

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 FIRST STATE BANK)
OF WEST MANCHESTER)
West Manchester, Ohio)
)
FEDERAL RESERVE BANK) Docket No. 03-015-WA/RB-SM
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 First State Bank of West Manchester, West Manchester, 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"); and

WHEREAS, on APRIL 16, 2003, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Richard E. Eyer, president and chief executive officer, 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(A), 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) Within 30 days of this Agreement, the board of directors of the Bank shall conduct a review of the composition, structure, and performance of the Bank's management and board of directors. The primary purpose of the review shall be to aid in the development of a board and management structure suitable to the needs of the Bank that is adequately staffed by qualified and trained personnel who are able to provide appropriate oversight of the Bank, including but not limited to, its lending, audit, interest rate risk management, and information technology functions. The review shall, at a minimum, address, consider, and include:

(i) An assessment of the current structure and composition of the board of directors and determination of the structure and composition needed to adequately supervise the affairs of the Bank, including but not limited to, the number of director positions and the range and depth of experience of the directors;

(ii) the identification of the type and number of officer positions needed to manage and supervise the affairs of the Bank effectively;

(iii) an evaluation of each Bank officer to determine whether the individual possesses the ability, experience, and other qualifications required to perform competently present and anticipated duties, to adhere to the Bank's policies and procedures, to restore and maintain the Bank to a safe and sound condition, and to comply with the

requirements of this Agreement; and

(iv) a plan to recruit, hire, or appoint additional or replacement personnel with the requisite ability, experience, and other qualifications required to perform competently their assigned duties.

(b) Within 30 days after completing its review, the Bank shall submit to the Reserve Bank and the Division a written management plan that describes the specific actions that the board of directors of the Bank proposes to take in order to strengthen the Bank's management, improve the board of directors' supervision over the Bank's officers, and fully address the deficiencies identified in the review of the composition, structure, and performance of the Bank's management and board of directors.

Lending Limitations on Classified Borrowers

2. The Bank shall not, directly or indirectly:

(a) 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 "Loss" or "Doubtful" in the report of the examination conducted by the Reserve Bank and the Division, commenced on January 13, 2003 (the "Report of Examination"), or in any subsequent report of examination as long as such credit remains uncollected; or

(b) extend any additional credit to any borrower whose line of credit has been classified "Substandard" in the Report of Examination or in any subsequent report of examination, without the prior approval of the Bank's board of directors who shall document the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit or renewal is necessary to protect the Bank's interest in the ultimate collection of the credit

already granted; or (ii) the extension of credit or renewal is in full compliance with the Bank's written loan policy, is adequately secured, and 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.

Loan Review Policies and Procedures

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written policies and procedures for the independent review of the loan portfolio and an acceptable loan grading system. The loan review procedures shall be designed to identify, categorize, monitor and report problem credits, assess the overall quality of the Bank's loan portfolio, and address the loan review deficiencies described in the Report of Examination. The procedures shall, at a minimum, address, consider, and include:

- (a) A description of the risk grades to be assigned to each loan;
- (b) the designation of the individuals who will be responsible for determining loan grades;
- (c) identification of the scope and frequency of loan grading;
- (d) the requirements related to credit grading and loan review systems

included in the December 23, 1993 and July 2, 2001 Interagency Policy Statements on the Allowance of Loan and Lease Losses;

(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 action(s) taken by management to improve the Bank's position on each loan adversely graded.

Allowance for Loan and Lease Losses

4. (a) The Bank shall achieve and maintain, through charges to current operating income, an adequate valuation reserve for loan 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; trends of delinquent, nonaccrual, and charge-off accounts; present and prospective economic conditions; evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified and the imprecision of loss estimates; the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, issued on December 21, 1993, and July 2, 2001; and the criticisms noted in the Report of Examination. A written record shall be maintained indicating the methodology used in determining the amount of reserve needed to cover total loans, and such documentation shall be maintained for subsequent supervisory review. Within 60 days of this Agreement, the Bank shall submit the reserve methodology to the Reserve Bank and the Division.

(b) For the duration of this Agreement, at a minimum on a calendar quarterly basis, the Bank shall conduct a quarterly assessment of its nonperforming loans and loan loss reserves and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the Division documentation of each quarterly assessment. 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.

Capital Plan

5. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to achieve and maintain sufficient capital at the Bank.

The plan shall, at a minimum, address, consider, and include:

(a) The Bank's current and future capital requirements, particularly in view of the volume of adversely classified assets, the adequacy of the loan review program and loan loss reserve, and the risk profile of the Bank's asset and liability structure;

(b) the requirements of the Capital Adequacy Guidelines of the Board of Governors for State Member Banks: Risk Based Measures and Tier 1 Leverage Measure (12 C.F.R. Part 208, App. A and B); and

(c) the source and timing of additional funds to fulfill current and future capital and allowance for loan and lease loss needs of the Bank.

Asset/Liability Management

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written asset/liability management policies designed to improve management of the Bank's market risk exposures, including but not limited to, procedures that can effectively identify, measure, monitor, and manage the Bank's market risk exposures and that satisfy the requirements of the Joint Policy Statement on Interest Rate Risk dated May 23, 1996.

Audit

7. 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 for the Bank's risk

profile. The program shall, at a minimum, address, consider, and include:

- (a) Generally accepted auditing standards, including, without limitation, the scope and frequency of audits and periodic reporting to the Bank's board of directors;
- (b) the establishment of an audit committee, which shall (i) meet at least once every month; (ii) maintain full and complete minutes of its actions; (iii) report, in writing, to the full board of directors at least once a month; (iv) address in a timely manner any weaknesses identified by the Bank's internal or external auditors; and (v) recommend to the full board of directors the scope of outside audits;
- (c) direct lines of reporting between the auditors and the audit committee;
- (d) periodic review of the Bank's internal controls and information technology function; and
- (e) steps to correct the criticisms of the audit function set forth in the Report of Examination.

8. (a) Within 30 days of this Agreement, the Bank shall engage an independent public accounting firm, acceptable to the Reserve Bank and the Division, to conduct a full scope audit of the Bank for 2002 and to issue an opinion on the quality of the Bank's financial statements, in accordance with generally accepted accounting principles, and the adequacy of the Bank's internal controls as of December 31, 2002. The independent public accounting firm selected by the Bank to perform the audit and issue the required opinion shall not have previously performed internal audit functions on behalf of the Bank in the past three years.

- (b) Within 15 days of the engagement of the independent firm, the Bank shall submit to the Reserve Bank and the Division for approval an engagement letter that delineates:
 - (i) the scope and terms of the audit; and (ii) the date of submission of the audit report and the

required opinion, not to exceed 90 days after the date of approval of the engagement letter by the Reserve Bank and the Division.

(c) Within 10 days of receipt of the independent accounting firm's audit report and any management letter resulting from the audit, the Bank shall provide the Reserve Bank and the Division with a copy of the audit report and management letter.

(d) Within 45 days of the receipt of the audit report and management letter, the Bank shall provide the Reserve Bank and Division an acceptable written plan to correct all deficiencies noted in the audit report or management letter.

Internal Controls

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written procedures designed to strengthen and maintain the Bank's internal controls. The procedures shall, at a minimum, address, consider, and include:

- (a) Segregation of duties related to investment securities, account reconcilements, and vault procedures;
- (b) wire transfer activity; and
- (c) internal control deficiencies noted in the Report of Examination.

Information Technology

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written policies and procedures designed to strengthen the management of the Bank's Information Technology ("IT") activities.

11. (a) Within 90 days of this Agreement, the Bank shall develop and test a formal Bank IT resumption and corporate contingency plan ("Contingency Plan") that, at a minimum, complies with the requirements set forth in the Federal Financial Institutions

Examination Council's revised policy statement (SP-5) on Corporate Business Resumption and Contingency Planning. At least annually thereafter, the Bank's board of directors shall review the Bank's resumption and contingency plans and test all necessary programs and system applications using its backup location, or recovery operation center, to ensure the continuation of operations in the event of a disaster. The board shall document the results of the review and tests in its meeting minutes.

(b) Within 10 days after testing the Contingency Plan, the Bank shall submit the results to the Reserve Bank and the Division.

Dividends

12. 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 earnings, cash flow, capital levels, asset quality, and loan loss reserve needs of the Bank.

Approval of Plans, Policies, and Procedures

13. The written plans, policies, procedures, programs, and engagement letter required by paragraphs 3, 5, 6, 7, 8(b), 8(d), 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 an acceptable engagement letter shall be submitted within the time periods set forth in the Agreement. The Bank shall adopt the approved plans, policies, procedures, programs and engagement letter 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, programs, and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Progress Reports

14. Within 30 days after the end of each calendar quarter (June 30, September 30, December 31, and March 31) following the date of this Agreement, the board of directors of the Bank shall furnish 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.

Appointment of New Officers and Directors; Severance and Indemnification Payments

15. During the term of this Agreement, or as otherwise required by law, the Bank shall comply with the 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. Part 225, Subpart H) with respect to the appointment of any new directors or the hiring or promotion of any senior executive officers as defined in Regulation O of the Board of Governors (12 C.F.R. Part 215) and shall submit the same information to the Division for its evaluation of candidates' qualifications.

16. 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).

Communications

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

- (a) Andrew C. Burkle, Jr.
Senior Vice President
Federal Reserve Bank of Cleveland
1455 East 6th Street
Cleveland, Ohio 44114-2566
- (b) F. Scott O'Donnell
Superintendent of Financial Institutions
Ohio Division of Financial Institutions
77 South High Street, 21st Floor
Columbus, Ohio 43266-0121
- (c) Richard E. Eyer
President and Chief Executive Officer
The First State Bank of West Manchester
101 North Main Street
P.O. Box 201
West Manchester, Ohio 45382

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

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

20. 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.

21. 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

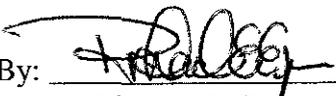
taking any other action affecting the Bank or any of its current or former institution-affiliated parties or regulated persons.

22. (a) 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).

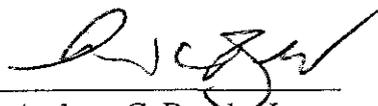
(b) This Agreement is a "written agreement" under sections 1121.32(A)(2)(c), 1121.33(A)(1)(a)(iv), and 1121.35(A)(1)(d) of the Ohio Revised Code. Violation of a written agreement is grounds for the Division to pursue a cease and desist order, civil money penalties, and/or the removal of any regulated person.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 25 day of April, 2003.

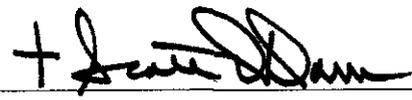
The First State Bank of West Manchester

By: 
Richard E. Eyer
President and CEO

Federal Reserve Bank of Cleveland

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

Ohio Division of Financial Institutions

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