

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this December 8, 2009 (Effective Date), by and through the Board of Directors (Board) of Phoenixville Federal Bank and Trust, Phoenixville, Pennsylvania, OTS Docket No. 04504 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Northeast Region (Regional Director).

WHEREAS, based on its May 11, 2009 examination of the Association, the OTS finds that the Association has failed to comply with the requirements of laws or regulations to which the Association is subject, engaged in acts and practices that are unsafe and unsound, and failed to correct other deficiencies and weaknesses in its operations; and

WHEREAS, the Association, which is subject to examination, regulation and supervision by the OTS, is taking steps to address the violations of laws or regulations, unsafe and unsound acts and practices, and weaknesses and deficiencies identified by the OTS; and

WHEREAS, in furtherance of their common goal to ensure that the Association continues to address the violations of laws or regulations, unsafe and unsound acts and practices, and weaknesses and deficiencies identified by the OTS, the Association and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on December 2, 2009, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Compliance with Laws and Regulations.

1. The Association shall comply with the following laws or regulations and comply with interagency guidance:

- (a) 12 C.F.R. § 560.1(b) (concerning general lending standards);
- (b) 12 C.F.R. § 560.160 (concerning asset classifications);
- (c) 12 C.F.R. § 560.170 (concerning records for lending transactions);
- (d) 12 C.F.R. § 560.30 (concerning lending limitations);
- (e) 12 C.F.R. § 562.1 (b) (concerning maintaining accurate and complete records and filing of accurate and complete regulatory reports);
- (f) 12 C.F.R. Part 570, Appendix A, Section II, A (concerning Interagency Guidelines for internal controls and information systems); Section II, C (concerning Interagency Guidelines for loan documentation); Section II, D (concerning Interagency Guidelines for credit underwriting); and Section II, G (concerning Interagency Guidelines for Asset Quality); and
- (g) 12 C.F.R. § 563.39 (concerning requirements for employment contracts with officers and employees).

Revised and Enhanced Underwriting and Credit Administration Policies and Procedures.

2. Within thirty (30) days, the Association shall revise its loan underwriting and credit administration policies and procedures (Loan Policies and Procedures) to address areas of regulatory concern noted in the Association's Report of Examination dated May 11, 2009 (2009 ROE). The revised Loan Policies and Procedures shall comply with applicable regulations, including 12 C.F.R. Part 560, and with OTS guidance, including Section 201 of the OTS

Examinations Handbook, and Appendix A to 12 C.F.R. Part 570 – Interagency Guidelines

Establishing Standards for Safety and Soundness, and, at a minimum, shall:

- (a) identify each type of loan that the Association makes or purchases and establish requirements, including documentation, credit analysis, collateral, lien perfections, borrower's current financial information and interim financial statements, and approvals required, for each type of loan;
- (b) specify requirements for approval for Association exceptions to the Loan Policies and Procedures, including required supporting documentation and approvals;
- (c) establish a system to identify and track all loans approved by the Association as an exception to the Association's Loan Policies and Procedures and provide a detailed quarterly report to the Board of the status of all loans originated as exceptions to the Loan Policies and Procedures;
- (d) develop a system to track and test loan covenant compliance;
- (e) establish a system to identify and monitor commercial loans that are subject to statutory lending limitations;
- (f) set internal lending limits by percent of capital for all sub-categories of commercial loans offered by the Association, including but not limited to commercial real estate loans, commercial and industrial loans, and construction loans;
- (g) establish loan approval authority limits for each lending officer;
- (h) enhance the Association's Loan Policies and Procedures to require field audits for loans that are dependent on conversion of account receivables and inventory; and
- (i) ensure that all loans are appropriately risk rated and assets classified.

3. Within forty (40) days, the Board shall approve and provide the Loan Policies and Procedures to the Regional Director for review. Within ten (10) days of receipt of comments, if any, from the Regional Director, the Board shall revise and approve the amended Loan Policies and Procedures to incorporate the comments and shall implement the adopted Loan Policies and Procedures.

Internal Quarterly Loan Review to Determine Compliance with Policies and Procedures.

4. On a quarterly basis, beginning with the quarter ending December 31, 2009, the Association shall conduct a review of all existing loans for compliance with the adopted Loan Policies and Procedures and shall provide a quarterly report to the Board of the results of the internal loan review, along with a plan to resolve and correct any documentation and credit administration weaknesses and deficiencies noted in the quarterly internal review (Quarterly Loan Review Report). The quarterly loan review shall be conducted by a qualified independent outside consultant and shall be based on: (a) a sample review of fifty (50) percent of all new loans made during the previous quarter; (b) twenty-five (25) percent of all existing loans and lending relationships exceeding one million (\$1,000,000), except for loans that are secured by single family, owner-occupied real estate; (c) a sample review of ten (10) percent of loans from the Association's existing loan portfolio under one million (\$1,000,000); and (d) all loans that are criticized and/or classified and/or all other loans over two hundred fifty thousand (\$250,000) that management has identified as warranting special attention.

5. Within ninety (90) days, and no less frequently than quarterly thereafter, the Board shall review and approve each Quarterly Loan Review Report, and the Association shall implement and adhere to a plan to resolve and correct any loan underwriting, documentation, and credit administration weaknesses and deficiencies identified in each Quarterly Loan Review Report.

Monitor Loan Portfolio for Compliance with Commercial Lending Limitations.

6. Within forty-five (45) days, the Association shall establish a system to review and monitor all loans in its portfolio to: (a) identify any and all secured and unsecured loans for commercial, corporate, business or agricultural purposes; (b) identify any and all loans in its portfolio that qualify as small business loans; and (c) determine if the aggregate amount of commercial loans, including small business loans, is in compliance with the lending limitations on such loans set forth at 12 C.F.R. §560.30.

7. By January 30, 2010, and thirty (30) days following the end of each calendar quarter thereafter, the Association shall provide a written quarterly report to the Board with a copy to the OTS documenting the findings relating to the review of the commercial loan portfolio and detailing any corrective actions or measures that have been implemented, proposed or are under consideration to ensure that the Association complies with the aggregate lending limitations of 12 C.F.R. § 560.30.

Loan Review and Classification.

8. Within thirty (30) days, the Association shall revise its policies and procedures to identify and classify problem assets (Loan Review and Classification Program). The revised Loan Review and Classification Program shall address areas of regulatory concern noted in the 2009 ROE and shall effectively identify the risks in the Association's loan and lease portfolio to ensure the appropriate classification and reporting of the Association's assets and maintenance of adequate Allowance for Loan and Lease Losses (ALLL).

9. At a minimum, the revised Loan Review and Classification Program shall be in conformance with 12 C.F.R. §560.160 and Section II G of Appendix A to the Safety and Soundness Standards of 12 C.F.R. Part 570 and shall provide for:

- (a) identification and ongoing monitoring of assets classified as “loss”, “doubtful”, “substandard”, or “special mention” (collectively referred to as “Criticized Assets”), based on an assessment of all pertinent factors affecting the likelihood that the loan will be repaid according to its terms;
- (b) require prompt charge-off of loans, or portions of loans, that available information indicates are uncollectible consistent with appropriate accounting standards;
- (c) identification of any asset, and/or category of assets, that present excessive risks of nonpayment, or may otherwise be in violation of any applicable law or regulation, as well as a developed and specific corrective plan for such asset;
- (d) maintenance of an ALLL that adequately reflects the risk in the Association’s loan and lease portfolio in compliance with the Interagency Policy Statement on ALLL and Questions and Answers on Accounting for Loan and Lease Losses, dated December 13, 2006 (ALLL Policy); and
- (e) require timely and accurate reporting by the Association on its Thrift Financial Reports.

10. Within forty (40) days, the Board shall provide the revised Loan Review and Classification Program to the Regional Director for review and comment. Within ten (10) days of receipt of comments, if any, from the Regional Director, the Board shall amend and adopt the revised Loan Review and Classification Program to incorporate the comments and shall implement the adopted Loan Review and Classification Program.

Department Performance Evaluation and Department Resource Enhancement.

11. Within thirty (30) days, the Association shall retain, subject to approval by the OTS, an Independent Consultant with expertise in lending to provide an evaluation and report to the Board of whether the resources devoted by the Association are adequate to support the loan origination and credit administration functions at the Association. Within ninety (90) days, the Independent Consultant shall prepare and submit the report to the Board. The report shall be documented in the Board minutes with a copy to the Regional Director and shall describe both the evaluation process and the conclusions and recommendations of the Independent Consultant. At a minimum, the report shall: (a) evaluate the adequacy of the Director of Lending and other officers and employees involved with loan origination and credit administration to ensure that the level, training and expertise of staff is adequate; (b) evaluate whether the frequency of and resources applied to the Loan Review and Classification Program are adequate given the size, complexity, growth, and composition of the nonhomogeneous loan portfolio of the Association; and (c) assess whether the adequacy of staff and resources is sufficient to ensure ongoing compliance with the requirements of this Agreement.

12. Within one hundred twenty (120) days, the Board shall develop a plan for enhancement of the staffing and other resources based on the conclusions and recommendations of the Independent Consultant. The plan shall be implemented no later than March 31, 2010, and performance under the plan shall be evaluated by the Independent Consultant every six (6) months and a report of performance submitted to the Board with a copy to the Regional Director by March 31 and September 30 of each calendar year.

Restrictions on Asset Growth and Deposits.

13. Effective immediately, the Association's asset growth in any quarter shall not exceed net

interest credited on deposit liabilities during the quarter without the prior written non-objection of the Regional Director.

14. Effective immediately, the Association shall not accept, renew or roll over any brokered deposit, as that term is defined at 12 C.F.R. § 337.6(a)(2), without the written non-objection of the Regional Director.

15. A request for non-objection under Paragraphs 13 and 14 must be submitted to the Regional Director at least forty-five (45) days prior to: (a) the end of the calendar quarter in which the Association seeks to grow in excess of interest credited on deposit liabilities or (b) the anticipated date of acceptance of deposits restricted herein.

Employment Contracts and Compensation Arrangements.

16. Effective immediately, the Association shall not enter into, renew, extend or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer¹ or director of the Association, unless it first provides the OTS with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

¹ The term Senior Executive Officer is defined at 12 C.F.R. § 563.555.

Director and Management Changes.

17. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H.

Severance and Indemnification Payments.

18. Effective immediately, the Association shall not make any golden parachute payment² or prohibited indemnification payment³ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Effective Date.

19. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

20. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

21. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

22. The Regional Director may extend any of the deadlines set forth in the provisions of this Agreement upon written request by the Association that includes reasons in support for any extension. Any OTS extension shall be made in writing.

² The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

³ The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

Submissions and Notices.

23. All submissions, including progress reports, to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

24. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

(a) To the OTS:

Michael E. Finn, Regional Director
Office of Thrift Supervision
Harborside Financial Center Plaza Five
Suite 1600
Jersey City, New Jersey 07311

(b) To the Association:

Phoenixville Federal Bank and Trust
Richard A. Kunsch, Sr.
President and Chief Executive Officer
564 Nutt Road
P.O. Box 629
Phoenixville, PA 19460

No Violations Authorized.

25. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

26. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

27. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 26 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

28. The laws of the United States of America shall govern the construction and validity of this Agreement.

29. If any provision of this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

30. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

31. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

32. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

33. This Agreement is a “written agreement” entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

34. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK

WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

PHOENIXVILLE BANK AND TRUST

OFFICE OF THRIFT SUPERVISION

By: /s/ _____
David M. Frees, III
Director

By: /s/ _____
Michael E. Finn
Regional Director, Northeast Region

Date: See Effective Date on page 1

By: /s/ _____
Richard A. Kunsch, Sr.
Director

By: /s/ _____
James S. Lorah
Director

By: /s/ _____
James G. Reading
Director

By: /s/ _____
Randall R. Ruch
Director

By: /s/ _____
Jay R. Schaeffer
Director

By: /s/ _____
Virgil P. Templeton
Director