

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

Written Agreement by and between

BANK OF CANTON
Canton, Pennsylvania

and

FEDERAL RESERVE BANK
OF PHILADELPHIA
Philadelphia, Pennsylvania

Docket No. 08-027-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Bank of Canton, Canton, Pennsylvania (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank and the Federal Reserve Bank of Philadelphia (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on October 10, 2008, the board of directors of the Bank at a duly constituted meeting adopted a resolution authorizing and directing Kevin D. Rimmey, to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every provision of this Agreement by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §1813(u)).

NOW, THEREFORE, the Bank and the Reserve Bank agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank a written plan to improve board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank's condition and maintain effective control over, and supervision of, the Bank's senior management and major operations and activities, including, but not limited to, the credit risk management program;

(b) steps to implement an effective loan review function;

(c) steps to strengthen the internal control environment and improve segregation of duties;

(d) policies and procedures to ensure the Bank's timely response to deficiencies noted in reports of examination and audit reports; and

(e) a description of the detailed information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the management and operations of the Bank, including information sufficient to assess management's adherence to applicable written policies, procedures, and programs, and compliance with applicable laws and regulations.

Management Review

2. Within 20 days of this Agreement, the board of directors of the Bank shall retain an independent consultant acceptable to the Reserve Bank to assess the Bank's management and

staffing needs and the qualifications and performance of all senior executive officers (the “Management Review”), and prepare a written report of findings and recommendations (the “Report”). The Management Review’s purpose shall be to aid in the development of a suitable management structure that is adequately staffed by qualified and trained personnel. Within 10 days of the Reserve Bank’s approval of the Bank’s independent consultant selection and prior to commencing the Management Review, the Bank shall submit an engagement letter to the Reserve Bank for approval. The engagement letter shall require the independent consultant to submit its Report within 30 days of the date of the engagement letter and to provide a copy of its Report to the Reserve Bank at the same time that it is provided to the Bank. The Management Review shall, at a minimum, address, consider, and include:

- (a) The identification of the type and number of officers needed to manage and supervise properly the affairs of the Bank;
- (b) an evaluation of each officer to determine whether the individual possesses the ability, experience, and other qualifications required to perform competently present and anticipated duties, including the ability to adhere to applicable laws and regulations and the Bank’s established policies and procedures, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Agreement; and
- (c) the establishment of a formal organizational structure that provides for clear lines of authority and responsibility for monitoring adherence to established policies and procedures.

3. Within 90 days of this Agreement, the Bank’s board of directors shall submit a written management plan (the “Management Plan”) to the Reserve Bank that fully addresses the findings and recommendations in the consultant’s Report and describes the specific actions that

the board of directors proposes to take in order to strengthen the Bank's management and to improve the board of directors' supervision over the Bank's officers.

4. The Management Plan shall also provide for orderly management succession, and, at a minimum, shall identify the individual(s) at the Bank who are considered to have the potential for advancement or promotion, the area(s) in which such individual(s) may assume new duties or responsibilities or the position(s) to which they may be promoted, and the training to be provided such individual(s) to ensure adequate successor management.

Lending and Credit Administration

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable revised written loan and credit administration policies and procedures that shall, at a minimum, address, consider and include:

(a) Underwriting standards that are appropriate for each type of loan product offered by the Bank, including, at a minimum:

(i) Documented analysis of the borrower's repayment source, creditworthiness, and debt service ability;

(ii) a complete description of required loan documentation and collateral for each specific type of loan, and procedures to maintain required documentation in loan files and minimize documentation exceptions;

(iii) procedures for reviewing, extending, or modifying existing loans, including procedures for documenting the bases for each renewal, extension, or modification; and

(iv) procedures for exceptions to the Bank's loan policies, including required documentation by the loan officer and approval by the board of directors;

(b) controls to ensure adherence with the Bank's existing policies on loan-to-value limits, debt service coverage ratios, and FICO scores supporting the extension of credit;

(c) designating qualified individuals responsible for determining loan grades and analyzing credit risks;

(d) ensuring that loan portfolio reviews are conducted each calendar quarter; and

(e) measures to address the deficiencies in loan policies, procedures, and credit administration noted in the report of examination of the Bank conducted by the Reserve Bank and the Commonwealth of Pennsylvania Department of Banking that commenced on April 7, 2008 (the "Report of Examination").

Asset Improvement

6. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, "loss" or "doubtful" in the Report of Examination or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified "substandard" in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank's interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full

compliance with the Bank's written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. § 215.2(n)).

7. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$250,000, including other real estate owned ("OREO"), that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$250,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, extension report, and past due/non-accrual report.

Allowance for Loan and Lease Losses

8. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

- (e) the anticipated level of retained earnings;
- (f) anticipated and contingent liquidity needs; and
- (g) the source and timing of additional funds to fulfill the future capital and

loan loss reserve needs of the Bank.

10. The board of directors shall monitor and review the sufficiency of the Bank's capital on a monthly basis and shall reflect such reviews in the minutes of the board of directors' meetings.

Earnings Plan and Budget

11. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank a written business plan for 2009 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for calendar year 2009, including income statement and balance sheet projections; and
- (ii) a description of the operating assumptions that form the bases for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank at least 30 days prior to the beginning of that calendar year.

Dividends

12. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors.

(b) Any request to declare or pay dividends must be consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at pages 4-323). All requests for prior approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and loan loss reserve needs of the Bank.

BSA/AML Compliance Program

13. The Bank shall immediately take steps to comply with all applicable anti-money laundering ("AML") laws, rules, and regulations, including the Bank Secrecy Act (the "BSA") (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and sections 208.62 and 208.63 of Regulation H of the Board of Governors (12 C.F.R. §§ 208.62 and 208.63); and to address the deficiencies regarding the BSA/AML compliance program noted in the Report of Examination.

Compliance with Laws and Regulations

14. (a) The Bank shall immediately take all necessary steps to correct all violations of laws and regulations set forth in the Report of Examination. In addition, the board of directors shall take necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

(b) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of Section 32 of the

FDI Act (12 U.S.C. § 1831i), Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

(c) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

15. Within 10 days of this Agreement, the board of directors of the Bank shall appoint a committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include at least three outside directors who are not executive officers of the Bank, as defined in section 215.2 (e)(1) (12 C.F.R. § 215.2(e)(1)) of the Board of Governors' Regulation O. At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the board of directors on a monthly basis.

16. Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans, Policies, Procedures, Program, and Engagement Letter

17. (a) The Bank shall submit written plans, policies, procedures, programs, and an engagement letter that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2, 5, 7, 8(c), and 9 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank, the Bank shall adopt the approved plans, policies, procedures, and programs. Upon adoption, the Bank shall promptly implement the approved plans, policies, procedures, and programs, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, programs, and engagement letters shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Communications

18. All communications regarding this Agreement shall be sent to:

(a) Ms. Cynthia L. Course
Assistant Vice President
Supervision, Regulation and Credit
Federal Reserve Bank of Philadelphia
Ten Independence Mall
Philadelphia, Pennsylvania 19106

(b) Mr. Kevin D. Rimmey
President and Chief Executive Officer
Bank of Canton
5 West Main Street
PO Box 217
Canton, PA 17724-0217

Miscellaneous

19. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

20. The provisions of this Agreement shall be binding upon the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

21. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

22. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

23. Pursuant to section 50 of the FDI Act (12 U.S.C. §1831aa), this Written Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of this 10th day of October, 2008.

Bank of Canton

Federal Reserve Bank of Philadelphia

By: /s/ Kevin D. Rimmey
Kevin D. Rimmey
President and Chief Executive Officer

By: /s/ A. Reed Raymond
A. Reed Raymond
Vice President