

#2012-100

AGREEMENT BY AND BETWEEN
The Putnam County National Bank of Carmel
Carmel, NY
and
The Comptroller of the Currency

The Putnam County National Bank of Carmel, Carmel, NY (“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 has found unsafe and unsound banking practices relating to risk management, internal control processes, asset quality, and board oversight, in addition to violations of the Truth in Lending Act at the Bank. The Bank, without admitting or denying unsafe and unsound practices or violations of laws or regulations or, has determined to enter into this Agreement.

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 “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 the:

Thomas S. Angstadt, Assistant Deputy Comptroller
New York Metro Field Office
340 Madison Avenue, Fourth Floor
New York, NY 10173-0002

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 two (2) 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 (“Inside Director”). When an independent director is approved and appointed pursuant to Article IV, he or she shall be appointed to replace one of the current directors on the Compliance Committee, and it shall thereafter have no more than one (1) Inside Director. 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 forty five (45) 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
- (c) 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 MANAGEMENT

(1) The Board shall ensure that the Bank has competent management in place on a full-time basis in its managerial positions, from vice president to senior executive officers, 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.

(2) Within sixty (60) days, the Board shall review the capabilities of the Bank's management identified in Paragraph (1) to perform present and anticipated duties and the Board will determine whether management changes will be made, including the need for additions to or deletions from current management.

(3) For incumbent officers in the positions mentioned in Paragraph (1) of this Article, the Board shall within sixty (60) days assess each of these officers' experience, other qualifications and performance compared to the position's description, duties and responsibilities.

(4) Within sixty (60) days, the Board shall evaluate and revise the responsibilities of the position of EVP Operations and ensure that he/she is provided the resources necessary, such as additional staff and training, to carry out the revised duties and responsibilities in a satisfactory manner.

(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 sixty (60) days of its determination 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 (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 ninety (90) days of such vacancy identify and submit to OCC the information required by Paragraph (7) below, and immediately following receipt of written nonobjection from the OCC, appoint a capable person to 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.

(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" and "Background Investigations" booklets of the Comptroller's Licensing 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 to disapprove the appointment of the proposed new officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed officer.

ARTICLE IV

NEW DIRECTORS REQUIRED

(1) The Board shall immediately take action to add at least two (2) new independent directors. The Board shall (i) within one hundred and twenty (120) days identify at least one capable candidate and submit to OCC the information required by Paragraph (2) below, and immediately following receipt of written nonobjection from the OCC, appoint the first new

director and (ii) within one hundred and eighty (180) days identify a capable candidate and submit to OCC the information required by Paragraph (2) below, and immediately following receipt of written nonobjection from the OCC, appoint the second new director. The first new director appointed shall be added to the Compliance Committee required by Article II, to replace an Inside Director. The term “independent” means a person who is not an officer or employee of the Bank and who is not a director, officer or employee of its affiliates, who is not a director, officer or employee of the related interests (as the term “related interest” is defined in 12 C.F.R. § 215.2(n)) of any current director or senior executive officer and who is not a relative of any of these persons. In the event that the OCC objects or disapproves of a candidate proposed by the Board, the Board shall within sixty (60) days of the date of such objection or disapproval, identify and submit an alternate candidate for consideration by OCC and this process shall continue until two (2) new independent directors are added.

(2) Prior to appointing any new director, the Bank must provide the Assistant Deputy Comptroller with the following information

(a) the information sought in the “Changes in Directors and Senior Executive Officers” and “Background Investigations” booklets of the Comptroller’s Licensing Manual, together with a legible fingerprint card for the proposed individual;

(b) a written statement of the Board's reasons for selecting the proposed director.

(3) The Assistant Deputy Comptroller shall have the power to disapprove the appointment of the proposed new director. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed director.

(4) Until such time as the Bank adds two (2) new independent directors as required by Paragraph (1), the Board shall document its efforts to locate such candidates and shall provide monthly reports to the Assistant Deputy Comptroller summarizing its efforts to comply with the requirements of this Article. The first monthly report shall be submitted within thirty (30) days.

ARTICLE V

DIRECTORS' TRAINING PROGRAM

- (1) Within ninety (90) days the Board shall:
 - (a) adopt, implement, and thereafter ensure adherence to an ongoing training program for directors that:
 - (i) encompasses the Bank's applicable risk enumerated in the OCC's *The Director's Book*; and
 - (ii) emphasizes those areas identified as having weak risk management practices in the Risk Assessment Matrix of the most recent Report of Examination.
 - (b) forward the training program to the Assistant Deputy Comptroller within ten (10) days following the date of adoption of the program.
- (2) The Board shall, thereafter, update the training program as warranted by changes in the Bank's practices, risk profile, and regulatory requirements.

ARTICLE VI

INTERNAL AUDIT

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:

- (a) detect irregularities and weak practices in the Bank's operations;
- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
- (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (d) establish a current risk assessment that captures the auditable universe of the Bank and its risk profile. The risk assessment is to be updated, reviewed, and approved by the Board at least annually or more frequently to reflect changes in the Bank's products and services;
- (e) adequately cover all areas identified in this Article VI; and
- (f) 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) Within sixty (60) days, the Board shall implement a formal exception tracking system. Internal audit needs to validate management's corrective actions addressing identified issues to ensure they are adequate and have been properly implemented.

(4) 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.

(5) 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, which 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.

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

(7) 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.

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

(9) 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

INFORMATION TECHNOLOGY

(1) Within sixty (60) days, the Board shall:

- (a) ensure that management has corrected all the deficiencies cited by the internal audit as high risk issues relating to information technology (“IT”);
- (b) authorize management to develop a comprehensive IT risk assessment that encompasses all the IT specific risks presented by the Bank’s products and services. The risk assessment should provide an aggregate rating that will be incorporated into the Bank’s overall risk assessment;

- (c) direct and approve the revision of the IT policy to include control functions which management outsources to third party vendors. The Board shall ensure that controls included in the policy as enforced in practice; and
- (d) take all necessary steps to ensure that the information technology manager, or other designee(s), has the necessary skills and experience to supervise effectively the IT function.

(2) Within ninety (90) days, the Board shall ensure that management corrects all of the deficiencies cited by internal audit as moderate and low risk issues.

ARTICLE VIII

CONSUMER COMPLIANCE PROGRAM

(1) Within sixty (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, including, but not limited to, the Truth in Lending Act, 12 U.S.C. §§ 1601 et seq. and the implementing regulations at 12 C.F.R. Part 226 (Regulation Z). 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) the preparation of a policies and procedures manual covering all consumer protection laws, rules and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities;

- (d) updates of the written policies and procedures manual to ensure it remains current as new laws and regulations are introduced or existing ones are changed;
- (e) an audit program to test for compliance with consumer protection laws, rules and regulations;
- (f) procedures to ensure that exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;
- (g) the education and training of all appropriate Bank personnel in the requirements of all federal and state consumer protection laws, rules and regulations; and
- (h) 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.

(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 IX

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within thirty (30) days the Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (“Allowance”) and shall make such revisions to its Allowance program as are necessary for the maintenance of an adequate Allowance and to comport with the guidance on maintaining a proper Allowance found in OCC Bulletin 2006-47 – The Interagency Statement on the Allowance for Loan and Lease Losses. The review and revisions shall focus particular attention on updated collateral valuations for impaired loans.

(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) 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 X

APPRAISALS OF REAL PROPERTY

(1) Within sixty (60) days, the Board shall ensure the adoption of policies and procedures to determine the criteria for obtaining updated collateral evaluations and appraisals that are consistent with the regulatory guidance set forth in OCC Bulletin 2010-42 (Interagency Appraisal and Evaluation Guidelines).

(2) Within thirty (30) 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 the loan was rated substandard or worse in the ROE by the Bank's internal or external loan review, and the most recent independent appraisal is more than twelve (12) months old; and

(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 Subpart C.

(3) The Board shall instruct the appraiser(s) to comply with the requirements of 12 C.F.R. Part 34. A listing of all loans and parcels of OREO identified subject to 1(a) and (b) above shall be provided to the Assistant Deputy Comptroller within thirty (30) days.

(4) All such appraisals shall be completed within sixty (60) 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 XI

CLOSING

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

- (a) 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;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his 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 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. 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.

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

/s/
Thomas S. Angstadt
Assistant Deputy Comptroller
New York Metro Field Office

4/4/12
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/
Gail Carrion Murayari

4/4/12
Date

/s/
Dean Ryder

4/4/12
Date

Paula Ryder

Date

/s/
Wayne Ryder

4/4/12
Date

/s/
B. Hawley Smith

4/4/12
Date