

#2009-084

AGREEMENT BY AND BETWEEN
The Citizens National Bank
Putnam, Connecticut
and
The Comptroller of the Currency

The Citizens National Bank, Putnam, Connecticut (“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 (“ROE”) for the examination that commenced on January 26, 2009. The Comptroller has found unsafe and unsound banking practices relating to management and board supervision, asset quality, liquidity, and consumer compliance, and violations of law regarding appraisals and Regulation O at the Bank.

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

JURISDICTION

(1) 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.

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

(4) This Agreement shall cause the Bank to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(6), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(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:

Rita Kuehn
Assistant Deputy Comptroller
New York Metro North Field Office
340 Madison Avenue, 4th Floor
New York, NY 10173

Article II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days of the 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 an employee or controlling shareholder 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 and, in the event of a change of the membership, the name of any new member 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 sixty (60) days of the date of this Agreement and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) a description of the action needed to achieve full compliance with each Article of this Agreement;

(b) actions taken to comply with each Article of this Agreement; and the results and status 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 within ten (10) days of receiving such report.

Article III

BOARD TO ENSURE COMPETENT BOARD AND MANAGEMENT

(1) Within ninety (90) days, the Compliance Committee shall assess the Board's strengths and weaknesses, including an analysis of the necessary qualifications and skills for individual members to serve as effective directors and properly supervise the Bank's affairs, and determine whether the Board members are receiving adequate

information on the operation of the Bank to enable them to fulfill their fiduciary and other responsibilities under law.

(2) Within one hundred and twenty (120) days, the Board shall ensure that the Bank has competent management in place on a full-time basis in its Chief Executive Officer, Senior Loan Officer, Chief Credit Officer and Compliance Officer positions to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(3) Within ninety (90) days, the Board shall review the capabilities of the Bank's management to perform present and anticipated duties, paying special attention to the lending, compliance management, and Bank Secrecy Act program functions, and the Board will determine whether management changes should be made, including the need for additions to or deletions from current management.

(4) For incumbent officers in the positions mentioned in Paragraph (2) of this Article, the Board shall within ninety (90) days assess each of these officers' experience, other qualifications and performance compared to the position's description, duties and responsibilities.

(5) If the Board determines that an officer will continue in his/her position but that the officer's depth of skills needs improvement, the Board will within one hundred and fifty (150) days develop and implement a written program, with specific time frames, to improve the officer's supervision and management of the Bank. At a minimum the written program shall include:

- (a) an education program designed to ensure that the officer has skills and abilities necessary to supervise effectively;
- (b) a program to improve the effectiveness of the officer;
- (c) objectives by which the officer's effectiveness will be measured;
- and
- (d) a performance appraisal program for evaluating performance according to the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller.

(6) If a position mentioned in Paragraph (2) 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 (2) of this Article becomes vacant, the Board shall within one hundred and eighty (180) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Formal Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(7) 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) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate

Manual, together with a legible fingerprint card for the proposed individual;

- (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.

(8) 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.

(9) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the Comptroller to complete his/her review and act on any such information or authority within ninety (90) days.

(10) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan, with specific time frames, that will correct any deficiencies identified as part of the reviews required in this article.

(11) Copies of the Board's written plan shall be forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the plan and its compliance with the terms of this Agreement. In the event the written plan, or any portion thereof, is not implemented, the Board shall immediately advise the Assistant Deputy Comptroller, in writing, of specific reasons for deviating from the plan.

Article IV

INSIDER TRANSACTIONS - COMPLIANCE

(1) Within thirty (30) days, the Board shall adopt a written program to comply with the requirements of 12 C.F.R. § 215. Specifically, this program shall include, at a minimum:

- (a) a provision for training lending personnel (including operational staff) and members of the Board. Training shall cover all aspects of Regulation O and should be performed on at least an annual basis;
- (b) a process to identify executive officers and related interests as defined by 12 C.F.R. § 215.2;
- (c) a process to identify all transactions subject to the requirements of 12 C.F.R. § 215;
- (d) procedures to resolve the insider transaction violations identified by internal audit in 2007 and 2008, and any subsequent deficiencies identified by internal audit;
- (e) adoption of a Bank policy that establishes management control over insider transactions, and provides for periodic update of the Bank policy on insider transactions.

(2) Effective immediately, the Board shall maintain adequate, centralized records of all Business Transactions subject to this Agreement 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 Board 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 V

LIQUIDITY AND CONTINGENCY FUNDING PLAN

(1) Within sixty (60) days, the Board shall review and revise the Bank's Contingency Funding Plan (CFP) to address matters in the ROE. The Board shall conform to the Comptroller's Handbook, Liquidity, dated February 2001, as well as any

other current relevant regulatory materials. The CFP shall be enhanced, at a minimum, to address:

- (a) expanding the number of crisis scenarios to include a comprehensive list of unplanned or stress events that could cause a liquidity crisis;
 - (b) quantify impact of crisis scenarios and discuss any significant funding shortfalls and provide mitigating factors where necessary;
 - (c) develop action plans for reducing risk under each scenario;
 - (d) define responsibilities and decision-making authority for all personnel in a crisis situation.
- (2) Within sixty (60) days, the Board shall ensure that appropriate and prudent risk limits are established and incorporated into the Bank's ALCO policy. Upon adoption, a copy of the enhanced CFP and ALCO policy shall be forwarded to the Assistant Deputy Comptroller for review.

Article VI

CREDIT ADMINISTRATION

(1) Within sixty (60) days, the Board shall review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to the "Loan Portfolio Management" booklet of the Comptroller's Handbook. This policy shall incorporate, but not necessarily be limited to, the following:

- (a) policies and procedures to ensure ongoing compliance with insider laws and regulations;

- (b) policies and procedures for the identification of and accounting treatment for nonaccrual loans which are consistent with the accounting requirements contained in the Call Report Instructions;
 - (c) policies and procedures to limit and monitor concentrations of credit;
 - (d) retail loan classification guidelines that conform to OCC 2000-20 Uniform Retail Credit Classification and Account Management Policy;
 - (e) policies and procedures to identify and monitor collateral exceptions that conform to the requirements of Appendix A of 12 C.F.R. § 34 Subpart D;
 - (f) policies and procedures to ensure a comprehensive and effective appraisal review process that involves appropriate documentation, consistency of appraisal reviews, and strengthens the process for appraisal and evaluation requests;
 - (g) policies and procedures to ensure environmental studies are procured.
- (2) Upon adoption, the policy shall be implemented, and a copy of the policy shall be forwarded to the Assistant Deputy Comptroller for review.

Article VII

CONSTRUCTION LOAN UNDERWRITING STANDARDS

- (1) Within sixty (60) days, the Board shall develop, implement, and thereafter adhere to a written program to improve its construction loan underwriting standards. The program shall include, but not be limited to, procedures for ensuring that:
- (a) market feasibility analyses are performed on construction projects;

- (b) cash flow analyses are performed on construction loan borrowers;
- (c) current rental and sales information is maintained in all construction projects;
- (d) periodic inspections are performed on all construction projects; and
- (e) all construction loans are either in conformity with the Bank's construction loan policies and procedures or in compliance with the Bank's written provisions for exceptions to loan policies and procedures.

(2) Upon completion, the Board shall submit a copy of the program to the Assistant Deputy Comptroller for review.

(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 VIII

INVESTMENT RISK MANAGEMENT AND INVESTMENT POLICY

(1) Within sixty (60) days, the Board shall review and revise the Bank's investment policy and implement the revised policy, and thereafter ensure Bank adherence to the policy. The policy shall contain the basic elements of a sound investment policy consistent with regulatory guidance provided in 12 C.F.R. Part 1 and OCC Bulletin 98-20 (April 27, 1998) and shall include:

- (a) an investment portfolio strategy that is consistent with Board approved Bank asset and liability management policies and interest rate risk tolerances;
 - (b) individual and committee investment portfolio purchase and sale authority;
 - (c) approval procedures that will include dollar size limits, quality limitations, maturity limitations, and concentration or diversification guidelines;
 - (d) a requirement that investment securities be supported by adequate credit and interest rate risk measurement information as described in the “Interest Rate Risk” booklet of the Comptroller’s Handbook and in OCC Bulletin 98-20 (April 27, 1998);
 - (e) qualitative analysis of parties to all transactions;
 - (f) periodic reports to and approval by the Board for all investment portfolio purchases and sales and strategy changes; and
 - (g) monthly review by the Board's investment committee of the Bank's investment portfolio activity to ensure adherence to the investment policy and to applicable banking and securities laws and regulations.
- (2) Within ninety (90) days, the Board must establish policies, procedures, personnel, and controls that govern the investment leverage strategy. Specifically, these policies must include:
- (a) risk limits and guidelines;

- (b) performance of a formal stress test from a liquidity and interest rate perspective;
 - (c) quantification of how market value depreciation and discounts on collateral will affect the leverage program;
 - (d) a break out of income derived from the leverage program in the Bank's budgeting process; and
 - (e) quarterly reports to the Board.
- (3) A copy of the revised investment policy and the investment leverage strategy policy shall be forwarded to the Assistant Deputy Comptroller.

Article IX

NONACCRUAL LOANS

(1) The Bank shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the Instructions for Preparation of Consolidated Reports of Condition and Income ("Call Report Instructions") governing nonaccrual loans. Further, the Bank shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(2) Within sixty (60) days, the Board shall adopt and implement written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:

- (a) be consistent with the accounting requirements contained in the Call Report Instructions;
- (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured; and
- (c) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

(3) Upon adoption, a copy of the written policies and procedures shall be forwarded to the Assistant Deputy Comptroller.

Article X

BANK SECRECY ACT COMPLIANCE FUNCTION

(1) The Board shall promptly take all steps necessary to ensure improvement of the Bank's BSA/Anti-Money Laundering (AML) program to address each deficiency cited in the ROE.

(2) Within sixty (60) days of the date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to an effective Enhanced Due Diligence (EDD) process. An effective EDD monitoring program must include, at a minimum, the following:

- (a) the development of EDD policies and procedures to identify high, medium, and low risk customers during account opening and also after the account has been opened;

- (b) the development of policies and procedures to identify how and when customers should be re-categorized within the different customer risk levels;
- (c) the development of procedures, and processes to effectively monitor bank customers that pose high money laundering or terrorist financing risks; and
- (d) the development of procedures to identify when a banking relationship should be terminated due to the high level of BSA/AML risk posed by a customer.

Article XI

VIOLATIONS OF LAW

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

(2) Within sixty (60) days, 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) 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.

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

Article XII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, 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.

(5) The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities.

(6) The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

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

/s/

June 9, 2009

Rita Kuehn
Assistant Deputy Comptroller
New York Metro North Field Office

Date

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/

6-9-09

Charles E. Archambault

Date

/s/

6-9-09

Thomas E. Beaudry

Date

/s/

6-9-09

Ronald J. Braaten

Date

/s/

6-9-09

David Conrad

Date

/s/

6-9-09

Peter D. Deary

Date

/s/

6/9/09

Nicholas A. Longo

Date

/s/

6/9/09

Robert A. Main

Date

/s/

6/9/09

Robert W. Randall

Date

/s/

6/9/09

Kevin S. Shaw

Date

/s/

6-9-09

Cynthia R. Trifone

Date

/s/

6/10/09

Dianne E. Williams

Date