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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made, and is effective this 22nd day of June, 1989, by and between Peoples Savings and Loan Association of Brookville, Brookville, Pennsylvania, FHLBB Docket No. 5630 ("Peoples" or "Association") and the Federal Savings and Loan Insurance Corporation (FSLIC), which is under the direction of the Federal Home Loan Bank Board ("FHLBB").

WHEREAS, the Federal Savings and Loan Insurance Corporation ("FSLIC") is of the opinion that Peoples has violated certain of the laws or regulations to which it is subject and/or has engaged in certain unsafe or unsound practice(s) in conducting the business of the institution, and that such violation(s) and/or unsafe and unsound practice(s) provide grounds for the initiation of formal enforcement proceedings against Peoples by the FHLBB.

WHEREAS, Peoples' board of directors ("Board") acknowledges the interest of the FSLIC, as the insurer of the savings accounts of the Association, in the future condition of Peoples, and the supervisory rights, powers and authority of the FHLBB, as the operating head of the FSLIC, with respect to the Association under the statutes and regulations that govern the operations of the Association.

WHEREAS, in the interest of regulatory compliance and cooperation, Peoples is willing to enter into this Agreement to avoid the initiation of such formal enforcement proceedings.

WHEREAS, although the Board neither admits nor denies that the Association has violated any law(s) or regulation(s), or has engaged in any unsafe or unsound practice(s) as aforesaid, in the interest of regulatory compliance and cooperation, the board consents to entering into this Agreement to avoid the initiation of a formal administrative action and to address the supervisory concerns of the FHLBB.

WHEREAS, it is understood and agreed that this Agreement is a "written agreement" entered into with the "Corporation" as that phrase is used in Section 407(e) of the National Housing Act (12 U.S.C. § 1730(e)).

WHEREAS, the FSLIC is willing to forbear from the initiation of formal enforcement proceedings on the subjects covered by this Agreement for so long as Peoples is in compliance with the provisions of the Agreement that pertain to such subjects,

NOW, THEREFORE, in consideration of the FHLBB's above-stated forbearance from initiation of enforcement proceedings against Peoples, it is agreed between the parties hereto as follows:

1. Peoples shall take immediate and continuing action to protect its interest with regard to those assets criticized in the Report of Examination and any subsequent Report of Examination.

2. Within forty-five (45) days of the effective date of this Agreement, the Board shall adopt and implement written programs designed to eliminate the basis of criticism for those assets cited in the September 26, 1988 Report of Examination as "loss", "doubtful", "substandard" and "other assets especially mentioned." The programs shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Institution'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.

A similar program shall be adopted for all additional assets which are criticized by the Institution's internal loan review system required pursuant to Section 561.16c of the Insurance Regulations (12 CFR § 561.16c). Once adopted, copies of the programs for all such assets equal to or exceeding one hundred thousand (\$100,000) shall be forwarded to the Third District's Supervisory Agent ("Supervisory Agent").

3. The board, or a delegated committee thereof, shall review, on at least a monthly basis:
- (a) the status of each criticized asset or criticized portion thereof which is equal to or exceeds one hundred thousand dollars (\$100,000);
 - (b) management's adherence to the program adopted pursuant to this paragraph;
 - (c) the status and effectiveness of the written program; and
 - (d) the need to revise the program or take alternative action.

A copy of all such reviews shall be forwarded to the Supervisory Agent.

4. The Institution shall not extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to any borrower whose loans or other extensions of credit are criticized in the Report of Examination or any subsequent Report of Examination and whose aggregate loans or other extensions of credit exceed one hundred thousand dollars (\$100,000).
5. The immediately preceding paragraph shall not apply if:

- (a) the Institution's failure to extend further credit to a criticized borrower would be substantially detrimental to the best interests of the Institution;
 - (b) a comparison to the written program adopted pursuant to this paragraph shows that the board's formal plan to collect or strengthen said criticized asset is not compromised; and
 - (c) prior to renewing, extending or capitalizing any additional credit, a majority of the full board (or a delegated committee thereof) approves the credit extension and certifies, in writing, the specific reasons why failure to so act would not be substantially detrimental to the best interests of the Institution. A copy of the board certification shall be maintained in the credit file of the affected borrower(s).
6. Within ninety (90) days of the effective date of this Agreement, the board shall submit to the Supervisory Agent a written comprehensive Business Plan ("Plan") of at least three (3) years duration, setting forth specific goals, objectives, and strategies relating to the Association's future course of operations. The Plan shall also include a timetable for the implementation of said goals, target dates, measurements of performance objectives, and strategies; and the identification of the individual(s) responsible for implementation. In addition, the Plan shall provide for the inclusion of pro forma financial statements for the period covered by the Plan, including, but not limited to, a statement of condition at periodic dates,

statement of operating results at periodic intervals and sources and applications of cash flows. The Plan shall also include a projection of major balance sheet and income statement components, and shall provide for injections of equity capital should such action be necessary. The business plan shall also include a written profit plan and a detailed budget. Specifically, the plan shall describe the Bank's objectives for improving Bank earnings, and provide contemplated strategies and major capital expenditures required to achieve those objectives. Such strategies shall include specific market segments which the Bank intends to promote or develop. Procedures shall also be established to monitor the Bank's actual results against these projections and to provide for appropriate adjustments to the budget and profit plan. Additionally, the Plan shall provide for contingency plans in the event the Plan's assumptions and/or projections do not occur. Further, following implementation of the Plan, the Board shall, on a quarterly basis, submit to the Supervisory Agent a written report documenting its review of the Association's actual operating results in comparison with the projections contained within the Plan. Should the actual operating results fail to achieve the projections contained within the Business Plan in any material aspect, the report shall include an explanation of such deviation and specific description(s) and analyses of the measure(s) that have been implemented or proposed to correct or improve such deficiencies. The Board shall review the Business Plan on an annual basis and provide the Supervisory Agent with a copy of any revisions or modifications to the Plan.

7. Within thirty (30) days of the effective date of this Agreement, the Board shall review the Association's interest rate risk management policy and ensure that such policy is in accordance with the requirements of Section 563.17-6 of the Insurance Regulations, 12 CFR § 563.17-6. Such policy shall be revised in reference to the guidelines concerning prudent management of interest rate risk exposure contained at Section 420 of the FHLBS Regulatory Handbook for Thrift Activities (pp. 420.1 - 420.11) and Thrift Bulletin No. 13 and 13-1. The Board shall ensure that the Association's interest rate risk management policy focuses particular attention on the following matters:

- (a) explicit limitation on the Association's exposure to interest rate risk;
- (b) specific authorization and/or restrictions regarding trading activities, use of derivatives and synthetic instruments and hedging strategies; and
- (c) periodic management reports to the Board concerning compliance with policy and specific requirements as to the contents of such report.

A copy of the Association's interest rate risk policy and periodic revisions shall be submitted to the Supervisory Agent.

8. The Board shall review the adequacy of the Association's General Valuation Allowances (Allowance) and establish a program for the maintenance of an adequate Allowance in accordance with the requirement of Section 561.16c(d) of the Insurance Regulations, CFR § 561.16c (1988). This review and program shall be designed in light of the comments on maintaining a proper Allowance, as discussed within Regulatory Bulletin RB 6, entitled, "Adequacy of Valuation Allowances," issued on December 12, 1988 by the Federal Home Loan Bank System's Office of Regulatory Activities, and shall focus particular attention on the following matters:

- (a) results of the Association's internal loan review;
- (b) loan loss experience;
- (c) an estimate of potential loss exposure on each significant credit;
- (d) concentrations of credit in the Association;
- (e) present and prospective economic conditions;
- (f) loans criticized by the examiner or identified by the Association's internal loan review system;
- (g) trends of delinquent and/or nonaccrual loans;

- (h) charge-off, collection and recovery policies, procedures and their effectiveness;
- (i) trends in portfolio volume, maturity and composition; and
- (j) level, severity and trend of classified assets.

Following implementation of the program, the Board shall ensure that the Allowance is maintained at a prudent level in accordance with guidelines set forth in the Association's program. 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 Association's Thrift Financial Report, 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.

9. Within thirty (30) days the Association shall establish a system for the self-classification of assets in accordance with the requirements of Section 561.16c(c)(2) of the Insurance Regulations, 12 CFR § 561.16c(c)(2). Such system shall be consistent with the guidelines set forth at Section 260 of the FHLBS Regulatory Handbook for Thrift Activities (PP. 260.1 - 260.14).
10. Within forty-five (45) days of the effective date of the Agreement, the Board shall develop and adopt a written comprehensive plan of management depth and succession satisfactory to the Supervisory Agent.

11. Within forty-five (45) days, the Board shall adopt and submit to the Supervisory Agent a written plan of internal checks and controls which conform to the best practices in the financial services industry.
12. Within forty-five (45) days, the Board shall adopt and submit to the Supervisory Agent a written appraisal policy conforming fully to the requirements of Section 563.17-1a of the Insurance Regulations, 12 CFR § 563.17-1a.
13. The Board agrees to promptly provide the Supervisory Agent copies of all further correspondence from its external auditing firm.
14. The Board agrees to provide copies of all reports filed by Executive Vice President Murnaghan on Brookville office activities promptly with the Supervisory Agent.
15. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Association. All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, shall have meanings that accord with the best custom and usage in the savings and loan industry.

16. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

17. This Agreement shall remain in effect until terminated or modified or suspended by the FSLIC, acting through its Third District, Supervisory Agent. Such Agent may suspend in his/her sole discretion any or all such provisions of this Agreement during the term of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized officer or designated agent. A certified copy of the resolution of the Board of Directors of Peoples Savings and Loan Association authorizing the execution of this Agreement is attached hereto and made part hereof.

DIRECTORS OF THE ASSOCIATION:

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Paul A. Brazinski

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Carl W. Gamarino

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Roger M. Hasselman

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William L. Murnaghan

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Norbert J. Pontzer

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Jane P. Weilacher

By: 151

Supervisory Agent
FEDERAL HOME LOAN BANK BOARD/THIRD DISTRICT