

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 7th day of January, 1997~~4~~ (the "Effective Date"), by and between Landis Savings Bank, SLA (the "Association"), a state chartered stock association, having its main office located at 552 Landis Avenue, Vineland, New Jersey 08380 and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C.

WHEREAS, the OTS is the primary federal regulator of the Association; and

WHEREAS, based on the Report of Examination dated May 21, 1993 ("ROE"), the OTS, by and through the Regional Director for the Northeast Region or his designee ("Regional Director") is of the opinion that the Association has engaged in acts and practices in operating the business of the Association that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Association; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (1) comply with all applicable laws and regulations and (2) engage in safe and sound practices; and

WHEREAS, the Board of Directors of the Association (the "Board"), without admitting or denying that grounds exist for the initiation of administrative proceedings, wishes to cooperate with the OTS and to evidence their intent to: (1) comply with all applicable laws and regulations and (2) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises, the mutual undertakings set forth herein, the parties hereto agree as follows:

COMPLIANCE WITH LAWS AND REGULATIONS

1. The Association shall take all necessary and appropriate actions to achieve compliance with the following laws, regulations, and safe and sound business practices:

A. Section 563.170(c) of the OTS Regulations, 12 C.F.R. §§ 563.170(c) & 563.170(c) (regarding board meeting minutes);

B. Section 563.160(c)(2) of the OTS Regulations 12 C.F.R. § 563.160(c)(2) (regarding internal loan review);

C. Section 563.160(d)(1) of the OTS Regulations, 12 C.F.R. § 563.160(d)(1) (regarding inadequate GVAs);

D. Section 563.161(b) of the OTS Regulations, 12 C.F.R. § 563.161(b) (regarding compensation);

E. Section 563.170(c)(7) of the OTS Regulations, 12 C.F.R. § 563.170(c)(7) (regarding REO records);

F. Section 563.172 of the OTS Regulations, 12 C.F.R. § 563.172 (regarding re-evaluation of REO);

G. Sections 563.176(b)(2) of the OTS Regulations, 12 C.F.R. §§ 563.176(b)(2) (regarding interest-rate risk);

H. Section 563.180(a) of the OTS Regulations, 12 C.F.R. § 563.180(a) (regarding TFR errors);

I. Section 563.190(d) of the OTS Regulations, 12 C.F.R. § 563.190(d) (regarding bond coverage);

J. Section 564.8(c) of the OTS Regulations, 12 C.F.R. § 564.8(c) (regarding appraisal policies);

K. Sections 566.2(c) and 566.4 of the OTS Regulations, 12 C.F.R. §§ 566.2(c) § 566.4 (regarding liquidity requirements).

CORRECTIVE PROVISIONS

2. BUSINESS PLAN

A. No later than 30 days after the Effective Date, to the extent not already done, the Board shall adopt, implement and forward to the Regional Director a detailed Board approved three year business plan. The Association's Board, together with senior management, shall formulate the business plan, which shall include without limitation annual operating budgets, specific goals and strategies, time frames for accomplishment of such goals, pro forma statements, including assumptions and contingency plans in case interest rate assumptions used do not occur. In addition, the business plan shall address, but shall not be limited to, the following:

- (i) the Association's objectives, operating strategy and business philosophy during the next three year period;
- (ii) present financial condition;
- (iii) credit exposure;
- (iv) regulatory capital position;
- (v) profit composition;
- (vi) market penetration;
- (vii) interest rate risk management goals, including specific plans to prudently and effectively reduce interest rate risk exposure to levels within the limits established by the interest rate risk policy;
- (viii) projected sources and uses of funds;
- (ix) projected mortgage banking activity;
- (x) asset/liability management;
- (xi) internal audit program; and
- (xii) new business initiatives.

B. The Board shall receive monthly financial statements to use as a tool to monitor and measure management's implementation of the business plan. A written review of (and any necessary updates to) the business plan shall be prepared and certified by the Board on a quarterly basis. Such review shall be submitted to the Regional Director no later than 30 days following the end of each quarter.

3. BOARD REMUNERATION

A. The members of the Board immediately shall cease managing the day to day operations of the Association and shall cease receiving compensation from the Association for performing functions relating to such day to day operations. This restriction does not prohibit the Association from paying additional remuneration to the persons serving as Chairman or Vice-Chairman of the Board, provided that such remuneration is commensurate with the additional services provided to the Association by such persons solely in their capacity as Chairman or Vice-Chairman, as the case may be.

B. No later than 90 days after the Effective Date, the CEO must submit to the Board a written evaluation of the ability of the personnel of the Association to implement the business plan and otherwise operate the Association. The Board and the CEO must make any personnel changes necessary to successfully implement the

business plan.

4. BOARD MINUTES

Immediately after the Effective Date, the Board shall establish and maintain and record on a timely basis minutes of the meetings of the Board and its committees. All such minutes must be properly signed and shall fully and comprehensively: (i) reflect discussions held and dissenting views and opinions proffered by Board members; (ii) document important matters considered; (iii) delineate both policies and procedures approved and exceptions to approved policies and procedures; (iv) recite information reported by management to the Board and (v) recite the results of all votes taken and indicate how each member of the Board voted. Management's reports to the Board shall be comprehensive and apprise the Board of management's activities and the Board's minutes shall describe the Board's review, analysis and discussion of said reports.

5. TFR

Immediately after the Effective Date, the Board shall require management to establish procedures to ensure that the thrift financial report ("TFR") of the Association reports specific line items that are consistent with the definitions contained in the most recent TFR Instruction Manual.

6. LTOB REPORT

No later than 60 days after the Effective Date, the Board shall ensure that management establishes a consolidated report for the Board on all loans to one borrower that includes with respect to each such borrower a description of each loan to such borrower (e.g., type, amount and other terms) and an aggregated total of all loans to such borrower for the purposes the categories established by 12 C.F.R. §§ 32.3 and 32.4.

7. MORTGAGE BANKING OPERATIONS

No later than 90 days after the Effective Date, to the extent not already done, the Board shall adopt and ensure the implementation of comprehensive policies and procedures governing its mortgage banking operations, including without limitation procedures ensuring compliance with generally accepted accounting principles (e.g., requirement relating to marking to market). In connection with the formation of the policy, the Board and management shall review the "Mortgage Banking" chapter contained in the regulatory handbook entitled Service Corporations available from the OTS.

8. APPRAISAL POLICY AND PROCEDURES

No later than 30 days after the Effective Date, to the extent not already done, the Board shall revise, approve and ensure the implementation of the appraisal policy of the Association to conform to all applicable requirements, including but not limited to Part

564 and Section 563.172 of the OTS Regulations as well as other applicable industry appraisal standards. In particular, but without in any way limiting the foregoing, the appraisal policy must require state certification of appraisers, annual review by management of all approved appraisers used within the prior twelve months, see 12 C.F.R. § 564.8(c)(3), and specific criteria tailored to the different types of appraisals, e.g., single-family, drive-bys and commercial.

9. INTERNAL AUDIT POLICY AND PROCEDURES

No later than 60 days after the Effective Date, to the extent not already done, the Board shall adopt and ensure the implementation of a written internal audit policy appropriate to the size of the Association that will enable the Board to effectively monitor the implementation of its policies. The internal audit function, which must be independent of management and report directly to the Board, also will assist the Board in monitoring the actions and decisions of committees and management operating under delegated authority and comply with FHLBB Bulletin IA-5 (attached).

10. REO POLICY

No later than 30 days after the Effective Date, to the extent not already done, the Board shall adopt and ensure the implementation of a policy governing real estate owned that complies with all laws and regulations, including 563.172 of the OTS Regulations and addresses proper accounting treatment.

11. ESTABLISHMENT OF ALLOWANCES

A. Asset Evaluation Program. No later than 30 days after the Effective Date, to the extent not already done, the Board shall revise, approve and ensure the implementation of a comprehensive asset evaluation program ("Program") that ensures: (i) the proper reporting of assets criticized as "Loss," "Doubtful," "Substandard" or "Special Mention" (collectively "Criticized Assets") and (ii) the establishment of appropriate valuation allowances to reflect credit risk in its loan portfolio (including contingencies and percentage allocations). The Program shall, inter alia, name a management official responsible for carrying out the Program that: (a) is independent of the lending function and (b) reports directly to the Board.

B. Board Resolution. No later than 30 days after the end of each calendar quarter, the Board shall adopt a corporate resolution certifying that it has considered and attached the following: (i) a listing of all Criticized Assets in the most recent OTS Report of Examination and/or identified internally as a Criticized Asset and reported on Schedule TA of the TFR, including for each asset: (a) the loan or other identification number, (b) the borrower or title of the asset, (c) the association's recorded investment (i.e., principal balance, plus accrued interest, plus or minus related discounts or premiums), (d) the amount classified as special mention, substandard, doubtful or loss, (e) specific valuation

allowances established against the asset and (f) the carrying amount of the asset (recorded investment minus loss allowances) and (ii) an analysis of the adequacy of the Association's general valuation allowances prepared by management. See also 57 Fed. Reg. 39736 (September 1, 1992) (proposed guidance on GVAs).

12. ASSET WORKOUT AND CLASSIFICATION POLICY

A. Immediately after the Effective Date, to the extent not already done, the Board shall revise, approve and ensure the implementation of the asset workout and classification policy of the Association, which shall include without limitation: (i) establishment of an asset workout group whose responsibilities shall be (a) to develop and implement asset action plans with respect to each asset referred to the workout group and (b) to report to the Association's Board on the status of workout efforts on a monthly basis, (ii) the identification of all assets that will be referred to the asset workout group, which shall include without limitation all assets over \$100,000 that are reported as: (a) Criticized Assets in the most recent OTS Report of Examination and/or (b) identified internally as a Criticized Asset, (iii) a comprehensive analysis of all loan documents and related correspondence, (iv) a realistic analysis of (a) the available cash flow to service the debt, (b) the value of any collateral and (c) the ability to enforce any guarantees, (v) an assessment of potential legal issues relating to the workout and (vi) based on the above, the development of an asset action plan for the workout of each asset referred to the workout group, including a proposed timetable for each suggested action.

B. Each asset action plan shall, inter alia, identify the amount (if any) of any additional disbursements planned or contemplated for each asset, and contain a description of any contemplated modifications, extensions or renewals in connection with the asset.

13. INVESTMENT POLICY

No later than 30 days after the Effective Date, to the extent not already done, the Board shall revise, approve and ensure the implementation of the investment policy of the Association in accordance with OTS Thrift Bulletins 52 and 52-1. The policy shall include, without limitation, provisions addressing the desired asset/liability mix, specific asset concentrations, the range of the acceptable levels of interest rate risk, liquidity risk and credit risk, the range of investment limits and desired rates of return for each type of permissible investment, the need for management expertise and the role and limitations placed on investment consultants.

14. INTEREST RATE RISK POLICY

No later than 30 days after the Effective Date, to the extent not already done, the Board shall revise, approve and ensure the implementation of the interest rate risk policy of the Association

to comply fully with Section 563.176 of the OTS Regulations, and Thrift Bulletins 13, 13-1 and 13-2, including without limitation a formal strategy with specific objectives and time frames, new interest rate risk limitations based on the net portfolio value and net interest income that adequately protect the institution from a detrimental impact on its operations and capital and at least quarterly review by the Board of the policy and management's implementation of the policy.

15. CASH MANAGEMENT POLICY

A. Immediately after the Effective Date, to the extent not already done, the Board shall adopt and ensure the implementation of a cash management policy that ensures effective management and monitoring of the Association's liquidity, including without limitation compliance with Part 566 of the OTS Regulations. The Board shall ensure that management coordinates the cash management policy with the investment and interest rate risk policies.

B. No later than 10 Business Days after the Effective Date, the Board shall require that management establishes internal procedures designed to ensure that the Association complies with Section 566.2(c) of the OTS Regulations.

16. LOAN POLICY

Immediately after the Effective Date, to the extent not already done, the Board shall revise and ensure the implementation of the loan policy of the Association to address without limitation deficiencies in underwriting, documentation, file maintenance (e.g, current financial data and appraisals), collateral valuation, credit analysis and loan monitoring.

17. CODE OF ETHICS

No later than 30 days after the Effective Date, the Board shall adopt and implement a Code of Ethics Policy ("Code"). The Code shall at a minimum address the following:

A. Corporate Creed

The Code shall begin with a board statement of corporate policy and basic philosophical principles. The creed shall contain statements, guidelines, and examples of what constitute ethical behavior as a basis of how employees and other insiders will be judged;

B. Conflicts of Interest

A conflict of interest occurs if an employee or other insider deliberately advances personal interests at the expense of the institution or its customers or stockholders. The Code shall be crafted so as to comprehensively address permissible and impermissible activities, to provide examples and guidance and to clearly communicate the procedures the Association will use in

dealing with conflict problems;

C. Confidentiality

The Code shall state that information obtained through employment by or affiliation with the Association shall be private. The Code shall show how information must be guarded, what information is, and why abuses in this area can be harmful to the Association, the employees, and the customers;

D. Personal Finances

The Code shall state that improper handling of personal finances could undermine the credibility of the employee, other insider or the institution. Additionally, a precarious financial position could be thought to influence actions or judgments made for the institution. Specific policies and procedures for reporting financial transactions and liability statements of employees and other insiders who are in a precarious financial position shall be established. Such policies and procedures shall include reporting requirements that will alert the Board when employees or other insiders are in a precarious financial position.

E. Outside Activities

To ensure that an employee or other insider manages his/her outside activities without compromising the individual or the institution, the Code shall provide explicit restrictions and guidelines;

F. Protection of Property

The Code shall provide guidelines for the protection of the Association's property, including information, products, and services shall be addressed;

G. Laws and Regulations

The Code shall recite applicable criminal statutes and financial institution regulations. The descriptive list shall be as comprehensive as possible including, but not limited to, the following:

(1) Sections 23A and 23B of the Federal Reserve Act, 12 U.S.C. §§ ("FRA") 371c & 371C-1 (regarding transactions with affiliates);

(2) Section 22(h) of the FRA, 12 U.S.C. § 375b (regarding prohibitions respecting loans and extensions of credit to executive officers and directors of banks, political or campaign committees, etc.);

(3) Section 563.35 of the OTS Regulations, 12 C.F.R. § 563.35 (regarding restrictions involving loan services);

(4) Section 563.37 of the OTS Regulations, 12 C.F.R. § 563.37 (regarding operation of service corporation, liability of savings association for debt of service corporation);

(5) Section 563.39 of the OTS Regulations, 12 C.F.R. § 563.39 (regarding employment contracts);

(6) Section 563.40 of the OTS Regulations, 12 C.F.R. § 563.40 (regarding restrictions on loan procurement fees, kickbacks and unearned fees);

(7) Sections 563.41 and 563.42 of the OTS Regulations, 12 C.F.R. §§ 563.41 and 563.42 (implementing Sections 23A and 23B of the FRA).

(8) Section 563.43 of the OTS Regulations, 12 C.F.R. § 563.43 (implementing Section 22(h) of the FRA);

(9) Section 563.44 of the OTS Regulations, 12 C.F.R. § 563.44 (regarding loans involving mortgage insurance);

(10) Criminal statutes applicable to financial institutions pursuant to Title 18 of the United States Code.

Substantial penalties for noncompliance may be imposed on the institution, employee or other insider;

(H) Code Administration

The Code shall provide for a method for ensuring compliance, and policies and procedures for enforcing the Code shall be clearly described. The sanctions that will be imposed for ethical violations shall be uniformly applied.

18. JOB DESCRIPTIONS

No later than 30 days after the Effective Date, to the extent not already done, the Board shall establish job descriptions for directors, officers and other employees.

19. CHANGES IN DIRECTORS OR EXECUTIVE OFFICERS; TERMS OF EMPLOYMENT AND GOLDEN PARACHUTE PAYMENTS.

A. As required by Section 32 of the FDIA, 12 U.S.C. § 1831i and OTS Thrift Bulletin 45, the Association shall provide at least 30 days written notice to the OTS prior to the effectiveness of designating a new member of the Board or staff of "senior executive officers" (as defined in TB 45).

B. Pursuant to OTS Regulatory Bulletin 27a, the Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any Director, senior executive officer, or other institution-affiliated party of the Association or any Subsidiary or Affiliate thereof, unless it first (i) provides a minimum of thirty days advance notice of the

proposed transaction and (ii) receives a written notice of non-objection from the Regional Director with regard to the transaction.

C. The Association shall not make any "golden parachute payment," as that term is defined in Section 18(k) of the FDIA, 12 U.S.C. § 1828(k), and as it may be further defined in regulations adopted by the Federal Deposit Insurance Corporation ("FDIC") under that authority, unless it first (i) provides a minimum of thirty days advance notice of the proposed payment and (ii) receives a written notice of non-objection from the Regional Director with regard thereto.

20. THIRD PARTY CONTRACTS; TB 50 REVIEW

The Association shall not enter into any third party contracts outside the normal course of business pursuant to OTS Thrift Bulletin 50, without the prior written approval of the Regional Director.

BOARD OF DIRECTORS

21. COMPLIANCE WITH AGREEMENT.

A. The Board and Officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.

B. The Board, on a monthly basis, shall adopt a Board Resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar month, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption issued by the Regional Director that were outstanding as of the date of its adoption.

C. The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each Director voting in favor of its adoption; and (ii) the identity of each Director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.

D. No later than the 25th Calendar Day of the month following the end of a calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the Association shall provide to the Regional Director a certified true copy of the

Compliance Resolutions adopted at the Board meeting of each month in such calendar quarter. The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Association.

MISCELLANEOUS

22. DEFINITIONS:

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires: (a) the terms used in this Agreement have the meanings assigned to them in this Section 24 and include the plural as well as the singular; (b) all accounting terms not otherwise defined have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, except that if such terms are defined in the Rules and Regulations of the OTS, such regulatory definitions shall be controlling; (c) all terms not otherwise defined herein that are defined in the HOLA, the FDIA, the Rules and Regulations of the OTS or its publicly available bulletins and Advisory Memoranda shall have the meanings assigned to them in such statutes, Rules and Regulations, Bulletins, and Advisory Memoranda; and (d) all technical words or terms not subject to a definition in this Agreement shall have the meanings that accord with the best custom and usage in the thrift and banking industries.

"Advisory Memoranda" refers to inter alia, R Memoranda and T Memoranda issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Board Resolution" means a resolution duly adopted by the Board at a duly called and held meeting of the Board (or a Committee thereof) at which a quorum was present.

"Director" shall mean any current or former member of the Association's Board of Directors.

"FDIA" means the Federal Deposit Insurance Act, as amended.

"FHLMC" refers to the Federal Home Loan Mortgage Corporation.

"FIRREA" means the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183.

"HOLA" means the Home Owners' Loan Act, as amended, 12 U.S.C. §§ 1461 et seq.

"Officer" shall have the meaning set forth in Section 561.35 of the OTS Regulations, 12 C.F.R. § 561.35.

"OTS" refers to the Office of Thrift Supervision, United States Department of the Treasury, or its successor.

"Regional Director" or his successor is the senior supervisory official in the Northeast region of OTS. All references to the Regional Director shall include the Regional Director and/or his designee(s).

"Savings Association" shall have the meaning set forth in Section 2(4) of the HOLA, 12 U.S.C. § 1462(4).

"State" means the state of New Jersey.

23. SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS.

Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

24. NOTICES.

A. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

(1) the OTS by the Association, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 10 Exchange Place, Jersey City, New Jersey 07302 or telecopied to 201-413-7543 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(2) the Association by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 552 Landis Avenue, Vineland, New Jersey 08580 or telecopied to 609-794-3874 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

B. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

25. DURATION, TERMINATION OR SUSPENSION OF AGREEMENT.

A. This Agreement shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below and (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

B. The Regional Director in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

26. TIME LIMITS.

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

27. EFFECT OF HEADINGS.

The Section headings herein are for convenience only and shall not affect the construction hereof.

28. SEPARABILITY CLAUSE.

In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

29. NO VIOLATIONS OF LAW, RULE, REGULATION OR POLICY STATEMENT AUTHORIZED; OTS NOT RESTRICTED; RELATION TO STATE LAW.

A. Nothing in this Agreement shall be construed as: (i) allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

B. As an Association chartered under State law and subject to regulation and supervision by a State regulatory authority, the Association may be subject to various restrictions imposed by the appropriate State regulatory authority. The Association must continue to comply with any such restrictions, notwithstanding the receipt by the Association of authorizations or notices of non-objection of the Regional Director, except to the extent that such restrictions have been deemed to be pre-empted by Federal law.

30. SUCCESSORS IN INTEREST/BENEFIT.

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their

successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

31. SIGNATURE OF DIRECTORS.

Each Director signing the Agreement attests, by such act, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Association.

32. ENFORCEABILITY OF AGREEMENT.

The Association represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Association. The Association acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Association, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

THE ASSOCIATION

By:

By:

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Name: Robert C. Albanese
Title: Regional Deputy Director

Name: Wallace F. McMichael
Chief Executive Officer

DIRECTORS OF THE ASSOCIATION

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Director Garv E. Greenblatt

Director

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Director Samuel S. Herring

Director

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Director Gerald Genova

Director

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Director Paul Silverman

Director

Director

Director

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of Landis Savings Bank, SLA ("the Association") hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on December 21, 1993;
2. At said meeting a quorum was present and voting throughout;
3. The following is a true copy of resolutions duly adopted by the Association's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Association wishes to cooperate with the OTS and to demonstrate that said Board and the Association have the intent and ability to: (1) comply with all applicable laws and regulations and (2) engage in safe and sound practices; and

WHEREAS the Directors of the Association have read and considered the proposed Supervisory Agreement ("Agreement") which shall be attached to the minutes of this meeting; and

WHEREAS after due consideration, the Directors of the Association have determined to cause the Association to enter into the proposed Agreement which is in the best interest of the Association;

NOW THEREFORE, BE IT RESOLVED, that the Association be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

FURTHER RESOLVED, that the execution and delivery of, and performance of all of the provisions of the Agreement be, and they hereby are, authorized and approved,

FURTHER RESOLVED, that the Directors and Officers of the Association be, and they hereby are, authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the terms of the Agreement and to cause the Association to comply in all respects with the terms of the Agreement.

4. All members of the Board of Directors were present and voted at the meeting (except none) and all members of the Board of Directors (except none) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Association on this third day of January, 1994.

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Name: Wallace F. McMichael

Title: Corporate Secretary

(SEAL)

COMMENT-RULINGS FOR SUPERVISORY SERVICE (VOLS. 1 and 2)

ACCOUNTING/AUDITING

¶ 36,021

AUDITS OF INSURED INSTITUTIONS, SERVICE CORPORATIONS AND JOINT VENTURES BY INTERNAL AUDITORS

FHLBB, Bulletin #IA-5, February 17, 1978

This Bulletin supplements the Federal Savings and Loan Insurance Corporation's Statement of Policy (Section 571.2 of the Rules and Regulations for Insurance of Accounts) with respect to audits by internal auditors. Internal auditors must meet all applicable requirements of such Statement as well as all requirements set out in this Bulletin.

I. Applicable auditing standards. As a minimum, internal auditors must use generally accepted auditing standards. The internal auditor shall be familiar with applicable publications of the Financial Managers Society for Savings Institutions, Inc. (FMS) and of the American Institute of Certified Public Accountants (AICPA), including the "Internal Auditors Manual for Savings Institutions," (FMS); the industry audit guide, "Audits of Savings and Loan Associations," (AICPA); "Statements on Auditing Standards," (AICPA); and subsequent SAS releases promulgated periodically by the AICPA.

II. Audit period. The term "audit period" refers to the period of time between "audit dates." The period should be twelve (12) calendar months and may not be changed without approval of the District Director-Examinations.

III. Audit date. The term "audit date" refers to the AS OF date for annual audit reports to the District Director-Examinations. The audit date should coincide with a month-end date. Nothing said herein should be construed as prohibiting the commencement of audit work on an unannounced basis or as prohibiting continuous audit programs.

IV. Scope of audit.

A. GENERAL REQUIREMENTS. The internal auditor shall be familiar with the statutes, rules and regulations (Federal and State) under which the institution being audited operates, and with its charter and bylaw provisions.

The audit should incorporate the necessary procedures to satisfy the internal auditor that there is compliance with the applicable regulations that relate to accounting matters and accordingly may affect the institution's financial position or results of operations.

In instances where the internal auditor anticipates any material potential loss in the assets of the institution or a serious violation of any Federal or applicable State regulation, the circumstances should be discussed with the District Director-Examinations as soon as the audit work which disclosed the situation is completed.

Nothing in this Bulletin shall be construed to imply authority for the omission of any procedure

which internal auditors would ordinarily employ in the course of an audit made for the purpose of making a statement as to the accuracy of financial reports.

Any of the procedures referred to herein with respect to the review of internal controls, or audit procedures are fully applicable to accounting records maintained on automated equipment. The internal auditor shall be familiar with appropriate publications in this area as may be issued from time to time by the Federal Home Loan Bank Board, OES, FMS or AICPA, including Bulletin PA-7-1 and "Audits of Service Center Produced Records," (AICPA, 1974).

B. BOARD OF DIRECTORS' RESOLUTION. As of the effective date of this Bulletin (for existing internal audit programs) and/or at the time of commencing a new internal audit program, the board of directors of the institution and, where applicable, the board of directors of each service corporation, shall furnish the District Director-Examinations with a copy of the minutes of the directors' meeting at which a resolution providing for the following was adopted:

1. That the internal audit shall be performed to the satisfaction of the District Director-Examinations.

2. That the internal auditor is independent of all association operating and management personnel, that the auditor shall have access to all records of the association without prior notice wherever they may be and that the auditor shall report to the institution's board of directors (or audit committee thereof) any denial of access to such record by any officer or employee.

3. That the internal auditor shall make available, if requested by the District Director-Examinations, completed audit work programs and related audit workpapers, and shall render, if requested, a letter report to the District Director-Examinations indicating specific auditing procedures performed and the results thereof.

4. That the internal auditor shall perform specific auditing procedures in instances when the District Director-Examinations has issued written instructions to the internal auditor. These specific procedures may be in addition to those customarily performed by an internal auditor in accomplishing the audit program. The internal auditor may communicate to the board of directors (or audit committee thereof) and appropriate management officials, any specific instructions received from the District Director-Examinations, if in the judgment of the auditor, such communication should be made.

5. That the internal auditor shall meet at least annually with either the institution's and/or service corporation's full board of directors or a duly elected or appointed audit committee of the board of

directors. The purpose of the meeting would encompass a discussion of written reports which set forth the scope and results of work accomplished since the preceding meeting (including the annual report to the District Director-Examinations) along with recommendations and corrective actions taken by operating personnel. In connection with the meeting at which the annual report is discussed, the directors shall promptly file a letter with the District Director-Examinations acknowledging the meeting and setting forth action to be taken with respect to any deficiencies noted in the audit report.

6. That the internal auditor shall, upon discovering an apparent defalcation or being informed of such a matter, determine that the institution has immediately notified the District Director-Examinations in writing of the apparent defalcation. If the institution did not make such notification, the internal auditor shall immediately notify the District Director-Examinations and the board of directors of such defalcation.

Additionally, for new internal audits, the resolution shall confirm the items required by Section 571.2(c)(1)(ii) of the Policy Statement.

C. REVIEW OF THE SYSTEM OF INTERNAL CONTROL. The internal auditor has the responsibility to review and evaluate the adequacy of the institution's system of internal control in establishing the scope of his audit tests. Prior to any review, the internal auditor should be familiar with the chapters on internal control contained in the "Internal Auditors Manual for Savings Institutions" published by the FMS.

At this time, the FHLBB has not attempted to devise a standard list of internal controls which should be adopted by all savings and loan institutions and their subsidiaries. It is the responsibility of the internal auditor to develop a comprehensive control questionnaire as part of his review of the internal controls.

In conjunction with and in the rendering of the annual report (see Part V of this Bulletin), the internal auditor shall disclose any material weaknesses in the institution's system of internal control and shall include recommendations for strengthening controls in the areas of such weaknesses, together with corrective actions taken by the institution's management or operating personnel.

The internal auditor must review and test the written descriptions of the institution's systems of internal controls for the major areas of activity. The internal auditor is cautioned not to accept management's statements regarding controls in existence. The auditor should determine through observation, inquiry and tests of transactions that such controls are operative. Workpapers must indicate the methodology and the results of the tests. Any deficiencies noted by the internal auditor must be reported to management and the board of directors and appropriate follow-up action must be taken.

As a minimum, matters regarding physical and accounting controls in the following areas of an institution's operations should be reviewed and tested (such list is not designed nor intended to supplant the internal auditor's judgment):

- Cash
- Cash balances (on hand and in banks)

- Cash receipts (including payments on loans, deposits and investments)
- Cash disbursements (including withdrawals, lending, and expenses)
- Consignment items (travelers checks, savings bonds, etc.)
- Marketable securities and other investments
- Loans
- Lending policies and procedures
- Documents
- Delinquencies
- Interest income and accrual computations
- Unique controls required by specific types of loans
- Real estate owned (acquired for investment and/or through foreclosure or in lieu thereof)
- Property
- Other assets and deferred charges
- Savings accounts
- Inactive accounts
- Passbooks and certificates
- Opening
- Closing
- Interest expense and accrual computations
- Borrowed money
- Advances by borrowers for taxes and insurance
- Other liabilities and deferred credits
- Net worth and/or retained earnings accounts
- Review of operations

D. CONFIRMATION OF LOANS AND SAVINGS ACCOUNTS. The audit must include satisfactory confirmation of loans and savings accounts by direct correspondence. The internal auditor shall determine the extent of confirmation that in the auditor's judgment is necessary. The internal auditor's workpapers shall clearly disclose the number and percent, by both number and dollar amount, of loans and savings accounts confirmed. The workpapers must also disclose the type of confirmation used (i.e., positive or negative) and the basis used to select accounts for confirmation. If statistical sampling is used as the basis for selecting accounts, the workpapers must also disclose the method used and the confidence level achieved.

The internal auditor shall include in the periodic reports to the board of directors of the institution, and in the annual report to the District Director-Examinations, any material exceptions to confirmation requests that are not satisfactorily reconciled.

E. INSPECTION OF LOAN DOCUMENTS. The internal auditor has the responsibility to determine the extent that documents supporting loans made and purchased, prior and subsequent to the date of the previous audit report, are to be inspected. The auditor's workpapers shall clearly disclose the percent of the number of new loan files examined to the number originated in the current audit period. In addition, the working papers must disclose the number and percent of files examined applicable to previous audit periods to the total number of loans outstanding as of the end of the audit period. The workpapers shall also disclose the basis used to select loan accounts for document inspection.

tion and the specific documents inspected for each loan.

The internal auditor shall include in the periodic reports to the board of directors of the institution, and in the annual report to the District Director-Examinations, any material exception noted in the loan documents examined that are not satisfactorily resolved.

F. LOANS AND PARTICIPATIONS SOLD OR PURCHASED. The internal auditor has the responsibility to determine the extent of audit tests to be performed on loans and participations sold or purchased. The audit workpapers shall clearly indicate the extent of audit procedures performed and conclusions reached.

Audit procedures shall include confirmation of significant balances of loans or participations sold or purchased and the significant terms of the purchase or sale agreement with the purchaser or seller.

For loans or participations purchased, the internal auditor's workpapers shall clearly disclose the methods used to determine the adequacy of auditing procedures with respect to loans serviced by others. Such procedures shall include, as appropriate, obtaining letters from the servicing organization's public accountant and/or internal auditor confirming the extent to which their examination included confirmation of such loans, examination of related document files and determination of the accuracy of delinquency reports to the purchaser, and the results of such audit tests.

G. REVIEW OF ADEQUACY OF VALUATION ALLOWANCES. Particular care should be exercised in determining the need for and the adequacy of valuation allowances. The internal auditor shall consider the need for obtaining appraisals by independent, professional appraisers. The internal auditor shall discuss with the District Director-Examinations any proposed independent appraisal program prior to proceeding with such a program.

H. PERSONNEL. The internal auditor shall endeavor to avoid the use of operating personnel in the performance of the audit. However, if it is necessary to use such personnel, they should be closely supervised. Operating personnel must not be used to audit the records of the department to which they are assigned or the work for which they are responsible.

V. Annual audit report to the district director-examinations. An annual report of the internal audit must be prepared as of the audit date. The report should contain an outline of the scope and results of the work accomplished, along with the internal auditor's findings and recommendations, and the corrective actions taken by the institution.

The annual report must contain a summary of all matters of material substance contained in any reports to the institution's board of directors (or audit committee) since the preceding annual report.

The annual report shall contain a statement to the effect that the internal auditor has reviewed all annual and semiannual reports submitted to the Federal Home Loan Bank Board by the insured institution or service corporation during the audit period, and that the reports are accurate and present

the correct financial condition in accordance with the instructions for the reports.

The annual report shall also contain such financial statements as will meet the requirements for financial statements contained in Insurance Regulation 563.17-1(a)(2) and 563.45 (when applicable).

The term "annual audit report" refers, in addition to the material specifically required by this section, to the report on internal control, or to any other special or supplemental reports related to the audit or the report thereon, but not to the periodic reports submitted to the directors if matters of material substance contained in the periodic reports are summarized in the annual report.

VI. Filing of annual audit reports. The internal auditor shall file a copy of the annual audit report with the District Director-Examinations within 90 calendar days following the audit date. If the internal auditor finds that completion of the audit and issuance of his report will require a period in excess of 90 calendar days from the audit date, an extension of time from the District Director-Examinations should be requested in writing, providing the reasons for such delay. Unwarranted delay in completion of the audit or report thereon may be a basis for rejection of the internal audit by the District Director-Examinations.

VII. Change of internal auditor. If the board of directors, by appropriate resolution, terminates an internal auditor, the institution must notify the District Director-Examinations in writing (with a copy to the terminated auditor) within 15 days following such termination. Such notification must indicate the reason for the termination and must state whether in the past twenty-four months there were any disagreements with the internal auditor on any matter of auditing principles or practices, which disagreements if not resolved to the satisfaction of the internal auditor would have caused the auditor to make reference in the annual audit report to the subject matter of the disagreement. The board of directors shall request the terminated auditor to furnish a letter to the District Director-Examinations stating whether there is agreement with the statements contained in the letter of the institution and, if not, stating the respects in which there is disagreement.

A new internal auditor should be named within sixty days of the termination of an internal auditor. Action of the board of directors as provided by Section IV.B. of this Bulletin shall be accomplished.

VIII. Other requirements. The internal auditor shall not rely upon the performance of an examination by the Federal Home Loan Bank Board's Office of Examinations and Supervision, or report based thereon, to diminish his responsibility with respect to an audit of an insured institution or service corporation or subsidiary thereof.

This Bulletin becomes effective for audit years beginning after December 31, 1977 and supersedes all previous IA Bulletins issued by this Office. Inquiries and requests for information regarding matters covered by this Bulletin or Statement of Policy 571.2 should be directed to the District Director-Examinations for the Federal Home Loan Bank District in which the home office of an insured institution is located.