

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

WEST VIRGINIA DIVISION OF BANKING
CHARLESTON, WEST VIRGINIA

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| Written Agreement by and among |) | |
| |) | |
| TRADERS BANK, A BANKING |) | |
| CORPORATION |) | |
| Spencer, West Virginia |) | Docket No. 04-015-WA/RB-SM |
| |) | |
| FEDERAL RESERVE BANK |) | |
| OF RICHMOND |) | |
| Richmond, Virginia |) | |
| |) | |
| and |) | |
| |) | |
| WEST VIRGINIA DIVISION |) | |
| OF BANKING |) | |
| Charleston, West Virginia |) | |
| _____ |) | |

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Traders Bank, A Banking Corporation, Spencer, West Virginia (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, and to ensure the Bank's continued compliance with all applicable laws and regulations, the Bank, the Federal Reserve Bank of Richmond (the "Reserve Bank"), and the West Virginia Division of Banking (the "Division") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on July 13, 2004, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Frederick C. Hardman, Chairman of the board of directors, to enter into this Agreement on behalf of the Bank and consenting to compliance by the Bank and 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)), 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 Bank's board of directors shall retain an independent consultant (the "Management Consultant") acceptable to the Reserve Bank and the Division to conduct a review of the functions and performance of the Bank's officers (the "Management Review") and the staffing needs of the Bank, and prepare a written report of findings and recommendations (the "Management Consultant's Report"). The primary purpose of the Management Review shall be to aid in the development of a management structure suitable to the Bank's needs that is adequately staffed by qualified and trained personnel. The Management Review shall particularly assess the Bank's management structure and staffing in the lending area, including but not limited to an evaluation of whether each officer has the necessary skills required to competently perform present and anticipated duties. The terms of the contract with the Management Consultant shall require that the Management Review be completed within 60 days of the retention of the Management Consultant and that the Management Consultant's Report be submitted to the Bank's board of directors within 30 days of the completion of the Management Review. The Management Review shall, at a minimum, address, consider, and include:

- (i) The identification of the type and number of officer positions needed to manage and properly supervise the affairs of the Bank;
- (ii) an evaluation of each officer, particularly in the lending area, to determine whether the individual possesses the ability, experience, training, and other qualifications required to competently perform present and anticipated duties, including the ability to provide appropriate oversight of the lending function, to adhere to

established policies and procedures of the Bank, to restore and maintain the Bank to a safe and sound condition, and to comply with the requirements of this Agreement;

- (iii) a plan to recruit, hire, or appoint additional or replacement personnel with the requisite ability, experience, and other qualifications required to competently perform their assigned duties, including, but not limited to staffing needs in credit administration, loan review, and collections; and
- (iv) the deficiencies related to management and staffing noted in the report of the examination of the Bank jointly conducted by the Reserve Bank and the Division in February 2004 (the "Report of Examination").

(b) The Bank shall forward a copy of the Management Consultant's Report to the Reserve Bank and the Division within 5 days of its receipt.

(c) Within 45 days of the Bank's receipt of the Management Consultant's Report, the Bank shall submit a written management plan to the Reserve Bank and the Division that fully addresses the findings and recommendations in the Management Consultant's Report and describes the specific actions that the Bank's board of directors proposes to take in order to strengthen the Bank's management.

(d) In appointing any new officers or directors, 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 of the Federal Reserve System.

(e) 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

2. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written loan policies and procedures that shall, at a minimum, address, consider, and include:

- (i) Underwriting standards that require loan officers to assess the financial condition of the borrower, including an analysis of the borrower's repayment capacity, the identification of the sources of repayment, and the value of any supporting collateral;
- (ii) underwriting standards for floor plan loans that include regular inspections documenting vehicle mileage and condition, maximum loan-to-value based upon generally accepted industry practices, periodic curtailments considering model year and condition, and a requirement that inspections be performed by an employee other than the assigned loan officer;
- (iii) a complete description of required loan documentation and collateral for each specific type of loan, and a requirement for the maintenance of such documentation in the loan files;
- (iv) a description of the detailed information to be provided to the Bank's loan committee and board of directors to assist the directors in making informed decisions on proposed credits;
- (v) procedures for renewing, extending, or modifying existing loans, including documentation of the bases for each renewal, extension or modification;
- (vi) controls to ensure uniform adherence to all loan policies and procedures;
- (vii) procedures for processing and approving 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;
- (viii) compliance with the standards for appraisals set out in the interagency statement on Independent Appraisal and Evaluation Functions, dated October 27, 2003 and the requirements of Subpart G of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart G), made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R.

208.50), and the Board of Governor's Guidelines for Real Estate Appraisal Policies and Review Procedures;

- (ix) designation of qualified personnel to establish and implement loan workout procedures for all delinquent, classified, and watch list loans, and to provide a detailed monthly status report to the board of directors;
- (x) guidelines on handling and collecting problem loans, including procedures describing the review and approval process to be followed when additional advances or changes to the Bank's collateral position are proposed; and
- (xi) the deficiencies noted in the Report of Examination.

(b) The Bank shall retain copies of the monthly loan approval packages that were presented to the Bank's loan committee or board of directors for subsequent supervisory review.

(c) The Bank's loan committee or board of directors shall maintain accurate written minutes of their loan discussions and meetings, which shall be available for subsequent supervisory review.

Asset Improvement

3. (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 \$175,000 that was past due as to principal or interest more than 90 days as of the date of this Agreement, that is on the Bank's watch list, or that was adversely classified or listed as special mention in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$175,000 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 asset.

(c) The plan for each loan or other asset shall be formally approved by the Bank's loan committee or board of directors 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) Within 30 days of the end of the next calendar quarter following the due date for submission of the initial asset improvement plans, and within 30 days of the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Division updating 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, time renewal report, extension report, and past due/non-accrual report.

Loan Review

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable revised written loan review program that addresses the loan review deficiencies described in the Report of Examination. The revised program shall, at a minimum, address, consider, and include the following:

- (a) The scope and frequency of loan review and grading;

- (b) procedures to ensure the thorough review of financial statements;
- (c) procedures to identify any loan that is not in conformance with the Bank's loan policy or that presents any unsafe or unsound banking practice or is otherwise in violation of any applicable state or federal law, rule, or regulation;
- (d) procedures to confirm the accuracy of all risk grades assigned by the Bank's loan officers, as well as guidance for approval of all credit risk upgrades; and
- (e) periodic reporting to the Bank's board of directors of the status of, and findings from, 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. (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 Examination.

(b) Within 60 days of this Agreement, the Bank shall submit a description of the reserve methodology to the Reserve Bank and the Division. 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. A deficiency in the loan loss reserve shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition and Income, by a charge to current operating income. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Strategic Plan and Budget

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written strategic business plan for the remainder of 2004 for improving the earnings and overall condition of the Bank. The Bank shall update the budget at least once every quarter. The plan, at a minimum, shall provide for or describe:

- (i) The identification of the major areas in and means by which the Bank's board of directors will seek to improve the Bank's operating performance;
- (ii) management, lending, and earnings objectives, appropriate to the Bank's condition, and specific strategies for achieving such objectives;
- (iii) a realistic and comprehensive budget;
- (iv) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components and provisions needed to establish and maintain an adequate loan loss reserve; and
- (v) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

(b) A business plan and budget for each calendar year subsequent to 2004 shall be submitted to the Reserve Bank and the Division at least one month prior to the beginning of that calendar year.

Capital

7. 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 the Bank's current and future capital requirements, including:

(a) Compliance with 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) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve and findings from the loan review program;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and loan loss reserves needs of the Bank.

Dividends

8. (a) 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 West Virginia Commissioner of Banking.

(b) All requests for prior approval shall be received by the Reserve Bank and the Division at least 45 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, capital, cash flow, asset quality, and loan loss reserve needs of the Bank.

Investment Policy

9. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written investment policy and procedures that shall, at a minimum, address, consider, and include:

- (a) Identification of types of permissible investments;
- (b) identification of desired maturities for each type of permissible investment;
- (c) requirements for credit information and analysis before purchase;
- (d) procedures for reporting investment activity and policy exceptions to the board of directors; and
- (e) specific recommendations contained in the Report of Examination.

Anti-Money Laundering Compliance

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan for enhancing independent testing of the Bank's anti-money laundering compliance. The plan shall include, at a minimum, procedures for independent review of the Bank's implementation of policies and procedures for the identification and reporting of suspicious activity.

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written customer due diligence program designed to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law and suspicious activities against or involving the Bank to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H (12 C.F.R. 208.62). At a minimum, the program shall include:

- (a) A risk-focused assessment of the Bank's customer base to:
 - (i) identify the categories of customers whose transactions and banking activities are routine and usual; and
 - (ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank;

- (b) for those customers whose transactions require enhanced due diligence,

additional procedures to:

- (i) determine the appropriate documentation necessary to confirm the business activities of the customer; and
 - (ii) understand the normal and expected transactions of the customer; and
- (c) procedures designed to ensure proper identification and reporting of all

known or suspected violations of law and suspicious transactions.

Compliance with Agreement

12. (a) Within 15 days of this Agreement, the board of directors of the Bank 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 or its parent holding company, 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)). At a minimum, the Compliance Committee shall keep detailed minutes of each meeting, which shall be available for subsequent supervisory review, 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 (September 30, December 31, March 31, and June 30) following the date of this Agreement, the board of

directors of 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 the Bank from making further reports.

Approval of Plans, Policies, Procedures, and Programs

13. The written plans, policies, procedures, and programs and the identification of the independent consultant required by paragraphs 1(a), 2(a), 3(a), 4, 6(a), 7, 9, 10, and 11 of this Agreement shall be submitted to the Reserve Bank and the Division for review and approval. Acceptable plans, policies, procedures, and programs shall be submitted within the time periods set forth in this Agreement and an acceptable independent consultant shall be retained within the time periods set forth in paragraphs 1(a) of this Agreement. The Bank shall adopt all 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) Mr. Malcolm C. Alfriend
Senior Vice President
Federal Reserve Bank of Richmond
P.O. Box 85029
Richmond, Virginia 23261

- (b) Mr. Larry A. Stark
Commissioner
West Virginia Division of Banking
1900 Kanawha Blvd., E. Bldg.3, Rm. 311
Charleston, WV 25305-0240

- (c) Mr. Frederick C. Hardman
Chairman of the Board of Directors
Traders Bank, A Banking Corporation
P. O. Box 1009
Spencer, WV 25276

Miscellaneous

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 its institution-affiliated parties, 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, 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 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).

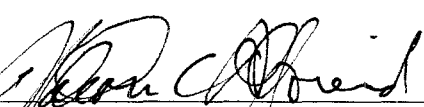
IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of this 13th day of July, 2004.

Traders Bank, A Banking Corporation

By: 

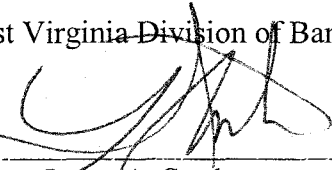
Frederick C. Hardman
Chairman of the Board

Federal Reserve Bank of Richmond

By: 

Malcolm C. Alfried
Senior Vice President

West Virginia Division of Banking

By: 

Larry A. Stark
Commissioner