UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C.

OHIO DIVISION OF FINANCIAL INSTITUTIONS

COLUMBUS, OHIO

In the Matter of TOWNE BANK Perrysburg, Ohio	DOCKET NO. 98-001-B-SM Cease and Desist Order Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as Amended and Section 1121.32 of the Ohio Revised Code

WHEREAS, the Board of Governors of the Federal Reserve System (the "Board of Governors") and the Ohio Division of Financial Institutions (the "Division") believe that the practices and condition of the Towne Bank, Perrysburg, Ohio (the "Bank"), a State-chartered bank that is a member of the Federal Reserve System, warrant formal enforcement action, and the Board of Governors, the Division, and the Bank have mutually agreed to enter into this consent Cease and Desist Order (the "Order"); and

WHEREAS, on January 30, 1998, the board of directors of the Bank adopted a resolution (1) authorizing and directing Jerome C. Bechstein to enter into this Order on behalf of the Bank, and consenting to compliance with each and every provision of this Order by the Bank and its institution-affiliated parties, as such term is defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. 1813(u)); (2) waiving the issuance of a notice of charges and of hearing on any matter set forth in this Order relating to the Bank; (3) waiving a hearing for the purpose of taking evidence on any matter set forth in this Order; (4) waiving any and all rights to contest the issuance of a cease and desist order by the Board of Governors pursuant to 12 U.S.C. 1818, 12 C.F.R. Part 263, and sections 1121.32 and 1121.38 of the Ohio Revised Code; and (5) waiving any and all rights to challenge or contest in any manner the basis, issuance, validity, terms, effectiveness, or enforceability of this Order or any provisions hereof.

NOW, THEREFORE, before the taking of any testimony or adjudication of or finding on any issue of fact or law herein, and without this Order constituting an admission of any allegation made or implied by the Board of Governors or the Division in connection with this proceeding:

IT IS HEREBY ORDERED, pursuant to section 8 of the FDI Act and section 1121.32 of the Ohio Revised Code, that the Bank and its institution-affiliated parties cease and desist and take the following affirmative actions:

1. Within 30 days of this Order, the Bank shall take such steps as are necessary to employ a chief lending officer with demonstrated experience in commercial bank lending and in connection therewith comply with the provisions of section 32 of the FDI Act (12 U.S.C. 1831i), Subpart H of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart H), and the Division's Approval Order, dated February 17, 1995 (the "Approval Order").

2. (a) Within 10 days of this Order, the Bank shall retain an independent bank management consultant acceptable to the Federal Reserve Bank of Cleveland (the "Reserve Bank") and the Division to conduct a complete management review of the Bank's operating policies and implementation of such policies,

and the Bank's personnel (the "Review") and to prepare a written report of findings and recommendations to the Bank's board of directors. The terms of the contract with the consultant shall require that the Review will be completed within 30 days of the retention of the consultant and that a written report of findings and recommendations be submitted to the Bank's board of directors within 10 days of the completion of the Review. The Bank shall forward a copy of the consultant's written report of findings and recommendations to the Reserve Bank and the Division within 5 days of its receipt. The Review shall include, at a minimum, the following:

(i) The identification of the type and number of officer positions needed to manage and supervise the affairs of the Bank adequately;

(ii) the identification and establishment of the Bank's board of directors' committees that are needed to provide guidance and oversight to Bank management;

(iii) an evaluation of each Bank officer and staff member to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's policies and procedures and maintenance of the Bank in a safe and sound condition, and an assessment of whether these individuals are compensated commensurate with their duties and their abilities to perform those duties competently; and

(iv) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications which are necessary to fill Bank officer and staff member positions consistent with the findings of the Review.

(b) The primary purpose of the 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. At a minimum, the qualifications of management shall be determined by its ability to: (i) restore and maintain all aspects of the Bank, including asset quality and capital adequacy, to a safe and sound condition, and (ii) comply with the requirements of this Order, the Approval Order, the Bank's commitments contained in its application for membership and relied upon in the Reserve Bank's membership approval letter, dated August 14, 1995 (the "Committments"), and all applicable laws and regulations.

(c) Within 30 days after the Bank's receipt of the consultant's written report of findings and recommendations required by paragraph 2(a) hereof, the Bank shall submit a written management plan (the "Management Plan") to the Reserve Bank and the Division describing specific actions that the board of directors proposes to take in order to strengthen Bank management and to improve the board of directors' supervision over the Bank's officers. The Management Plan shall fully address the consultant's written report of findings and recommendations.

(d) The Reserve Bank and the Division shall review and comment on the Management Plan within 15 days of its receipt from the Bank.

3. (a) The Bank shall continue to maintain a sufficient number of outside directors to ensure that a majority of the Bank's board of directors are outside directors, and in

connection therewith, shall comply with 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).

(b) For the purposes of this Order, the terms: (i) "outside director" shall be defined as an individual who (A) is not an officer or employee of the Bank, or any affiliate, (B) owns not more than 2.5 percent of the outstanding voting stock of the Bank or any affiliate, or (C) is not related in any manner to any officer of the Bank or to any shareholder who owns more than 2.5 percent of the outstanding voting stock of the Bank or any affiliate; and (ii) "affiliate" shall be defined as set forth in section 23A(b)(i) of the Federal Reserve Act (12 U.S.C. 371c(b)(1)).

4. Within 30 days of this Order, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to achieve and, thereafter, maintain an adequate capital position. The plan shall, at a minimum, address and consider:

(a) The Bank's current and future capital requirements, including compliance with 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 the Approval Order requiring the Bank to maintain a ratio of Tier 1 capital to total assets of at least 10 percent until such time, not less than three years after the commencement of bank operations, as the Superintendent of the Division advises the bank in writing that such level of capitalization is no longer necessary;

(b) the volume of the Bank's adversely classified assets;

(c) a restriction on the growth of the Bank's assets;

(d) the Bank's anticipated levels of retained earnings;

(e) the source and timing of additional funds to fulfill the Bank's future capital and the loan loss reserve requirements; and

(f) procedures for the Bank to notify the Reserve Bank and the Division, in writing, within 5 days of the end of any calendar month that the Bank's Tier 1 leverage ratio falls below 10 percent and to submit to the Reserve Bank and the Division an acceptable written plan that details the steps the Bank will take to increase its Tier 1 leverage ratio to no less than 10 percent within 30 days.

5. During any calendar quarter, the Bank's average total assets shall not exceed its average total assets during the preceding calendar quarter unless:

(a) The Reserve Bank and the Division have approved the capital plan described in paragraph 4 hereof;

(b) the increase in total assets is consistent with the capital plan described in paragraph 4 hereof; and

(c) the Bank's ratio of tangible equity to assets increases during the calendar quarter at a rate sufficient to enable the Bank to meet the capital standards required by paragraph 4(a) hereof.

6. The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Bank Supervision and Regulation of the Board of Governors, and the Division. Requests for 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 and asset quality of the Bank.

7. (a) The Bank shall not extend any new loans in excess of $5,000 or renew any existing loans without the prior written approval of the Bank's board of directors and, upon appointment within 30 days of this Order, the Bank's new chief lending officer required by paragraph 1 hereof.

(b) All requests regarding for new loans in excess of $5,000 and renewals of existing loans shall be accompanied by supporting documentation, including, but not limited to:

(i) A detailed description of the loan purpose and terms;

(ii) a detailed description of loan collateral, collateral valuation, and documents to be required to perfect liens on collateral;

(iii) an evaluation of the primary and secondary sources of repayment and support for the adequacy of the stated sources of repayment;

(iv) a detailed financial analysis of the borrower, co-signors and guarantors, if any, and documentation to support the analysis, such as current and three year historical financial and income statements;

(v) a detailed analysis of the borrower's cash flow and debt service capacity;

(vi) a statement of the current and proposed aggregate credit exposure of the borrower; and

(vii) a certification that the proposed loan conforms to the Bank's loan policies.

(c) The Bank's board of directors shall have the responsibility for monitoring compliance with the Bank's written loan policies and procedures and shall review, on a monthly basis, the current status of all loans in excess of $5,000 that are past due as to principal or interest for 90 days or more as of the date of the directors' meeting, or that are adversely classified or listed for special mention by federal or state examiners in the Bank's latest report of examination or visitation. The board of directors shall specifically address whether the extension of credit was made in accordance with the Bank's written loan policies and procedures, the collection actions undertaken by Bank management to reduce the volume of past due loans, and whether such actions were in full compliance with the Bank's collection procedures as set forth in its written loan policies and procedures.

(d) The board of directors shall maintain accurate written minutes of its loan discussions and meetings, which shall be available for subsequent supervisory review.

8. (a) Unless otherwise approved in writing by the Reserve Bank and the Division, the Bank shall, within 10 days from the receipt of any federal or state report of examination or visitation, charge-off 100 percent of all assets classified "Loss" in such report of examination or visitation that have not been previously collected in full or charged-off.

(b) Within 30 days of this Order, the Bank shall achieve and, thereafter, continue to 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 weighted classified loans, the current level of nonperforming loans, past loss experience, evaluation of the potential for loan losses in the Bank's portfolio, current economic conditions, other criticisms contained in the Bank's most recent report of examination, and the requirements of the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 21, 1993 (the "Interagency Policy Statement"). A written record shall be maintained indicating the methodology used in determining the amount of the reserve needed (e.g., at a minimum, the methodology should address the maintenance of a reserve equal to a sum of: 50 percent of loans classified "Doubtful", 20 percent of loans classified "Substandard", and 1 percent of all other loans, excluding cash secured loans). This record shall be submitted to the Reserve Bank and the Division within 60 days of this Order. Thereafter, the Bank shall conduct, at a minimum, a quarterly assessment of its loan loss reserve and its nonperforming loans and shall submit documentation of each quarterly assessment to the Reserve Bank and the Division within 30 days of the end of each quarter.

(c) The requirements of paragraph 6(b) hereof shall not be construed as a standard for future operation of the Bank after the termination of this Order. It is the intention of these requirements to provide for an appropriate reduction in adversely classified assets and to maintain adequate loan loss reserves during the term of this Order.

9. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division acceptable written loan review procedures. The loan review procedures shall be designed to identify and categorize problem credits and to assess the overall quality of the Bank's loan portfolio. These procedures shall, at a minimum, include the following:

(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) a description of when loans will be graded;

(d) a description of what loans will be graded;

(e) the requirements outlined in Attachment I of the Interagency Policy Statement addressing the minimum requirements relating to "Loan Review Systems" and "Credit Grading Systems";

(f) procedures to confirm the accuracy of all risk grades assigned by the Bank's loan officers;

(g) procedures to identify all loans listed by examiners in future examinations or visitations as subject to adverse classification as watch list loans prior to such examinations;

(h) for each loan identified as a watch list loan, a written statement, maintained in the appropriate credit file, of the reason(s) why such loan merits special attention;

(i) the development of an adequate internal loan review grading report; and

(j) a mechanism for reporting periodically to the Bank's board of directors the status of the loan reviews and the action(s) taken by management to improve the Bank's position on each loan adversely graded.

10. (a) Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division an acceptable written

plan designed to improve the Bank's position on each loan in excess of $25,000 that was past due as to principal or interest in excess of 90 days as of the date of this Order and on each asset in excess of $25,000, including other real estate, that was adversely classified or listed as special mention by Reserve Bank and Division examiners at the most recent examination of the Bank that commenced on December 15, 1997, cited as a problem loan by any of the Bank's consultants, or included on the Bank's problem loan watchlist, through amortization, repayment, liquidation, additional collateral or other means, whichever may be appropriate. This plan shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division, except that the plan shall be amended periodically to cover loans or other assets in excess of $25,000 that have been adversely classified or listed for special mention in any subsequent report of examination or visitation of the Bank or loans that are past due as to principal or interest for more than 90 days as of the date of each subsequent examination or visitation. Each amendment to the plan shall be submitted to the Reserve Bank and the Division within 30 days after the Bank's receipt of each new report of examination or visitation. Amended plans based on loans or other assets that are classified or listed for special mention or overdue in subsequent examinations or visitations shall be submitted to the Reserve Bank and the Division with the next progress report, required by paragraph 17 hereof, following each subsequent examination or visitation.

(b) Quarterly progress reports on classified and past due assets in excess of $25,000, required by paragraph 17 hereof, shall include, at a minimum: (i) the carrying values of such assets (book and nonbook) as of the date of the plan; (ii) the nature and value of supporting collateral; (iii) plans for improvement, reduction, or elimination of the asset; (iv) source of funds for changes in status of the assets; (v) specific target levels and timetables for achievement; and (vi) a copy of the Bank's most current internal watch list.

11. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to monitor and control future extensions of credit to the types of borrowers and industries cited in the Reserve Bank's and the Division's joint examination of the Bank that commenced on December 15, 1997 as concentrations through the monitoring of the use of loan proceeds, documentation reviews and any other

appropriate procedures designed to protect the Bank's interests, avoid concentrations of credit, and ensure that the Bank complies fully with its legal lending limit.

12. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division a written plan for 1998 and 1999 consisting of goals and strategies for improving the earnings of the Bank. The written plan shall include but not necessarily be limited to, the following:

(a) Identification of the major areas in and means by which the board of directors will seek to improve the Bank's operating performance;

(b) realistic and comprehensive budgets that, at a minimum, provide for: (i) monthly estimates of all material income and expense items; (ii) establishment of a review process to monitor the actual income, expenses and net cash flow of the Bank in comparison to budgetary projections; and (iii) semiannual revision of projected financial statements, including projected annual budgets and cash flow statements and year-end balance sheet and income statements for the Bank;

(c) a description of the operating assumptions that form the bases for, and adequately support, major projected income and expense components, including the compensation level and bonuses (if any) of senior officers and directors, the Bank's deferred tax position, and provisions needed to establish and maintain adequate loan loss reserves;

(d) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses;

(e) a complete analysis of the Bank's overhead expenses, including an analysis of the Bank's current lease agreements and need for two offices, with a complete description of the steps to be taken to reduce overhead expenses to peer levels or below; and

(f) the establishment of a quarterly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections.

13. (a) Within 30 days of this Order, the Bank shall submit to the Reserve Bank and the Division acceptable written funds management plans and procedures to provide for the maintenance of an adequate liquidity position. The plans and procedures shall, at a minimum, address and consider:

(i) A contingency funding plan to identify potential funding sources of liquidity if the Bank were to experience an erosion of its deposit base;

(ii) establishment of contingency plans for meeting large, unexpected withdrawals, which shall include, at a minimum (A) curtailing lending activity with priority given to specific types of credit, and (B) establishing lines of credit with other financial institutions which will advance funds on short notice; and

(iii) a monthly review by the Bank's board of directors to determine how best to allocate the Bank's available funding sources among various asset categories after reviewing: (A) the Bank's liquidity position, (B) outstanding commitments such as loan commitments and letters of credit, and (C) the Bank's rate-sensitivity position and net interest margin.

(b) The funds management plans shall be coordinated with the Bank's loan, investment, operating, and budget and profit planning policies.

14. (a) The Bank shall immediately take all necessary steps consistent with sound banking practices, to eliminate and/or correct all violations of Ohio Revised Code § 1109.22 set forth in the joint letter of the Reserve Bank and Division to the Bank's board of directors, dated January 9, 1998.

(b) Within 60 days of this Order, the Bank shall initiate an affirmative compliance program in order to ensure compliance with the provisions of all applicable federal and state laws and regulations, this Order, the Approval Order, and the Commitments. Pursuant thereto, the management of the Bank shall develop a continuing education program to familiarize itself with the applicable provisions of the Federal Reserve Act and the regulations promulgated thereunder, the laws of the State of Ohio, the provisions of this Order, the Approval Order, the

Committtments, and any interagency policy statements that may be released implementing changes to supervisory initiatives.

15. (a) Unless otherwise agreed to in writing by the Reserve Bank and the Division, the Bank shall not, directly or indirectly, enter into, participate, or in any other manner engage in any transaction with Towne Bancorp, Inc., Perrysburg, Ohio, without the prior written approval of the Reserve Bank and the Division.

(b) For the purposes of this Order, the terms (i) "transaction" shall include, but not be limited to the transfer, sale or purchase of any asset, including cash, or the direct or indirect payment of any expense or obligation of Towne Bancorp, the payment of a management or service fee of any nature, or any extension of credit, including overdrafts; and (ii) "extension of credit" shall be defined as set forth in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. 215.3) and section 1301:1-3-04 of the Ohio Administrative Code.

16. The plans, policies, and procedures required by paragraphs 4, 9, 10(a), 11, and 13(a) hereof shall be submitted

to the Reserve Bank and the Division for review and approval. Acceptable plans, policies, and procedures shall be submitted to the Reserve Bank and the Division within the required time periods set forth in this Order. The Bank shall adopt the approved plans, policies, and procedures within 10 days of receipt of approval by the Reserve Bank and the Division and then fully comply with them. During the term of this Order, the approved plans, policies, and procedures shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

17. Within 30 days after the end of each calendar quarter (March 31, June 30, September 30, and December 31) following the date of this Order, 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 Order and the results thereof, including updated reports on all asset improvement plans required by paragraph 10 hereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Reserve Bank and the Division have, in writing, released the Bank from making further reports.

18. All communications regarding this Order shall be sent to:

(a) R. Chris Moore
Senior Vice President
Federal Reserve Bank of Cleveland
1455 East Sixth Street
Cleveland, Ohio 44114

(b) Richard L. Hardgrove
Deputy Superintendent for Banks
Ohio Division of Financial Institutions
77 South High Street, 21st Floor
Columbus, Ohio 43266-0549

(c) Jerome C. Bechstein
President
Towne Bank
Post Office Box 202
Perrysburg, Ohio 43551-2535

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

20. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated or suspended by the Board of Governors and the Division.

21. Notwithstanding any provision of this Order to the contrary, the Reserve Bank and Division may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Order.

22. The provisions of this Order shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, the Division or any federal or state agency or department from taking any other action affecting the Bank or any of its current or former institution-affiliated parties.

By order of the Board of Governors of the Federal Reserve System and the Division, effective this 4th day of February, 1998.

Ohio Division of
Financial Institutions

By: ______________________
Richard L. Hardgrove
Deputy Superintendent
for Banks

Board of Governors of the
Federal Reserve System

By: ______________________
William W. Wiles
Secretary of the Board

Towne Bank
Perrysburg, Ohio

By: Jerome C. Bechstein, President

The undersigned directors of the Bank each acknowledges having read the foregoing Order and approves of the consent thereto by the Bank.

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Jerome C. Bechstein

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Charles Oswald

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Lois A. Brigham

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Harry Snyder

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Ruth Marie Kochelek

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22. The provisions of this Order shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, the Division or any federal or state agency or department from taking any other action affecting the Bank or any of its current or former institution-affiliated parties.

By order of the Board of Governors of the Federal Reserve System and the Division, effective this ____ day of ________________, 1998.

Ohio Division of
Financial Institutions

By: ______________________
Richard L. Hardgrove
Deputy Superintendent
for Banks

Board of Governors of the
Federal Reserve System

By: ______________________
William W. Wiles
Secretary of the Board

Towne Bank
Perrysburg, Ohio

By: ______________________

The undersigned directors of the Bank each acknowledges having read the foregoing Order and approves of the consent thereto by the Bank.

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Jerome C. Bechstein

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Charles Oswald

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Lois A. Brigham

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Harry Snyder

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Ruth Marie Kachelek

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John Weinert