

AGREEMENT BY AND BETWEEN
CITIZENS NATIONAL BANK
BLUFFTON, OHIO
AND
THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

Citizens National Bank, Bluffton, Ohio (Bank), and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated February 21, 2000 (ROE).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I. JURISDICTION

- (1) This Agreement shall be construed to be a "written agreement entered into with the agency" within the meaning of 12 U.S.C. § 1818(b)(1).
- (2) This Agreement shall be construed to be a "written agreement between such depository institution and such agency" within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).
- (3) This agreement shall be construed to be a "formal written agreement" within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C § 1831i.
- (4) This agreement shall be construed to a "written agreement" within the meaning of 12 U.S.C. § 1818(u)(1)(A).
- (5) All reports or plans which the Bank or Board has agreed to submit to the Assistant

Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller Larry K. Cole
Central Ohio Field Office of the Comptroller of the Currency
325 Cramer Creek Court, Suite 101
Dublin, Ohio 43017-3577

ARTICLE II. ACTION PLAN

(1) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written action plan detailing the Board's perception of what needs to be done to improve the Bank, specifying how the Board will implement the plan, and setting forth a timetable for the implementation of the plan.

(2) Upon completion of the plan, the Bank shall submit the plan to the Assistant Deputy Comptroller for review. The Board shall establish appropriate procedures for the implementation of the plan.

(3) In the event the Assistant Deputy Comptroller recommends changes to the action plan, the Board shall immediately incorporate those changes into the plan.

(4) The plan shall be implemented pursuant to the time frames set forth within the plan unless events dictate modifications to the plan are required. Where the Board considers modifications appropriate, those modifications shall be submitted to the Assistant Deputy Comptroller for approval.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE III. COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least four (4) directors, of whom no more than one shall be employees of the Bank or any of its affiliates (as the term "affiliate" is defined in 12 U.S.C. § 371c(b)(1), or a family member of any such person. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) Within thirty (30) days of the appointment of the Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken to comply with each Article of this Agreement; and
- (b) the results of those actions.

(3) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

ARTICLE IV. MANAGEMENT AND BOARD SUPERVISION

(1) Within ninety (90) days, the Compliance Committee shall complete a study of current management and Board supervision presently being provided to the Bank. The study shall have as its major goal enhancement of senior and middle management, especially in the areas of credit risk management, loan administration, underwriting, liquidity risk management, and interest rate risk management. The study shall include:

- (a) the identification of present and future management and staffing requirements of each area of the Bank, with particular emphasis given to the lending area;
- (b) an evaluation of the ability of current management;
- (c) objectives by which management's effectiveness will be measured;
- (d) the need for additions to or deletions from the current management team;
- (e) a review of job descriptions and reporting lines to ensure that officers' duties and responsibilities are clearly identified and that officers in supervisory roles have the authority necessary to perform their duties;
- (f) an assessment of whether Board members are receiving adequate information on the operation of the Bank to enable them to fulfill their fiduciary responsibilities or other responsibilities under law; and

(2) Within thirty (30) days of completion of this study, the Board shall develop and implement a written plan that will correct any deficiencies that are noted in the study.

(3) Copies of the Board's written plan and the Compliance Committee's study shall be forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement. In the event the written plan, or any portion thereof, is not implemented, the Board shall immediately advise the Assistant Deputy Comptroller, in writing, of specific reasons for deviating from the plan.

ARTICLE V. CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in any ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within thirty (30) days, the Board shall adopt and implement a written program designed to eliminate the basis of criticism of assets criticized in the ROE as "doubtful", "substandard", or "other assets especially mentioned". This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding one hundred thousand dollars (\$100,000) shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that is equal to or exceeds one hundred thousand dollars (\$100,000);
 - (b) management's adherence to the program adopted pursuant to this Article;
 - (c) the status and effectiveness of the written program; and
 - (d) the need to revise the program or take alternative action.
- (6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis (in a format similar to Appendix A, attached hereto).
- (7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in any ROE or by Loan Review and whose aggregate loans or other extensions exceed one hundred thousand dollars (\$100,000) only if each of the following conditions are met:
- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records in writing, why such extension is necessary to promote the best interests of the Bank; and
 - (b) a comparison to the written program adopted pursuant to this article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.
- (8) A copy of the Board's approval shall be maintained in the file of the affected borrower.

ARTICLE VI. LOAN ADMINISTRATION

- (1) The Board shall, within ninety (90) days, develop and implement a written program to improve the Bank's loan administration. The program shall include, but not be limited to:
- (a) procedures to ensure satisfactory and perfected collateral documentation;
 - (b) procedures to ensure that extensions of credit are granted to any borrower, by

renewal or otherwise, only after obtaining and performing comprehensive analysis of current and satisfactory credit information, to include at a minimum:

- (i) review of the nature of the borrower's business and economic factors that may affect the sales and profitability of the business;
 - (ii) analysis of operating results, including profitability, operating cash flow, debt service requirements, and cash required to fund working capital and capital expenditures; and
 - (iii) evaluation of any financial projections to determine if they are reasonable.
- (c) procedures to ensure the accuracy of internal management information systems, including problem loan reporting.
- (d) a review of the lending policy to ensure that it provides adequate guidance to lending officers, including a minimum ratio for borrower operating cash flow to debt service requirements.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

(3) The Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after first obtaining and analyzing current and satisfactory credit information, including cash flow analysis.

ARTICLE VII. ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the *Allowance for Loan and Lease Losses* booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's internal loan review;
- (b) results of the Bank's external loan review;
- (c) an estimate of inherent loss exposure for each credit in excess of one hundred thousand dollars (\$100,000);
- (d) loan loss experience, especially experience for problem credits;
- (e) trends of delinquent and nonaccrual loans;
- (f) concentrations of credit in the Bank;
- (g) present and prospective economic conditions, including evaluation of whether recent loss trends for non-problem credits are representative of historic norms, and
- (h) the effect of credit administration and underwriting standards on loss exposure.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Report of Condition, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and approval.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE VIII. LIQUIDITY

(1) Within sixty (60) days, the Board shall develop a liquidity contingency plan. The plan shall focus on events that could lead to the loss of brokered deposits, or the availability of new advances or renewal of existing advances from the Federal Home Loan Bank. The plan should include, but is not necessarily limited to:

- (a) a review of events that could lead to the loss of funding sources;
- (b) specific events that will lead to the initiation of the plan, including asset quality deterioration, operating losses or capital deterioration; these events should be based on internally available information to give the bank the ability to act on the plan before the funds providers react;
- (c) Action plans to meet funding outflows including the amount and timing of funding impact, and steps the bank may take to meet funding shortfalls, including estimates of the amounts and maturities of funds each step may realize.
- (d) Estimates of the costs of funding alternatives including interest costs of new funds or gains and losses from asset sales.

(2) The Board shall review the Bank's liquidity on a monthly basis. Such reviews shall consider:

- (a) maturities of volatile or rate-sensitive liabilities, including brokered deposits and Federal Home Loan Bank advances;
- (b) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (c) the volatility of demand and other transaction deposits including escrow deposits;
- (d) loan demand, including the amount and type of loan commitments and standby letters of credit;
- (e) an analysis of the continuing availability and volatility of present funding sources; and
- (f) cash flow from loan and investments, including amortizing and maturing instruments. Cash flow should include an analysis of the impact of decreased cash flow from the Bank's loan portfolio resulting from delinquent and non-performing loan.

(3) The Board shall take appropriate action to ensure adequate sources of liquidity in relation

to the Bank's needs. Monthly reports shall set forth liquidity requirements and sources. Copies of these reports shall be forwarded to the Assistant Deputy Comptroller quarterly.

ARTICLE IX. INTEREST RATE RISK MANAGEMENT

(1) Within ninety (90) days, the Board shall adopt and implement a program to improve the bank's controls and systems for managing interest rate risk. The program shall provide for a coordinated strategy to manage interest rate risk management and, at a minimum, address:

- (a) review of the limits in policy for change in the economic value of equity for changes in market interest rates. The limits should reflect the bank's ability to assume interest rate risk and ability to adjust the level of risk in an adverse rate environment. Economic value of equity refers to the difference between the present values of the bank's assets and liabilities, when the cash flows from the assets and liabilities are discounted at current market interest rates. For more information about the concept of economic value of equity, refer to the Comptroller's Handbook booklet *Interest Rate Risk, L-IRR*, dated June 1997, Page 9.
- (b) guidelines for the maximum level of assets with maturities beyond five years or which have cash flow characteristics that change in different interest rate environments;
- (c) improvements in the bank's long-term interest rate risk model to allow management and the Board to use models to evaluate the effects of alternative balance sheet strategies and interest rate scenarios on the Bank's level of long-term interest rate risk;
- (d) a review of the Bank's earnings-at-risk modeling to ensure the model accurately captures repricing for assets and liabilities and basis risk between the rates earned on the Bank's assets and paid for liabilities.

(2) Upon adoption, a copy of the revised policy shall be forwarded to the Assistant Deputy Comptroller for review.

ARTICLE X. QUARTERLY PROGRESS REPORTS

(1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller.

These reports shall set forth in detail:

(a) actions taken since the prior progress report to comply with each Article of the Agreement; and

(b) results of those actions.

(2) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the ROE.

ARTICLE XI. FORMAL AGREEMENT

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall continue in full force and effect unless or until such provisions are amended by mutual consent of the parties to the Agreement or excepted, waived, or terminated by the Comptroller.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

Signed

Larry K. Cole
Assistant Deputy Comptroller
Central Ohio Field Office

7/12/2000

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

Signed	7/12/00
_____	_____
Maurice E. Fett	Date
Signed	7/12/00
_____	_____
Albert E. Ingalls	Date
Signed	7/12/00
_____	_____
Lyman R. McCluer	Date
Signed	7/12/00
_____	_____
J. Michael Romey	Date
Signed	7/12/00
_____	_____
John H. Romey	Date
Signed	7/12/00
_____	_____
Steven A. Romey	Date
_____	_____
James S. West	Date
Signed	7/12/00
_____	_____
Dr. Alan Y. Yoder	Date
_____	_____
	Date
_____	_____
	Date

APPENDIX A

BANK NAME
CITY, STATE

CRITICIZED ASSET REPORT AS OF: _____

BORROWER(S):

ASSET BALANCE(S) AND OCC RATING (OAEM, SUBSTANDARD, DOUBTFUL OR LOSS):

\$_____ CRITICISM _____

AMOUNT CHARGED OFF TO DATE _____
FUTURE POTENTIAL CHARGE-OFF _____

PRESENT STATUS (Fully explain any increase in outstanding balance; include past due status, nonperforming, significant progress or deterioration, etc.):

FINANCIAL AND/OR COLLATERAL SUPPORT (include brief summary of most current financial information, appraised value of collateral and/or estimated value and date thereof, bank's lien position and amount of available equity, if any, guarantor(s) info, etc.):

PROPOSED PLAN OF ACTION TO ELIMINATE ASSET CRITICISM(S) AND TIME FRAME FOR ITS ACCOMPLISHMENT:

IDENTIFIED SOURCE OF REPAYMENT AND DEFINED REPAYMENT PROGRAM (repayment program should coincide with source of repayment):

Use this form for reporting each criticized asset that exceeds _____ dollars (\$____) and retain the original in the credit file for review by the examiners. Submit your reports quarterly until notified otherwise, in writing, by the Assistant Deputy Comptroller.