

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)	
)	
COMBANC)	
Delphos, Ohio)	
)	
THE COMMERCIAL BANK)	Docket Nos. 03-036-WA/RB-HC
Delphos, Ohio)	03-036-WA/RB-SM
)	
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 Combanc, Delphos, Ohio, a registered bank holding company, and its subsidiary bank, The Commercial Bank, Delphos, Ohio (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, Combanc, 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 12-18-03, 2003 the boards of directors of Combanc and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Russell Metzger, CHAIR BOARD MEM to enter into this Agreement on behalf of Combanc and the Bank, respectively, and consenting to compliance by Combanc and the Bank, 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)), and the Bank's regulated persons, as defined in Ohio Revised Code section 1121.01(B), with each and every applicable provision of this Agreement.

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

Board Oversight

1. Within 60 days of this Agreement, the Bank's board of directors shall submit to the Reserve Bank and the Division a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) The actions that the board of directors will take to improve the Bank's condition and maintain effective control over and supervision of the Bank's senior management and major operations and activities, including, at a minimum: (i) the credit risk management program, including loan underwriting, documentation, grading, and administration; and (ii) compliance programs;
- (b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations;
- (c) a description of the detailed information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the bank;

- (d) the responsibilities of the board of directors regarding the definition, approval, implementation and monitoring of a strategic plan and budget for the Bank; and
- (e) the deficiencies related to the board of directors' oversight of management noted in the joint combined report of the inspection and examination of Combank and the Bank conducted by the Reserve Bank and the Division in September 2003 (the "Report of Inspection and Examination").

Loan Policies and Procedures

2. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable revised written loan policies that shall, at a minimum, address, consider, and include:

- (i) Measures to control and monitor concentrations of credits, including managing the risk associated with asset concentrations;
- (ii) procedures for exceptions to the Bank's loan policies, including required documentation by the account officer and approval by the board of directors that the exception to the policies is in the best interest of the Bank; and
- (iii) the deficiencies noted in the Report of Inspection and 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, including loan participations purchased or sold;
- (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 Administration

3. (a) Within 60 days of this Agreement, the Bank shall take all steps necessary to correct all documentation and credit information deficiencies and loan policy exceptions noted

in the Report of Inspection and Examination, including obtaining accurate and current financial statements and appraisals. During the term of this Agreement, the Bank shall maintain current and complete documentation on all loans consistent with its approved loan policies. In all cases where the Bank is unable to obtain needed documentation or credit information, it shall document the actions taken to secure the information, the reason the information could not be obtained, and shall maintain such documentation in the appropriate file for subsequent supervisory review.

(b) The Bank shall not accrue interest on any asset that is or becomes 90 days or more past due as to principal or interest, unless such asset is “well-secured” and “in the process of collection” as those terms are used in the Instructions for the Preparation of Reports of Condition and Income.

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 Inspection and 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 identification of the scope and frequency in which grades will be assigned;
- (d) the requirements outlined in (i) 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 (ii) the Revised Uniform Retail Credit Classification and Account Management Policy, issued June 6, 2000 by the Federal Financial Institutions Examination Council;
- (e) procedures to confirm the accuracy of all risk grades assigned by the Bank’s loan officers; and

- (f) periodic reporting to the Bank's 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.

Asset Improvement

5. (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 \$200,000 that was past due as to principal or interest more than 90 days as of the date of this Agreement, is on the Bank's watch list, or that was adversely classified or listed as special mention in the Report of Inspection and Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$200,000 becomes past due as to principal and interest for more than 90 days, is adversely classified internally by the Bank, or is adversely classified or listed for special mention in any subsequent report of examination or visitation 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 other asset.

(c) The plan for each loan or other asset shall be formally approved by the Bank's loan committee and shall, at a minimum, include:

- (i) The current status of the loan or other asset, including book and nonbook carrying value, and the nature and value of supporting collateral;
- (ii) proposed actions to improve, reduce, or eliminate the loan or other asset, time frames for such actions, projected balance owing, and value of any anticipated additional collateral; and
- (iii) where appropriate, the borrower's acknowledgement of and response to the plan.

(d) Concurrently with the quarterly progress report required by

paragraph 13(b) of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written progress report to update the asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset, changes in the nature and value of supporting collateral, and a copy of the Bank's current internal watch list.

Allowance for Loan and Lease Losses

6. (a) The Bank shall maintain, through charges to current operating income, an adequate valuation reserve for loan and lease losses. The adequacy of the reserve shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 2, 2001, and examiners' criticisms noted in the Report of Inspection and Examination.

(b) The Bank shall conduct, at least on a calendar quarterly basis, an assessment of its allowance for loan and lease losses (the "ALLL") 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 ALLL for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Capital Plan

7. Within 90 days of this Agreement, Combanc and the Bank shall submit to the Reserve Bank and the Division an acceptable joint written plan to achieve and maintain

sufficient capital at Combanc and the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) Combanc's and the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measures and Tier 1 Leverage Measures, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D) and the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measures and Tier 1 Leverage Measures, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);
- (b) any planned asset growth;
- (c) the level of the Bank's concentrations of credit;
- (d) the volume of the Bank's adversely classified assets;
- (e) the anticipated level of retained earnings;
- (f) the adequacy of the Bank's loan review program and ALLL;
- (g) the risk profile of the Bank's asset and liability structure;
- (h) the source and timing of additional funds to fulfill the future capital and ALLL needs of the Bank; and
- (i) the requirements of section 225.4(a) of the Regulation Y of the Board of Governors that Combanc serve as a source of strength to the Bank.

Market Risk

8. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program to effectively identify, measure, monitor, and manage the Bank's market risk exposure that satisfies the requirements of the Joint Policy Statement on Interest Rate Risk, dated May 23, 1996.

Compliance with Laws and Regulations

9. (a) The Bank shall immediately take all necessary steps consistent with sound banking practices to correct all violations of laws and regulations set forth in the Report of Inspection and Examination and the report of the consumer affairs examination of the Bank conducted by the Reserve Bank in October 2003 (the "Consumer Affairs Report of Examination"). In addition, the Bank's board of directors shall take necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

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

(c) In appointing any new officers or directors, the Combank 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.

Consumer Affairs

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program to ensure the Bank's compliance with all applicable federal and state consumer protection laws and regulations. At a minimum, the program shall address, consider, and include:

- (a) The responsibilities of the board of directors and senior management for the oversight and direction of the Bank's compliance and fair lending activities;
- (b) compliance procedures for each Bank product subject to such consumer protection laws and regulations, including but not limited to, disclosure statement requirements;
- (c) compliance reviews by the board of directors and management;

- (d) sufficient authority and resources for the consumer compliance officer to (i) carry out assigned duties and responsibilities; and (ii) implement and maintain an effective compliance program; and
- (e) training designed to ensure that all current and future directors, officers, and employees of the Bank develop and maintain a sufficient understanding of the requirements of all laws and regulations that pertain to their respective responsibilities.

Dividends

11. (a) Combanc and 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 ALLL needs of the Bank.

(b) Combanc shall not take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank and the Division.

Debt and Stock Redemption

12. (a) Combanc shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank and the Division. 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) Combanc and the Bank shall not redeem any stock without the prior written approval of the Reserve Bank and the Division.

Compliance with Agreement

13. Within 15 days of this Agreement, the boards of directors of Combanc and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate Combanc's and 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 Combanc or the Bank, as defined in section 215.2 (e)(1) of Regulation O of the Board of Governors (12 C.F.R. 215.2(3)) and Ohio Administrative Code section 1301:1-3-04(A)(6). At a minimum, the Compliance Committee shall keep detailed minutes of each meeting, and shall report its findings to the boards 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 boards of directors of Combanc and 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. 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 Combanc and the Bank from making further reports.

Approval of Plans, Policies, and Programs

14. The written plans, policies, and programs required by paragraphs 2(a), 4, 5, 7, 8, and 10 of the Agreement shall be submitted to the Reserve Bank and the Division for review and approval. Acceptable plans, policies, and programs shall be submitted within the time periods set forth in the Agreement. The Bank and, where applicable, Combanc shall adopt the approved plans, policies, 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, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Communications

15. 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) Paul G. Wreede
President and Chief Executive Officer
The Commercial Bank.
230 East 2nd Street
P.O. Box 429
Delphos, Ohio 45833

16. 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 Combanc and the Bank to comply with any provision of this Agreement.

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

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

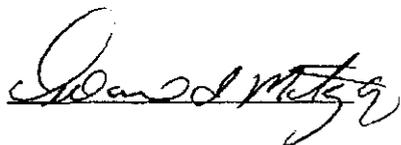
19. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or the Division, or any other federal or state agency from taking any other action affecting Combanc or the Bank or any of their current or former institution-affiliated parties or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

20. 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).

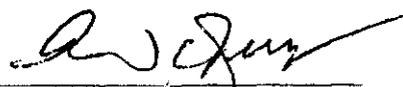
21. This Agreement is a "written agreement" under sections 1121.32(A), 1121.33(A)(1)(a)(iv), and 1121.35(B) of the Ohio Revised Code. Violation of a written agreement is grounds for the Division to pursue a cease and desist order and/or civil money penalties against the Bank or any regulated person, and/or the removal of any regulated person.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 19 day of December, 2003.

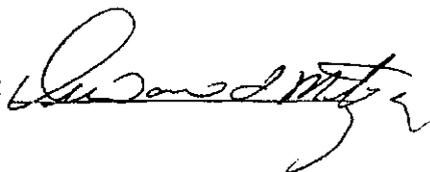
Combanc

By: 

Federal Reserve Bank of Cleveland

By: 
Andrew C. Burke, Jr.
Senior Vice President

The Commercial Bank

By: 

Ohio Division of Financial Institutions

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