

## SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 18<sup>th</sup> day of August, 1992 (the "Effective Date"), by and between First Federal Savings and Loan Association of Hazleton (the "Association"), a federally chartered mutual savings association, having its main office located at 12 East Broad Street, Hazleton, Pennsylvania and the Office of Thrift Supervision ("OTS"), an office within the Department of the Treasury, a department in the Executive Branch of the United States Government, 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 November 5, 1991 ("ROE"), the OTS, represented by 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"), while neither admitting nor denying the matters contained in the ROE or that such grounds exist, wishes to cooperate with the OTS and to demonstrate that they have the intent to: (1) comply with all applicable federal 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, and other good and sufficient consideration, the parties hereto agree as follows:

## I. COMPLIANCE WITH LAWS AND REGULATIONS

1.1 The Association shall comply with the following Federal laws and regulations:

(a) Section 5(v)(1) of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. §1464(v)(1) (regarding reports of condition);

(b) Section 561.13 of the OTS Regulations, 12 C.F.R. §561.13 (regarding classification of consumer credit);

(c) Section 563.93(f)(2) of the OTS Regulations, 12 C.F.R. §563.93(f)(2) (regarding lending limitations - calculating compliance and record-keeping);

(d) Sections 563.160 and 571.26 of the OTS Regulations, 12 C.F.R. §§563.160 and 571.26 (regarding classification of assets);

(e) Section 563.170(c) of the OTS Regulations, 12 C.F.R. §563.170(c) (regarding establishment and maintenance of records);

(f) Section 563.172 of the OTS Regulations, 12 C.F.R. §563.172 (regarding re-evaluation of assets; adjustment of book value; adjustment charges);

(g) Sections 563.176(a), 563.176(b)(2) and 563.176(d) of the OTS Regulations, 12 C.F.R. §§563.176(a), 563.176(b)(2) and 563.176(d) (regarding interest rate risk management procedures); and

(h) Section 563.180(a) of the OTS Regulations 12 C.F.R. §563.180(a) (regarding periodic reports).

## II. CORRECTIVE PROVISIONS

### 2.1 Retention of a Management Consultant

No later than 60 days after the Effective Date, and subject to the prior written approval of the Regional Director, the Board shall engage the services of a management consultant ("Consultant") who shall undertake to perform a study of the Association's management. The study, the purpose of which is intended to assure that the Association has capable and effective management and staff to carry out the affairs of the Association, shall include, at a minimum:

(a) a written analysis and description, taking into consideration any plans to expand the type of products offered by the Association, of (a) the type and number of senior management and other positions needed to properly manage, supervise and carry out the affairs of the Association, and (b) an appropriate operational and organizational structure for the Association's staff;

(b) a written analysis and assessment of the depth and capabilities of the Association's existing senior management and the need for additional senior management and other staff and/or training of existing senior management and other staff;

(c) a description of the actions required to recruit, hire, and train any additional or replacement personnel with the ability, experience and other qualifications which the Board determines are necessary to resolve any weaknesses with respect to senior management and other staff noted in such study; and

(d) steps which shall be taken to ensure the retention of qualified management and other staff and the timely and orderly filling of vacancies.

The Consultant shall complete the study within 90 days of its engagement and forward its report and recommendations to the Board and to OTS within 30 days thereafter. The Board, within 30 days of its receipt of the report, shall advise OTS of its analysis of the Consultant's findings and recommendations and its planned course of action to implement the Consultant's recommendations. To the extent the Board determines not to implement or is unable to implement any of the Consultant's recommendations, in whole or in part, the Board shall promptly advise the Regional Director of such matter and, with particularity, its reasoning therefor.

## 2.2 Business Plan

### (a) Submission of Business Plan

No later than 60 days after the Effective Date, the Association shall implement a 3-year business plan which has been prepared by management and approved by the Board. Such approval shall be documented in the Board minutes.

### (b) Contents

The business plan, which shall contain target dates to the extent possible, shall, at a minimum, address the following areas: (i) the Association's objectives, operating strategy and business philosophy during the next three (3) year period; (ii) its present financial condition; (iii) the budget; (iv) credit exposure; (v) regulatory capital position; (vi) profit composition; (vi) market penetration; (vii) interest rate risk management; (viii) deposit solicitation strategies; (ix) projected sources and uses of funds; (x) projected mortgage banking activity; (xi) asset/liability management; (xii) internal audit program; (xiii) new business initiatives; and (xiv) reduction in overhead expense.

### (c) Review by Board

The business plan and its implementation by management shall be reviewed by the Board at least once during every calendar quarter and such review shall be documented in the Board minutes. During any such review, the Board shall determine if revisions are required and, if so, shall, with the assistance of management, revise the business plan accordingly.

## 2.3 Internal Audit Program

### (a) Policy

No later than 90 days of the Effective Date, the Board, if it has not already done so, shall adopt and implement an internal audit policy which will enable the Board to effectively monitor the implementation of its policies including all policies prescribed by this Agreement. The policy shall require that the preparation of Thrift Financial Reports be a subject of internal audit. Approval of the policy by the Board shall be documented in the Board minutes. Further, the Board shall assure that the Internal Audit Department ("IAD") is, and continues to be, sufficiently staffed with qualified personnel to oversee the Association's compliance with said internal audit policy.

(b) Quarterly Reports

The IAD shall, on a quarterly basis, prepare a report for the Board which shall, at a minimum, discuss: (i) the scope of the review; (ii) whether the Association is in compliance with applicable federal laws and regulations; (iii) whether the internal controls system is effective; (iv) the soundness and adequacy of accounting, operating and administrative controls; (v) the effectiveness of internal policies and procedures; (vi) the extent to which the Association's assets are protected against loss; (vii) any exceptions noted during the review; and (viii) the response of management to the exceptions.

(c) Review by the Board

The Board shall review the quarterly report specified in Section 2.3(b) and such review shall be documented in the Board minutes.

2.4 Ensuring the Accuracy of the Thrift Financial Reports

(a) Special Review By Internal Audit Department

No later than October 1, 1992, the IAD shall perform a complete review of the Association's information and data gathering system related to the preparation of Thrift Financial Reports ("TFRs") and shall recommend to the Board any policies and procedures to assure the accuracy of TFRs prepared by the Association. The minutes of the Board shall document the Board's consideration of any such recommendations and its decision with respect thereto.

(b) Preparation of TFRs

The TFRs shall be prepared by and under the direction of the Association's Treasurer. The Treasurer shall be listed as the report preparer on the TFR.

2.5 Procedures for Monitoring Loans to One Borrower

No later than 60 days after the Effective Date, the Association, if it has not already done so, shall develop and implement a system which shall permit the Association to accurately identify and monitor on an ongoing basis all loans to one borrower ("LTOB") in order to ensure continuing compliance with the LTOB requirements of 12 C.F.R. §563.93 generally and §563.93(f) particularly. Approval of this system by the Board shall be documented in the Board minutes.

## 2.6 Portfolio Evaluation Program

No later than 60 days after the Effective Date, the Board, if it has not already done so, shall develop and implement with the assistance of the appropriate officers of the Association a comprehensive program designed to evaluate on an ongoing basis the quality of its portfolio ("Program"), with attendant policies and procedures for general and specific valuation allowances, which Program: (i) ensures the proper reporting of the level of asset classifications; (ii) is consistent with 12 C.F.R. §§563.160 and 571.26; (iii) is based upon prudent levels of general valuation allowances; and (iv) takes into account specific risk factors relative to all asset categories. The Board shall name a management official, acceptable to the Regional Director, responsible for carrying out the Program who (i) is independent of the Association's lending functions and (ii) reports directly to the Board of Directors.

The first evaluation of the portfolio shall be completed within 90 days after the Effective Date at which time the results thereof shall be submitted by way of written report to the Board. The Board's consideration of the report shall be documented in the Board minutes. Further, the Association shall advise OTS as to any changes in asset classifications necessitated by said review. Thereafter, the portfolio shall be reviewed on a periodic basis pursuant to a schedule to be adopted by the Board which schedule shall require at least an annual review.

## 2.7 Commercial Business Lending

### (a) Policies and Procedures

No later than 30 days after the Effective Date, the Board shall submit to the Regional Director for his approval a policy to govern the Association's commercial business lending practices. Approval of the policy by the Board shall be documented in the Board minutes. The policy shall, at a minimum, set forth the Association's underwriting standards, documentation requirements, officer lending authorities, and other applicable policies and procedures.

### (b) Loan Restrictions

Except as otherwise permitted by the Supervisory Directive issued by OTS to the Association on November 21, 1991, and until the Regional Director shall have approved the Association's commercial lending policies and procedures as required by Section 2.7(a) hereof, the Association is prohibited from originating, granting, committing to make, purchase or advance funds for commercial and nonresidential real property loans as defined in Section 1464 (5)(c)(2)(A) of the HOLA and for land loans as defined in 12 C.F.R. §561.26.

## 2.8 Interest Rate Risk Management

No later than 30 days after the Effective Date, the Board shall review its interest rate risk policy and procedures to ensure consistency with OTS Regulations 12 C.F.R. §§563.17 and 571.3 and OTS Thrift Bulletins Nos. 13, 13-1 and 13-2 and shall set realistic limits, and document the bases therefor, on the amount of acceptable maximum change in the market value of portfolio equity as a result of possible changes in market interest rates.

The Association's management shall provide to the Board a quarterly report containing an analysis of compliance with the Board's adopted limits and how net interest income and the market value of portfolio equity would be affected by the hypothetical interest rate changes specified in the Board's policy. The Board's review shall be documented in the minutes.

## 2.9 Books and Records

Within 60 days after the Effective Date, the Board shall establish procedures to ensure the timely review and accuracy of the Association's general and subsidiary ledgers (with particular emphasis on preventing any of the deficiencies noted on page 3 of the ROE with regard to recordation of unrecorded investments, unearned discounts and premiums, interest rates on investments, loan transactions and participations, and investment in service corporations) and to ensure its accounting policies conform with regulatory requirements and generally accepted accounting principles.

## 2.10 Electronic Data Processing

Within 30 days after the Effective Date, the Board shall establish an Electronic Data Processing Steering Committee charged with the ongoing responsibility to evaluate and assure the adequacy, effectiveness and timeliness of the Association's data processing and management information systems.

### III. BOARD OF DIRECTORS

#### 3.1 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 quarterly 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 quarter, 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 in all material respects 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 Business 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 Resolution adopted during the first month immediately subsequent to 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 that to the best of its knowledge the statements with respect to compliance with the terms of this Agreement set forth in each Compliance Resolution are accurate in all material respects, 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.

### 3.2 Director Responsibility Continues

Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptance, such regulatory oversight does not derogate or supplant each individual Board member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

#### IV. MISCELLANEOUS

##### 4.1 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 4.1 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.

"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.

"Business Day" means any weekday excluding Federal holidays.

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

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

"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.

"Make" means (i) in the context of making a loan, to enter into a binding obligation (whether or not memorialized in writing) to provide loan funds; and (ii) the obtaining of a lender's interest in a pre-existing debt whether through a purchase, swap, or otherwise.

"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" within the meaning of Section 723(d) of the FIRREA, and refers to the Regional Director of 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).

#### 4.2 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.

#### 4.3 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, 18th Floor, Jersey City, N.J. 07302 or telecopied to (201) 413-5842 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 12 East Broad Street, Hazleton, Pennsylvania 18201 or telecopied to (717) 459-3760 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(b) Notice 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.

#### 4.4 Duration, Termination or Suspension of Agreement

A. This Agreement shall 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.

#### 4.5 Effect of Headings

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

#### 4.6 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 sole discretion determines otherwise.

#### 4.7 No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted; FDICIA Controlling

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, in any way, the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

B. To the extent that any provision of the Federal Deposit Insurance Corporation Improvement Act of 1991, Pub. L. No. 102-242, 105 Stat. 2236 (December 19, 1991) ("FDICIA") or any regulation(s) promulgated thereunder imposes more restrictive requirements than any provision contained in this Agreement (either expressly or through OTS interpretive Bulletins or policy statements), such provision(s) of the FDICIA or such regulation(s) shall be controlling.

4.8 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 in interest hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

4.9 Enforceability of Agreement

The Association and OTS represent and warrant 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 and the OTS, respectively. The Association acknowledges the "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:

151  
Name: Robert C. Albanese  
Title: Regional Deputy Director

151  
Name:  
Title: Chief Executive Officer

DIRECTORS OF THE ASSOCIATION

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