

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.
AND
STATE OF GEORGIA
DEPARTMENT OF BANKING AND FINANCE
ATLANTA, GEORGIA

_____)	
Written Agreement by and among)	
)	
ADAIRSVILLE BANCSHARES, INC.)	
Adairsville, Georgia)	Docket Nos. 98-031-WA/RB-HC
)	98-031-WA/RB-SM
BANK OF ADAIRSVILLE)	
Adairsville, Georgia)	
)	
FEDERAL RESERVE BANK)	
OF ATLANTA)	
Atlanta, Georgia)	
)	
BANKING COMMISSIONER OF)	
THE STATE OF GEORGIA)	
Atlanta, Georgia)	
_____)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Adairsville Bancshares, Inc., Adairsville, Georgia (“Bancshares”), a registered bank holding company, and the Bank of Adairsville, Adairsville, Georgia (the “Bank”), a State chartered bank that is a member of the Federal Reserve System, and to help ensure the Year 2000 readiness of the Bank, Bancshares, the Bank, the Federal

Reserve Bank of Atlanta (the "Reserve Bank") and the Banking Commissioner of the State of Georgia (the "Commissioner") have mutually agreed to enter into this Written Agreement (the "Agreement");

WHEREAS, this Agreement is being executed in accordance with the Rules Regarding Delegation of Authority of the Board of Governors of the Federal Reserve System (the "Board of Governors"), specifically 12 C.F.R. 265.11(a)(15), and the Reserve Bank has received the prior approval of the Director of the Division of Banking Supervision and Regulation (the "Director") and the General Counsel of the Board of Governors to enter into this Agreement with Bancshares and the Bank; and

WHEREAS, on December 10, 1998, the boards of directors of Bancshares and the Bank, at duly constituted meetings adopted resolutions authorizing and directing, William B. Hurley, president and chief executive officer of Bancshares, and Ernest M. Acree, Jr., vice-chairman of the Bank, to enter into this Agreement on behalf of Bancshares and the Bank, respectively, and consented to compliance by Bancshares and the Bank and their institution-affiliated parties, as defined by sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and (b)(3)) (the "FDI Act"), with each and every provision of this Agreement.

NOW, THEREFORE, before the taking of any testimony or adjudication of or finding on any issue of fact or law herein, and without this Agreement constituting an admission of any allegation made or implied by the Board of Governors or the

Commissioner, Bancshares, the Bank, the Reserve Bank, and the Commissioner agree as follows:

1. **Management Review**

(a) Within 45 days of this Agreement, the Bank's board of directors shall engage an outside consultant, acceptable to the Reserve Bank and the Commissioner, to conduct an independent review of the functions and performance of the officers of the Bank, and prepare a written report of findings and recommendations to the Bank's board of directors. The review shall focus on an assessment of the duties performed by each officer and the ability of each officer to perform competently his or her assigned duties. The primary purpose of this review shall be to aid in the development of a management structure that is suitable to the Bank's needs and is adequately staffed by qualified and trained personnel. At a minimum, the qualifications of management shall be assessed for its ability to (1) restore and maintain all aspects of the Bank to a safe and sound condition, and (2) comply with the requirements of this Agreement. A copy of the consultant's written report shall also be forwarded to the Reserve Bank and the Commissioner.

(b) Within 30 days of the Bank's receipt of the consultant's written report of findings and recommendations required by paragraph 1(a) hereof, the Bank shall submit a written management plan to the Reserve Bank and the Commissioner describing specific actions that the board of directors proposes to take in order to strengthen the Bank's management and to improve the board of directors' supervision over the Bank's officers.

The management plan shall fully address the consultant's findings and recommendations and include detailed descriptions of the responsibilities of each officer of the Bank, including reporting lines of authority and the responsibilities of subordinates.

2. Dividends/Management Fees/Consulting Fees

(a) Bancshares and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Commissioner, and the Director.

(b) The Bank shall not pay to Bancshares any fee or fees that represent service or management fees of any nature without the prior written approval of the Reserve Bank and the Commissioner.

(c) Bancshares and the Bank shall not pay any salaries, management or consulting fees to, or increase the directors' fees of, any director of Bancshares or the Bank without the prior written approval of the Reserve Bank and the Commissioner.

(d) Any request for prior approval shall be accompanied by documentation adequate to provide the Reserve Bank and the Commissioner with the details of each fee proposed to be paid by Bancshares or the Bank and a description of the benefits proposed to be derived by the payment of the fee, the type of services to be rendered, and the identity of the person or entity who will supply the services or advice covered by the fee.

3. Capital Adequacy

Within 60 days of this Agreement, Bancshares and the Bank shall submit to the Reserve Bank and the Commissioner an acceptable joint written plan to achieve and maintain sufficient capital at the Bank. 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 (12 C.F.R. Part 208, App. A and B); (b) any planned growth in the Bank's assets; (c) the volume of the Bank's adversely classified assets; (d) the Bank's anticipated level of retained earnings; and (e) the source and timing of additional funds to fulfill the future capital needs of the Bank.

4. Compliance with Applicable Laws and Regulations

Within 30 days of this Agreement, Bancshares shall submit to the Reserve Bank and the Commissioner an acceptable written plan to correct its violation of section 4(c)(a)(2) of the Bank Holding Company Act, as amended (12 U.S.C. 1843(a)(2)), and section 225.21 of Regulation Y of the Board of Governors (12 C.F.R. 225.21) relating to Bancshares's ownership of commercial property. Bancshares shall submit monthly progress reports to the Reserve Bank and Commissioner until the property is divested.

5. Liquidity

Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written liquidity policy that shall, at a minimum,

address, consider, and include the following: (a) a minimum level of temporary assets; (b) a maximum level of volatile liabilities; (c) an appropriate level of core deposits; (d) an appropriate level of loans relative to deposits and capital; (e) parameters for off-balance sheet risk; (f) the number and amount of large deposits; (g) the Bank's borrowing availability; and (h) appropriate standards for volume, mix and maturity of the Bank's loans, investments, and deposits.

6. Market Risk

Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written revised sensitivity to market risk policy that shall, at a minimum, include the following parameters for interest rate risk:

(a) appropriate guidelines for "GAP" management; (b) an adequate system to model and control the vulnerability of net interest income to changes in interest rates; and (c) appropriate parameters governing the economic risk to the Bank's capital due to changes in interest rates.

7. Loan Policy Revision

Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable revised written loan policy that shall, at a minimum, include the following: (a) the board of directors' annual review of the loan policy; (b) the duties, responsibilities, and procedures for the Bank's loan committee; (c) a requirement that bank management's valuations of real estate held as collateral and real estate appraisals be at "fair value" estimates; (d) the board of directors' annual

adoption of a list of approved real estate appraisal firms; (e) the board of directors' annual approval of lending authorities; (f) minimum standards and methods and requirements for verifying borrowers' income and assets; (g) credit memorandum guidelines; (h) underwriting guidelines for construction loans; (i) documentation requirements for other real estate properties; (j) monthly charge-offs of identified loan losses; (k) monthly reporting of delinquent loans to the board of directors; (l) monthly presentation of the internal loan "watch report" to the board of directors ; and (m) monthly reporting of the adequacy of the allowance for loan and lease losses to the board of directors.

8. Asset Quality

The Bank shall not, directly or indirectly, (a) extend any additional 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" in the Report of Examination of the Bank, dated July 20, 1998 (the "Report of Examination") as long as such credit remains uncollected; and (b) extend any additional credit to any borrower whose line of credit has been classified "Doubtful" or "Substandard" in the Report of Examination, without the prior approval of the Bank's board of directors, who shall document the reasons for the additional advances, specifically certifying that (1) the additional extension of credit is necessary to protect the Bank's interest in the ultimate collection of the credit already granted, or (2) the additional credit is in full compliance with the Bank's written loan policy and is adequately secured, a thorough credit analysis has been performed

indicating that the additional extension of credit is reasonable and justified, a senior officer has been appointed to ensure that all necessary loan documentation has been properly and accurately prepared and filed, the additional extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the additional extension of credit will be repaid according to its terms. This written certification, together with the credit analysis and related information that was used in the determination, shall be maintained by the Bank for subsequent supervisory review.

9. Problem Credits

Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and Commissioner an acceptable written plan to improve the Bank's position on each loan in excess of \$50,000 that was in default as to principal or interest in excess of 90 days as of the date of this Agreement and each asset in excess of \$50,000, including other real estate, adversely classified by examiners in the Report of Examination, through amortization, repayment, liquidation, additional collateral or other means, whichever may be appropriate. The plan shall not be amended or rescinded without the prior written approval of the Reserve Bank and Commissioner, except that the plan shall be amended periodically to cover loans or other assets in excess of \$50,000 that are adversely classified or listed for special mention in subsequent examinations of the Bank or, with respect to loans, in default as to principal or interest in excess of 90 days as to the date of each subsequent 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 Commissioner with the next progress report, described in paragraph 20 hereof, following each subsequent examination or visitation.

10. Loan Documentation

(a) Within 60 days of this Agreement, the Bank shall take all necessary steps to correct all exceptions to the Bank's loan files reflected in the loans adversely classified and the loans listed for technical exceptions in the Report of Examination, including obtaining accurate and current financial statements, updating insurance coverage, and obtaining income/cash flow information. 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 credit file for subsequent supervisory review.

(b) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner acceptable written procedures to identify, monitor, and correct loan documentation deficiencies.

(c) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written report detailing the actions taken pursuant to paragraph 10(a) hereof.

11. Allowance for Loan and Lease Losses

(a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the Report of Examination that have not been previously collected in full or charged-off.

(b) The Bank shall continue to maintain, through charges to current operating income, an adequate allowance for loan and lease losses (the "ALLL"). The adequacy of the ALLL shall be determined in light of the current level of nonperforming loans, the current level of concentrations of credit within the loan portfolio of the Bank, past loss experience, evaluation of the potential losses in the loan portfolio of the Bank, especially the potential for unidentified losses in loans adversely classified, current economic conditions and examiners' criticisms or other comments 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. A written record shall be maintained indicating the methodology used in determining the amount of the ALLL needed.

12. Loan Review

(a) Within 60 days of this Agreement, the Bank shall complete a review of the loan portfolio and assign credit risk grades to all loans reviewed. At a minimum, the review shall include all loans \$25,000 or greater, past due loans, nonaccrual loans, bankruptcies, and all loans adversely classified or listed for special mention in the Reports of Examination. Quarterly portfolio reviews shall be conducted thereafter.

A summary of the results of each loan review shall be submitted to the Bank's board of directors, the Reserve Bank, and the Commissioner within 30 days after each review is completed.

(b) The board of directors shall take all actions necessary to ensure the Bank's compliance with its established written loan review policy and procedures and shall not amend such policy and procedures without the prior written approval of the Reserve Bank and the Commissioner.

13. Internal Audit

(a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner, an acceptable written internal audit policy and procedures that shall, at a minimum, address, consider, and include the following:

(1) Procedures for the periodic assessment of the adequacy of internal controls and compliance with the Bank's policies, procedures, and applicable laws and regulations for each audit area;

(2) the establishment of an audit schedule to ensure that all areas of the Bank's balance sheet are audited at least yearly;

(3) procedures for management to review audit reports quarterly, respond in writing to criticisms in the audit report, and implement corrective actions that are responsive to the audit findings; and

(4) the submission to the board of directors of the quarterly audit reports and management responses.

(b) Within 30 days of receipt by the board of directors, the Bank shall submit to the Reserve Bank and the Commissioner copies of the reports and responses described in paragraph 13(a)(4) hereof.

14. Investment Policy Revision

Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable revised investment policy and procedures that shall, at a minimum, include the following: (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; and (d) procedures for reporting investment activity and policy exceptions to the board of directors.

15. Strategic Plan and Budget

(a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written strategic plan and budget, approved by the Bank's board of directors, concerning the Bank's proposed business activities for 1999. This plan shall

contain provisions that address the requirements of this Agreement, and, at a minimum, include:

(1) financial performance objectives, including plans for asset growth, earnings, liquidity and capital, supported by detailed, quarterly pro forma financial statements;

(2) management, lending and operational objectives, appropriate to the condition of the Bank as reflected in the Report of Examination, and the specific strategies for achieving such objectives;

(3) identification of the major areas in and the means by which the Bank will seek to improve its operational performance; and

(4) written assumptions that form the basis for budget projections.

(b) A written strategic plan and budget for each calendar year after 1999 shall be submitted to the Reserve Bank and to the Commissioner at least one month prior to the beginning of that calendar year.

16. Year 2000 Program

The Bank shall take the following actions to ensure that its internal and external mission-critical systems are Year 2000 compliant:

(a) Within 10 days of this Agreement, appoint a senior manager, acceptable to the Reserve Bank and the Commissioner and accountable to the board of directors, who will be responsible for supervising the Bank's Year 2000 readiness efforts and who will appoint additional staff necessary that will devote a substantial amount of time to Year 2000 compliance;

(b) With 10 days of this Agreement, the Bank shall retain an independent consultant acceptable to the Reserve Bank and the Commissioner to assist the Bank in complying with the requirements of this paragraph.

(c) within 10 days of this Agreement, identify and allocate financial and other resources necessary to achieve Year 2000 compliance;

(d) within 20 days of this Agreement, complete a written assessment of all internal mission-critical systems;

(e) within 30 days of this Agreement, submit to the Reserve Bank and the Commissioner an acceptable plan for the renovation of external mission-critical systems;

(f) within 30 days of this Agreement, submit to the Reserve Bank and the Commissioner acceptable written test plans for all renovated or modified internal and external mission-critical systems; and

(g) within 45 days of this Agreement, identify customers, including funds takers and funds providers, that represent material risk to the Bank, evaluate their Year 2000 preparedness, assess their existing and potential Year 2000 risk to the Bank, and implement appropriate risk controls, including controls for underwriting risk, to manage and mitigate their Year 2000 risk to the Bank.

17. Year 2000 Business Resumption Contingency Program

(a) Within 10 days of this Agreement, the Bank shall designate a senior manager, acceptable to the Reserve Bank and the Commissioner and accountable to the board of directors, who will be responsible for supervising the Bank's Year 2000 business resumption contingency planning process.

(b) Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the development of a Year 2000 business resumption contingency plan to mitigate operational risks that may be caused by failures of the Bank's core business processes. The program shall, at a minimum, include and address the following four phases of the Bank's business resumption contingency planning process and provide for the periodic update of the plan as needs and circumstances require:

(1) The establishment of organizational planning guidelines that define the Bank's business continuity planning strategy;

(2) the development of a business impact analysis to assess the potential impact of mission-critical system failures on the Bank's core business processes;

(3) the identification of circumstances and trigger dates under which the business resumption contingency plan will be activated; and

(4) the establishment of a method of validating the plan for effectiveness and viability.

(c) The business impact analysis described in paragraph 17(b)(2) hereof must be completed within 60 days of this Agreement.

18. Approval of, and Compliance with, Submissions

(a) The plans, policies, procedures, and program required by paragraphs 3, 5, 6, 7, 9, 10(b), 13(a), 14, 16(e) and (f), and 17 hereof shall be submitted to the Reserve Bank and the Commissioner for review and approval. The Reserve Bank and the Commissioner may comment on the plans, policies, procedures, and program.

Acceptable plans, policies, procedures, and an acceptable program shall be submitted to the Reserve Bank and the Commissioner within the time periods set forth in this Agreement, and the approval of the Reserve Bank and the Commissioner shall not be unreasonably withheld. Where applicable, Bancshares and the Bank shall adopt all approved plans, policies, procedures, and the program within 10 days of written approval by the Reserve Bank and the Commissioner and then shall fully comply with them.

During the term of this Agreement, where applicable, Bancshares and the Bank shall not amend or rescind the approved plans, policies, procedures, and program without the prior written approval of the Reserve Bank and the Commissioner.

(b) The Bank's board of directors shall review all plans, policies, procedures, and the program annually, and review compliance with all plans, policies, procedures and the program quarterly.

19. Board of Directors' Packages

Within 5 days following each meeting of the board of directors, the Bank shall submit a complete board package including minutes of board committees to the Reserve Bank and the Commissioner.

20. Quarterly Reports

Within 30 days of the end of each calendar quarter (December 31, March 31, June 30, and September 30) following the date of this Agreement, Bancshares and the Bank shall furnish to the Reserve Bank and the Commissioner written progress reports detailing the form and manner of all actions taken to ensure compliance with this Agreement and the results thereof. Each director of Bancshares and the Bank shall certify in writing to the Reserve Bank and Commissioner that he or she has reviewed each quarterly progress report required by this paragraph. Such reports may be discontinued when corrections required by this Agreement have been accomplished, and

the Reserve Bank and the Commissioner have, in writing, released Bancshares and the Bank from making further reports.

21. Communications

All communications regarding this agreement shall be sent to:

- (a) Mr. Marion P. Rivers, III
Assistant Vice President
Federal Reserve Bank of Atlanta
104 Marietta Street, NW
Atlanta, Georgia 30303-2713
- (b) Mr. Steve D. Bridges
State Banking Commissioner
Department of Banking and Finance
State of Georgia
2990 Brandywine Road
Suite 200
Atlanta, Georgia 30341
- (c) Mr. William B. Hurley
President and Chief Executive Officer
Adairsville Bancshares, Inc.
Post Office Box 405
Adairsville, Georgia 30103
- (d) Mr. Ernest M. Acree, Jr.
Vice Chairman
Bank of Adairsville
Post Office Box 39
Dalton, Georgia 30722

Miscellaneous

22. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to Bancshares and the Bank to comply with any provision of this Agreement.

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

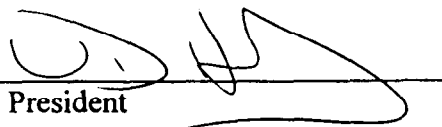
24. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank and the Commissioner.

25. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors or the Commissioner from taking any other action affecting Bancshares and the Bank or any of its current or former institution-affiliated parties and their successors and assigns

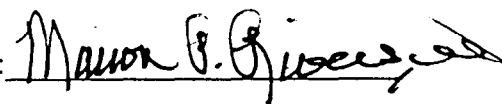
26. This Agreement is a "Written Agreement" for the purposes of section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 10th day of December, 1998.

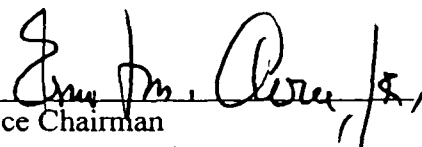
Adairsville Bancshares, Inc.

By: 
President

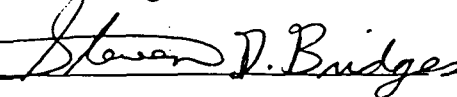
Federal Reserve Bank of Atlanta

By: 

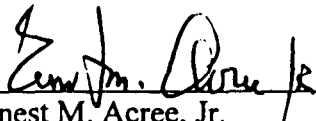
Bank of Adairsville


By: 
Vice Chairman

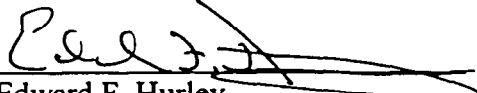
Banking Commissioner
State of Georgia

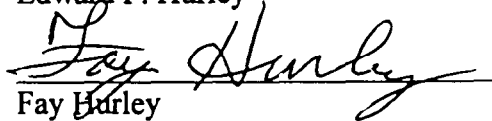
By: 

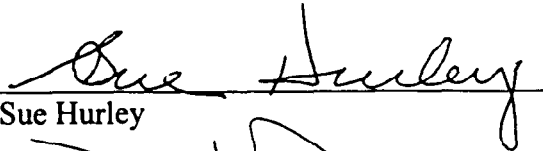
The undersigned directors of Bancshares and the Bank individually acknowledge reading the foregoing Agreement and approve of the consent thereto by Bancshares and the Bank.



Ernest M. Acree, Jr.

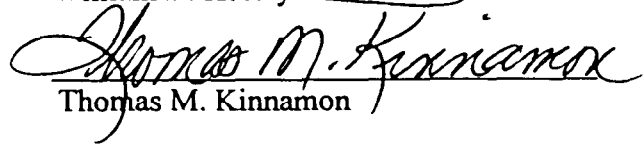

Franklin G. Fuller


Edward F. Hurley


Fay Hurley


Sue Hurley


William B. Hurley


Thomas M. Kinnamon

Thomas L. Manton