

#2009-249

AGREEMENT BY AND BETWEEN
Union National Community Bank
Lancaster, Pennsylvania
and
The Comptroller of the Currency

Union National Community Bank, Lancaster, 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 (“ROE”) for the examination that commenced on January 14, 2009. The Comptroller has found unsafe and unsound banking practices relating to management and board supervision, asset quality, liquidity, earnings and capital 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:

Reggy Robinson
Acting Assistant Deputy Comptroller
Eastern Pennsylvania Field Office
3325 Street Road Suite 120
Bensalem, Pennsylvania 19020

Article II

COMPLIANCE COMMITTEE

(1) Within five (5) 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 and maintain detailed minutes of its meetings.

(3) Within sixty (60) days of the date of this Agreement and at the end of every calendar quarter 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, including the names of the parties responsible for completing those actions and the specific timeframe for completion of each action;
- (b) actions taken to comply with each Article of this Agreement; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's first report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report, and shall forward all subsequent Compliance Committee reports, with any additional comments by the Board, to the Assistant Deputy Comptroller within (20) days of each quarter end.

Article III

BOARD TO ENSURE COMPETENT MANAGEMENT AND BOARD OVERSIGHT

(1) The Board shall consider the findings contained in the ROE, and assess management's ability to correct the deficiencies in the ROE in evaluating and ensuring the competency of management.

(2) The Board shall ensure management monitors operations to ensure that they are adequately controlled and are in compliance with applicable laws, rules and regulations, and the Board shall ensure management is managing the day-to-day operations of the Bank in a safe and sound manner.

(3) The Board shall provide details of voting activities in the Board minutes as well as names and votes of any persons that vote in absentia.

(4) The Board shall on a continuing basis maintain a performance appraisal program for each executive manager and maintain a compensation program that is tied to performance pursuant to this appraisal program.

(a) at a minimum, the program shall include:

- (i) an annual process for establishing goals and objectives by which the officer's effectiveness will be measured;
- (ii) an education program designed to ensure that the officer has skills and abilities necessary to meet these objectives;
- (iii) a process for evaluating performance according to the position's description and responsibilities; and
- (iv) a process for measuring performance against the Bank's goals and objectives.

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

Article IV

STRATEGIC PLAN

(1) By October 30, 2009, the Board shall update and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a rolling 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 and capital adequacy, and identify 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) 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) and market segments that the Bank intends to promote or develop to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) a discussion of present or intended real estate purchases or leases;

- (f) an evaluation of the adequacy of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures to accomplish the goals and objectives developed under (1)(c) of this Article;
- (g) a management employment and succession program to promote the retention and continuity of capable management;
- (h) an action plan to improve Bank earnings that includes financial forecasts with projections for major balance sheet and income statement items and desired financial ratios, states the assumptions used to determine financial projections, and that assigns specific accountability and time frames for the accomplishment of specified goals;
- (i) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (j) identification of individuals responsible and accountable for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment;
- (k) systems to monitor the Bank's progress in meeting the plan's goals and objectives; and
- (l) contingency plans that identify alternatives the Bank will implement should the objectives established in subparagraphs (1)(c) and (h) not be achieved, which detail how such alternatives will be implemented and identify specific triggers, timeframes and accountability for implementation.

(2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the strategic plan.

Article V

CAPITAL PLAN

- (1) By September 30, 2009, the Board shall update and thereafter ensure Bank adherence to a rolling three year capital program. The program shall include:
- (a) specific plans for the maintenance of adequate capital to support the Bank's size and risk, including stated minimum capital ratios the Bank shall maintain over the course of the three year period;
 - (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 (1)(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.

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

Article VI

LOAN PORTFOLIO MANAGEMENT

- (1) 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, division, group, indirect dealer, and individual lending officer;
 - (c) training for lending staff members to ensure proper risk rating decisions are made;

- (d) loan review that provides quarterly reviews, at a minimum, with sufficient scope to address the primary risks in the portfolio.
- (2) Within sixty (60) days, the Board shall engage the services of an independent, professionally certified, or licensed appraiser(s) to provide:
 - (a) a written or updated appraisal, in accordance with 12 C.F.R. Part 34, for each parcel of real property that represents primary collateral behind any extension of credit where:
 - (i) the loan exceeds two hundred and fifty thousand dollars (\$250,000) and the loan was criticized in the ROE or by the Bank's internal loan review, and the most recent independent appraisal is more than twelve (12) months old;
 - (ii) or accrued interest or loan fees have been or will be added to the outstanding principal balance, and the most recent independent appraisal is more than twelve (12) months old; or
 - (b) a written appraisal on each parcel of Other Real Estate Owned where it is needed to bring the Bank into conformity with the provisions of 12 C.F.R. Part 34.
- (3) The Board shall specifically instruct the appraiser(s) to comply with the requirements of 12 C.F.R. Part 34. The details surrounding any and all other instructions given to the appraiser(s) by the Bank, whether written or oral, shall be provided to the Assistant Deputy Comptroller for review prior to the appraiser(s) undertaking the actual appraisals. All

such appraisals shall be completed within ninety (90) days, and certification by the Board attesting to the completion of the appraisals shall be forwarded to the Assistant Deputy Comptroller within thirty (30) days.

Article VII

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 sixty (60) 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," "special mention," and "weak pass." 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.

(e) provide training with the emphasis on accurate and timely loan risk ratings to the applicable lending staff.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding two hundred and fifty thousand dollars (\$250,000) shall be forwarded to the Assistant Deputy Comptroller.

(4) 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 two hundred and fifty thousand dollars (\$250,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
the need to revise the program or take alternative action.

(5) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

Article VIII

FUNDS MANAGEMENT

(1) By September 30, 2009, the Board shall strengthen the Bank's Contingency Funding Plan by developing and incorporating:

- (a) reasonable triggers that will notify management and the Board of a pending funding crisis;
- (b) the Bank's identification of credit sensitive sources of funds and the order in which they may leave the bank;

- (c) an updated list of contingency sources and the order in which they will be used in the event of a funding need or crisis (with consideration given for what sources have already been utilized);
- (d) the identification of assets that may be liquidated in a reasonably short period of time and at minimal expense to the bank;
- (e) management's procedural authority within the bank for executing the plan including contact information for regulators, auditors, accountants, and the media if necessary; and,
- (f) annual testing of any contingent sources such as Fed Funds lines or the Federal Reserve Discount Window that are not currently in use.

(2) The Board shall review the Bank's liquidity on at least a monthly basis and take appropriate action to ensure adequate sources of liquidity in relation to the Bank's needs.

(3) Copies of the revised reports and plan shall be forwarded to the Assistant Deputy Comptroller upon completion. Thereafter, the Board shall include the monthly reports with its quarterly reports to the Assistant Deputy Comptroller.

Article IX

CONSUMER COMPLIANCE PROGRAM

(1) Within sixty days (60) days, the Board shall adopt, implement, and thereafter ensure adherence to a written consumer compliance program designed to ensure that the Bank is operating in compliance with all applicable consumer protection laws, rules and regulations. This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer;
- (b) adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations;
- (c) an audit program to test for compliance with consumer protection laws, rules and regulations sufficient to:
 - (i) detect irregularities and weak practices in the Bank's consumer compliance operations;
 - (ii) determine the Bank's level of compliance with all applicable consumer laws, rules and regulations;
 - (iii) assess and report the effectiveness of consumer compliance policies, procedures, controls, and management oversight relating to consumer compliance activities;
 - (iv) evaluate the Bank's adherence to established consumer compliance policies and procedures;
 - (v) provide periodic reporting of the results of the consumer compliance audit to the Board or a committee thereof.

(2) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review.

Article X

BROKERED DEPOSITS

(1) The Bank shall not exceed the level of brokered deposits, as measured by the Bank's ratio of total brokered deposits to total liabilities, on the effective date of this Agreement, without obtaining the prior written determination of no supervisory objection from the Assistant Deputy Comptroller. "Brokered deposit" shall have the meaning set forth in 12 C.F.R. § 337.6(a)(2). The limitation of this paragraph shall include the acquisition of Brokered Deposits through any transfer, purchase, or sale of assets, including Federal funds transactions.

(2) If the Bank seeks to acquire Brokered Deposits above the level in paragraph (1) of this Article, the Board shall apply to the Assistant Deputy Comptroller for written permission. Such application shall contain, at a minimum, the following:

- (a) the dollar volume, maturities, and cost of the Brokered Deposits to be acquired;
- (b) the proposed use of the Brokered Deposits, i.e., short-term liquidity or restructuring of liabilities to reduce cost;
- (c) alternative funding sources available to the Bank; and
- (d) the reasons why the Bank believes that the acceptance of the Brokered Deposits does not constitute an unsafe and unsound practice in its particular circumstances.

(3) The Assistant Deputy Comptroller may require the submission of additional information as necessary to make an informed decision. Upon consideration of the Bank's application, the Assistant Deputy Comptroller will determine whether the proposed acquisition of Brokered Deposits may be accomplished in a safe and sound manner and may

condition the Bank's acquisition as the Assistant Deputy Comptroller shall deem appropriate. Nothing in this article shall relieve the Bank of its obligation under 12 U.S.C. § 1831f to seek necessary approvals from the Federal Deposit Insurance Corporation before accepting Brokered Deposits and to comply with all the requirements of 12 U.S.C. § 1831f.

Article XI

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 has hereunto set his hand.

/s/

8/27/2009

Reggy Robinson
Acting Assistant Deputy Comptroller
Eastern Pennsylvania 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/

8/27/2009

Donald Cargas, Jr.

Date

/s/

8/27/2009

Kevin D. Dolan

Date

/s/

8/27/2009

Mark D. Gainer

Date

/s/

8/27/2009

James R. Godfrey

Date

/s/

8/27/2009

Barry C. Huber

Date

/s/

8/27/2009

Thomas J. McGrath

Date

/s/

8/27/2009

William M. Nies

Date

/s/

8/27/2009

Darwin A. Nissley

Date

/s/

8/27/2009

Lloyd C. Pickell

Date