

AGREEMENT BY AND BETWEEN
PORTAGE NATIONAL BANK
EBENSBURG, PENNSYLVANIA
AND
THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

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

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated May 8, 2000 (ROE).

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

ARTICLE I

(1) This Agreement shall be construed to be a "written agreement entered into with the agency" within the meaning of 12 U.S.C. §1818(b)(1).

(2) This Agreement shall be construed to be a "written agreement between such depository institution and such agency" within the meaning of 12 U.S.C. §1818(e)(1) and 12 U.S.C. §1818(i)(2).

(3) This Agreement shall be construed to be a "formal written agreement" within the meaning of 12 C.F.R. §5.51(c)(6)(ii). See 12 U.S.C. §1831i.

(4) This Agreement shall be construed to be a "final order" within the meaning of 12 U.S.C. §1818(u).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller James M. Calhoun
Comptroller of the Currency, Pittsburgh Field Office

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within fifteen (15) days, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than two (2) shall be employees of the Bank or any of its affiliates (as the term "affiliate" is defined in 12 U.S.C. §371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

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

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

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

ARTICLE III

ACTION PLAN

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

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

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

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

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

ARTICLE IV

***SPECIAL COUNSEL/CONSULTANT**

(1) Within thirty (30) days, the Bank shall employ an independent outside counsel/consultant.

(2) The counsel/consultant shall review all extensions of credit that have been originated by or through participation agreements with financial institutions and were brokered/sold to the Bank or originated on the books of the Bank. This review shall also encompass a review of any participations sold on these loans.

(3) The counsel/consultant shall review the relationship between the Bank and the Board, and participant financial institutions from the beginning of the business relationship between the Bank and participant financial institutions.

(4) Within ninety (90) days, the counsel/consultant shall submit a written report to the Board and the Assistant Deputy Comptroller that shall include:

- (a) a description of the scope of the review;
- (b) background on how the relationship between participant financial institutions and the Bank, the Bank's officers and the Bank's directors came into being;
- (c) all potential credit exposure or loss or potential liability to the Bank on participations purchased that were originated or brokered by participant financial institutions.
- (d) a description of all relevant information that the Board, or any member thereof, had before it or considered when the extensions of credit identified in or reviewed as a result of this article were approved, and explanation of how that information came before the Board; and

- (e) such other information as the counsel/consultant may deem appropriate and relevant to the determination of potential liability, of the Board or Executive management for losses sustained or likely to be sustained on credit extended to borrowers identified in this article or reviewed by the counsel/consultant as a result of this article.

All supporting documentation shall be submitted to the Assistant Deputy Comptroller with the counsel's/consultant's report required under this Article.

ARTICLE V

RISK MANAGEMENT

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written risk management program to include, at a minimum, the following:

- (a) identification of existing credit, interest rate, liquidity, transaction, compliance, strategic, and reputation risks, and a written analysis of those risks;
- (b) action plans and time frames to reduce risks where exposure is high, particularly with regard to credit risk and interest rate risk, which impacts directly on liquidity, compliance, strategic, and reputation risks, as more fully discussed in the Report of Examination;
- (c) policies, procedures or standards which limit the degree of risk the Board is willing to incur, consistent with the strategic plan and the Bank's financial condition. This includes analyzing and limiting the risks associated with any new lines of business which the Board undertakes. The procedures shall ensure that strategic direction and risk tolerances are effectively communicated and followed throughout the Bank and should describe the actions to be taken where noncompliance with risk policies is identified;
- (d) systems to measure and control risks within the Bank. Measurement

systems should provide timely and accurate risk reports by customer, by department or division, and bankwide as appropriate; and

- (e) procedures to ensure that Bank employees have the necessary skills to supervise effectively the current and the new business risks within the Bank, and procedures to describe the actions to be taken to address deficiencies in staff levels and skills.

ARTICLE VI

MANAGEMENT AND BOARD SUPERVISION STUDY

(1) Within thirty (30) days the Board shall employ an independent outside management consultant. Prior to employment of the consultant, the name and the qualifications of the consultant considered for employment shall be submitted to the Assistant Deputy Comptroller, who shall have the power of veto over the employment of the proposed consultant. However, failure to exercise such veto power shall not constitute approval or endorsement of the consultant.

(2) Within ninety (90) days, the Consultant shall complete a study of current management and Board supervision presently being provided to the Bank, the Bank's management structure, and its staffing requirements in light of the Bank's present condition. The findings and recommendations of the Consultant shall be set forth in a written report to the Board. At a minimum, the report shall contain:

- (a) the identification of present and future management and staffing requirements of each area of the Bank, with particular emphasis given to executive management, loan administration, credit supervision, and internal control systems;
- (b) detailed written job descriptions for all executive officers;
- (c) an evaluation of each officer's qualifications and abilities and a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of his/her officer position;

- (d) recommendations as to whether management or staffing changes should be made, including the need for additions to or deletions from the current management team;
- (e) objectives by which management's effectiveness will be measured;
- (f) a training program to address identified weaknesses in the skills and abilities of the Bank's staff and management team;
- (g) an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
- (h) a recommended organization chart that clearly reflects areas of responsibility and lines of authority for all officers, including the Bank's president and chief executive officer;
- (i) an assessment of the Board's strengths and weaknesses along with a director education program designed to strengthen identified weaknesses;
- (j) an assessment of whether Board members are receiving adequate information on the operation of the Bank to enable them to fulfill their fiduciary responsibilities and other responsibilities under law;
- (k) recommendations to expand the scope, frequency and sufficiency of information provided to the Board by management;
- (l) an evaluation of the extent of responsibility of current management and/or the Board for present weaknesses in the Bank's condition; and
- (m) recommendations to correct or eliminate any other deficiencies in the supervision or organizational structure of the Bank.

(3) Within thirty (30) days of completion of this study, the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan, with specific time frames, that will correct any deficiencies which are noted in the study.

(4) Prior to the appointment of any individual to an executive officer position, the Board shall submit

to the Assistant Deputy Comptroller the following information:

- (a) a resume and/or employment history of the proposed officer that details his/her qualifications for the proposed position;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(5) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(6) Copies of the Board's written plan and the Consultant's study shall be promptly forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement.

ARTICLE VII

STRATEGIC and CAPITAL PLAN

(1) Within one-hundred twenty (120) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;

- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments that the Bank intends to promote or develop;
- (h) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and
- (l) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Within one-hundred twenty (120) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three year capital program. The program shall include:

- (a) specific plans for the maintenance of capital at the following minimum levels (as defined in 12 C.F.R., Part 3):
 - (i) Tier One Leverage Capital of eight percent (8.00%);
 - (ii) Tier One Risk Based Capital of eleven percent (11.00%); and,
 - (iii) Total Risk Based Capital of twelve percent (12.00%).
- (b) projections for growth and capital requirements based upon a detailed

analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;

- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §56 and 60; and
 - (iii) with the prior written approval of the Assistant Deputy Comptroller.

(3) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for approval. Upon approval by the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary.

ARTICLE VIII

INTEREST RATE RISK POLICY

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written interest rate risk policy. In formulating this policy, the Board shall refer to the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of adequate management reports on which to base sound interest rate risk management decisions;
- (b) establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk;

- (c) implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile;
- (d) prudent limits on the nature and amount of interest rate risk that can be taken; and
- (e) periodic review of the Bank's adherence to the policy.

ARTICLE IX

INTERNAL AUDIT

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:

- (a) detect irregularities in the Bank's operations;
- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
- (c) evaluate the Bank's adherence to established policies and procedures;
- (d) ensure adequate audit coverage in all areas; and
- (e) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(4) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, that shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

(5) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(6) The audit staff shall have access to any records necessary for the proper conduct of its

activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(7) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Assistant Deputy Comptroller.

ARTICLE X

LENDING POLICIES

(1) Within one-hundred-twenty (120) days, the Board shall review, revise, and adhere to the Bank's written loan policies. In revising these policies, the Board shall refer to the Loan Portfolio Management booklet, A-LPM, of the Comptroller's Handbook. For all loans, these policies shall incorporate, but not necessarily be limited to, the following:

- (a) a description of acceptable types of loans;
- (b) a provision that current and satisfactory credit information will be obtained on each borrower;
- (c) establishing minimum requirements for uniform and comprehensive credit analysis, including a full disclosure of all significant aspects of the proposed credit and an assessment of the risks involved, prior to credit approval;
- (d) establishing procedures to ensure that financial information provided by borrowers and/or guarantors is current, signed by the respective parties, and witnessed by Bank officers;
- (e) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (f) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (g) a definition of the Bank's trade area;
- (h) guidelines and limitations for loans originating outside of the Bank's trade area;
- (i) a limitation on aggregate outstanding loans in relation to other balance sheet accounts;

- (j) distribution of loans by category;
- (k) limitations on participation loans by aggregate dollar and individual institution;
- (l) guidelines and limitations on concentrations of credit;
- (m) a limitation on the type and size of loans that may be made by loan officers without prior approval by the Board or a committee established by the Board for this purpose;
- (n) guidelines designed to improve Board oversight of the loan approval process, specifically with regard to credits exhibiting significant risk.

At a minimum, the policy shall:

- (i) establish dollar limits on extensions of credit to any one borrower, above which the prior approval of the Board, or a committee thereof, would be required;
 - (ii) establish dollar limits on aggregate extensions of credit to any one borrower, above which any new extensions of credit to that borrower, regardless of amount, would require the prior approval of the Board, or a committee thereof; and
 - (iii) require that all credits which deviate from the Bank's normal course of business, including all credits which deviate from the Bank's written strategic plan, receive the prior approval of the Board, or a committee thereof.
- (o) guidelines consistent with Banking Circular 255, setting forth the criteria under which renewals of extensions of credit may be approved.
- At a minimum the policy shall:
- (i) ensure that renewals are not made for the sole purpose of reducing the volume of loan delinquencies; and
 - (ii) provide guidelines and limitations on the capitalization of interest;

- (p) charge-off guidelines, by type of loan or other asset, including Other Real Estate Owned, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery; and
- (q) guidelines for periodic review of the Bank's adherence to the revised lending policy.

(2) The Board shall immediately review, revise, and thereafter ensure Bank adherence to the Bank's written policies, procedures and management information systems (MIS), particularly as they apply to the Bank's real estate loan portfolio. These activities shall clarify all underwriting and control matters discussed in the ROE and reduce the volume of the Bank's criticized assets. These matters include, but are not limited to:

- (a) establishing prudent sub-limits on major categories of real estate loans within the aggregate limitations established at (a) above and consistent with Subpart D of 12 C.F.R. Part 34;
- (b) establishing reasonable limits on credit advances against real estate collateral based upon realistic assessments of the value of collateral, including, but not limited to, the ratio of loan to value and debt service requirements;
- (c) establishing requirements that all borrowers and/or guarantors maintain collateral margins established in the credit approval process;
- (d) establishing requirements that all future real estate loan documents, consistent with applicable laws, provide for the Bank's ability to demand additional collateral support, reduction in Bank exposure, or payment in full, when there is evidence of deteriorating credit quality;
- (e) establishing procedures to ensure that financial information on borrowers and guarantors includes detailed and comprehensive data on assets, liabilities, income, expense, contingent liabilities, and periodic operating statements on the respective real estate projects;
- (f) establishing procedures to ensure that borrowers and guarantors are called upon to meet their obligations under their loan arrangements;

- (g) establishing procedures to ensure that the appraisal requirements set forth in 12 C.F.R. Part 34 have been met;
- (h) establishing procedures to ensure market feasibility analyses are performed on construction projects exceeding \$1,000,000;
- (i) establishing procedures to ensure cash flow analyses are performed on construction loan borrowers;
- (j) establishing procedures to ensure current rental and sales information is maintained in all construction projects;
- (k) establishing procedures requiring prudent and continuing monitoring of progress on construction projects financed by the Bank, with such activity documented by written progress reports;
- (l) establishing procedures ensuring the preparation of written construction or development progress reports from appropriate professionals for construction projects;
- (m) establishing requirements that all projects to be financed in the amount of \$250,000 or more are visually inspected by independent and qualified individuals;

(3) Where the Bank deviates from these loan policies, exceptions shall be clearly documented on the loan offering sheet, problem loan report and other MIS; these exceptions shall be subject to the prior approval by the Board or a committee thereof.

(4) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

- (a) early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, group, indirect dealer, and individual lending officer;
- (c) previously charged-off assets and their recovery potential;
- (d) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;

- (e) adequacy of credit and collateral documentation; and
- (f) concentrations of credit.

ARTICLE XI

INTERNAL LOAN REVIEW

(1) The Board shall within thirty (30) days employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases.

(2) Within sixty (60) days, the Board shall establish an effective, independent and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in Section 215 of the Comptroller's Handbook for National Bank Examiners. Such reports shall, at a minimum, include conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation;
- (f) the identity of the loan officer and/or participating financial institution who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article;
- (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (i) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(3) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that

immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE XII

ALLOWANCE FOR LOAN AND LEASE LOSSES

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

- (a) results of the Bank's internal and/or external loan review;
- (b) an estimate of inherent loss exposure on each significant credit;
- (c) loan loss experience;
- (d) trends of delinquent and nonaccrual loans;
- (e) concentrations of credit in the Bank;
- (f) present and prospective economic conditions; and
- (g) participations purchased from other financial institutions.

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

ARTICLE XIII

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within ninety (90) days the Board shall obtain and ensure current and satisfactory credit

information and collateral documentation on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (d) would be detrimental to the best interests of the Bank.
 - (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

ARTICLE XIV

CRITICIZED ASSETS

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

to management by the National Bank Examiners during any examination.

(2) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

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

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

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

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds one hundred thousand dollars (\$100,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(3) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed one hundred thousand dollars (\$ 100,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional

credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and

- (b) a written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(4) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE XV

PARTICIPATIONS PURCHASED

(1) The Bank may grant, purchase, assume or acquire in any manner, directly or indirectly, or as a fiduciary or nominee, any loan, loan participation, loan obligation or other asset, as long as such grant, purchase, assumption, or acquisition is consistent with safe and sound banking practices, the guidelines set forth in Banking Circular 181 (Revised), dated August 2, 1984, and the requirements of 12 C.F.R. Part 34.

ARTICLE XVI

INSIDER BUSINESS TRANSACTIONS

(1) The Bank may enter into a Business Transaction with an Insider only if the Business Transaction is:

- (a) made on terms and under circumstances that are substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other companies or individuals who are not Insiders or related interests of Insiders;
- (b) made, in the absence of comparable transactions, on reasonable commercial terms entered into in good faith and reflecting comparable

service fees payable to similarly situated service providers (for example, professional service contracts);

- (c) preceded by a finding by the Board that the primary purpose of the Business Transaction is to further the best interests of the Bank; and
- (d) approved in advance by a majority of the entire Board, not merely a quorum thereof, with any interested Insider abstaining from voting and participating directly or indirectly in the deliberations regarding the approval.

(2) Effective immediately, the Board shall maintain adequate, centralized records of all Insider Business Transactions and Insider relationships in a form and manner that will enable easy, independent review. These records shall identify all Insiders and shall also:

- (a) specify the names of the parties to the transaction other than the Bank,
- (b) state the relationship of the parties to the Bank,
- (c) provide a brief description of the transaction and its terms, and
- (d) provide a notation of the approval of the transaction by the Board including the vote of each director and the bases for any dissenting or abstaining votes.

(3) The Bank shall require each executive officer, director and principal shareholder to provide at least annually and in writing, a listing of the preceding parties' respective Related Interests as defined in 12 C.F.R. Part 215. The list of these persons' Related Interests shall be maintained by the Board and any changes to these listings of Related Interests shall be promptly reported to the Board and reflected in the centralized records.

ARTICLE XVII

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE and in any subsequent Report of Examination. The monthly progress reports required by Article XVIII of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within sixty (60) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

(4) The Bank shall not lend money or otherwise extend credit to any borrower in violation of the Bank's legal lending limit at 12 U.S.C. §84.

(5) The Bank shall cause all loans or other extensions of credit which exceed the Bank's legal lending limit at 12 U.S.C. §84 to be reduced to conforming amounts.

(6) Within thirty (30) days, the Board shall establish, implement, and thereafter ensure Bank adherence to written procedures to prevent future violations of 12 U.S.C. §84.

Article XVIII

BOOKS and RECORDS / CALL REPORTS - REFILE

(1) The Board shall immediately take all necessary actions to ensure that, within ninety (90) days, the Bank's books, records and management information systems (MIS), including loan operations, are restored to a complete and accurate condition.

(2) Within thirty (30) days, the Board shall submit to the Assistant Deputy Comptroller an action plan detailing how the Board will restore the Bank's books, records and MIS to a complete and accurate condition, setting forth a timetable for implementing the plan. In the event the Assistant Deputy Comptroller recommends changes to the action plan, the Board shall immediately incorporate those changes into the plan.

(3) The Board shall ensure that, once restored to complete and accurate condition, the Bank's books, records and MIS, including loan operations are maintained in a complete and accurate condition.

(4) Within thirty (30) days, the Board shall cause the Bank to refile amended Reports of Condition and Income for the periods ending December 31, 1999, March 31, 2000, and June 30, 2000 . Refiling is predicated

on material misrepresentations in Call Reports for these periods. Misrepresentations are based on understated provision expense and the accompanying ALLL, understated past due loan reports, and understated nonaccrual items.

(5) Within one-hundred-twenty (120) days, the Board shall adopt and cause the Bank to implement policies and procedures, in accordance with the Instructions for Preparation of Consolidated Reports of Condition and Income, to ensure that all official and regulatory reports filed by the Bank accurately reflect the Bank's condition as of the date that such reports are submitted. Thereafter the Board shall ensure Bank adherence to the policies and procedures adopted pursuant to this Article.

ARTICLE XVIII

PROGRESS REPORTING - MONTHLY

(1) The Board shall submit monthly progress reports to the Assistant Deputy Comptroller, Pittsburgh Field Office (James M. Calhoun). These reports shall set forth in detail:

- (a) actions taken since the prior progress report to comply with each Article of the Agreement;
- (b) results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(2) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the Report of Examination or in any future Report of Examination.

(3) The Board shall submit all new and/or revised plans, policies, and procedures stipulated in this Agreement to the Assistant Deputy Comptroller for review. Any revisions, additions, deletions, or nonacceptance of said plans, policies, and/or procedures shall be at the discretion of the Assistant Deputy Comptroller. However, the failure to exercise such revision and veto powers shall not constitute an approval or endorsement of the proposed plan, policy, and/or procedure.

(4) The first progress report shall be submitted for the period ending October 31, 2000 and will be due within fifteen (15) days of that date. Thereafter, progress reports will be due within fifteen (15) days after the month end.

ARTICLE XIX

FORMAL AGREEMENT

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

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

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

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

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

_____/s/_____

____10-18-2000_____

James M. Calhoun

Date

Assistant Deputy Comptroller
Pittsburgh Field Office

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

/s/
Dennis M. McGlynn, Chairman

10-18-2000
Date

/s/
Randolph P. Stager, Vice-Chairman

10-18-2000
Date

/s/
Dennis C. Beck

10-18-2000
Date

/s/
Jo Anne Brinzey

10-18-2000
Date

/s/
Martin P. Finklestine

10-18-2000
Date

/s/
Larry P. Fronheiser

10-18-2000
Date

/s/
Lawrence T. Giannone

10-18-2000
Date