

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

STATE OF GEORGIA
DEPARTMENT OF BANKING AND FINANCE
ATLANTA, GEORGIA

Written Agreement by and among

APPALACHIAN BANCSHARES, INC.
Ellijay, Georgia,

FEDERAL RESERVE BANK OF ATLANTA
Atlanta, Georgia

and

BANKING COMMISSIONER OF THE
STATE OF GEORGIA
Atlanta, Georgia

Docket No. 09-159-WA/RB-HC

WHEREAS, Appalachian Bancshares, Inc., Ellijay, Georgia, (“Appalachian”), a registered bank holding company, owns and controls Appalachian Community Bank, Ellijay, Georgia, a state chartered nonmember bank, and a thrift savings bank (collectively, “Subsidiary Depository Institutions”), and two nonbank subsidiaries (“Nonbank Subsidiaries”);

WHEREAS, it is the common goal of Appalachian, the Federal Reserve Bank of Atlanta (the “Reserve Bank”), and the Banking Commissioner of the State of Georgia (the “Commissioner”) to maintain the financial soundness of Appalachian so that Appalachian may serve as a source of strength to the Subsidiary Depository Institutions;

WHEREAS, Appalachian, the Reserve Bank, and the Commissioner have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on October 26, 2009, the board of directors of Appalachian, at a duly constituted meeting, adopted a resolution authorizing and directing J. Ronald Knight to enter into this Agreement on behalf of Appalachian, and consenting to compliance with each and every provision of this Agreement by Appalachian and its 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, Appalachian, the Reserve Bank, and the Commissioner agree as follows:

Dividends and Distributions

1. (a) Appalachian 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 (the “Director”) of the Board of Governors of the Federal Reserve System (the “Board of Governors”), and the Commissioner.

(b) Appalachian shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Subsidiary Depository Institutions without the prior written approval of the Reserve Bank and the Commissioner.

(c) Appalachian and the Nonbank Subsidiaries 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, the Director, and the Commissioner.

(d) All requests for prior approval shall be received by the Reserve Bank and the Commissioner 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 on Appalachian's capital, earnings, and cash flow; the Subsidiary Depository Institutions' capital, asset quality, earnings, and allowance for loan and lease losses ("ALLL"); and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Appalachian 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

2. (a) Appalachian and the Nonbank Subsidiaries shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank and the Commissioner. 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, the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Appalachian shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank and the Commissioner.

Capital Plan

3. Within 60 days of this Agreement, Appalachian shall submit to the Reserve Bank and the Commissioner an acceptable written plan to maintain sufficient capital at Appalachian on

a consolidated basis, and at the Subsidiary Depository Institutions, as separate legal entities on stand-alone bases. The plan shall, at a minimum, address, consider, and include:

(a) The consolidated organization's and the Subsidiary Depository Institutions' 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) and the applicable capital adequacy guidelines for the Subsidiary Depository Institutions issued by the Subsidiary Depository Institutions' federal regulators;

(b) the adequacy of the Subsidiary Depository Institutions' capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(c) the source and timing of additional funds necessary to fulfill the consolidated organization's and the Subsidiary Depository Institutions' future capital requirements;

(d) supervisory requests for additional capital at the Subsidiary Depository Institutions or the requirements of any supervisory action imposed on the Subsidiary Depository Institutions by their federal or state regulators; 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 Appalachian serve as a source of strength to the Subsidiary Depository Institutions.

4. Appalachian shall notify the Reserve Bank and the Commissioner, in writing, no more than 30 days after the end of any quarter in which the consolidated organization's or any one of the Subsidiary Depository Institution's capital ratio (total risk-based, Tier 1, or leverage) falls below the plan's minimums. Together with the notification, Appalachian shall submit an acceptable capital plan that details the steps Appalachian will take to increase the consolidated organization's or the Subsidiary Depository Institution's capital ratios to or above the plan's minimums.

Affiliate Transactions

5. (a) Appalachian shall take all necessary actions to ensure that the Subsidiary Depository Institutions comply with sections 23A and 23B of the Federal Reserve Act (12 U.S.C. §§ 371c and 371c-1) and Regulation W of the Board of Governors (12 C.F.R. Part 223) in all transactions between the Subsidiary Depository Institutions and their affiliates, including but not limited to Appalachian and the Nonbank Subsidiaries.

(b) Appalachian and its Nonbank Subsidiaries shall not cause the Subsidiary Depository Institutions to violate any provision of sections 23A and 23B of the Federal Reserve Act or Regulation W of the Board of Governors.

Compliance with Laws and Regulations

6. (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, Appalachian 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) Appalachian 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

7. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors shall submit to the Reserve Bank and the Commissioner 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, and a parent company only balance sheet, income statement, and, as applicable, report of changes in stockholders' equity.

Approval and Implementation of Plan

8. (a) Appalachian shall submit a written capital plan that is acceptable to the Reserve Bank and the Commissioner within the applicable time period set forth in paragraph 3 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Commissioner, Appalachian shall adopt the approved capital plan. Upon adoption, Appalachian shall promptly implement the approved plan, and thereafter fully comply with it.

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

Communications

9. 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 30349-4470
 - (b) Mr. Robert Braswell
Commissioner
Georgia Department of Banking and Finance
2990 Brandywine Road, Suite 200
Atlanta, Georgia 30341
 - (c) Mr. J. Ronald Knight
Chairman
Appalachian Bancshares, Inc.
829 Industrial Boulevard
Ellijay, Georgia 30540

Miscellaneous

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

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

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

13. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Commissioner, or any other federal or state agency from taking any other action affecting Appalachian, the Subsidiary Depository Institutions, the

Nonbank Subsidiaries, or any of their current or former institution-affiliated parties and their successors and assigns.

14. 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 29th day of October, 2009.

APPALACHIAN BANCSHARES, INC.

FEDERAL RESERVE BANK OF
ATLANTA

By: /s/ J. Ronald Knight
J. Ronald Knight, Chairman

By: /s/ Robert D. Hawkins

GEORGIA DEPARTMENT OF BANKING
AND FINANCE

By: /s/ Robert M. Braswell
Robert M. Braswell
Commissioner