

#2005-137

AGREEMENT BY AND BETWEEN
Ontario National Bank
Clifton Springs, New York
and
The Comptroller of the Currency

Ontario National Bank, Clifton Springs, New York (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his/her National Bank Examiner, has examined the Bank, and his/her findings are contained in the Report of Examination for the examination that commenced on February 16, 2005 (“ROE”).

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

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

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

(6) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

James M. Gouldie
Assistant Deputy Comptroller
Syracuse Field Office
231 Salina Meadows Parkway, Suite 105
Syracuse, New York 13212

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within fifteen (15) days of the date of this Agreement, the Board shall appoint a Compliance Committee of at least four (4) directors, of which no more than one (1) shall be an employee of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

- (2) The Compliance Committee shall meet at least monthly.
- (3) Within thirty (30) days of the date of this Agreement and monthly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:
 - (a) actions taken to comply with each Article of this Agreement; and
 - (b) the results and status of those actions.
- (4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

ARTICLE III

ACTION PLAN

- (1) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written action plan detailing the Board's assessment of what needs to be done to address the Matters Requiring Attention outlined in the Report of Examination (ROE) and the requirements of this Agreement to improve the Bank, specifying how the Board will implement the plan, and setting forth a timetable for the implementation of the plan.
- (2) Upon completion of the plan, the Board shall submit the plan to the Assistant Deputy Comptroller for review. The Board shall establish appropriate procedures for the implementation of the plan.
- (3) In the event the Assistant Deputy Comptroller recommends changes to the action plan, the Board shall immediately incorporate those changes into the plan.
- (4) The plan shall be implemented pursuant to the time frames set forth within the plan unless events dictate modifications to the plan. Where the Board considers modifications appropriate, those modifications shall be submitted to the Assistant Deputy Comptroller for prior

written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the plan.

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

ARTICLE IV

BOARD TO ENSURE COMPETENT MANAGEMENT

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

(2) If the Board determines that an officer will continue in his/her position but that the officer's depth of skills needs improvement, the Board will within thirty (30) days of the determination develop and implement a written program, with specific time frames, to improve the officer's supervision and management of the Bank. At a minimum, the written program shall include:

- (a) an education program designed to ensure that the officer has skills and abilities necessary to supervise effectively;
- (b) a program to improve the effectiveness of the officer;
- (c) objectives by which the officer's effectiveness will be measured; and

(d) a performance appraisal program for evaluating performance according to the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

(3) If any position mentioned in Paragraphs (1) or (2) of this Article become vacant now or in the future, including if the Board determines that the skills of the individual are not suitable for the position or realigns an existing officer's responsibilities and a position mentioned in paragraphs (1) or (2) becomes vacant, the Board shall within thirty (30) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(4) Prior to the appointment of any individual to an executive officer or director position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer or director; and
- (c) a written description of the proposed officer's or director's duties and responsibilities.

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

(6) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the Comptroller to complete his/her review and act on any such information or authority within ninety (90) days.

(7) Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller.

ARTICLE V

CAPITAL MAINTENANCE

(1) The Bank shall maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) Tier 1 leverage capital at least equal to eight percent (8%) of risk-weighted assets as defined by 12 C.F.R. § 6.2(d) and (f);
- (b) Tier 1 risk-based capital at least equal to ten percent (10%) of adjusted total assets as defined by 12 C.F.R. § 6.2(i) and (f); and,
- (c) Total risk-based capital at least equal to twelve percent (12%) of risk weighted assets as defined by 12 C.F.R. § 6.2(k) and (f).

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a dividend policy that permits the declaration of a dividend only:

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

- (b) with the prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

ARTICLE VI

CREDIT RISK MANAGEMENT

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

(2) The Board shall hold all bank officers who are involved in lending accountable for properly risk rating loans and bringing potential and actual problem loans to management's and the Board's attention in a timely manner.

(3) The Board shall continue to implement and ensure Bank adherence to a written program providing for an independent review of the Bank's loan portfolios, including problem loans and leases, for the purpose of monitoring portfolio quality and trends, on at least an annual basis. The program shall continue to provide for an independent reviewer's assessment of the Bank's:

- (a) monitoring systems for early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) systems for monitoring compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and,
- (c) systems for monitoring the adequacy of credit and collateral documentation.
- (d) the Board shall ensure that the independent loan review function appropriately applies risk ratings in accordance with risk rating definitions found in the "Rating

Credit Risk” booklet of the Comptroller’s Handbook, and that the independent loan review comments and documentation are consistent with and support the assigned risk rating.

(4) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." Upon adoption, and quarterly thereafter, a copy of the program for all criticized assets equal to or exceeding one hundred thousand dollars (\$100,000) shall be forwarded to the Assistant Deputy Comptroller.

This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment, including structuring the repayment terms to coincide with the expected source of repayment;
- (b) a valid appraisal of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(5) Within sixty (60) days, the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of

loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

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

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds one hundred thousand dollars (\$100,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.
- (e) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

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

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

- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.
 - (c) a copy of the approval of the Board or of the designated committee is maintained in the file of the affected borrower.
 - (d) documenting the specific reason or purpose for the extension of credit.
 - (e) failure to obtain the information in this paragraph shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information would be detrimental to the best interests of the Bank.
 - (f) a copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and
 - (g) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.
- (8) Within ninety (90) days the Board shall develop, implement, and thereafter ensure the Bank's adherence to a written program providing for a comprehensive and well-defined internal risk rating system to properly categorize and report the level of risk in the loan portfolio. The program shall use a loan and lease grading system consistent with the guidelines set forth in the "Rating Credit Risk" booklet of the Comptroller's Handbook.
- (a) within ninety (90) days, the Bank shall conduct a review of all lending relationships in excess of one hundred thousand dollars (\$100,000) to ensure the

relationship is properly risk rated in accordance with guidelines set forth in paragraph (9).

- (b) a written report summarizing the results of this review shall be presented to the Board, with a copy forwarded to the Assistant Deputy Comptroller.
- (c) within ninety (90) days, the Board shall develop and implement a system to formally track and report changes in loan risk ratings to senior management and the Board at least once per month.
- (d) the Board shall provide sufficient training to ensure all applicable personnel fully understand risk rating definitions and proper application of those risk rating definitions and standards.

ARTICLE VII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses ("Allowance") and shall further strengthen their program for the maintenance of an adequate Allowance. This program shall ensure proper risk ratings and include a qualitative factor adjustment for "levels of and trends in charge-offs and recoveries" as detailed in OCC Bulletin 2001-37 and be designed in light of the comments on maintaining a proper Allowance found in the "Allowance for Loan and Lease Losses" booklet of the Comptroller's Handbook. The program shall focus particular attention on the following factors:

- (a) loan loss experience, which must include a separate migration analysis for loans rated Special Mention;
- (b) present and prospective economic conditions; and
- (c) the specific recommendations included in the Report of Examination.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

ARTICLE VIII

INVESTMENT PORTFOLIO MANAGEMENT

(1) Within sixty (60) days, the Board shall develop and maintain an effective investment portfolio management process. The program shall be designed in light of the comments on developing effective risk management practices for a bank's securities activities found in OCC Bulletin 98-20, Investment Securities: Policy Statement and OCC Bulletin 2002-19, Unsafe and Unsound Investment Practices: Supplemental Guidance, and shall focus particular attention on:

- (a) management's portfolio strategy and intention for purchases and sales;
- (b) the ongoing documented analysis of the investment portfolio to identify trends in credit, interest, and liquidity risk, including at least quarterly reporting to the Board summarizing the level of risk in the portfolio; and,
- (c) the development of specific pre-purchase analysis requirements for all security types approved for purchase.

ARTICLE IX

INTERNAL AUDIT

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an adequate, internal audit program. The program shall be designed in light of the comments on developing and maintaining an effective internal audit function found in the “Internal and External Audits” booklet of the Comptroller’s Handbook and shall focus sufficient attention on the following factors:

- (a) provide the Internal Auditor with appropriate training, both internal and external, to ensure the Internal Auditor is competent and qualified to effectively administer the audit function;
- (b) improve audit workpaper documentation to include an adequate audit trail;
- (c) determine the Bank’s level of compliance with all applicable laws, regulations, and OCC issuances;
- (d) ensure adequate audit coverage in all areas, with focus on high-risk areas, and periodically review all audit programs for changes/updates;
- (e) removal of all operational responsibilities from the internal audit function; and,
- (f) expansion of the asset liability management audit to include a review of data integrity and an overview of internal controls over the preparation and reporting process.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

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

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

ARTICLE X

CLOSING

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

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

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

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

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither

the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

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

/s/

James M. Gouldie
Assistant Deputy Comptroller
Syracuse Field Office

9/16/05

Date

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

/s/ James E. Cheney	9/16/05 Date
/s/ Francis C. Gersbach	9/16/05 Date
/s/ John H. Griswold	9/16/05 Date
/s/ John F. Riley	9/16/05 Date
/s/ Robert F. Spink	9/16/05 Date
/s/ Richard F. VanHorne	9/16/05 Date
/s/ Dean G. Williamson	9/16/05 Date
/s/ John J. Wright	9/16/05 Date
/s/ Jerry W. Zehr	9/19/05 Date
_____	_____ Date