#2002-96

AGREEMENT BY AND BETWEEN

Luzerne National Bank

Luzerne, Pennsylvania

and

The Office of the Comptroller of the Currency

Luzerne National Bank, Luzerne, 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 for the examination that commenced on February 11, 2002 (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.

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ARTICLE I

JURISDICTION

(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 “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(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:

Maryann H. Kennedy
Assistant Deputy Comptroller
Northern Pennsylvania Field Office
100 Hazle Street, Suite 202
Wilkes-Barre, Pennsylvania, 18702

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within five (5) days after the effective date of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) 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) Not later than October 31, 2002, and not later than the last day of every quarter 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;

(b) the results of those actions; and

(c) a description of the actions needed, and which shall be implemented, to achieve full compliance with each Article of this Agreement.

(4) 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.

(5) Within ten (10) days of receipt, 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

BOARD TO ENSURE COMPETENT MANAGEMENT AND STAFFING

(1) Within one hundred twenty (120) days after the effective date of this Agreement, the Board shall ensure that the Bank has competent management in place on a full-time basis in its President and Senior Loan Officer positions to carry out the Board's policies and the Strategic Plan required to be developed under Article XII, and to ensure compliance with this Agreement, applicable laws, rules, regulations, and OCC guidance and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within one hundred and fifty (150) days after the effective date of this Agreement, the Board shall ensure the Bank develops a staffing plan and maintains adequate staff to conduct the day-to-day operations of the Bank in a safe and sound manner, consistent with the goals and objectives outlined in the Strategic Plan.

(3) As part of the requirements in Paragraphs (1) and (2) above, the Board shall, within thirty (30) days after the effective date of this Agreement, employ an independent outside management consultant and require the consultant to complete and provide to the Board within sixty (60) days of the consultant's engagement, a written study of current management and Board supervision presently being provided to the Bank, the Bank's management structure, and the Bank's staffing requirements in light of its present condition and in consideration of the Strategic Plan. 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 the indirect automobile and commercial lending, audit and information technology areas;

(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, including identification of weaknesses in the skills and abilities of the management team;

(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) standards by which management's effectiveness will be measured;

(f) a performance appraisal program for evaluating performance according to each officer's position description and responsibilities and for measuring performance against the Bank's goals and objectives;

(g) a training program to address identified weaknesses in the skills and abilities of the Bank's staff and management team;

(h) an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;

(i) 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;

(j) an assessment of the Board's strengths and weaknesses along with a director education program designed to strengthen identified weaknesses;

(k) an assessment of whether Board members are receiving adequate information on the operation of the Bank, in areas other than those with regard to which deficiencies are noted in the ROE, to enable them to fulfill their fiduciary responsibilities and other responsibilities under law;

(l) recommendations to expand the scope, frequency and sufficiency of information provided to the Board by management, consistent with the requirements of this Agreement and recommendations contained in the ROE or any subsequent ROE; and

(m) recommendations to correct or eliminate any other deficiencies in the supervision or organizational structure of the Bank.

(4) Prior to employment of the consultant, the name and the qualifications of the consultant considered for employment, along with the engagement letter, 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.

(5) Upon completion of the Consultant's study required in Paragraph (3), the Board shall immediately forward a copy to the Assistant Deputy Comptroller who shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement.

(6) Within thirty (30) days of completion of the consultant study, the Board shall develop a written plan, with specific time frames, to address any deficiencies noted in the study. The specific time frames established by the Board in accordance with the requirements of this paragraph shall be consistent with the timeframes specified in Paragraphs (1) and (2) above, and all other relevant time frames specified in this Agreement.

(7) Prior to adoption and implementation, the Board shall submit a copy of the written plan required in Paragraph (6) above, to the Assistant Deputy Comptroller for a written determination of no supervisory objection. Upon issuance of a written determination of no supervisory objection, the Board shall immediately adopt, implement and ensure Bank adherence to the plan. Prior to deviating from the plan, the Board shall obtain from the Assistant Deputy Comptroller a written determination of no supervisory objection.

(8) If a position mentioned in Paragraph (1) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (1) of this Article becomes vacant, the Board shall, within sixty (60) days of such vacancy, submit to the Assistant Deputy Comptroller for a written determination of no supervisory objection a capable person for the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility. Prior to the appointment of any individual to a position mentioned in Paragraph (1), the Board shall secure the written determination of no supervisory objection from the Assistant Deputy Comptroller regarding such appointment, unless the Assistant Deputy Comptroller provides a written waiver of this requirement.

(9) The requirement to submit information and the obligation to secure a written determination of no supervisory objection are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

(10) 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

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by October 31, 2002 and thereafter maintain the following capital levels (as defined in 12 C.F.R. Part 3):

(a) Total risk-based capital at least equal to twelve percent (12%) of risk-weighted assets;

(b) Tier 1 capital at least equal to seven and one half percent (7.5%) of adjusted total assets.[1]

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be "well capitalized" for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within sixty (60) days of the effective date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:

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[1] Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets.

(a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of paragraph (1);

(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 prior written notice to the Assistant Deputy Comptroller.

(4) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall immediately 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. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

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

ARTICLE V

INDIRECT AUTOMOBILE LENDING

(1) Within sixty (60) days of the effective date of this Agreement, the Bank shall develop a written program for the Bank's indirect automobile lending activities consistent with the guidance contained in OCC Bulletin 99-15, Subprime Lending – Risks and Rewards (April 5, 1999) (OCC 99-15) and its supplement, OCC Bulletin 2001-6, Subprime Lending – Expanded Guidance for Subprime Lending Programs (January 31, 2001) (OCC 2001-6) which includes, at a minimum:

(a) written policies, procedures and underwriting standards, which include, at a minimum:

(i) a description of acceptable types of indirect loans;

(ii) the establishment of minimum credit bureau scores which reflect an acceptable default probability based on the Bank's internal delinquency and loss experience;

(iii) the requirement that current and satisfactory credit information be obtained on each borrower prior to the granting of credit;

(iv) a maturity schedule related to the anticipated source of repayment, and the useful life of the collateral;

(v) the establishment of maximum loan (including any add-ons such as credit life, credit disability, force placed insurance and service contracts) to asset value and debt to income ratios;

(vi) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;

(vii) charge-off of all indirect automobile loans that are past due by one hundred twenty (120) days or more;

(viii) a prohibition on the renewal or extension of any loans without the written approval of the Senior Loan Officer or of the Board or designated committee, who shall review the borrower's past repayment history and current ability to repay and document how the extension will enhance collecting of the credit;

(ix) disposition policies and procedures for repossessed automobiles;

(x) a limitation on aggregate outstanding indirect automobile loans as a percentage of capital and total loans;

(xi) a limitation on aggregate outstanding indirect automobile loans per dealer; and

(xii) guidelines to ensure that the Bank's indirect automobile loans are underwritten in compliance with all applicable laws, rules, regulations and OCC guidance.

(b) the identification and establishment of management information systems to monitor adherence to established policies, procedures, underwriting standards and objectives for the indirect automobile lending program, including, at a minimum, reports that:

(i) segment the portfolio by delinquency status, debt-to-income ratio, credit scores, loan-to-value ratios, and losses by portfolio and dealer; and

(ii) track and analyze exceptions to policy and underwriting standards both transactionally and in the aggregate.

(c) the completion of comprehensive due diligence on all automobile dealers with whom the Bank currently has an indirect lending relationship and, prior to entering into any new arrangement, on any new automobile dealer with whom the Bank intends to establish an indirect lending relationship. Such due diligence, which the Bank shall perform on at least an annual basis, shall include, at a minimum, the following:

(i) a thorough analysis of the dealer's reputation, compliance, and litigation status;

(ii) a thorough analysis of the qualifications, backgrounds, and reputations of the dealer's significant principals;

(iii) a thorough analysis of the dealer's financial condition and the financial capacity of the dealer's significant principals; and

(iv) to the extent applicable, prior review and approval of all marketing materials in which the Bank's name will be associated with the dealer's product.

(d) a documented methodology and analysis which supports the Bank's quantification of the amount of capital necessary to offset the additional risk posed by the indirect lending portfolio, consistent with the guidance in OCC 2001-6.

(2) Prior to adoption and implementation of the indirect lending program developed in accordance with Paragraph (1), the Board shall submit the program to the Assistant Deputy Comptroller for a written determination of no supervisory objection. Upon issuance of a written determination of no supervisory objection, the Board shall immediately adopt, implement and ensure the Bank's adherence to the program.

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

ARTICLE VI

COMMERCIAL LENDING

(1) Within ninety (90) days of the effective date of this Agreement, the Board shall review and revise the Bank's written commercial loan program policies, procedures and underwriting criteria, consistent with the guidance contained in the Loan Portfolio Management booklet, A-LPM, of the Comptroller's Handbook, to incorporate, at a minimum:

(a) a description of acceptable types of loans;

(b) a requirement that current and satisfactory credit information be obtained and analyzed on each borrower, prior to the granting of any credit;

(c) the establishment of, and adherence to, minimum requirements for uniform and comprehensive credit analysis, including borrower cash flow analysis and recurring repayment capacity, to ensure full risk assessment prior to credit approval;

(d) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;

(e) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;

(f) the use of loan covenants when repayment capacity is dependent on projected cash flows from a new borrower;

(g) a requirement that pro forma and interim financial statements be obtained on marginal or start-up companies;

(h) a process to ensure that appraisals or appropriate evaluations are obtained in accordance with 12 C.F.R. Part 34, Subpart C and that such appraisals and evaluations are thoroughly reviewed and evaluated prior to credit approval;

(i) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;

(j) a pricing policy that takes into consideration costs, general overhead, and probable loan losses, while providing for a reasonable margin of profit;

(k) a definition of the Bank's trade area;

(l) guidelines for and limitations on loans originating outside of the Bank's trade area;

(m) a limitation on aggregate outstanding loans in relation to other balance sheet accounts;

(n) distribution of loans by category;

(o) a prohibition regarding the use of brokered deposits to fund loan growth or support criticized loans;

(p) guidelines and limitations on concentrations of credit[2];

(q) limitations 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;

(r) measures to correct the deficiencies in the Bank's lending procedures noted in any ROE;

(s) guidelines designed to improve Board oversight of the loan approval process, specifically with regard to credits exhibiting significant risk, including, at a minimum:

(i) the establishment of dollar limits on extensions of credit to any one borrower, above which the prior approval of the Board, or a committee thereof, will be required;

(ii) the establishment of dollar limits on aggregate extensions of credit to any one borrower, above which any new extensions of credit to that borrower, regardless of amount, will require the prior approval of the Board, or a committee thereof; and

(iii) the requirement that all credits which deviate from the Bank's normal course of business, including all credits which deviate from the Strategic

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[2] As defined in the Loan Portfolio Management Booklet, A-LPM, of the Comptroller's Handbook.

Plan developed in accordance with Article XII, receive the prior approval of the Board, or a designated committee thereof.

(t) 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.

(u) 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

(v) guidelines for periodic review of the Bank's adherence to the revised policies, procedures and underwriting criteria, both transactionally and in the aggregate.

(2) Prior to adoption and implementation of the revised commercial loan program developed in accordance with Paragraph (1), the Board shall submit the program to the Assistant Deputy Comptroller for a written determination of no supervisory objection. Upon issuance of a written determination of no supervisory objection, the Board shall immediately adopt, implement and ensure the Bank’s adherence to the program.

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

ARTICLE VII

LOAN PORTFOLIO MANAGEMENT

(1) Within sixty (60) days of the effective date of this Agreement, the Bank shall develop a written program to improve the Bank's loan portfolio management, which includes, at a minimum:

(a) procedures to ensure satisfactory and perfected collateral documentation;

(b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;

(c) procedures to ensure conformance with loan approval requirements;

(d) a system to track and analyze exceptions;

(e) procedures to ensure conformance with Call Report instructions;

(f) a process to ensure the accuracy of internal management information systems;

(g) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters;

(h) procedures to track and analyze concentrations of credit (including commitments) by type, industry segment, collateral and borrower location and their impact on the Bank's credit, liquidity and interest rate risks;

(i) a process to ensure the establishment of action plans, approved by the Board, to reduce the risk of any concentrations deemed imprudent as a result of the analysis required in (h); and

(j) procedures to track and analyze significant economic factors and general conditions and their impact on the Bank's credit, liquidity and interest rate risks.

(2) Prior to adoption and implementation of the revised commercial loan program developed in accordance with Paragraph (1), the Board shall submit the program to the Assistant Deputy Comptroller for a written determination of no supervisory objection. Upon issuance of a written determination of no supervisory objection, the Board shall immediately adopt, implement and thereafter ensure the Bank's adherence to the program.

(3) Within ninety (90) days of the effective date of this Agreement, the Board shall develop management information 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) problem loan trend analysis;

(c) previously charged-off assets and their recovery potential, including Other Real Estate Owned (OREO);

(d) exceptions to the Bank's lending policies, procedures and underwriting guidelines;

(e) compliance with laws, rules, and regulations pertaining to the Bank's lending function;

(f) adequacy of credit and collateral documentation;

(g) the aggregate customer liability relationship for each borrower of the Bank; and

(h) concentrations of credit by type, industry segment, collateral and borrower location.

(4) Beginning with the quarter ending December 31, 2002, and on a quarterly basis thereafter, management will provide the Board with written reports, which include, at a minimum:

(a) the identification, type, rating, and amount of problem loans and leases;

(b) the identification and amount of delinquent loans and leases;

(c) credit and collateral documentation exceptions;

(d) the identification and status of credit related violations of law, rule or regulation;

(e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph;

(f) an analysis of concentrations of credit by type, industry segment, collateral and borrower location and their impact on the Bank's credit, liquidity and interest rate risks;

(g) detailed action plans to reduce the risk of any concentrations deemed imprudent as a result of the analysis provided in (f) ;

(h) an analysis of significant economic factors and general conditions and their impact on the Bank's credit, liquidity and interest rate risks;

(i) the identification and amount of loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and

(j) the identification of loans and leases not in conformance with, and exceptions to, the Bank's lending and leasing policies, procedures, and underwriting guidelines.

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

ARTICLE VIII

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 one hundred twenty (120) days of the effective date of this Agreement, 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.

(3) 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.

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

(5) 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.

(6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis in a format similar to Appendix A, attached hereto.

(7) 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 fifty thousand ($50,000) 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 comparison to the 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.

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

ARTICLE IX

CREDIT EXCEPTIONS

(1) Within sixty (60) days the Board shall obtain current and satisfactory credit information 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 (2)(d) shall require a majority of the full Board (or a designated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (2)(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 X

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 OCC Bulletin 2001-37, "Policy Statement on Allowance for Loan and Lease Losses Methodology and Documentation for Banks and Savings Institutions", and 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 problem loan identification;

(b) results of the Bank's external loan review;

(c) an estimate of inherent loss exposure on each criticized or nonperforming credit;

(d) an estimate of inherent loss exposure on each credit in excess of fifty dollars ($50,000);

(e) loan loss experience by type of loan, based on a reasonable period of historical performance;

(f) trends of delinquent and nonaccrual loans;

(g) concentrations of credit in the Bank;

(h) present and prospective economic conditions;

(i) changes in loan underwriting and management personnel; and

(j) a comprehensive evaluation of the bank's indirect loan portfolio.

(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.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for a written determination of no supervisory objection.

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

ARTICLE XI

INTERNAL AUDIT

(1) Within ninety (90) days after the effective date of this Agreement, the Board shall review the Bank's internal audit program to ensure sufficient risk based audit coverage by an

adequately staffed department or outside firm, with respect to both experience level and number of individuals employed, and to ensure that audit scheduling, scope and testing are 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 and OCC guidance;

(c) evaluate the Bank's adherence to established policies and procedures, including the Bank's adherence to its loan policies related to underwriting standards and problem loan identification and classification;

(d) ensure adequate audit coverage in all areas; and

(e) evaluate the adequacy of the Bank's internal control systems.

(2) Within ninety (90) days after the effective date of this Agreement, the Board shall establish, implement and thereafter ensure adherence to a process to:

(a) track the auditor's progress in completing the annual audit schedule developed to meet the objectives in paragraph (1); and

(b) ensure the auditor maintains an appropriate audit trail, which documents the procedures performed and supports the conclusions contained in the audit reports.

(3) The Board shall ensure that the audit program is independent by requiring that the person(s) responsible for implementing the internal audit program described above shall not be

responsible for any operational area and that such person(s) reports directly to the Board, or a designated committee thereof, that shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board or such designated committee and not through any intervening party.

(4) The Board shall ensure that the auditor provides written reports detailing any exceptions, deficiencies or recommendations noted as a result of its review. The Board shall also ensure that immediate actions are undertaken to remedy deficiencies cited or to address other audit recommendations in these reports, and that the independent auditor maintains a written record describing those actions. The Board, or a designated committee thereof, shall meet at least quarterly to review the auditor's reports and to verify timely follow-up on cited deficiencies and recommendations.

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

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

ARTICLE XII

STRATEGIC PLANNING

(1) Within one hundred twenty (120) days of the effective date of this Agreement, the Board shall enhance and improve the Bank's written strategic plan and related planning processes, and upon adoption, thereafter ensure Bank adherence to the revised plan. The revised plan shall cover at least a three year period and 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, consistent with the other requirements of this Agreement, together with strategies to achieve those objectives. At a minimum, the plan shall include:

(a) a mission statement that forms the framework for the establishment of strategic goals and objectives;

(b) a thorough evaluation of the Bank’s profitable versus unprofitable business segments, including identifying why the Bank has not been successful with unprofitable segments and what changes are necessary for the Bank to achieve profitability;

(c) identification of the divisions and products the Bank can successfully market, with detailed business line strategies and specific quantifiable action plans to accomplish identified strategic goals and objectives and improve Bank earnings;

(d) the assignment of management responsibility (consistent with Board's determinations required in Article III) to carry out the Bank's plans in (b), with specific time frames for performance and specific accountability measures;

(e) a management employment and succession program to promote the retention and continuity of capable management;

(f) a financial forecast which includes projections for major balance sheet and income statement accounts and desired financial ratios, consistent with the other requirements of this Agreement, over the period covered by the strategic plan;

(g) control systems to mitigate risks associated with planned new products, current product lines, growth, or any proposed changes in the Bank's operating environment;

(h) systems to monitor the Bank's progress in meeting the plan's goals and objectives; and

(i) the appointment of an individual responsible for monitoring the Bank's progress in meeting the plan's goals and objectives, identifying proposed changes in the Bank's operating environment, and providing quarterly status reports to the Board.

(2) Prior to adoption of the revised strategic plan, the Board shall provide a copy to the Assistant Deputy Comptroller who shall retain the right to determine whether the plan complies with requirements of this Article. Upon written notice of no supervisory objection, the Board shall immediately adopt and thereafter ensure Bank adherence to the plan. Prior to making or implementing any changes or modifications to the plan the Board shall provide written notice to the Assistant Deputy Comptroller and obtain a written determination of no supervisory objection.

(3) 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 XIII

NEW PRODUCTS OR SERVICES

(1) Prior to the Bank's involvement in any new products or services the Board shall prepare a written analysis of said product or service. The analysis shall, at a minimum, include the following:

(a) an assessment of the risks and benefits of the product or service to the Bank;

(b) an explanation of how the product or service is consistent with the Bank's strategic plan;

(c) an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS, internal controls and written policies and procedures to identify, measure, monitor, and control the risks associated with the product or service; and

(d) a profitability analysis, including growth projections and the potential impact on interest rate risk.

(2) Prior to the Bank's involvement in the new product or service, the Board shall submit a copy of its analysis to the Assistant Deputy Comptroller for a written determination of no supervisory objection.

ARTICLE XIV

CONCLUDING PROVISIONS

(1) 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.

(2) 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.

(3) 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.

(4) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall: (i) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement; (ii) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement; (iii) follow-up on any non-compliance with such actions in a timely and appropriate manner; and (iv) require corrective action be taken in a timely manner of any non-compliance with such actions.

(5) This Agreement does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC's exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

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

/s/ Maryann H. Kennedy 10/10/02

Maryann H. Kennedy Date

Assistant Deputy Comptroller

Northern Pennsylvania 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.

Marvin Carkhuff - Signed	Date 10-10-02
Robert A. Fortinsky	Date
Louis F. Goeringer - Signed	Date 10-10-02
Robert J. Hughes - Signed	Date 10-10-02
Allan M. Kluger, Esq. - Signed	Date 10/10/02
Robert G. Lawrence - Signed	Date 10/10/02
William V. Leandri - Signed	Date 10/10/02
William Strauser - Signed	Date 10/10/02

APPENDIX A

Luzerne National Bank

Luzerne, Pennsylvania

CRITICIZED ASSET REPORT AS OF:

BORROWER(S):

ASSET BALANCE(S) AND OCC RATING (SM, SUBSTANDARD, DOUBTFUL OR LOSS):

$ CRITICISM

AMOUNT CHARGED OFF TO DATE

FUTURE POTENTIAL CHARGE-OFF

PRESENT STATUS (Fully explain any increase in outstanding balance; include past due status, nonperforming, significant progress or deterioration, etc.):

FINANCIAL AND/OR COLLATERAL SUPPORT (include brief summary of most current financial information, appraised value of collateral and/or estimated value and date thereof, bank's lien position and amount of available equity, if any, guarantor(s) info, etc.):

PROPOSED PLAN OF ACTION TO ELIMINATE ASSET CRITICISM(S) AND TIME FRAME FOR ITS ACCOMPLISHMENT:

IDENTIFIED SOURCE OF REPAYMENT AND DEFINED REPAYMENT PROGRAM (repayment program should coincide with source of repayment):

Use this form for reporting each criticized asset that exceeds one hundred thousand dollars ($ 100,000) and retain the original in the credit file for review by the examiners. Submit your reports quarterly until notified otherwise, in writing, by the Assistant Deputy Comptroller.