#2010-229

AGREEMENT BY AND BETWEEN
The First National Bank of Mercersburg
Mercersburg, PA
and
The Comptroller of the Currency

The First National Bank of Mercersburg, Mercersburg, PA ("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 strategic planning, credit risk management, and capital planning at the Bank.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors ("Board"), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

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

(6) 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:

James M. Calhoun
Assistant Deputy Comptroller
Pittsburgh Field Office
4075 Monroeville Boulevard, Suite 300
Monroeville, PA 15146

ARTICLE II

COMPLIANCE COMMITTEE

(1) The Board has appointed a Compliance Committee comprised of four (4) directors, none of whom is 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. 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, coordinating and reporting on the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the date of this Agreement and monthly thereafter until further notice, 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 and person(s) responsible for execution;

(b) actions taken to comply with each Article of this Agreement; and

(c) the status and results 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) Within sixty (60) days, the Compliance Committee shall complete a review of current management and Board supervision presently being provided to the Bank, including the Bank's management and Board effectiveness, structure, and its staffing requirements in light of the Bank's present condition. The findings and recommendations of the Compliance Committee shall be set forth in a written report to the Board. The Compliance Committee shall assess the management team's capacity to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations and strategic initiatives of the Bank in a safe and sound manner. At a minimum, the report shall consider:

For the Board:

(a) An assessment of the Board committees to ensure members are knowledgeable of areas delegated to the respective committees;

(b) An assessment of individual members' qualifications and skills compared to necessary qualifications and skills to properly supervise the activities of bank currently and in light of the Bank's strategic direction;

(c) An assessment of whether Board members are receiving adequate information on the condition, risks, and operation of the Bank to enable them to fulfill their fiduciary responsibilities and other responsibilities under law;

(d) Recommendations to correct or eliminate any other deficiencies in the supervision or organizational structure of the Bank.

For Management:

(e) The identification of present and future management and staffing requirements of each area of the Bank, with particular emphasis on the commercial lending, credit administration, loan workout, and financial areas:

(f) An evaluation of the adequacy of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;

(g) An evaluation of each senior officer's qualifications and abilities, and a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of his/her officer position;

(h) Objectives by which management's effectiveness will be measured;

(i) Recommendations as to whether management or staffing changes should be made, including the need for additions to or deletions from the current management team; and

(j) A training program to

(i) address identified weaknesses in the skills and abilities of the Bank's staff and management team; and

(ii) provide continuing education and networking opportunities to conversant on emergent issues relevant to the management of the Bank.

(2) Within ninety (90) days the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan, with specific time frames, that will correct any deficiencies identified above.

(3) The Board shall ensure that the Bank has satisfactory processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

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

(5) If any senior executive officer positions including the Chief Executive Officer/President, Senior Loan Officer or other senior credit management, or Chief Financial Officer becomes vacant in the future, including if the Board realigns an existing officer's responsibilities and a position or positions becomes vacant, the Board shall within one hundred and twenty (120) days of such vacancy appoint a capable person to the vacant position(s) 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.

(6) Prior to the appointment of any individual to an senior 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.

(7) 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.

(8) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the

Comptroller to complete his/her review and act on any such information or authority within ninety (90) days.

ARTICLE IV

STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, reduction in the volume of problem assets and capital together with strategies to achieve those objectives. The strategic plan shall at a minimum, include:

(a) a mission statement that forms the framework for the establishment of strategic goals and objectives;

(b) an assessment of the Bank's present and future operating environment;

(c) short and long term objectives for the growth, balance sheet mix, liquidity targets, concentrations, earnings performance, liability structure, dividends, capital adequacy, and products and services that the bank intends to promote or develop, together with strategies to achieve those objectives, including an assessment of whether the sale, merger, or liquidation of the Bank is in the best interests of the Bank;

(d) an action plan to improve bank earnings, including individual responsibilities, accountability and specific time frames;

(e) financial forecasts and projections for major balance sheet and income statement accounts, growth projections, targeted financial and liquidity ratios, and targeted capital ratios over the period covered by the plan;

(f) an evaluation of the Bank's internal operations and controls, staffing, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;

(g) a management employment and succession program to promote the retention and continuity of capable management;

(h) identification of individual responsibilities, accountability and specific time frames for each goal and objective of the plan;

(i) control systems to mitigate risks associated with planned new products or proposed changes in the Bank’s operating environment; and

(j) establish responsibilities and accountability for the strategic planning process and systems to monitor he Bank’s progress in meeting the plan’s goals and objectives.

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

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE V

CAPITAL PLAN

(1) Within ninety (90) days, the Board shall, in concert with your strategic plan, develop, implement, and thereafter ensure Bank adherence to a three year capital program. The program shall include:

(a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of 12 C.F.R Part 3;

(b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;

(c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;

(d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;

(e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and

(f) a dividend policy that permits the declaration of a dividend only:

(i) when the Bank is in compliance with its approved capital program;

(ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and

(iii) with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller. Upon receiving a determination of no supervisory objection, the Bank shall implement and adhere to the dividend policy.

(2) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall ensure that the bank implements and adheres to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(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 VI

PROFIT PLAN

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written profit plan to improve and sustain the earnings of the Bank. This plan shall include, at minimum, the following elements:

(a) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;

(b) realistic and comprehensive budgets, including projected balance sheets and year-end income statements;

(c) a budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections; and

(d) a description of the operating assumptions that form the basis for major projected income and expense components.

(2) The revised budgets and related documents required in paragraph (1) above for 2011 shall be submitted to the Assistant Deputy Comptroller by no later than December31, 2010. The Board shall submit to the Assistant Deputy Comptroller subsequent annual budgets as described in paragraph (1) above for each year this Formal Agreement remains in effect. The budget for each subsequent year shall be submitted on or before November 30, of the preceding year.

(3) The Board shall forward comparisons of its balance sheet and profit and loss statement to the profit plan projections to the Assistant Deputy Comptroller on a quarterly basis.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE VII

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any

examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

(a) an identification of the expected sources of repayment;

(b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;

(c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and

(d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

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

(4) 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.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

(a) the status of each criticized asset or criticized portion thereof that equals or exceeds two hundred fifty thousand dollars ($250,000);

(b) management's adherence to the program adopted pursuant to this Article;

(c) the status and effectiveness of the written program; and

(d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly) basis (in a format similar to Appendix A, attached hereto).

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed one hundred thousand dollars ($100,000) only if each of the following conditions is met:

(a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and

(b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised. A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE VIII

LOAN PORTFOLIO AND CREDIT RISK MANAGEMENT

(1) The Board shall, within ninety (90) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management and, in particular, to reduce the high level of credit risk at the Bank. The program shall include, but not be limited to:

(a) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;

(b) procedures to ensure pre- and post-funding analysis is comprehensive and includes a complete analysis of the primary source of repayment, guarantor support, and collateral value, including:

(i) analysis that focuses on key financial indicators (i.e. cash flow/repayment capacity, income statement trends/ratios, balance sheet analysis), in addition to other appropriate considerations for credit approval decisions and determining risk rating classifications for loans;

(ii) analysis of real estate projects that are complete and fully address the risks within the project. The analysis should include, at a minimum, an assessment of feasibility, absorption rates, and project value; and

(iii) analysis, assessment and verification of contingent liabilities and liquid assets when consideration of such is relevant to loan approval decision.

(c) procedures to ensure the timely re-appraisal of property based upon changes in market conditions, original project plans, or loans subject to criticism; including requirements for obtaining a qualified, third party review of commercial real estate appraisals.

(d) procedures to measure the success of workout activities;

(e) procedures to ensure conformance with loan approval requirements;

(f) a system to track and analyze exceptions by loan officer;

(g) procedures to ensure conformance with Call Report instructions;

(h) procedures to ensure the staff level is commensurate with the volume of real estate-related loans, and that staff has adequate resources, time, and training to complete thorough appraisal review;

(i) establish loan officer accountability for failure to timely risk rate loans and recognize nonaccrual loans under his or her supervision;

(j) an action plan to improve asset diversification and reduce the risks of concentrations of credit.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller. At least quarterly, the Board shall prepare a written assessment of the Bank's credit risk which shall evaluate the Bank's progress under the program required in paragraph (1). The Board shall submit a copy of this assessment to the Assistant Deputy Comptroller within ten (10) days of completion.

(3) Within ninety (90) days the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(4) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

(a) documenting the specific reason or purpose for the extension of credit;

(b) identifying the expected source of repayment in writing;

(c) structuring the repayment terms to coincide with the expected source of repayment;

(d) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable; and

(e) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, when loans are to be repaid from operations;

(i) Failure to obtain the information in (4)(e) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (4)(e) would be detrimental to the best interests of the Bank. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed pursuant to this Article.

(6) Within one hundred and twenty (120) days, the Board shall improve its concentration risk management practices by :

(a) expanding the scope of the concentration risk report to include, at a minimum, concentrations by loan product type, property type, collateral, geography, related borrower exposure, including borrowers within highly correlated industries;

(b) calculating concentrations as both a dollar exposure and as a percentage of capital and the loan portfolio;

(c) establishing limits for concentration risk based on capital capacity, correlations between concentrations and other relevant risk factors.; and

(d) reporting concentrations as determined through paragraphs (a) and (b) and monitoring compliance with the limits established in paragraph (c).

(7) Within thirty (30) days, the Board shall ensure that all retail loans are risk rated in accordance with Bank policy and OCC Bulletin 2000-20, "Uniform Retail Credit Classification and Account Management Policy." The Board shall ensure that reports are generated and reviewed for compliance and management is held accountable for accurate risk ratings.

(8) 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

PROBLEM LOAN MANAGEMENT

(1) Within forty-five (45) days, the Board shall review, in concert with Article III, the demonstrated experience and skills of those individuals that have responsibility for managing problem commercial loans and the Board will determine whether outside expertise is necessary for more complex commercial and commercial real estate borrowers and transactions.

(2) Within ninety (90) days, the Board shall create and implement a problem loan management policies and procedures that sets a hierarchy for criticized loans that establishes:

(a) early intervention guidelines;

(b) minimum workout plan requirements;

(c) the frequency and content of reports to the Board; and

(d) guidelines for advancing funds and approving renewed or restructured loans.

(3) Within ninety (90) days, the Board shall ensure that workout plans are created for all criticized commercial loans that equal or exceed two hundred and fifty thousand dollars (250,000). The workout plans will include, at a minimum:

(a) a summary of the loan exposure and guarantors and any related debt;

(b) summary of collateral, condition, and date of valuation;

(c) the risk rating and support for the rating;

(d) determination of accrual and impairment status;

(e) a synopsis of the financial condition of the borrower and guarantor, if applicable;

(f) comments to address the appropriateness of any charge-off amounts or specific allocations consistent with accounting standard A.S.C. 310-10, *Receivables – Allowance for Credit Losses*;

(g) a detailed plan to address the primary concerns, including borrower contact and collateral valuations;

(h) determination of whether or not the loan qualifies as a Troubled Debt Restructuring based on recent actions;

(i) due dates and timeframes for follow-up; and

(j) triggers that would result in a downgrade or upgrade of classification or a change in the accrual status.

(4) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

(a) early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;

(b) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, division, group, indirect dealer, and individual lending officer;

(c) previously charged-off assets and their recovery potential;

(d) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;

(e) adequacy of credit and collateral documentation;

(f) independent ongoing credit review and appropriate communication to management and the Board of Directors; and

(g) concentrations of credit.

(5) Within ninety (90) days, on a monthly basis management will provide the Board with written reports including, at a minimum, the following information:

(a) the identification, type, rating, and amount of problem loans and leases;

(b) the identification and amount of delinquent loans and leases;

(c) credit and collateral documentation exceptions;

(d) the identification and status of credit related violations of law, rule or regulation;

(e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph; and

(f) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios.

ARTICLE X

INTERNAL LOAN REVIEW

(1) Within ninety (90) days, the Board shall provide for an independent and on-going review, at least quarterly until further notice, of the Bank's commercial, commercial real estate retail loan portfolios. The system shall provide for a written report to be filed with the Board after each review. Such reports shall include, at a minimum, conclusions regarding:

(a) the overall quality of the loan portfolios, including key credit metrics and portfolio trends;

(b) the quality of underwriting, including loan structure, collateral, and credit analysis;

(c) the quality and effectiveness of credit administration practices, including financial statement tracking;

(d) the identification, type, rating, amount and administration of problem loans, including Other Real Estate Owned;

(e) the identification and amount of delinquent and non-accrual loans;

(f) the timeliness and adequacy of charge-offs;

(g) credit and collateral documentation exceptions;

(h) the identification and status of credit related violations of law, rule or regulation;

(i) concentrations of credit;

(j) ALLL levels and loan impairments consistent with accounting standard A.S.C. 310-10, *Receivables – Allowance for Credit Losses*;

(k) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and

(l) loans and leases not in conformance with the Bank's lending and leasing policies.

(2) A written description of the program called for in this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation.

(3) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE XI

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days, the Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses ("Allowance") and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the "Allowance for Loan and Lease Losses" booklet of the Comptroller's Handbook, and shall focus particular attention on:

(a) Loss estimates for differing loan types and risk classification. Loss estimates should be reflective of the differing risk characteristics of the loan portfolio and the influence of bank practices;

(b) The need for supplemental information when historical loss data is insufficient. Appropriate expert judgment should be applied when historical loss rates do not provide logically sound results;

(c) Relevant qualitative factors. The amount of the qualitative factor should start at zero for each quarter and be adjusted upward or downward based on events and circumstances present at the time of review; the amount should not be based on trends from quarter to quarter;

(d) Documentation that provides transparency to the allocation process and supports the ALLL balance in total and for each loan segment that is assigned a loss estimate; and

(e) The adequacy of loan loss provisions. If a material shortfall is determined, a provision must be made in the quarter the deficiency is identified and cannot be accreted over subsequent quarters.

(2) 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 XII

LIQUIDITY MANAGEMENT

(1) Within thirty (30) days, the Board shall expand the Sources and Uses Report to reflect in more detail the bank's available sources and anticipated uses of funds. The Report shall be expanded to show:

(a) Multiple time buckets in monthly, quarterly, and annual intervals;

(b) Short-term and longer-term positions;

(c) a maturity schedule of certificates of deposit, including uninsured deposits;

(d) the volatility of demand deposits including escrow deposits;

(e) the amount and type of loan commitments and standby letters of credit;

(f) an analysis of the continuing availability and volatility of present funding sources;

(g) an analysis of the impact of decreased cash flow from the Bank's loan portfolio resulting from delinquent and non-performing loans;

(h) an analysis of the investment portfolio including the impact of interest rate risk on the value and cash flow of investments;

(i) a cost of funds analysis, which shall identify the amount of funds that exceed national market rates by at least 75 basis points and the maturity schedule of such funds.

(2) Incorporating the results of the expanded Sources and Uses report as described in paragraph (1), within thirty (30) days of such expansion, the Board shall develop and implement a plan to increase the asset liquidity of the Bank to a level that is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base.

(3) Within ninety (90) days, the Board shall expand the Bank's contingency funding plan to include:

(a) improving the level of sources of stable funding given the Bank's anticipated liquidity and funding needs;

(b) numerically quantifying funding needs and sources under different stress scenarios, which represent management's best estimate of balance sheet changes that may result from a liquidity or credit event;

(c) obtaining lines of credit from the Federal Reserve Bank under normal and stressed scenarios;

(d) obtaining lines of credit from correspondent banks under normal and stressed scenarios;

(e) an analysis of collateral available for pledging against wholesale funding lines.

(4) The Board shall take appropriate action to ensure adequate sources of liquidity in relation to the Bank's needs. Monthly reports shall set forth liquidity requirements and sources and establish a contingency plan. Copies of these reports shall be forwarded to the Assistant Deputy Comptroller in the Bank's quarterly report to the Assistant Deputy Comptroller.

ARTICLE XIII

INTEREST RATE RISK MANAGEMENT

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a stronger written interest rate risk policy. In formulating this policy, the Board shall refer to the "Interest Rate Risk" booklet of the Comptroller's Handbook. The interest rate risk policy and procedures shall provide for coordinated interest rate risk strategy, and, at a minimum, address:

(a) establishment and guidance of the bank's strategic direction and tolerance for interest rate risk consistent with the Strategic Plan required under Article IV of this Agreement;

(b) implementation of effective tools to measure and monitor the bank's performance and overall interest rate risk profile;

(c) limits on the nature and amount of interest rate risk that can be taken either as a dollar amount or percentage change of net income and capital, that will maintain capital levels at or above minimum capital levels established in the Board approved capital plan as required under Article V – Capital Plan of this Agreement;

(d) include written contingency plans for interest rate risk scenarios with trigger points for specific actions:

(e) process for determining independent validation of the model and testing assumptions used;

(f) ensure appropriate training and expertise; and

(g) periodic review of the Bank's adherence to the policy and reasonableness of strategy.

(2) Within one hundred twenty (120) days, the Board shall improve the interest rate risk modeling process in order to effectively identify, measure, monitor, and control the level of market risk accepted by the bank. The Board needs to:

(a) implement an appropriate level of simulation modeling;

(b) develop and include bank specific and reasonable assumptions in the interest rate risk model in order to quantify the impact of rate changes on net income;

(c) set limits on the nature and amount of interest rate risk that can be taken;

(d) ensure an appropriate and varied number of scenarios;

(e) include measurement of earnings at risk and economic value of equity;

(f) establish adequate management reports on which to base sound interest rate risk management decisions; and

(g) establish a process for back-testing results.

(3) Upon adoption, a copy of the written policy and procedures, including documentation of interest rate risk model, shall be forwarded to the Assistant Deputy Comptroller for review.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

ARTICLE XIV

CLOSING

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

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) 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.

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

/s/ 10/27/10

James M. Calhoun
Assistant Deputy Comptroller
Pittsburgh Field Office

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/	10/27/10
Robert J. Fignar	Date
/s/	10/27/10
Edwin M. Hawbaker	Date
/s/	10/27/10
Robert H. Hoffman	Date
/s/	10/27/10
Jane E. Hoover	Date
/s/	10/27/10
Michael J Rice	Date
/s/	10/27/10
Larry L. Nair	Date
/s/	10/27/10
J. Elwood Rockwell	Date
Willam E. Sanders, Jr.	Date
/s/	10/27/10
Marelin K. Sites	Date