



# LARGE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

May 19, 2009

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Keystone National Bank  
Charter Number: 568

111 West Front Street  
Berwick, PA 18603

Office of the Comptroller of the Currency

NORTHERN PENNSYLVANIA Field Office  
60 Public Square Suite 602  
Wilkes-Barre, PA. 18701

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## Table of Contents

<b>OVERALL CRA RATING .....</b>	<b>1</b>
<b>DEFINITIONS AND COMMON ABBREVIATIONS .....</b>	<b>2</b>
<b>DESCRIPTION OF INSTITUTION .....</b>	<b>6</b>
<b>SCOPE OF THE EVALUATION .....</b>	<b>7</b>
<b>FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....</b>	<b>8</b>
<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS .....</b>	<b>9</b>
LENDING TEST .....	9
INVESTMENT TEST .....	17
SERVICE TEST .....	18
<b>Appendix A: Scope of Examination .....</b>	<b>A-1</b>
<b>APPENDIX B: MARKET PROFILES FOR FULL-SCOPE AREAS .....</b>	<b>B-1</b>
<b>APPENDIX C: TABLES OF PERFORMANCE DATA .....</b>	<b>C-2</b>

## Overall CRA Rating

**Institution's CRA Rating:** This institution is rated Outstanding.

The following table indicates the performance level of First Keystone National Bank with respect to the Lending, Investment, and Service Tests:

Performance Levels	First Keystone National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X		
High Satisfactory		X	X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- Lending levels reflect excellent responsiveness to assessment area credit needs;
- A substantial majority of home mortgage loans and small loans to businesses were made within the bank's assessment areas;
- The distribution of home mortgage loans and small loans to businesses by income level of the geography is good;
- The distribution of home mortgage loans and small loans to businesses by income level of the borrower is excellent;
- The bank made a good level of qualified community development investments, donations, and grants;
- Service delivery systems are accessible to individuals and geographies of different income levels in the assessment area; and
- The bank provides a good level of community development services.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved non-metropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for pre-approval and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by non-farm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

First Keystone National Bank (FKNB) is a \$722 million intrastate community bank headquartered in Berwick, Pennsylvania. The bank operated from 1864 until April 30, 2007 under the name of First National Bank of Berwick. The bank's name was changed to its present name, First Keystone National Bank, to reflect its regional expansion. On November 1, 2007, four branches of Pocono Community Bank were brought into the First Keystone family and continue to trade under their own name and as "A Division of First Keystone National Bank". When these four branches were acquired, FKNB expanded their assessment area to include all of Monroe County. FKNB is a wholly owned subsidiary of First Keystone Corporation, a bank holding company also headquartered in Berwick, Pennsylvania. The holding company and the bank do not have any other subsidiaries or affiliates.

As of May 19, 2009, FKNB has fourteen full-service branches located throughout Columbia, Luzerne, Montour, and Monroe Counties in Pennsylvania. Twelve of the branches have drive-through facilities. All fourteen branches offer extended Friday hours, ten have Saturday morning hours, and the supermarket branch has Sunday morning hours. In addition to the branches, FKNB has sixteen Automated Teller Machines (ATMs). Fourteen ATMs are located at the aforementioned branches, one ATM is located at the Berwick Hospital Center, and one ATM is located at the Susquehanna Valley Medical Center in Bloomsburg. The Berwick Hospital Center ATM is located in a moderate-income geography. The two stand alone ATMs, the Main Office ATM and the Kingston Office ATM are cash dispensing only ATMs, and the remaining twelve ATMs are full-service ATMs.

First Keystone National Bank offers a variety of deposit and loan products to meet consumer and commercial banking needs. Consumer products and services include checking accounts, savings accounts, money market accounts, certificates of deposit, personal loans, mortgages, and home equity loans. Commercial products and services include checking accounts, savings accounts, money market accounts, certificates of deposits, commercial and industrial loans, lines of credit, commercial real estate, and letters of credit. In addition, FKNB offers Trust & Financial Planning through its internal Trust department and also offers investments externally through Uvest Financial Services. FKNB also offers internet and telephone banking.

As of December 31, 2008, FKNB had net loans of \$403 million or 56% of total assets and net tier one capital of \$58 million. The composition of the loan portfolio is: 39% residential real estate, 50% commercial and commercial real estate loans, and 11% consumer and municipal loans.

Competition is very strong and includes local community banks, regional banks, national banks, credit unions, and mortgage companies. FKNB's primary competitors in Columbia County are: First Columbia Bank & Trust, FNB Bank, NA, PNC, and M & T Bank. Primary competitors in Montour County are: FNB Bank, NA, M & T Bank, and Sovereign Bank. Primary competitors in Luzerne County are: Wachovia Bank, NA, First National Community Bank, Citizen's Bank, PNC Bank, NA, M & T Bank, First Liberty Bank and KNBT. Primary competitors in Monroe County are: Pennstar, Penn Security, Wachovia Bank, NA, PNC Bank, NA, and FNB of Palmerton.

There are no financial or legal impediments impacting FKNB's ability to help meet the community credit needs of its Assessment Areas (AA's). FKNB's previous CRA examination

was conducted as of April 24, 2006, and the bank was assigned an “Outstanding” overall rating.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

The evaluation period for the Lending Test, with the exception of Community Development Loans, is January 1, 2006 through December 31, 2008. In evaluating the bank’s lending performance, we reviewed residential mortgage loans subject to filing under the Home Mortgage Disclosure Act (HMDA) and reportable loans to businesses. For Community Development Loans and the Investment and Service Tests, the evaluation period is from April 24, 2006 through May 19, 2009.

There were a minimal number of agricultural loans originated or purchased during the evaluation period; therefore, an analysis would not be meaningful and was not performed. Similarly, there were a minimal number of multifamily loans originated or purchased during the evaluation period; therefore, an analysis would not be meaningful and was not performed. The Lending Tables for both small loans to farms and multifamily loans have been eliminated.

### **Data Integrity**

Prior to this examination, we tested the accuracy of FKNB’s HMDA and CRA or business data. Results of this testing evidenced the data is reasonably accurate and can be relied upon for this CRA evaluation. Community Development loans, investments, and services submitted by management were also verified to ensure that they met the regulatory definition of community development.

### **Selection of Areas for Full-Scope Review**

FKNB has three assessment areas. We conducted a full-scope review of the Columbia and Montour Counties, Non-MSA AA and the Scranton-Wilkes-Barre, PA, MSA 42540 AA, and we conducted a limited-scope review of the Monroe County, Non-MSA AA.

The Columbia and Montour Counties, Non-MSA AA was selected for a full-scope review because 60% of the bank’s lending, 56% of the bank’s deposits, and six branches were in this AA.

The Scranton-Wilkes-Barre, PA, MSA 42540 AA was selected for a full-scope review because 34% of the bank’s lending, 21% of the bank’s deposits, and four branches were in this AA.

The Monroe County, Non-MSA AA was selected for a limited-scope review because only 6% of the bank’s total lending, 22% of deposits, and four branches were in this AA. Furthermore, the Monroe County, Non-MSA AA was not added until November, 2007, when the bank acquired Pocono Community Bank.

Please refer to Appendix A for more information and Appendix B for further information regarding the market profile of full-scope assessment areas.

## Ratings

The bank's overall rating is based primarily on those areas that received full-scope reviews. The Columbia and Montour Counties, Non-MSA AA was weighted more heavily because a majority of the lending and deposits were in this AA. The Lending Test was more heavily weighted than the Investment Test or the Service Test. For the Lending Test, FKNB's home mortgage loans received more weight than its small loans to businesses. During the evaluation period, approximately 65% of loans originated or purchased were home mortgage loans and 35% were small loans to businesses.

## Other

For the Columbia and Montour Counties, Non-MSA AA, we contacted one organization whose primary purpose is affordable housing and one organization whose primary purpose is to serve the business community and promote economic development. These contacts identified the following needs: investments in affordable housing development projects for low- and moderate-income individuals, including the elderly and the special needs population, donations and grants to organizations that support economic development, affordable housing and community services for low- and moderate-income individuals, small business loans in the \$50,000-\$100,000 range, small business seminars and education, bank personnel to serve on the Board of Directors and advisory panels for organizations that support economic development and affordable housing, credit counseling, first time home buyer seminars, and credit education on fraud prevention, identity theft, and predatory lending practices. The contacts believed the general banking and credit needs were being met in the AA. Both contacts specifically named FKNB and stated FKNB's responsiveness to the banking and credit needs of the area is outstanding.

For the Scranton-Wilkes-Barre, PA, MSA 42540 AA, we reviewed a recent community contact with a community organization whose primary purpose is affordable housing. We determined through this community contact and our internal research that opportunities exist for community development lending, investments, and services. According to the community contact, the primary needs of the area include: home purchase and home repair loans with reduced rates, favorable terms, reduced points, and closing cost assistance, loans, grants, and donations to organizations that provide affordable housing because federal funding is not sufficient, the development of a consortium of banks that could pull their money together to provide funding to organizations that develop affordable housing, and the development of a committee that includes, but is not limited to, banks, local organizations, and realtors who would meet quarterly to discuss affordable housing needs, how to meet these needs, and what bank programs are available for low- and moderate-income people. The community contact indicated the financial institutions are active and have been meeting the needs of the area.

## Fair Lending or Other Illegal Credit Practices Review

*We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.*

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test is rated "Outstanding". Based on full-scope reviews, the bank's performance in the Columbia and Montour Counties, Non-MSA AA is excellent and in the Scranton-Wilkes-Barre, PA, MSA 42540 AA is good.

#### Lending Activity

Overall, FKNB's lending activity is excellent.

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's lending activity.

#### The Columbia and Montour Counties, Non-MSA AA

FKNB's lending activity was excellent in this AA and reflected excellent responsiveness to the credit needs of the community when considering the level of competition from larger local lenders.

FKNB has six branches in this AA and 56.33% of the total deposits were in the AA. As of June 30, 2008, FKNB had a 25.87% deposit market share in Columbia and Montour counties, ranking it 1<sup>st</sup> among eight institutions in this market. Major competitors are: First Columbia Bank and Trust (21.01% deposit market share), FNB Bank, NA (15.74% deposit market share), Columbia County Farmers NB (15.41% deposit market share). FKNB's lending market share is compared to FKNB's deposit market share within this AA.

During the evaluation period, approximately 60% of the bank's lending was done in this AA. Approximately 61% of the home mortgage loans and 59% of the small loans to businesses were originated in this AA. Of the total loans originated in this AA, 65% of the loans were home mortgage loans and 35% were small loans to businesses. Among home mortgage originations, 24% were home purchase loans, 46% were home improvement loans, and 30% were home refinance loans.

The 2007 market share data for all mortgage data indicates FKNB ranked 3<sup>rd</sup> out of 169 mortgage lenders with a market share of 7.37%. Based on the same 2007 market share data, FKNB ranked 6<sup>th</sup> out of 109 lenders in the AA with a 5.03% market share in home purchase lending, 1<sup>st</sup> out of 47 lenders in the AA with an 18.45% market share in home improvement lending, and 5<sup>th</sup> out of 124 lenders in the AA with a 4.29% market share in home refinance lending.

Based on the 2007 CRA aggregating data, FKNB ranked 8<sup>th</sup> out of 40 lenders in the AA with a market share of 5.23%. The performance is good when considering the top three large,

nationwide lenders have a combined market share of 45% and offer small business credit cards.

Although the bank's market share in home purchase, home improvement, home refinance, and small business lending is below the bank's deposit market share in this AA, FKNB's performance is excellent when considering the competition from larger regional and nationwide mortgage lenders.

### **The Scranton-Wilkes-Barre, PA, MSA 42540 AA**

FKNB's lending activity was good in this AA and reflected good responsiveness to the credit needs of the community when considering the level of competition from larger local lenders.

FKNB has four branches in this AA and 21.44% of the total deposits were in the AA. As of June 30, 2008, FKNB had a 1.10% deposit market share in the Scranton-Wilkes-Barre, PA, MSA 42520, ranking it 20<sup>th</sup> among 26 institutions in this MSA market. Major competitors are: PNC Bank, NA (21.66% deposit market share), Wachovia Bank, NA (13.23% deposit market share), First National Community Bank (8.16% deposit market share), and Manufacturers and Traders Trust Company (8.10% deposit market share). In Luzerne County, FKNB had a 2.01% deposit market share, ranking it 13<sup>th</sup> among 20 institutions in Luzerne County. FKNB's lending market share is compared to FKNB's deposit market share within this AA.

During the evaluation period, approximately 34% of the bank's lending was done in this AA. Approximately 36% of the home mortgage loans and 32% of the small loans to businesses were originated in this AA. Of the total loans originated in this AA, 68% of the loans were home mortgage loans and 32% were small loans to businesses. Among home mortgage originations, 27% were home purchase loans, 40% were home improvement loans, and 33% were home refinance loans.

The 2007 market share data for all mortgage data indicates FKNB ranked 25<sup>th</sup> out of 315 mortgage lenders with a market share of 1.03%. Based on the same 2007 market share data, FKNB ranked 32<sup>nd</sup> out of 226 lenders in the AA with a .71% market share in home purchase lending, 12<sup>th</sup> out of 97 lenders in the AA with a 2.40% market share in home improvement lending, and 30<sup>th</sup> out of 226 lenders in the AA with a .84% market share in home refinance lending.

Based on the 2007 CRA aggregating data, FKNB ranked 22<sup>nd</sup> out of 59 lenders in the AA with a market share of 0.54%. This performance is good when considering the top three large, nationwide lenders have a combined market share of 44% and offer small business credit cards.

Although the bank's market share in home purchase, home refinance, and small business lending is below the bank's deposit market share in this AA, FKNB's performance is good when considering the dominance of larger regional and nationwide mortgage lenders.

## **Distribution of Loans by Income Level of the Geography**

Overall, the geographic distribution of FKNB's home mortgage loans reflects good penetration throughout the assessment area, and the geographic distribution of FKNB's small loans to businesses reflects good penetration throughout the assessment area.

### **The Columbia and Montour Counties, Non-MSA AA**

The geographic distribution of home mortgage loans is excellent, and the geographic distribution of small loans to businesses is excellent.

There were no low-income geographies in this AA; therefore, the distribution of loans among low-income geographies did not apply and was not performed. In our analysis, we took into consideration that there were only 1,326 owner-occupied housing units and only 445 businesses located in the one moderate-income geography in this AA. Therefore, FKNB's opportunities to lend in moderate-income tracts are limited, especially when considering the competition from other financial institutions.

#### ***Home Mortgage Loans***

Refer to Tables 2, 3, 4 and 5 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

#### ***Home Purchase Lending***

The geographic distribution of home purchase lending is excellent. The percentage of home purchase loans made in the moderate-income geography exceeds the percentage of owner-occupied housing units in this geography. FKNB's market share of home purchase loans made in the moderate-income geography exceeds its overall market share, and FKNB's market share of 13.64% in home purchase lending in the moderate-income geography ranks them 1<sup>st</sup> out of 32 institutions in the AA.

#### ***Home Improvement Lending***

The geographic distribution of home improvement lending is excellent. The percentage of home improvement loans made in the moderate-income geography exceeds the percentage of owner-occupied housing units in this geography. FKNB's market share of home improvement loans made in the moderate-income geography exceeds its overall market share, and FKNB's market share of 42.22% in home improvement lending in the moderate-income geography ranks them 1<sup>st</sup> out of 13 institutions in the AA.

#### ***Home Refinance Lending***

The geographic distribution of home refinance lending is excellent. The percentage of home refinance loans made in the moderate-income geography exceeds the percentage of owner-occupied housing units in this geography. FKNB's market share of home refinance loans made in the moderate-income geography exceeds its overall market share, and FKNB's market share of 11.27% in home refinance lending in the moderate-income geography ranks them 1<sup>st</sup> out of 34 institutions in the AA.

### ***Small Loans to Businesses***

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The geographic distribution of small loans to businesses is excellent. The percentage of small loans to businesses in the moderate-income geography exceeds the percentage of businesses located in the moderate-income geography. FKNB's market share of small loans to businesses in the moderate-income geography exceeds its overall market share.

### **The Scranton-Wilkes-Barre, PA, MSA 42540 AA**

The geographic distribution of home mortgage loans is adequate, and the geographic distribution of small loans to businesses is adequate.

There were no low-income geographies in this AA; therefore, the distribution of loans among low-income geographies did not apply and was not performed. In our analysis, we took into consideration the location of the bank's branches in relation to the moderate-income geographies in this AA.

### ***Home Mortgage Loans***

Refer to Tables 2, 3, 4 and 5 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

### ***Home Purchase Lending***

The geographic distribution of home purchase lending is adequate. The percentage of home purchase loans made in moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units in these geographies. FKNB's market share of home purchase loans made in moderate-income geographies is lower than its overall market share.

### ***Home Improvement Lending***

The geographic distribution of home improvement lending is adequate. The percentage of home improvement loans made in moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units in these geographies. FKNB's market share of home improvement loans made in moderate-income geographies is somewhat lower than its overall market share.

### ***Home Refinance Lending***

The geographic distribution of home refinance lending is adequate. The percentage of home refinance loans made in moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units in these geographies. FKNB's market share of home refinance loans made in moderate-income geographies is lower than its overall market share.

### ***Small Loans to Businesses***

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The geographic distribution of small loans to businesses is adequate. The percentage of small loans to businesses in moderate-income geographies is lower than the percentage of businesses in moderate-income geographies. FKNB's market share of small loans to businesses in moderate-income geographies is lower than its overall market share. This performance is considered adequate when taking into consideration there are only 2,520 businesses located in moderate-income geographies and FKNB is in competition with larger nationwide lenders including American Express, Citibank, NA, Chase Bank, NA, PNC Bank, NA, and Capital One, F.S.B.

### ***Lending Gap Analysis***

Our review of the geographic distribution of loans did not detect any conspicuous or unexplained gaps in FKNB's lending patterns.

### ***Inside/Outside Ratio***

FKNB originates a substantial majority of loans in their combined assessment areas. During the evaluation period, 94.17% of the number and 86.79% of the dollar amount of total home mortgage and small loans to businesses were within the bank's assessment area. For all home mortgage products, 95.13% of the number and 91.94% of the dollar amount were within the bank's assessment area. The number and dollar amount of home mortgage loans originated in the assessment area during the evaluation period by product type are as follows: 89.84% of the number and 87.42% of the dollar amount of home purchase loans, 97.80% of the number and 96.93% of the dollar amount of home improvement loans, and 96.29% of the number and 96.06% of the dollar amount of home refinance loans. Regarding small loans to businesses, 92.46% of the number and 82.39% of the dollar amount of total originations were within the assessment area.

### **Distribution of Loans by Income Level of the Borrower**

The overall distribution of home mortgage loans by income level of the borrower is excellent, and the overall distribution of small loans to small businesses is excellent.

### **The Columbia and Montour Counties, Non-MSA AA**

FKNB's distribution of home mortgage loans by borrower income level is excellent, and FKNB's distribution of small loans to small businesses is excellent.

### ***Home Mortgage Loans***

Refer to Tables 8, 9, and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

In our analysis, we considered the lack of affordability for a low-income family to purchase a home. The average median housing value in this AA was \$88,458, and a low-income family earns less than \$25,750. Additionally, 11% of the households in this AA are below the poverty level and are considered very low-income. This lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low-income families; therefore, we placed more emphasis on the moderate-income performance.

### ***Home Purchase Lending***

The borrower distribution for home purchase lending is excellent. The percentage of home purchase loans made to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. FKNB's market share to low-income borrowers exceeds its overall market share and ranks FKNB 3<sup>rd</sup> out of 26 lenders in lending to low-income borrowers. FKNB's market share to moderate-income borrowers exceeds its overall market share and ranks FKNB 4<sup>th</sup> out of 56 lenders in lending to moderate-income borrowers.

### ***Home Improvement Lending***

The borrower distribution for home improvement lending is excellent. The percentage of home improvement loans made to low-income borrowers exceeds the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. FKNB's market share to both low- and moderate-income borrowers exceeds its overall market share. FKNB ranks 1<sup>st</sup> out of 13 lenders in lending to low-income borrowers, and FKNB ranks 1<sup>st</sup> out of 24 lenders in lending to moderate-income borrowers.

### ***Home Refinance Lending***

The borrower distribution for home refinance lending is excellent. The percentage of home refinance loans made to low-income borrowers is near to the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers exceeds percentage of moderate-income families in the AA. FKNB's market share to both low- and moderate-income borrowers exceeds its overall market share. FKNB ranks 7<sup>th</sup> out of 34 lenders in lending to low-income borrowers, and FKNB ranks 4<sup>th</sup> out of 63 lenders in lending to moderate-income borrowers.

### ***Small Loans to Businesses***

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The borrower distribution of small loans to businesses is excellent. The percentage of small loans to small businesses (businesses with gross annual revenues of \$1 million or less) exceeds the percentage of small businesses in the AA. FKNB's market share of lending to small businesses exceeds its overall market share. FKNB ranked 4<sup>th</sup> out of 40 lenders in the AA with a 9.34% market share in lending to small businesses. The distribution by size of loan shows that approximately 77% of the loan originations are for \$100,000 or less. This is another indication that business lending is primarily to small businesses.

**The Scranton-Wilkes-Barre, PA, MSA 42540 AA**

FKNB's distribution of home mortgage loans by borrower income level is excellent, given the strong competition from a large number of institutions competing for business in the AA and the affordability of home ownership for a low-income family. FKNB's distribution of small loans to small businesses is excellent.

***Home Mortgage Loans***

Refer to Tables 8, 9, and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

In our analysis, we considered the lack of affordability for a low-income family to purchase a home. The average median housing value in this AA was \$83,155, and a low-income family earns less than \$27,350. Additionally, 12% of the households in this AA are below the poverty level and are considered very low-income. This lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low-income families; therefore, we placed more emphasis on the moderate-income performance.

***Home Purchase Lending***

The borrower distribution for home purchase lending is good. The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers is near to the percentage of moderate-income families in the AA. FKNB's market share to low-income borrowers is somewhat lower than its overall market share, and FKNB's market share to moderate-income borrowers is somewhat lower than its overall market share. FKNB's performance is good when considering the strong competition from large local, regional, and nationwide mortgage lenders.

***Home Improvement Lending***

The borrower distribution for home improvement lending is excellent. The percentage of home improvement loans made to low-income borrowers is somewhat lower than the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers is near to the percentage of moderate-income families in the AA. FKNB's market share to low-income borrowers exceeds its overall market share. FKNB's market share to moderate-income borrowers is somewhat lower than its overall market share. FKNB ranks 8<sup>th</sup> out of 39 lenders in lending to low-income borrowers, and FKNB ranks 17<sup>th</sup> out of 57 lenders in lending to moderate-income borrowers. FKNB's performance is excellent when considering the lack of affordability for low-income borrowers, the bank's market share position, and the competition from larger local, regional, and national mortgage lenders.

***Home Refinance Lending***

The borrower distribution for home refinance lending is excellent. The percentage of home refinance loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. FKNB's market share to low-income borrowers is somewhat lower than its overall market share. FKNB's market share to moderate-income borrowers exceeds its overall market share.

### ***Small Loans to Businesses***

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The borrower distribution of small loans to businesses is excellent. The percentage of small loans to small businesses (businesses with gross annual revenues of \$1 million or less) exceeds the percentage of businesses in the AA. FKNB's market share of lending to small businesses exceeds its overall market share. FKNB ranked 19<sup>th</sup> out of 59 lenders in the AA with a 1.04% market share in lending to small businesses. The distribution by size of loan shows that approximately 75% of the loan originations are for \$100,000 or less. This is another indication that business lending is primarily to small businesses.

### **Community Development Lending**

Community Development Lending had a neutral impact on the Lending Test rating. No Community Development loans were made in the Columbia and Montour Counties, Non-MSA AA or the Scranton-Wilkes-Barre, PA, MSA 42540 AA.

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans. In addition, Table 5 includes geographic lending data on all multi-family loans, including those that also qualify as CD loans. Table 5 does not separately list CD loans, however.

### **Product Innovation and Flexibility**

Product innovation and flexibility had a neutral impact on the Lending Test conclusion. The bank offers standard loan products, including first-time homebuyer's programs for low- and moderate-income individuals.

### **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the lending test in the Monroe County, Non-MSA AA is weaker than the bank's overall "Outstanding" performance under the lending test. FKNB's weaker performance is primarily due to the bank's very limited level of lending activity, which is attributed to the bank's limited presence in this AA. There were no low- or moderate-income geographies in this AA; therefore, the geographic distribution of lending was not performed. The borrower distribution for home purchase, home improvement, and home refinance lending was not as strong, and the bank's market share position for lending to low- and moderate-income borrowers was not as strong. The weaker performance in the Monroe County, Non-MSA AA had minimal impact on the overall lending test conclusion.

Refer to Tables 1 through 13 in appendix C for the facts and data that support these conclusions.

## INVESTMENT TEST

### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the investment test is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in the Columbia and Montour Counties, Non-MSA is excellent and in the Scranton-Wilkes-Barre, PA, MSA 42540 AA is poor.

Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

#### **The Columbia and Montour Counties, Non-MSA AA**

FKNB has an excellent level of qualified community development investments and donations in the Columbia and Montour Counties, Non-MSA AA, and the bank exhibits an excellent responsiveness to credit and community economic development needs in the AA.

We determined through our community contacts and internal research that investment opportunities exist. One community contact specifically mentioned FKNB's participation in two low-income housing tax credit investments. These two investments are discussed below. According to the community contact, the bank's participation in these two investments was critical in helping to meet the affordable housing needs of the area.

During the prior evaluation period, FKNB made a \$506 thousand equity investment commitment in an affordable rental housing development project for families of domestic abuse and families of "at risk" expectant mothers. The project, which is located in Scott Township, Columbia County, Pennsylvania, contains 1 one-bedroom unit, 5 two-bedroom units, and 2 three-bedroom units. All eight units will be occupied by qualified low-income individuals. The project qualifies for federal low-income housing tax credits, and FKNB is a 49.99% Limited Partner. FKNB funded \$506 thousand during the current evaluation period. As of April 30, 2009, this investment had a book value of \$448 thousand. The investment is not considered innovative or complex in nature.

During the current evaluation period, FKNB made a \$1.3 million equity investment commitment in an affordable housing development project for disabled adults who seek to live independently, but do not desire or require a group home. The project, which is located in Bloomsburg, Columbia County, Pennsylvania, will contain 4 one-bedroom units, 6 two-bedroom units, and 1 three-bedroom units as well as a community room, kitchen, vocational room, office, laundry facilities, and storage rooms. It is anticipated that all of the units will be occupied by low-income individuals. The project qualifies for federal low-income housing tax credits, and FKNB is a 49.99% Limited Partner. While FKNB committed to the \$1.3 million during the evaluation period, FKNB has not funded this investment. The investment is not considered innovative or complex in nature.

During the current evaluation period, FKNB made 32 donations for a total of \$15 thousand to 11 different organizations that provide affordable housing and community services to low- and moderate-income individuals in the AA.

**The Scranton-Wilkes-Barre, PA, MSA 42540 AA**

FKNB has a poor level of qualified community development investments and donations in the Scranton-Wilkes-Barre, PA, MSA 42540 AA, and the bank exhibits a poor responsiveness to credit and community economic development needs in the AA. We determined through our community contacts and internal research that investment opportunities exist.

During the current evaluation period, FKNB made 12 donations for a total of \$1 thousand to 7 different organizations that provide affordable housing and community services to low- and moderate-income individuals in the AA.

**Conclusions for Area Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank’s performance under the investment test in the Monroe County, Non-MSA AA is weaker than the bank’s overall “High Satisfactory” performance under the investment test. The bank’s performance is weaker than the bank’s overall performance because the number and dollar amount of investments and donations were minimal. The Monroe County, Non-MSA AA was not part of the bank’s assessment area until November, 2007, which attributed to the bank’s limited level of investments and donations. The weaker performance in the Monroe County, Non-MSA AA had minimal impact on the overall investment test conclusion. Refer to Table 14 in appendix C for the facts and data that support these conclusions.

**SERVICE TEST**

**Conclusions for Areas Receiving Full-Scope Reviews**

The bank’s performance under the Service Test is rated “High Satisfactory”. Based on full-scope reviews, the bank’s performance in the Columbia and Montour Counties, Non-MSA AA and the Scranton-Wilkes-Barre, PA, MSA 42540 AA is good.

**Retail Banking Services**

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank’s branch delivery system and branch openings and closings.

**The Columbia and Montour Counties, Non-MSA AA**

FKNB’s delivery systems are accessible to geographies and individuals of different income levels. FKNB has six branches in this AA. There are four branches located in middle-income geographies, and there are two branches located in upper-income geographies. There are no branches located in the moderate-income geography. The percentage of branches located in the moderate-income geography is significantly lower than the percentage of the population located in this geography. While there are no branches in the one moderate-income geography, FKNB has four branches in middle-income geographies that are in close proximity to the one moderate-income geography in this AA. No branches have been opened or closed during the evaluation period.

In addition to the six branches, FKNB has eight Automated Teller Machines (ATMs) within the assessment area. Six ATMs are attached to the aforementioned branches, and two are stand alone ATMs. One stand alone ATM is located at the Berwick Hospital Center, and one stand alone ATM is located at the Susquehanna Valley Medical Center in Bloomsburg. The Berwick Hospital Center ATM is located in a moderate-income geography.

Hours and services do not vary in a way that inconveniences certain portions of the assessment area, particularly the moderate-income geography and the low- and moderate-income individuals. All branches have ATMs and extended Friday evening hours. Four branches offer Saturday morning hours, and the supermarket branch offers extended evening hours during the week as well as Sunday hours. Five branches have drive-through facilities.

All six branches offer a full line of traditional banking products and services. FKNB offers a variety of checking account products. One of the products is a no minimum balance and no monthly service charge basic checking account, which allows low- and moderate-income individuals to maintain regular checking accounts. FKNB also offers a no minimum balance and no monthly service charge checking account product for non-profit charitable groups.

FKNB offers a variety of loan products. The First Time Homebuyer Program is tailored to assist low- and moderate-income individuals and families. FKNB will finance up to the lower of 95% of the purchase or appraised value of the home. The maximum purchase price is \$95,000, and the bank provides the borrower with a fixed rate mortgage and up to a twenty year term based on a twenty-five year amortization. FKNB also participates in the First Front Door Homebuyer Program through the Federal Home Loan Bank (FHLB). Through this program, the FHLB will assist with closing costs and down payments by matching a qualified homebuyer's contribution 3-1, based on the buyer's need. For every \$1 contribution the buyer makes, the FHLB will provide \$3 in grant assistance, up to a maximum of \$5,000. Participant contributions can take the form of savings, a gift, tax refund, inheritance or any other funds accumulated by the homebuyer. To qualify for the program, the borrower must be a first time homebuyer, complete at least four hours of homeownership counseling, contribute personal funds as part of the down payment and closing costs, and have an income at or below 80% of the area median income.

FKNB also provides alternative systems for delivering retail banking services to its community through full service Internet banking and bank by phone, which are available 24 hours a day. Since FKNB could not provide specific information on how low- and moderate-income individuals have benefited from these services, no weight was placed on alternative delivery systems.

### **The Scranton-Wilkes-Barre, PA, MSA 42540 AA**

FKNB's delivery systems are reasonably accessible to geographies and individuals of different income levels. FKNB has four branches in this AA, and all four branches are located in middle-income geographies. There are no branches in the moderate-income geographies in this AA. The percentage of branches located in moderate-income geographies is significantly lower than the percentage of the population located in these geographies. While there are no branches in the moderate-income geographies, FKNB has one middle-income branch that is in

close proximity to one of the moderate-income geographies in this AA. Additionally, there are two middle-income branches in this AA that are within close proximity to the one moderate-income geography in the Columbia and Montour Counties, Non-MSA AA. No branches have been opened or closed during the evaluation period. In addition to the four branches, FKNB has four Automated Teller Machines (ATMs) within the assessment area. All four ATMs are attached to the aforementioned branches.

Hours and services do not vary in a way that inconveniences certain portions of the assessment area, particularly moderate-income geographies and low- and moderate-income individuals. All four branches have drive-through facilities, ATMs, and extended Friday evening hours. There are two branches that offer Saturday morning hours.

All four branches offer a full line of traditional banking products and services. FKNB offers the same checking, loan programs, and alternative systems for delivering retail banking services in this AA as it does in the Columbia and Montour Counties, Non-MSA AA. Since FKNB could not provide specific information on how low- and moderate-income individuals have benefited from these services, no weight was placed on alternative delivery systems.

## **Community Development Services**

### **The Columbia and Montour Counties, Non-MSA AA**

FKNB provides a good level of community development services within its assessment area. Bank management and employees provided financial and technical expertise to six separate and qualified community development organizations. Their community development services focused on small business and economic development, affordable housing for low- and moderate-income individuals, and community services targeted to low- and moderate-income individuals. The following details the community development services that were provided during the evaluation period:

- One employee provides financial and technical expertise by serving on the board of a local industrial development association that provides assistance to small businesses.
- An employee provides financial and technical expertise by serving as Assistant Secretary/Treasurer for an organization that assists low- and moderate-income families with rental payments, provides a First Time Homebuyer Program to help with closing costs and down payments for income eligible first time home buyers, provides low-income housing for the elderly, and builds and sells low-income single family homes.
- Two employees provide financial and technical expertise by serving on the Board of Directors of an organization that works locally, regionally, and internationally to combat hunger, improve health and sanitation, and provide education and job training.
- One employee serves as the Treasurer/Secretary for an organization that promotes economic development.
- One employee and one Board member assist with fundraising activities for an organization whose primary purpose is to provide food, shelter, and counseling to women and families of domestic violence.

- One employee provided financial expertise by assisting and helping with fund allocations for an organization that provides community services to low-income individuals and families.

**The Scranton-Wilkes-Barre, PA, MSA 42540 AA**

FKNB provides a good level of community development services within its assessment area. Bank management and employees provided financial and technical expertise to six separate and qualified community development organizations. Their community development services focused on small business and economic development, affordable housing for low- and moderate-income individuals, and community services targeted to low- and moderate-income individuals. The following details the community development services that were provided during the evaluation period:

- One employee provides financial and technical expertise by serving as Treasurer of an organization that funds community projects that are dedicated to the revitalization of neighborhoods in Luzerne County.
- The President of the bank provides financial and technical expertise by serving on an Advisory Board for the workforce and community development division at a local college. This division works with regional constituents to initiate, refine, and deliver programs that support a well-trained workforce and to enhance the economic growth and community development of the region.
- A branch manager provides financial and technical expertise to an organization that raises and donates funds to projects that benefit low- and moderate-income individuals and their housing needs.
- One employee served as the bookkeeper for two organizations that provides community services to low-income individuals and families.
- One employee provides financial and technical expertise by serving as a Board member for an organization that provides low-interest loans to small businesses and provides financing to help businesses create and retain jobs.
- One employee provides financial and technical expertise to a not-for-profit organization that supports affordable housing projects for low- and moderate-income individuals and families.

**Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank’s performance under the Service Test in the Monroe County, Non-MSA AA is not inconsistent with the bank’s overall “High Satisfactory” performance under the Service Test. Refer to Table 15 in appendix C for the facts and data that support these conclusions.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): 1/1/06 through 12/31/08 Investment and Service Tests and CD Loans: (04/24/06 to 05/19/09)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First Keystone National Bank (FKNB) Berwick, PA	Home mortgage loans, small loans to businesses, community development loans, investments, and services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
NA	NA	NA
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
The Columbia and Montour Counties, Non-MSA AA	Full Scope	NA
The Scranton-Wilkes-Barre, PA, MSA 42540 AA	Full Scope	
The Monroe County, Non-MSA AA	Limited Scope	

## Appendix B: Market Profiles for Full-Scope Areas

### The Columbia and Montour Counties, Non-MSA AA

Demographic Information for Full-Scope Area: The Columbia and Montour Counties, Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	19	0.00	5.26	73.68	21.05	0.00
Population by Geography	82,387	0.00	6.97	73.10	19.93	0.00
Owner-Occupied Housing by Geography	23,148	0.00	5.73	72.08	22.19	0.00
Businesses by Geography	4,980	0.00	8.94	70.02	21.04	0.00
Farms by Geography	296	0.00	2.36	76.35	21.28	0.00
Family Distribution by Income Level	21,525	15.86	19.39	25.68	39.07	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	7,588	0.00	10.27	74.62	15.12	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below the Poverty Level	= \$41,475 = \$51,500 =11%				Median Housing Value = \$88,458 Unemployment Rate: Columbia County =6.8 % Montour County =5.7 %	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census, 2008 HUD updated MFI, and December 31, 2008 unemployment rate; Bureau of Labor Statistics

### The Columbia and Montour Counties, Non-MSA AA

FKNB’s Columbia and Montour Counties, Non-MSA AA includes all fifteen census tracts in Columbia County and all four census tracts in Montour County for a total of 19 census tracts. There are no low-income geographies (0%), one moderate-income geography (5.26%), fourteen middle-income geographies (73.68%), and four upper-income geographies. FKNB’s assessment area includes two middle-income geographies (9501.00 and 9503.00) in Montour County that have been designated as distressed by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency based on the rates of poverty, unemployment, and population loss. The assessment area complies with regulatory requirements and does not arbitrarily exclude low- and moderate-income areas.

The 2000 U.S. Census reported the total population of the AA at 82,387. Within the AA, there were 32,089 households and 21,525 families. The 2000 median income was \$41,475, and the 2008 HUD updated median family income was \$51,500. Approximately 16% of the families are low-income, 19% are moderate-income, 26% are middle-income, and 39% are upper-income. Approximately 11% of households are below the poverty level. There were 35,360 housing units in this AA with the following distribution: 65% were owner-occupied, 25% were rental-occupied and 10% were vacant housing units. The median housing cost was \$88,458.

According to the 2008 business demographics, there are a total of 4,980 businesses in the AA. Approximately 64% of the businesses reporting have revenues less than \$1 million, approximately 4% have revenues greater than \$1 million, and the revenue was not reported for approximately 31% of the businesses. Approximately 9% of the businesses are located in the moderate-income geography, 70% are located in middle-income geographies, and 21% are located in upper-income geographies.

According to the June 30, 2008 FDIC Summary of Deposit Market Share Report, FKNB was ranked first out of eight institutions in Columbia and Montour counties with a 25.87% deposit market share. Competitors in this market include: First Columbia Bank and Trust, ranked second with 21.01% of deposits, FNB Bank, NA, ranked third with 15.74% of deposits, Columbia County Farmers NB, ranked fourth with 15.41% of deposits, and PNC Bank, NA ranked fifth with 9.42% of deposits.

FKNB has six branches in this AA. There are four branches located in middle-income geographies, and there are two branches located in upper-income geographies. No branches have been opened or closed during the evaluation period. In addition to the six branches, FKNB has eight Automated Teller Machines (ATMs) within the assessment area. Six ATMs are attached to the aforementioned branches, and two are stand alone ATMs. One stand alone ATM is located at the Berwick Hospital Center, and one stand alone ATM is located at the Susquehanna Valley Medical Center in Bloomsburg. The Berwick Hospital Center ATM is located in a moderate-income geography.

The current local economy for the AA is characterized as being in the midst of a mild recession, but the downturn is less severe than that seen nationally or in Pennsylvania. Over the last year, the area has experienced three significant plant closures, which resulted in approximately 300 lost jobs. In addition to the jobs lost as a result of the plant closures, there were several hundred other layoffs in the area over the last year. The local university and Geisinger Medical Center help to stabilize the area and offset potential economic decline. In regards to housing, there is plenty of housing stock, but the uncertainty surrounding employment has hindered people from buying homes or upgrading to larger homes. The area has not experienced the volume of foreclosures seen in other areas; however, with the recent plant closings and layoffs, there may be an increase in foreclosures. Some of the major employers in Columbia County include: Bloomsburg University, Wise Foods, CHS Berwick Hospital Corporation, Magee Rieter Automotive Systems, Berwick Area School District, and Del Monte Corporation. Some of the major employers in Montour County include: Geisinger System Services, Geisinger Medical Center, Geisinger Clinic, Danville Area School District, and Great Dane LP.

According to the Bureau of Labor Statistics, the December 31, 2008 unemployment rate for Columbia County was 6.8%, the unemployment rate for Montour County was 5.7%, the Pennsylvania state unemployment rate was 6.4%, and the national unemployment rate was 7.2%.

During the examination, we contacted one organization whose primary purpose is affordable housing and one organization whose primary purpose is to serve the business community and promote economic development. These contacts identified the following needs: investments

in affordable housing development projects for low- and moderate-income individuals, including the elderly and the special needs population, donations and grants to organizations that provide affordable housing, economic development, and community services to low- and moderate-income individuals, small business loans in the \$50,000-\$100,000 range, small business seminars and education, bank personnel to serve on the Board of Directors and advisory panels for organizations that support economic development and affordable housing, credit counseling, first time home buyer seminars, and credit education on fraud prevention, identity theft, and predatory lending practices. The contacts believed the general banking and credit needs were being met in the AA. Both contacts specifically named FKNB and stated FKNB's responsiveness to the banking and credit needs of the area is outstanding.

**The Scranton-Wilkes-Barre, PA, MSA 42540 AA**

Demographic Information for Full-Scope Area: The Scranton-Wilkes-Barre, PA, MSA 42540 AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	103	0.00	13.59	73.79	12.62	0.00
Population by Geography	319,250	0.00	11.47	71.71	16.82	0.00
Owner-Occupied Housing by Geography	91,880	0.00	8.75	73.69	17.56	0.00
Businesses by Geography	20,372	0.00	12.37	71.24	16.39	0.00
Farms by Geography	424	0.00	4.95	69.10	25.94	0.00
Family Distribution by Income Level	84,729	19.48	18.97	22.94	38.61	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	32,575	0.00	16.62	73.18	10.20	0.00
Median Family Income = \$43,893 HUD Adjusted Median Family Income for 2008 = \$54,700 Households Below the Poverty Level =12%					Median Housing Value = \$83,155 Unemployment Rate = 7.7%	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census, 2008 HUD updated MFI, December 31, 2008 unemployment rate; Bureau of Labor Statistics.

FKNB’s Scranton-Wilkes-Barre, PA, MSA 42540 AA is a portion of the Scranton-Wilkes-Barre, PA, MSA 42540. The Scranton-Wilkes-Barre, PA, MSA 42540 includes Lackawanna, Luzerne, and Wyoming counties in Pennsylvania. FKNB designated all 103 census tracts in Luzerne County as its AA and excluded Lackawanna and Wyoming counties because they do not have branches in these counties and they could not reasonably service these two counties.

This AA contains a total of 103 census tracts. There are no low-income geographies (0%), 14 are moderate-income geographies (13.59%), 76 are middle-income geographies (73.79%), and 13 are upper-income geographies (12.62%). The assessment area complies with regulatory requirements and does not arbitrarily exclude low- and moderate-income areas.

The 2000 U.S. Census reported the total population of the AA at 319,250. Within the AA, there were 130,703 households and 84,729 families. The 2000 median income was \$43,893, and the 2008 HUD updated median family income was \$54,700. Approximately 19% of the families are low-income, 19% are moderate-income, 23% are middle-income, and 39% are upper-income. Approximately 12% of households are below the poverty level. There were 144,686 housing units in this AA with the following distribution: 63% were owner-occupied, 27% were rental-occupied and 10% were vacant housing units. The median housing cost was \$83,155.

According to the 2008 business demographics, there are a total of 20,372 businesses in the AA. Approximately 68% of the businesses reporting have revenues less than \$1 million,

approximately 6% have revenues greater than \$1 million, and the revenue was not reported for approximately 26% of the businesses. Approximately 12% of the businesses are located in moderate-income geographies, 71% are located in middle-income geographies, and 16% are located in upper-income geographies.

According to the June 30, 2008 FDIC Summary of Deposit Market Share Report, FKNB was ranked twentieth out of twenty-six institutions in the Scranton-Wilkes-Barre, PA MSA 42540 with a 1.10% deposit market share. Competitors in this market include: PNC Bank, NA, ranked first with 21.66% of deposits, Wachovia Bank, NA, ranked second with 13.23% of deposits, First National Community Bank, ranked third with 8.16% of deposits, Manufacturers and Traders Trust Company, ranked fourth with 8.10% of deposits, and Community Bank, NA, ranked fifth with 7.55% of deposits. FKNB was ranked thirteenth out of twenty institutions in Luzerne County with a 2.01% deposit market share.

FKNB has four branches in this AA, and all four branches are located in middle-income geographies. No branches have been opened or closed during the evaluation period. In addition to the four branches, FKNB has four Automated Teller Machines (ATMs) within the assessment area, and all four ATMs are attached to the aforementioned branches.

The Scranton-Wilkes-Barre, PA economy is in the midst of a mild recession. Although the downturn is less severe than that seen nationally or in Pennsylvania, the metro area is contracting because of rising joblessness and declining industrial production. Layoffs are primarily concentrated in manufacturing and transportation. Consumer-driven businesses are under increased pressure as slack is building in the labor market and real income growth is slowing. Steady hiring in education, healthcare, and defense spending is limiting the severity of the downturn. The metro area has been dodging a major decline in housing prices because of its above average affordability and manageable foreclosure pipeline. The contraction in the local economy combined with tough credit conditions is keeping home sales at depressed levels. With the demand very weak, homebuilders have cut residential construction. The major industries in Luzerne County are manufacturing and retail trade, and the major employers are: Altadis USA, Bemis Co., Inc., Best Foods Baking Co., Blue Cross/Blue Shield/NEPA, and Boscov's.

According to the Bureau of Labor Statistics, the December 31, 2008 unemployment rate for Luzerne County was 7.7%, the Pennsylvania state unemployment rate was 6.4%, and the national unemployment rate was 7.2%.

During the examination, we reviewed a recent community contact with a community organization whose primary purpose is affordable housing. We determined through this community contact and our internal research that opportunities exist for community development lending, investments, and services. According to the community contact, the primary needs of the area include: home purchase and home repair loans with reduced rates and favorable terms, reduced points, and closing cost assistance, loans, grants, and donations to organizations that provide affordable housing because federal funding is not sufficient, the development of a consortium of banks that could pull their money together to provide funding to organizations that develop affordable housing, and the development of a committee that includes, but is not limited to, banks, local organizations, and realtors who would meet quarterly to discuss affordable housing needs, how to meet these needs, and what bank

programs are available for low- and moderate-income people. The community contact indicated the financial institutions are active and have been meeting the needs of the area.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.-Not included in this PE.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the

bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.-Not included in this PE.

- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.-Not included in this PE.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the

table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.-Not included in this PE.

**Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.-Not included in this PE.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

Table 1. Lending Volume

LENDING VOLUME		Geography: FKNB				Evaluation Period: January 1, 2006 through December 31, 2008						
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
<b>Full Review:</b>												
Columbia and Montour Counties, Non-MSA AA	60.15	758	40,917	399	42,775	13	1,037	0	0	1,170	84,729	56.33
Scranton-Wilkes-Barre, PA, MSA 42540 AA	34.40	448	28,775	213	22,284	8	321	0	0	669	51,380	21.44
<b>Limited Review:</b>												
Monroe County, Non-MSA AA	5.45	43	5,486	62	13,828	1	300	0	0	106	19,614	22.23

\* Loan Data as of December 31, 2008. Rated area refers to either the state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is April 24, 2006 through May 19, 2009.

\*\*\* Deposit Data as of June 30, 2008. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE		Geography: FKNB					Evaluation Period: January 1, 2006 through December 31, 2008					Market Share (%) by Geography*				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans						
<b>Full Review:</b>																
Columbia and Montour Counties, Non-MSA AA	183	56.83	0.00	0.00	5.73	20.22	72.08	64.48	22.19	15.30	5.03	0.00	13.64	5.11	2.12	
Scranton-Wilkes-Barre, PA, MSA 42540 AA	120	37.27	0.00	0.00	8.75	3.33	73.69	80.83	17.56	15.83	0.71	0.00	0.00	0.89	0.52	
<b>Limited Review:</b>																
Monroe County, Non-MSA AA	19	5.90	0.00	0.00	0.00	0.00	33.63	36.84	66.37	63.16	0.00	0.00	0.00	0.00	19	

\* Based on 2007 Peer Mortgage Data: Eastern Region.

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT															Geography: FKNB		Evaluation Period: January 1, 2006 through December 31, 2008				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography										
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp						
<b>Full Review:</b>																					
Columbia and Montour Counties, Non-MSA AA	344	64.66	0.00	0.00	5.73	17.44	72.08	72.67	22.19	9.88	18.45	0.00	42.22	19.12	6.90						
Scranton-Wilkes-Barre, PA, MSA 42540 AA	176	33.08	0.00	0.00	8.75	3.98	73.69	93.18	17.56	2.84	2.40	0.00	0.79	3.13	0.52						
<b>Limited Review:</b>																					
Monroe County, Non-MSA AA	12	2.26	0.00	0.00	0.00	0.00	33.63	16.67	66.37	83.33	0.00	0.00	0.00	0.00	0.00						

\* Based on 2007 Peer Mortgage Data: Eastern Region.

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 2000 Census information.

Table 4. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE											Geography: FKNB Evaluation Period: January 1, 2006 through December 31, 2008				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Columbia and Montour Counties, Non-MSA AA	224	58.49	0.00	0.00	5.73	16.96	72.08	69.20	22.19	13.84	4.29	0.00	11.27	4.32	2.30
Scranton-Wilkes-Barre, PA, MSA 42540 AA	147	38.38	0.00	0.00	8.75	4.76	73.69	87.07	17.56	8.16	0.84	0.00	0.20	1.04	0.45
<b>Limited Review:</b>															
Monroe County, Non-MSA AA	12	3.13	0.00	0.00	0.00	0.00	33.63	8.33	66.37	91.67	0.00	0.00	0.00	0.00	0.00

\* Based on 2007 Peer Mortgage Data: Eastern Region.

\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 2000 Census information.

Table 6. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES												Geography: FKNB		Evaluation Period: January 1, 2006 through December 31, 2008				
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*							
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																		
Columbia and Montour Counties, Non-MSA AA	399	59.20	0.00	0.00	8.94	25.31	70.02	60.65	21.04	14.04	5.23	0.00	15.14	4.92	3.17			
Scranton-Wilkes-Barre, PA, MSA 42540 AA	213	31.60	0.00	0.00	12.37	1.41	71.24	89.20	16.39	9.39	0.54	0.00	0.00	0.71	0.29			
<b>Limited Review:</b>																		
Monroe County, Non-MSA AA	62	9.20	0.00	0.00	0.00	0.00	44.02	51.61	55.98	48.39	0.02	0.00	0.00	0.00	0.03			

\* Based on 2007 Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet 2008.

Table 8. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE		Geography: FKNB					Evaluation Period: January 1, 2006 through December 31, 2008					Market Share				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Families ***	% BANK Loans****	% Families ***	% BANK Loans****	% Families ***	% BANK Loans****	% Families ***	% BANK Loans****						
<b>Full Review:</b>																
Columbia and Montour Counties, Non-MSA AA	183	56.83	15.86	6.78	19.39	22.60	25.68	23.73	39.07	46.89	5.21	8.00	8.46	4.15	4.27	
Scranton-Wilkes-Barre, PA, MSA 42540 AA	120	37.27	19.48	5.98	18.97	17.09	22.94	26.50	38.61	50.43	0.74	0.44	0.49	0.93	0.83	
<b>Limited Review:</b>																
Monroe County, Non-MSA AA	19	5.90	12.72	0.00	14.39	10.53	19.97	21.05	52.92	68.42	0.00	0.00	0.00	0.00	0.00	

\* Based on 2007 Peer Mortgage Data: Eastern Region.

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 2.8% of loans originated and purchased by Bank.

Table 9. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT		Geography: FKNB					Evaluation Period: January 1, 2006 through December 31, 2008					Market Share				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers							
	#	% of Total**	% Families ***	% BANK Loans****	% Families ***	% BANK Loans****	% Families ***	% BANK Loans****	% Families ***	% BANK Loans****	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Columbia and Montour Counties, Non-MSA AA	344	64.66	15.86	19.47	19.39	26.84	25.68	24.78	39.07	28.91	18.62	37.50	21.01	20.77	12.36	
Scranton-Wilkes-Barre, PA, MSA 42540 AA	176	33.08	19.48	14.88	18.97	17.26	22.94	27.98	38.61	39.88	2.26	3.18	1.55	2.28	2.34	
<b>Limited Review:</b>																
Monroe County, Non-MSA AA	12	2.26	12.72	9.09	14.39	9.09	19.97	9.09	52.92	72.73	0.00	0.00	0.00	0.00	0.00	

\* Based on 2007 Peer Mortgage Data: Eastern Region.

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 2.6% of loans originated and purchased by Bank.

Table 10. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE												Geography: FKNB		Evaluation Period: January 1, 2006 through December 31, 2008				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share							
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Over all	Low	Mod	Mid	Upp			
<b>Full Review:</b>																		
Columbia and Montour Counties, Non-MSA AA	224	58.49	15.86	12.74	19.39	24.06	25.68	26.89	39.07	36.32	4.45	5.68	5.93	4.24	3.52			
Scranton-Wilkes-Barre, PA, MSA 42540 AA	147	38.38	19.48	7.14	18.97	20.00	22.94	32.86	38.61	40.00	0.89	0.22	1.02	1.09	0.84			
<b>Limited Review:</b>																		
Monroe County, Non-MSA AA	12	3.13	12.72	0.00	14.39	16.67	19.97	0.00	52.92	83.33	0.00	0.00	0.00	0.00	0.00			

\* Based on 2007 Peer Mortgage Data: Eastern Region.

\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 5.0% of loans originated and purchased by Bank.

Table 11. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES					Geography: FKNB		Evaluation Period: January 1, 2006 through December 31, 2008		
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less
<b>Full Review:</b>									
Columbia and Montour Counties, Non-MSA AA	399	59.20	64.44	80.70	76.94	11.28	11.78	5.23	9.34
Scranton-Wilkes-Barre, PA, MSA 42540 AA	213	31.60	67.86	82.63	74.65	14.55	10.80	0.54	1.04
<b>Limited Review:</b>									
Monroe County, Non-MSA AA	62	9.20	69.73	72.58	41.94	27.42	30.65	0.02	0.04

\* Based on 2007 Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B – 2008).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 3.26% of small loans to businesses originated and purchased by the Bank.

Table 14. Qualified Investments

QUALIFIED INVESTMENTS									
Geography: FKNB									
Evaluation Period: April 24, 2006 through May 19, 2009									
MA/Assessment Area:	Prior Period Investments		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Columbia and Montour Counties, Non-MSA AA	1	448	33	15	34	463	99%	1	1,285
Scranton-Wilkes-Barre, PA, MSA 42540 AA	0	0	12	1	12	1	<1%	0	0
<b>Limited Review:</b>									
Monroe County, Non-MSA AA	0	0	1	<1	1	<1	<1%	0	0

\* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS Geography: FKNB Evaluation Period: April 24, 2006 through May 19, 2009																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Columbia and Montour Counties, Non-MSA AA	56.33	6	42.86	0.00	0.00	66.67	33.33	0	0	0	0	0	0	0.00	6.97	73.10	19.93
Scranton-Wilkes-Barre, PA, MSA 42540 AA	21.44	4	28.57	0.00	0.00	100.00	0.00	0	0	0	0	0	0	0.00	11.47	71.71	16.82
<b>Limited Review:</b>																	
Monroe County, Non-MSA AA	22.23	4	28.57	0.00	0.00	50.00	50.00	0	0	0	0	0	0	0.00	0.00	37.16	62.84