

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
EARTHSTAR BANK	)	ORDER TO CEASE AND DESIST
SOUTHAMPTON, PENNSYLVANIA	)	
	)	FDIC-08-080b
(INSURED STATE NONMEMBER BANK)	)	
_____	)	

Earthstar Bank, Southampton, Pennsylvania ("Bank"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law and regulation alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated May 21, 2008, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and the joint November 14, 2007 (as of September 30, 2007) Report of Examination ("Report

of Examination") of the Bank by the Commonwealth of Pennsylvania Department of Banking (the "Department") and the FDIC and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had committed violations of law and regulation. The FDIC acknowledges that the Department has issued an Order dated May 28, 2008 ("State Order") to the Bank addressing the unsafe or unsound banking practices and violations of law and regulation set forth in the Report of Examination and issues this ORDER paralleling the State Order. The FDIC, therefore, accepted the CONSENT AGREEMENT and issues the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED that the Bank, its directors, officers, employees, agents, and other institution-affiliated parties (as that term is defined in Section 3(u) of the Act, 12 U.S.C. § 1813(u)), and its successors and assigns, cease and desist from engaging in the following unsafe or unsound banking practices and violations of law and regulation:

(a) Operating with inadequate management supervision and oversight by the Board of Directors of the Bank ("Board") to prevent unsafe or unsound practices and violations of law and regulation;

(b) Operating with inadequate staff to perform present and anticipated duties, including lack of a chief lending officer and a chief financial officer;

(c) Operating with inadequate training programs for the Board, management and staff;

(d) Operating without a current, comprehensive written business/strategic plan and budget;

(e) Operating with inadequate internal controls and unsatisfactory risk management policies, practices and procedures;

(f) Operating with inadequate loan policies, processes, and procedures to ensure adequate supervision of the loan portfolio, including failing to establish adequate loan-to-value limitations for real estate loans in contravention of Appendix A of Part 365 of the FDIC's Rules and Regulations, 12 C.F.R. Part 365;

(g) Engaging in hazardous lending and lax underwriting and credit administration;

(h) Operating with inadequate loan documentation practices in contravention of the Standards for Safety and Soundness contained in Part II C of Appendix A to Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364;

(i) Operating in violation of section 365.2 of the FDIC's Rules and Regulations, 12 C.F.R. § 365.2;

(j) Operating in violation of section 13.31(a) of Title 10 of the Pennsylvania Code, 10 Pa. Code § 13.31(a);

(k) Operating with an inadequate allowance for loan and lease losses;

(l) Operating in such a manner as to produce insufficient earnings;

(m) Operating with capital levels that are not commensurate with the nature and extent of risk to the Bank;

(n) Operating with inappropriate levels of non-core funding, high cost rate-sensitive deposits and interest rate risk exposure, and inadequate policies and procedures to effectively manage liquidity and sensitivity to market risk;

(o) Operating with an inadequate audit program;

(p) Operating with ineffective policies and procedures to ensure compliance with laws and regulations; and

(q) Engaging in the unsafe or unsound banking practices and violations of law and regulation described in the Report of Examination.

IT IS FURTHER ORDERED that the Bank, its institution-affiliated parties, and its successors and assigns, shall take affirmative action, as follows:

CORRECTION AND PREVENTION

1. Beginning on the effective date of this ORDER, the Bank shall take all steps necessary, consistent with other

provisions of the ORDER and sound banking practices, to correct and prevent the unsafe or unsound banking practices and violations of law and regulation identified in the Report of Examination and ensure that the Bank is operated with adequate management supervision and Board oversight to prevent future unsafe or unsound banking practices and violations of law and regulation.

ANALYSIS AND ASSESSMENT OF MANAGEMENT AND BOARD

2. (a) Within 30 days from the effective date of this ORDER, the Board shall engage an independent third party, acceptable to the Regional Director of the FDIC's New York Regional Office ("Regional Director") and the Department, with the appropriate expertise and qualifications to analyze and assess the Bank's management and staffing needs. The engagement shall require that this analysis and assessment be summarized in a written report to the Board ("Management Report"), with a copy simultaneously delivered to the Regional Director and the Department. Within 30 days of receipt of the Management Report, the Board will conduct a full and complete review of the Management Report, which review shall be recorded in the minutes of the meeting of the Board. The analysis may be developed by an independent committee of the Board or an outside consultant

reporting to the Board; however, if the committee is composed of members of the Board, a majority of the committee shall consist of directors that are not officers at the Bank or family members of Bank officers. The acceptability of the third party or committee shall be determined based upon the ability to conduct the assessment and advise the Bank in each of the areas subject to this ORDER.

(b) The Board shall provide the Regional Director and the Department with a copy of the proposed engagement letter or contract with the third party for review before it is executed. The contract or engagement letter shall, at a minimum, include:

(i) a description of the work to be performed under the contract or engagement letter, the fees for each significant element of the engagement and the aggregate fee;

(ii) the responsibilities of the firm or individual;

(iii) an identification of the professional standards covering the work to be performed;

(iv) identification of the specific procedures to be used when carrying out the work to be performed;

(v) the qualifications of the employee(s) of the independent third party who are to perform the work;

(vi) the time frame for completion of the work;

(vii) any restrictions on the use of the

reported findings;

(viii) a provision for unrestricted access to work papers of the third party by the FDIC and the Department; and

(ix) a certification that the third party firm or individual is not affiliated in any manner with or a current or former employee of the Bank or any of its Executive Officers or directors (current or former).

(c) Within 30 days of receipt of the Management Report, the Board will develop a written plan of action (the "Management Plan") that incorporates the findings of the Management Report, and a time frame for completing each action. A copy of the Management Report and the Management Plan and any subsequent modification thereto shall be submitted to the Regional Director and the Department for review and comment. Within 30 days from receipt of any comment, and after consideration of such comment, the Board shall approve the Management Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Plan and any modifications thereto. It shall remain the responsibility of the Board to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not

implemented, the Board shall immediately advise the Regional Director and the Department in writing of the specific reasons for deviating from the Management Plan. The Regional Director and the Department must approve any such deviation. At a minimum, the Management Plan shall:

(i) Contain a recitation of the recommendations included in the Management Report or otherwise communicated to the Bank, along with a copy of any report(s) prepared by the outside consultant(s);

(ii) with respect to the position of chairman of the Board, giving appropriate consideration to the size and complexity of the Bank, (A) identify the authorities, responsibilities and accountabilities appropriate to the position, (B) present a clear and concise description of the relevant knowledge, skills, abilities and experience necessary for the position, and (C) present a recommendation as to appropriate compensation, if any;

(iii) identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank, recommend with respect to each such position an appropriate base salary level and bonus range, if any;

(iv) identify the type and number of staff positions needed to implement the Bank's strategic plan,



detailing any vacancies or additional needs;

(v) identify the authorities, responsibilities, and accountabilities attributable to each position, as well as the appropriateness of the authorities, responsibilities and accountabilities, giving due consideration to the relevant knowledge, skills, abilities and experience of the incumbent (if any) and the existing or proposed compensation;

(vi) present a clear and concise description of the relevant knowledge, skills, abilities and experience necessary for each position, including delegations of authority and performance objectives;

(vii) identify the appropriate level of current and deferred compensation to each officer and staff position, including executive officer positions;

(viii) evaluate the current and past performance of all existing directors (including the chairman of the Board), officers (including Executive Officers) and staff members of the Bank, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established plans, policies, procedures and processes, and operate the Bank in a safe and sound manner;

(ix) establish requirements and methodologies to periodically evaluate each individual's job performance;

(x) identify and establish Bank committees needed to provide guidance and oversight to management;

(xi) establish a plan to terminate, rotate or reassign officers and staff as necessary, as well as recruit and retain qualified directors (including the chairman of the Board), Executive officers and other personnel consistent with the Board's analysis and assessment of the Bank's staffing needs;

(xii) identify training and development needs of the Bank, as well as a plan to provide such training and development to the appropriate personnel;

(xiii) establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each officer and staff member;

(xiv) contain a current organizational chart that identifies all existing and proposed staff and officer positions, delineates related lines of authority and accountability, and establishes a written plan for addressing any identified needs; and

(xv) contain a current management succession plan.

(d) While this ORDER is in effect, the Board shall provide written notification to the Regional Director and the

Department of the resignations or terminations of any of its Executive Officers or Board members within fifteen days of the event. The Bank shall also establish procedures to ensure compliance with section 32 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. Part 303. In addition, the Board shall provide written notification to the Regional Director and the Department of any proposed new Executive Officer or Board member at least 30 days prior to the date such proposed officer or Board member is to begin service; such notification shall include a description of the background and experience of the proposed officer or Board member. Such changes will only be effective upon receipt of the Regional Director's and the Department's approval.

#### BOARD OF DIRECTORS' OVERSIGHT

3. (a) Within 120 days of this ORDER, and annually thereafter, the Board shall review management's adherence to the Bank's written policies and procedures and shall prepare written findings and conclusions of this review along with written descriptions of any management or operational changes that are made as a result of the review. These written findings shall be included in the minutes of the Board.

(b) The Board shall maintain adequate and complete minutes of all Board meetings, approve such minutes, and retain them for supervisory review.

REDUCTION OF ADVERSELY CLASSIFIED ASSETS

4. (a) Within 120 days from the effective date of this ORDER, the Bank shall formulate a written plan to reduce the Bank's risk exposure in each asset classified "Substandard" or "Doubtful" in the Report of Examination. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the FDIC and/or the Department. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each adversely classified loan or lease, review, analyze and document the financial position of the borrower, including source of repayment, repayment ability and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral and any possible actions to improve the Bank's collateral position.

(b) In addition, the plan mandated by this provision shall also include, but not be limited to, the following:

(i) a schedule for reducing the outstanding dollar amount of each adversely classified asset, including

timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each adversely classified asset must show its expected dollar balance on a quarterly basis);

(ii) specific action plans intended to reduce the Bank's risk exposure in each classified asset;

(iii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets and the ratio of the consolidated balance to the Bank's projected Tier 1 capital plus the allowance for loan and lease losses;

(iv) a provision for the Bank's submission of monthly written progress reports to its Board; and

(v) a provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the Board.

(c) The plan mandated by this provision shall further require a reduction in the aggregate balance of assets classified "Substandard" and "Doubtful" in the Report of Examination in accordance with the following schedule. For purposes of this paragraph, "number of days" means number of days from the effective date of this ORDER.

(i) within 180 days, to not more than \$9 million; and

(ii) within one year, to not more than \$4.5

million.

(d) The requirements of this paragraph do not represent standards for future operations of the Bank. Following compliance with the above reduction schedule, the Bank shall continue to reduce the total volume of adversely classified assets. The plan may include a provision for increasing Tier 1 capital when necessary to achieve the prescribed ratio.

(e) The Bank shall immediately submit the plan to the Regional Director and the Department for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Department, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the plan.

RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS

5. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension

of credit or obligation with the Bank that has been, in whole or in part, charged off or classified "Loss" and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower. Paragraph 5(a) of this provision shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, or a designated committee thereof, who shall certify, in writing:

(i) why failure of the Bank to extend such credit would be detrimental to the best interests of the Bank;

(ii) that the extension of such credit would improve the Bank's position, including an explanatory statement of how the Bank's position would improve;

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended; and

(iv) the signed certification shall be made a part of the minutes of the meeting of the Board, or designated committee, with a copy retained in the borrower's credit file.

(b) While this ORDER is in effect, the Bank shall not make any further extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified "Substandard" or "Doubtful" by the FDIC and/or the Department, without prior approval by the Board. The Board shall not approve the proposed extension without first making affirmative determinations that:

- (i) the extension of credit is in full compliance with the Bank's loan policy;
- (ii) the extension of credit is necessary to protect the Bank's interests, or is adequately secured;
- (iii) the Bank found the primary and secondary obligors to be creditworthy based on a credit analysis; and
- (iv) all necessary loan documentation is on file, including, at minimum, current financial and cash flow information, and satisfactory appraisal, title and lien documents.

(c) The affirmative determination shall be recorded in the minutes of the meeting of the Board, with a copy retained in the borrower's credit file.

REDUCTION OF DELINQUENCIES

6. (a) Within 120 days from the effective date of this



ORDER, the Bank shall formulate a written plan for the reduction and collection of delinquent loans. For purposes of this provision, "reduce" means to charge-off or collect. The plan shall include, but not be limited to, provisions which:

(i) prohibit the extension of credit for the payment of interest or fees;

(ii) delineate responsibilities for implementing and monitoring the Bank's collection policies;

(iii) establish specific collection actions and procedures to be instituted at various stages of a borrower's delinquency;

(iv) establish specific dollar levels to which the total dollar volume of delinquencies will be reduced, and the projected timeframes for achieving the projected reduction; and

(v) provide for the submission of monthly written progress reports to the Board for review and notation in minutes of the meetings of the Board.

(b) The Bank shall immediately submit the plan to the Regional Director and the Department for review and comment.

(c) Within 30 days from receipt of any comment from the Regional Director and/or the Department, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of the

Board's meeting. Thereafter, the Bank shall implement and fully comply with the plan.

CORRECTION OF LOAN DOCUMENTATION EXCEPTIONS

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies listed for "Special Mention" in the Report of Examination and establish a system to identify and correct loan documentation exceptions. All attempts to correct exceptions shall be documented in the borrowers' credit files. In all future operations, the Bank shall ensure that all necessary supporting documentation is obtained and evaluated before any credit or loan is extended by the Bank.

(b) Progress reports detailing each outstanding exception and the Bank's plan for corrective action shall be submitted to the Board for review during each regularly scheduled meeting. The review shall be noted in the minutes of the meeting of the Board.

LOAN POLICIES AND PROCEDURES

8. (a) Within 60 days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the Department, revised written loan policies and procedures that have been approved by the Board, which shall, at a minimum,

address, consider, and include the following:

(b) Adequate underwriting standards for loans, including ensuring sufficient collateral protection and incorporating limitations on the amount that can be loaned in relation to established collateral values;

(c) Monitoring and reporting of past due loans;

(d) Control and monitoring of concentrations of credit, including: (i) establishing concentrations of credit limits by industries and types of loans; and (ii) managing the risk associated with asset concentrations;

(e) Procedures to monitor the volume and status of speculative real estate projects; and

(f) Controls to ensure completion of improvements before funds are advanced.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

9. The Bank shall maintain, through charges to current operating income, an adequate allowance for loan and lease losses. The adequacy of the allowance for loan and lease losses shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the potential for loan losses in the Bank's portfolio, current economic conditions, and any criticisms as contained in the Bank's most recent report of examination. The Bank shall conduct, at a minimum, a quarterly assessment of its allowance for loan and lease losses and shall

maintain a written record, for supervisory review, indicating the methodology used in determining the amount of the allowance needed. The quarterly assessment shall be reviewed by the Board and shall be noted in the minutes of the Board.

#### STRATEGIC PLAN

10. (a) Within 120 days of this ORDER, the Board shall formulate a comprehensive written business/strategic plan covering an operating period of at least three years for the Bank ("Strategic Plan"). The Strategic Plan shall contain an assessment of the Bank's current financial condition and market area along with a description of the operating assumptions that form the basis for major projected income and expense components of the assessment.

(b) The Strategic Plan shall include short-term goals and operating plans to comply with the terms of this ORDER and correct all regulatory criticisms; intermediate goals and project plans; and long-range goals and project plans. Additionally, the Strategic Plan shall, at a minimum, include:

(i) strategies for pricing policies and asset/liability management;

(ii) anticipated average maturity and average yield on loans and securities, average maturity and average cost of deposits, the level of earning assets as a percentage of

total assets, and the ratio of net interest income to average earning assets;

(iii) dollar volume of total loans, total investment securities, and total deposits;

(iv) plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;

(v) financial goals including pro forma statements for asset growth, capital adequacy and earnings; and

(vi) formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Board shall submit the Strategic Plan to the Regional Director and the Department for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Department, and after due consideration of any recommended changes, the Board shall approve the Strategic Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(d) The Board shall implement and fully comply with the Strategic Plan after completion of the requirements of subparagraph (c) above.

(e) Within 15 days from the end of each calendar quarter following the effective date of this ORDER, the Board shall evaluate the Bank's performance in relation to the

Strategic Plan and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting during which such evaluation is undertaken. In the event the Board determines that the Strategic Plan should be revised in any manner, the Strategic Plan shall be revised and submitted to the Regional Director and the Department for review and comment within 15 days after such revisions have been approved by the Board.

(f) Within 30 days of receipt of any comments from the Regional Director and/or the Department, and after consideration of all such comments, the Bank shall approve the revised Strategic Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(g) The Board shall implement and fully comply with the revised Strategic Plan after completion of the requirements of this paragraph 10.

#### PROFIT AND BUDGET PLAN

11. (a) Within 120 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Board shall develop and fully implement a written profit plan ("Profit Plan") consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies or other

actions required by this Order.

(b) The Profit Plan should not include any areas representing a material change in the business plan and which have not been submitted to the Regional Director and the Department 60 days prior to consummation of the change, but shall, at a minimum, include:

(i) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;

(ii) specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings;

(iii) realistic and comprehensive budgets for all categories of income and expense items;

(iv) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;

(v) coordination of the Bank's loan, investment, funds management, and operating policies; strategic plan; and allowance for loan and lease losses methodology with the profit and budget planning;

(vi) a budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than monthly;

recording the results of the evaluation and any actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken; and

(vii) individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

(c) The Board shall submit the Profit Plan to the Regional Director and the Department for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Department, and after due consideration of any recommended changes, the Board shall approve the Profit Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(d) Within 30 days from the end of each calendar month following the effective date of this ORDER, the Board shall evaluate the Bank's performance in relation to the Profit Plan and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting during which such evaluation is undertaken. In the event the Board determines that the Profit Plan should be revised in any manner, the Profit Plan shall be revised and submitted to the Regional Director and the Department for review and comment within 25 days after such revisions have been approved by the Board. Within 30 days of receipt of any comments from the Regional



Director and/or the Department, and after consideration of all such comments, the Board shall approve the revised Profit Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(e) The Board shall implement and fully comply with the revised Profit Plan after completion of the requirements of this paragraph 11.

INTEREST RATE RISK & ASSET AND LIABILITY MANAGEMENT POLICY

12. Within 60 days from the effective date of this ORDER, the Bank shall submit to the Board for approval a revised and expanded Interest Rate Risk & Asset and Liability Management Policy which is tailored to the needs of the Bank and which shall, at a minimum, fully address, consider and include:

(a) reasonable risk limits for the sensitivity of net interest income and economic value of equity;

(b) requirements for a comprehensive periodic independent review of the interest rate risk model; and

(c) requirements to maintain sufficient capital for the Bank's level of interest rate risk.

FUNDS MANAGEMENT AND LIQUIDITY

13. Within 120 days from the effective date of this Order,

the Bank shall submit to the Regional Director and the Department a revised and comprehensive funds management and liquidity plan. The plan shall address the means by which the Bank will seek to reduce its reliance on non-core funding and high cost rate-sensitive deposits. The plan shall also assess possible liquidity events that the Bank may encounter and identify contingency responses to the potential impact of such events on the Bank's short-term, intermediate-term and long-term liquidity profiles.

#### INTERNAL CONTROLS

14. Within 60 days from the effective date of this Order, the Bank shall submit to the Regional Director and the Department a written plan to improve the Bank's internal controls program. The plan should ensure, at a minimum, that:

(a) loan accounting functions are separated from the lending functions;

(b) corrective actions are documented and monitored to ensure proper implementation.

#### AUDIT PROGRAM

15. (a) Within 60 days from the effective date of this ORDER, the Board shall provide for an effective external and

independent internal audit program ("Audit Program") that includes, but is not limited to the following:

(i) regular Audit Committee meetings of adequate frequency, but in no event less than once each calendar quarter;

(ii) audit practices that are consistent with generally accepted auditing standards;

(iii) completion of an internal audit plan each calendar year that is reviewed and approved by the Audit Committee of the Board;

(iv) provisions that ensure the adequacy of the scope and independence of internal audits;

(v) annual risk assessments to ensure that internal audits of critical or high-risk areas are performed with reasonable frequency;

(vi) assignment of ratings or expression of opinion as to the adequacy, effectiveness, and efficiency of the internal control environment of each function reviewed in each internal audit report;

(vii) external audit program that conforms to the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations;

(viii) submission of formal written internal audit reports and external audit reports to the Audit Committee of the Board;

(ix) provisions for management to respond to audit findings and implementation of corrective actions;

(x) provisions for an adequate formal tracking and monitoring system for exceptions identified at internal audits or external audits and regulatory examinations; and

(xi) provisions to ensure adequate audit coverage in all areas.

(b) The minutes of the meetings of the Board shall reflect consideration of the audit reports provided to the Board in accordance with the Audit Program and describe any discussions or action taken as a result thereof.

(c) The Audit program shall be implemented and maintained in a manner that is acceptable to the Regional Director and the Department as determined at subsequent examinations.

(d) During the life of this ORDER, the Bank shall forward copies of any external audit reports, along with the engagement letter, management letter regarding internal control deficiencies and any Bank response, to the Regional Director and the Department within 10 days from the Bank's receipt of such documents.

#### CAPITAL

16. (a) During the life of this ORDER, the Bank shall maintain a ratio of Tier 1 capital to total assets of not less than 7.50% and ratios of Tier 1 and total risk-based capital to

risk-weighted assets of not less than 10.00%;

(b) For the purposes of this ORDER, the terms "Tier 1 capital," "Tier 1 risk-based capital ratio," "total risk-based capital ratio," "total assets" and risk-weighted assets" shall have the meanings ascribed to them in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 325.2(v), 325.2(w), 325.2(y), 325.2(x) and 325.2(s).

#### DIVIDENDS

17. The Bank shall not declare or pay any cash dividends without the prior written approval of the Regional Director and the Department. Requests for approval shall be received at least 30 days prior to the proposed date for the declaration of dividends and shall contain, but not be limited to, information on consolidated earnings for the most recent annual period and the last quarter.

#### COMPLIANCE WITH LAWS AND REGULATIONS

18. Within 60 days from the effective date of this ORDER, the Bank shall take steps necessary, consistent with sound banking practices, to eliminate and/or correct the violations of laws, rules and regulations and all contraventions of federal

banking agency policies and procedures and guidelines contained in Parts 364 and 365 of the FDIC's Rules and Regulations that were identified in the Report of Examination. In addition, the Bank shall take all steps necessary to ensure future compliance with all applicable laws, rules, and regulations.

COMPLIANCE COMMITTEE

19. (a) Within 15 days from the effective date of this ORDER, the Board shall appoint a committee ("Compliance Committee") composed of at least three directors who are not now, and have never been, involved in the daily operations of the Bank, and whose composition is acceptable to the Regional Director and the Department, to monitor the Bank's compliance with this ORDER.

(b) Within 30 days of this ORDER, and at monthly intervals thereafter, such Compliance Committee shall prepare and present to the Board a written report of its findings, detailing the form, content and manner of any action taken to ensure compliance with this ORDER and the results thereof, and any recommendations with respect to such compliance. Such progress reports shall be included in the Board meeting minutes. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

(c) The Bank's Compliance Committee shall monitor and

coordinate the Bank's compliance with the provisions of this ORDER.

(d) Within 15 days after its receipt from the Bank's Compliance Committee, the Board shall forward a copy of the report with any additional comments made by the Board to the Regional Director and the Department.

#### PROGRESS REPORTS

20. By the 30<sup>th</sup> day after the end of the calendar quarter following the effective date of this ORDER, and by the 30<sup>th</sup> day after the end of every calendar quarter thereafter, the Board shall furnish written progress reports to the Regional Director and the Department detailing the form, content and manner of any actions taken to secure compliance with this ORDER, and the results thereof.

#### SHAREHOLDERS

21. Following the effective date of this ORDER, the Board shall provide to the shareholders, or otherwise furnish a description of this ORDER, (i) in conjunction with the Bank's next shareholder communication, and (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all

material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

#### OTHER ACTIONS

22. It is expressly and clearly understood that if, at any time, the Regional Director and the Department shall deem it appropriate in fulfilling the responsibilities placed upon her or the Department under applicable law to undertake any further action affecting the Bank, nothing in this ORDER shall in any way inhibit, estop, bar or otherwise prevent her or the Department from doing so.

23. It is expressly and clearly understood that nothing herein shall preclude any proceedings brought by the Regional Director and the Department to enforce the terms of this ORDER, and that nothing herein constitutes, nor shall the Bank contend that it constitutes, a waiver of any right, power or authority of any other representatives of the United States, departments or agencies thereof, Department of Justice, or any other



representatives of the Commonwealth of Pennsylvania or any other departments or agencies thereof, including any prosecutorial agency, to bring other actions deemed appropriate.

ORDER EFFECTIVE

24. The effective date of this ORDER shall be the date of issuance.

25. The provisions of this ORDER shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns and other institution-affiliated parties of the Bank.

26. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER have been modified, terminated, suspended or set aside.

Pursuant to delegated authority.

Dated: May 28, 2008.

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Doreen R. Eberley  
Regional Director