

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

OHIO DIVISION OF FINANCIAL INSTITUTIONS
COLUMBUS, OHIO

_____)	
Written Agreement by and among)	
)	
NORTH VALLEY BANK)	Docket No. 07-001-WA/RB-SM
Zanesville, Ohio)	
)	
FEDERAL RESERVE BANK)	
OF CLEVELAND)	
Cleveland, Ohio)	
)	
and)	
)	
OHIO DIVISION OF FINANCIAL)	
INSTITUTIONS)	
Columbus, Ohio)	
_____)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of North Valley Bank, Zanesville, Ohio (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Cleveland (the “Reserve Bank”), and the Ohio Division of Financial Institutions (the “Division”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on February 28, 2007, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing James W. Ransbottom 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)(3)), and its regulated persons, as defined in

section 1121.01(B) of the Ohio Revised Code (Ohio Rev. Code Ann. § 1121.01(B)), with each and every provision of this Agreement.

NOW, THEREFORE, the Bank, the Reserve Bank, and the Division agree as follows:

Board Oversight

1. Within 30 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address:

(a) The actions that the board of directors will take to strengthen and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including, at a minimum:

(i) The credit risk management program, including loan underwriting, documentation, loan grading, administration, and any loan policy exceptions; and

(ii) compliance programs;

(b) adoption and enforcement of controls to ensure uniform implementation of, and adherence to, the Bank’s approved policies and procedures, including the existing Code of Business Conduct and Ethics Policy, and compliance with applicable banking laws, rules, and regulations by the Bank and its institution-affiliated parties;

(c) a provision requiring that:

(i) The Bank timely prepare detailed, accurate, and complete minutes of every meeting of the Bank’s board of directors and every meeting of any committee of the Bank’s board of directors;

(ii) such minutes be reviewed and approved in writing by the members of the Bank’s board of directors (or, in the case of committee minutes, by the members of the

committee) no later than the date of the next meeting of the board (or of the committee, as the case may be); and

(iii) such minutes be retained in the Bank's files and be provided to the Reserve Bank and the Division upon request;

(d) measures to correct the deficiencies related to the board of directors' oversight of management and corporate governance noted in the Report of Examination of the Bank and its parent company, North Valley Bancshares, Inc., Zanesville, Ohio ("Bancshares") conducted by the Reserve Bank and the Division that concluded in September 2006 (the "Report of Examination");

(e) adequate senior management succession; and

(f) an acceptable schedule for implementation of the plan required by this paragraph.

2. Within 60 days of this Agreement, and thereafter semi-annually, the board of directors shall review management's adherence to the Bank's written policies and procedures. The board of directors shall prepare written findings and conclusions of this review, along with written descriptions of any management or operational changes that are made as a result of the review. The findings and conclusions shall document all exceptions to the policies and procedures, the reasons for the exceptions, and (if applicable) for the continuance of the exceptions, taking into account the Bank's overall goals and strategies. The continuance of any exception shall be approved by a majority of the board of directors.

3. Within 120 days of this Agreement, the Bank shall take such steps as are necessary to employ a qualified Chief Financial Officer as noted under the management study completed in 2005.

4. 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 (12 C.F.R. §§ 225.71 *et seq.*).

5. The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Risk Management

6. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to strengthen and improve management of the overall risk exposures of the Bank. The plan shall, at a minimum, address:

(a) Enhanced policies and procedures designed to identify, assess, manage, and monitor risk exposures, including but not limited to the areas of credit, operational, legal and reputational risks;

(b) measures to strengthen board and senior management oversight of risk management policies and procedures; and

(c) management information systems and reporting procedures designed to ensure that managers, directors, and committees receive timely and accurate reports necessary to effectively manage risks, monitor compliance with laws, rules, regulations, and Bank policies and procedures, and correct any weaknesses.

Loan Policies, Procedures, and Administration

7. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written loan policies that shall, at a minimum:

(a) Include underwriting standards that:

(i) Require documented source of repayment and debt service ability;

(ii) emphasize the importance of cash flow analysis rather than collateral-based lending and ensure that financial statements, tax returns, and other financial data indicating the borrower's capacity to repay the loan are sufficiently current;

(iii) require that amortization schedules be structured to collect principal and interest within a reasonable period of time, and consistent with the purpose of the credit; and

(iv) address the underwriting deficiencies noted in the Report of Examination;

(b) prohibit capitalization of interest on any loan unless:

(i) Such capitalization of interest on the loan receives prior written approval of the loan committee of the Bank's board of directors after full disclosure of the circumstances underlying the recommendation that interest be capitalized; and

(ii) the Bank's full board of directors is apprised that interest has been capitalized on the loan, and the status of the loan is thereafter monitored;

(c) require that any loan which has been or is to be restructured due to a borrower's financial difficulty or inability to pay according to the original terms of the loan be reported as a "troubled debt restructuring" in accordance with the instructions for filing the Bank's Report of Condition and Income; and

(d) comply with the Uniform Retail Credit Classification and Account Management Policy contained in the Attachment to the Board's Supervisory Letter SR-00-8(SUP), issued June 12, 2000.

8. The Bank's board of directors and management shall take all steps necessary to ensure compliance with the Bank's written loan policies and procedures.

Asset Improvement Plan

9. (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 \$100,000 that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's watch list; or (iii) 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 \$100,000 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) 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 to update each 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.

Internal Audit

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written audit program that shall address, at a minimum, the internal audit deficiencies identified in the Report of Examination.

Compliance with Laws, Rules, and Regulations

11. The Bank shall immediately take all steps necessary to correct the violations of laws, rules, and regulations cited in the Report of Examination and to ensure future compliance with applicable federal and state banking laws, rules, and regulations by the Bank, and all of its institution-affiliated parties, as defined in 12 U.S.C. § 1813(u), and regulated persons, as defined in Ohio Rev. Code Ann. § 1121.01(B).

Suspicious Activity Reporting and Customer Due Diligence

12. 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 against or involving the Bank and suspicious transactions at the Bank to law enforcement and supervisory authorities as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

(a) A methodology for assigning risk levels to the Bank's customer base that considers factors such as type of customer, type of product or service, and geographic location; and

(b) 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 pose a heightened risk of conducting potentially illicit activities at or through the Bank.

Dividends

13. The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the Division. All requests for prior approval shall be received by the Reserve Bank and the Division at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, cash flow, capital asset quality, and loan loss reserve needs of the Bank.

Compliance with the Agreement

14. (a) Within 10 days of this Agreement, the board of directors of the Bank shall appoint a compliance committee (the “Compliance Committee”) to monitor and coordinate compliance with the provisions of this Agreement. The Compliance Committee shall be comprised of at three directors, one of whom shall be an outside director. For purposes of this Agreement, the term “outside director” shall be defined as a director who is not an officer or principal shareholder, as defined in section 215.2(m) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(m)), nor controlling shareholder, as defined in section 1101.01(G) of the Ohio Revised Code (Ohio Rev. Code Ann. § 1101.01(G)), of Bancshares or the Bank. At a minimum, the Compliance Committee shall meet no less often than monthly, shall keep detailed minutes of each meeting, and shall report its findings to the board of directors monthly.

(b) Within 30 days after the end of each calendar quarter 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, Implementation, and Progress Reports

15. (a) The Bank shall submit written plans, policies and programs that are acceptable to the Reserve Bank and the Division within the applicable time periods set forth in paragraphs 1, 6, 7, 9, 10 and 12 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Division, the Bank shall adopt the approved plans and policies. Upon adoption, the Bank shall implement the approved plans and policies, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and policies shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Communications

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

(a) Mr. Bryan S. Huddleston
Assistant Vice President
Federal Reserve Bank of Cleveland
1455 East 6th Street
Cleveland, Ohio 44114-2566

(b) Mr. Michael O. Roark
Deputy Superintendent for Banks
Ohio Division of Financial Institutions
77 South High Street, 21st Floor
Columbus, Ohio 43266-0121

(c) Mr. James W. Ransbottom
Chairman
North Valley Bank
2775 Maysville Pike
Zanesville, Ohio 43701

17. 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.

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

19. Notwithstanding any provision of this Agreement, 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.

20. 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.

