



Comptroller of the Currency
Administrator of National Banks

Northeastern District Office
1114 Avenue of the Americas, Suite 3900
New York, N.Y. 10036

Licensing Division
Telephone No.: 212.790.4055
Fax No.: 212.790.4098

September 5, 2003

**Conditional Approval #604
October 2003**

J. Roger Williams, Jr., Esq.
Dilworth Paxson LLP
3200 Mellon Bank Center
1735 Market Street
Philadelphia, Pennsylvania 19082

Re: Proposed merger of Eagle National Bank, Upper Darby, Pennsylvania (“Eagle”) with and into an interim bank, Eagle Interim Bank, National Association, Upper Darby, Pennsylvania (“Interim”), to facilitate the acquisition of Eagle by Pebblespring Holding Company, Berwyn, Pennsylvania (“BHC”)
Control Number: 2003 NE 02 0027 Charter Number: 21118

Dear Mr. Williams:

This is to inform you that today, the Office of the Comptroller of the Currency (“OCC”) conditionally approved the proposal to merge Eagle National Bank, 8045 West Chester Pike, Upper Darby, Pennsylvania 19082 with and into Eagle Interim Bank, National Association, 8045 West Chester Pike, Upper Darby, Pennsylvania 19082 under the charter of the latter and with the name and charter number of the former (“Resulting Bank” or “Bank”).

This conditional approval is granted based on a thorough review of all information available, including commitments and representations made in the application and the merger agreement and those of the Bank’s representatives. Specifically, the application materials indicate that the acquisition will be accounted for using the purchase method of accounting and consistent with GAAP. Please also refer to OCC’s *Bank Accounting Advisory Series* and the *Business Combinations Booklet* of the Licensing Manual for OCC guidance relating to purchase and push down accounting.

Additionally, our conditional approval is issued with the understanding that not less than \$7.7 million in additional capital will be contributed to the bank from the BHC, after consideration for payments to shareholders and transaction closing costs associated with the acquisition.

Eagle is operating under a Consent Order dated December 18, 2001. The Consent Order will cease to be applicable upon consummation of the merger. Accordingly, this approval subjects the Resulting Bank, upon consummation, to the following special conditions:

- 1) The Bank: (i) shall give the Assistant Deputy Comptroller for the Eastern Pennsylvania Field Office (“ADC”) at least sixty (60) days prior written notice of the Bank’s intent to significantly deviate or change from its business plan or operations¹ and (ii) shall obtain the ADC’s prior written determination of no objection before the Bank engages in any significant deviation or change from its business or Strategic Plan or operations.
- 2) For a period of two years, the Bank shall at all times maintain a ratio of Tier 1 capital to adjusted total assets, as defined in 12 C.F.R. § 3.2, of at least 8.0 percent. This requirement may be modified or released upon written notification by the ADC.

To supplement the capital projections contained in the Strategic Plan, previously submitted to the ADC, within ninety (90) days the Bank shall develop and adhere to a three-year capital program. The program shall be developed in consideration of the Bank's Strategic Plan and shall include:

- a) specific plans for the achievement and maintenance of adequate capital that may in no event be less than the requirements above;
- b) projections for growth (or contraction) and capital requirements based upon a detailed risk analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- c) projections of the source(s) and timing of additional capital to meet the Bank's current and future needs;
- d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- f) a dividend policy that permits the declaration of a dividend only:
 - i. when the Bank is in compliance with the minimum capital levels set forth above;
 - ii. when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - iii. with the prior written non-objection of the Assistant Deputy Comptroller, until the Assistant Deputy Comptroller notifies the Board in writing that such prior supervisory non-objection is no longer required.

¹ If such deviation is the subject of an application filed with the OCC for its prior approval, the OCC does not require notice to the supervisory office.

- 3) By December 31, 2003, the Bank's Strategic Plan shall be enhanced to include the following items:
 - a) the assignment of management responsibility for achievement of the Bank's objectives, with specific time frames for performance and specific accountability measures;
 - b) systems to monitor the Bank's progress in meeting the plan's goals and objectives; and,
 - c) the appointment of an individual responsible for monitoring the Bank's progress in meeting the plan's goals and objectives, identifying proposed changes in the Bank's operating environment, and providing quarterly status reports to the Board.

- 4) At least sixty (60) days prior to the Bank's direct or indirect offering of any new product or service, the Bank shall prepare and submit to the ADC a written analysis of such product or service, and shall obtain the ADC's prior written determination of no supervisory objection. This condition shall continue unless or until the Bank receives written notification from the ADC indicating otherwise. The analysis shall, at a minimum, include the following:
 - a) an assessment of the risks and benefits of the product or service to the Bank;
 - b) an explanation of how the product or service is consistent with the Bank's strategic plan;
 - c) an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS, internal controls and written policies and procedures to identify, measure, monitor and control the risks associated with the product or service; and
 - d) a profitability analysis, including growth projections.

- 5) By December 31, 2003, the Bank shall have a formal process through which the Board holds management accountable for achieving budgetary projections. The profit planning process shall include the following elements:
 - a) a written description of the operating assumptions that form the basis for major projected income and expense components;
 - b) a written budget review process to compare actual figures with budgetary projections;
 - c) the budget for 2004 shall be submitted to the ADC on or before November 30, 2003, and the budget for each year thereafter shall be submitted to the ADC on or before November 30th of the preceding year.

- 6) By December 31, 2003, the Bank shall have sufficient processes, personnel, and control systems in place to ensure implementation of and adherence to the Strategic Plan, including:

- a) the identification of present and future management and staffing requirements of the Bank;
- b) detailed written job descriptions for all current officers and any recommended additions to the management team;
- c) a process by which the Board holds management accountable for achieving the Bank's objectives, including the identification of objectives by which management's effectiveness will be measured;
- d) an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities, any inadequate segregation of duties and corrective measures that will be taken in that regard; and
- e) an assessment of whether Board members are receiving adequate information on the operation of the bank to enable them to fulfill their fiduciary and other responsibilities under the law.

To the extent the Bank's plan provides for the appointment of any director or senior executive officer, as that term is defined in 12 C.F.R. § 5.51, the Bank shall comply with the prior notice procedures contained therein.

- 7) By December 31, 2003, the Bank must hire or designate a credit risk manager who will be responsible for overseeing the Bank's lending activities. The Bank shall develop, implement and thereafter ensure adherence to a credit risk management program to address the bank's current and planned lending activities. The credit risk management program shall include:
 - a) a strategy to successfully originate commercial loans within the Bank's market area;
 - b) loan policies and procedures that address the risk of current and planned lending activities;
 - c) a requirement that written documentation indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance for Loan and Lease Losses be maintained; and,
 - d) maintenance of an adequate and effective loan review process.
- 8) By December 31, 2003, the Bank's internal audit program shall provide for sufficient risk based audit coverage by an adequately staffed department or outside firm, with respect to both experience level and number of individuals employed, and the Bank shall ensure that audit scheduling, scope and testing are sufficient to:
 - a) detect material irregularities in the Bank's operations;
 - b) determine the Bank's level of compliance with all applicable laws, rules and regulations; and,
 - c) evaluate the Bank's adherence to established policies and procedures.

The Bank shall ensure that the auditor provides written reports to the Board or Audit Committee detailing any exceptions, deficiencies or recommendations noted as a result of its review.

The Bank shall also ensure that immediate actions are undertaken to remedy deficiencies cited or to address other audit recommendations in these reports, and that the independent auditor maintains a written record describing such corrective actions.

- 9) By December 31, 2003, the Bank shall develop and maintain a current program to ensure ongoing compliance with the Bank Secrecy Act, as amended (31 U.S.C. §§ 5311-5330), the regulations promulgated thereunder at 31 C.F.R. Part 103, as amended, and 12 C.F.R. Part 21, subpart B, by:
 - a) developing and implementing a process for identifying high-risk accounts and monitoring such accounts for suspicious activity on an on-going basis; and,
 - b) developing and implementing audit procedures to provide a risk-based approach to Bank Secrecy Act compliance that includes transactional testing and verification of data for higher risk accounts; and specific procedures to test the adequacy of suspicious activity monitoring.

These conditions are conditions imposed in writing by the agency in connection with the granting of any application or other requests within the meaning of 12 U.S.C. § 1818. As such, the conditions are enforceable under 12 U.S.C. § 1818.

We reviewed the proposed merger under the criteria of the Bank Merger Act [12 U.S.C. § 1828(c)], the Community Reinvestment Act (12 U.S.C. § 2901 et. seq.) and applicable OCC regulations and policies. Among other matters, we found that the proposed transaction would not have any anticompetitive effects. We considered the financial and managerial resources of the merging and resulting banks, their future prospects and the convenience and needs of the communities to be served. In addition, the Bank Merger Act requires the OCC to consider, "...the effectiveness of any insured depository institution involved in the proposed merger transaction in combating money laundering activities, including overseas branches." We considered these factors and found them to be consistent with conditional approval.

As a reminder, the district office must be advised in writing in advance of the desired effective date for the merger so that the OCC may issue the necessary certification. The effective date must follow the applicable Department of Justice injunction period and be after any other required regulatory approval.

The OCC will issue a letter certifying consummation of the transaction when we have received:

1. A Secretary's Certificate for each institution, certifying that a majority of the board of directors approved the transaction, if not previously provided;
2. An executed merger agreement with Articles of Association for the resulting bank attached, if not previously provided;
3. A Secretary's Certificate from each institution, certifying that the shareholder approvals have been obtained;
4. Evidence that all required regulatory approvals have been received, if not previously provided; and,
5. Documentation completing the organization of the interim national bank, if not previously provided.

Additionally, if the resulting bank's aggregate par value and/or surplus capital accounts change as a result of the overall transaction, please provide the exact dollar amount of each change as well as the exact dollar amount of the ending par value and surplus accounts in order that we may properly certify the changes.

If the merger is not consummated within one year from the conditional approval date, the conditional approval shall automatically terminate, unless the OCC grants an extension of the time period.

This conditional approval, and the activities and communications by OCC employees in connection with the filing, do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the U.S., any agency or entity of the U.S., or any officer or employee of the U.S., and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. The foregoing may not be waived or modified by any employee or agent of the OCC or the U.S.

If you have any questions, please contact me at (212) 790-4055.

Sincerely,

/s/ Linda Leickel

Linda Leickel
Licensing Analyst