's policies and procedures for compliance with the BSA, Regulation H of the Board of Governors, and the regulations of the U.S. Department of the Treasury's Office of Foreign Asset Control ("OFAC") (31 C.F.R. 500 *et seq.*), as well as any guidelines issued or administered by OFAC; and
- (ii) a forensic review of account records from January 1, 2002 to the present to evaluate compliance with the currency transaction reporting requirements of the BSA and to determine whether any suspicious activity involving accounts or transactions at, by, or through the Bank were properly identified and reported by the Bank in accordance with applicable regulations.

(b) Within 10 days of the engagement of the Consultant, but prior to the commencement of the review, the Bank shall submit to the Reserve Bank and the Division for approval an engagement letter that delineates the scope of the review and the proposed resources to be dedicated to the review. The engagement letter shall specify that the review will be completed within a reasonable time period, not to exceed 60 days.

(c) Upon completion of the review, the Bank shall provide to the Reserve Bank and the Division a copy of the Consultant's report (the "Consultant's Report") detailing the findings, conclusions, and recommendations of the review.

(d) Upon completion of the review, the Bank shall ensure that all transactions previously required to be reported have been reported in accordance with applicable regulations and guidelines.

8. Within 30 days of receipt of the Consultant's Report, the Bank shall submit to the Reserve Bank and the Division an acceptable written compliance program, as required by applicable provisions of Regulation H of the Board of Governors (12 C.F.R. 208.63) and the BSA (31 U.S.C. 5318(h)), designed to ensure and maintain compliance with all provisions of the BSA. The program shall, at a minimum, include all elements required by Regulation H, and in particular shall provide for:

(a) Adequate AML and other internal controls to ensure compliance with all provisions of the BSA and the regulations issued thereunder, including an effective system that is designed to ensure compliance with the recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.22) and currency transaction reporting exemption procedures (31 C.F.R. 103.22);

(b) independent review of compliance with the BSA and the rules and regulations issued thereunder and ensure that compliance audits are performed frequently, are fully documented, and are conducted with the appropriate segregation of duties;

(c) all steps necessary to ensure that the Bank's BSA compliance program is managed by a qualified officer who shall have responsibility for all BSA compliance and related matters, and have adequate resources to implement and maintain an effective compliance program; and

(d) the training of all appropriate personnel conducted on a regular basis by competent personnel in all aspects of regulatory and internal policies and procedures related to the BSA.

9. Within 30 days of receipt of the Consultant's Report, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to ensure compliance with OFAC regulations, as well as any guidelines issued or administered by OFAC. The plan shall include, at a minimum, procedures to ensure that customer transactions are processed in accordance with OFAC requirements and in accordance with a regularly updated list of entities and individuals whose transactions or assets are required to be blocked, frozen, or monitored.

Information Technology

10. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve the Bank's information technology function, which shall, at a minimum, address, consider, and include:

- (a) An enterprise-wide 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), 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 their information security safeguards; and

- (b) corrective steps that address the information technology deficiencies noted in the Report of Examination.

Dividends

11. 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, and the Division. All requests for prior approval shall be received by the Reserve Bank and the Division at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on consolidated earnings and cash flow, capital, asset quality, and allowance for loan and lease losses needs of the Bank.

Compliance with Agreement

12. (a) Within 15 days of this Agreement, the 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 be comprised of three or more outside directors who are not executive officers or principal shareholders of the Bank, as defined in sections 215.2 (e)(1) and (m) of Regulation O of the Board of Governors (12 C.F.R. 215.2(e)(1) and (m)) and Ohio Administrative Code section 1301:1-3-04(A)(6) and (13), respectively. At a minimum, the Compliance Committee shall keep detailed minutes of each meeting, and shall report its findings to the board of directors on a monthly basis.

(b) Within 30 days after the end of each calendar quarter (March 31, June 30, September 30, and December 31) following the date of this Agreement, the board of directors 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. 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, Policies, and Programs

13. The written plans, policies, procedures, programs, engagement letter, and the identification of the independent consultant required by paragraphs 3, 4, 6, 7(a), 7(b), 8, 9, and 10 of this Agreement shall be submitted to the Reserve Bank and the Division for review and approval. Acceptable plans, policies, procedures, programs, and engagement letter shall be submitted within the time periods set forth in this Agreement and an acceptable independent consultant shall be retained within the time period set forth in paragraph 7(a) of this Agreement. The Bank shall adopt the approved plans, policies, procedures, and programs 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, policies, procedures, and programs 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) Andrew C. Burkle, Jr.
Senior Vice President
Federal Reserve Bank of Cleveland
1455 East Sixth Street
Cleveland, Ohio 44114

- (b) F. Scott O'Donnell
Superintendent of Financial Institutions
Ohio Division of Financial Institutions
77 South High Street, 21st Floor
Columbus, Ohio 43215-6120

(c) Dennis Schwab
President and Chief Executive Officer
The Custar Bank
22973 Defiance Pike
P.O. Box 127
Custar, Ohio 43511

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 and regulated persons, 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, or 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 or regulated persons 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).

20. This Agreement is a "written agreement" under sections 1121.32(A), 1121.33(A), and 1121.35 of the Ohio Revised Code. Violation of a written agreement is grounds for the Division to pursue a cease and desist order and/or civil money penalties against the Bank or any regulated person, and/or the removal of any regulated person.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 13 day of February, 2004.

STATE
The Cusstar Bank

By: *Raymond Curtis*
Raymond Curtis
CHAIRMAN

Federal Reserve Bank of Cleveland

By: *Andrew C. Burkle, Jr.*
Andrew C. Burkle, Jr.
Senior Vice President

Ohio Division of Financial Institutions

By: *F. Scott O'Donnell*
F. Scott O'Donnell
Superintendent of Financial Institutions