



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 27, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples National Bank
Charter Number 7702

50 Main Street
Hallstead, PA 18822

Office of the Comptroller of the Currency

Northern Pennsylvania Field Office
60 Public Square, Suite 602
Wilkes-Barre, PA 18701

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING	1
SCOPE OF EXAMINATION.....	1
DESCRIPTION OF INSTITUTION	2
SELECTION OF AREAS FOR FULL-SCOPE REVIEW.....	3
RATINGS	4
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....	5
STATE RATING.....	6
STATE OF PENNSYLVANIA	6
STATE OF NEW YORK.....	15
APPENDIX A: SCOPE OF EXAMINATION.....	A-21
APPENDIX B: SUMMARY OF STATE RATINGS.....	B-1

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The Lending Test is rated: Outstanding

The Community Development Test is rated: Satisfactory

The primary factors supporting the institution's rating include:

- The bank's loan-to-deposit ratio is more than reasonable based on the institution's size, financial condition, and the assessment area's credit needs;
- PNB originated a substantial majority of its loans to borrowers within its assessment areas;
- The bank's distribution of home mortgage loans and business loans represents an excellent penetration among individuals of different income levels and businesses of different sizes; and
- PNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AAs.

Scope of Examination

Peoples National Bank (PNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period under the Lending Test covers the bank's performance from January 1, 2005 through December 31, 2007, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the community development test, which includes community development loans, investments, and services is from August 22, 2005 through May 27, 2008.

PNB's primary loan products are home mortgage loans and business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA) and collects CRA small business data. Prior to this evaluation, we tested the accuracy of PNB's HMDA and CRA or small business data. Results of this testing evidenced the data is accurate and can be relied upon for this evaluation. Therefore, the lending test includes all HMDA and CRA or small business data from January 1, 2005 through December 31, 2007. Community Development (CD) loans, investments, and services submitted by management were also verified to ensure that they met the regulatory definition for community development.

Description of Institution

Peoples National Bank (PNB) is an interstate bank headquartered in Hallstead, Pennsylvania (PA), with operations in PA and New York (NY). As of December 31, 2007, PNB had total assets of \$431 million and tier one capital of \$38 million. PNB is wholly owned by Peoples Financial Services Corp. (PFSC), a one-bank holding company headquartered in Hallstead, PA with consolidated assets of \$434 million. In addition to PNB, PFSC has two other subsidiaries: Peoples Advisors, LLC and Peoples Financial Capital Corporation (PFCC). Peoples Advisors, LLC provides investment advisory services to the general public. PFCC was formed to manage intangible investments and the income from these investments as well as the income from tangible investments located outside of Delaware. In 2007, PNB formed two wholly owned subsidiaries: Peoples Financial Leasing, LLC and Peoples Investment Holdings, LLC. Peoples Financial Leasing, LLC provides employee leasing services to PNB. Peoples Investment Holdings, LLC was formed primarily to manage investments and the income from these investments as well as the income from tangible investments located outside of the state of Delaware. Subsidiary and affiliate activities were not considered in this evaluation and had no impact on the bank's ability to lend or invest in its community.

As of May 27, 2008, PNB operates ten full-service branches in rural areas of the northeastern Pennsylvania counties of Susquehanna and Wyoming, and in the southern New York county of Broome. Four of the ten branches are located in Susquehanna County, three of the ten branches are located in Wyoming County, and three of the ten branches are located in Broome County, New York. Three of the four branches in Susquehanna County have Automated Teller Machines (ATMs), two of the three branches in Wyoming County have ATMs, and all three branches in Broome County have ATMs. There were no mergers, acquisitions, branch openings, or branch closings since the last CRA evaluation.

PNB is a full service community bank offering a broad range of retail and commercial banking products and services. PNB's retail services and products include: checking accounts, saving programs, money-market accounts, certificate of deposit, personal loans, residential mortgages, and student loans. The bank's commercial services and products include: business checking accounts, working capital lines of credit, letters of credit, equipment loans, commercial loans, commercial mortgages, and small business loans done in conjunction with the Small Business Administration (SBA).

As of December 31, 2007, PNB reported net loans of \$292 million or 68% of total assets. The loan portfolio is comprised as follows:

Loan Portfolio Summary by Loan Product December 31, 2007	
Loan Category	% of Outstanding Dollars
Residential Real Estate Loans	40%
Commercial Real Estate Loans	36%
Commercial & Industrial Loans	11%
Other Loans	7%
Consumer Loans	6%

Competition is strong and includes local community banks and branches of larger regional and national institutions. PNB's primary competitors in Susquehanna County are: Community Bank and Trust Company, NBT Bank, NA, Honesdale National Bank, and Community Bank, NA. PNB's primary competitors in Wyoming County are: Community Bank and Trust Company, Community Bank, NA, Wachovia Bank, NA, and Manufacturers & Traders Trust Company. PNB's primary competitors in Broome County are: Partners Trust Bank, Manufacturers & Traders Trust Company, and HSBC Bank USA, NA.

There are no legal, financial or other factors which would impede PNB's ability to help meet the credit needs in its AAs.

PNB received a "Satisfactory" rating on its last performance evaluation, dated August 22, 2005.

Selection of Areas for Full-Scope Review

PNB has three Assessment Areas (AAs). Two of the AAs, Susquehanna County AA - Non-MSA and Wyoming County AA – MSA 42540, are located in Pennsylvania, and one AA, Broome County AA – MSA 13780, is located in New York.

In each state where the bank has an office, a sample of AAs within that state was selected for a full-scope review. The Susquehanna County AA – Non-MSA in Pennsylvania was selected for a full-scope review because 71% of the bank's lending and 65% of the bank's deposit market share is in the Susquehanna County AA – Non-MSA. The Broome County AA – MSA 13780 in New York was selected for full-scope review because this is the only AA in NY. The Wyoming County AA – MSA 42540 in Pennsylvania was selected for a limited-scope review. Please refer to the "Scope" section under each state rating for details regarding how the areas were selected.

Ratings

PNB's overall rating is a blend of the PA and NY State ratings. The state ratings are based primarily on those areas that received full-scope reviews. The PA rating was given the most weight because a majority of PNB's loans and deposits were originated in Pennsylvania. Ninety-three percent of the deposit market share is in Pennsylvania, and 93% percent of the bank's lending volume originated in Pennsylvania. The limited-scope review was considered to the extent that it was consistent or not consistent with the bank's performance in the full-scope AA. Refer to the "Scope" section under each state rating for details regarding how the areas were weighted in arriving at the overall state rating.

Conclusions with Respect to Performance Criteria

PNB's performance under the Lending Test is considered "Outstanding". More weight was placed on PNB's performance in Pennsylvania as the majority of the bank's loan and deposit market share is generated in this state. Additionally, more weight was placed on lending to borrowers of different income levels and businesses of different sizes because there were no low- or moderate-income geographies in the Pennsylvania AAs. PNB's loan-to-deposit ratio is more than reasonable, and a substantial majority of the loans originated were inside the bank's AA. The bank's borrower distribution reflects excellent penetration among borrowers of different income-levels and businesses of different sizes. PNB was found to have poor dispersion throughout census tracts of different income levels in the Broome County AA - MSA 13780.

Loan-to-Deposit Ratio

PNB's average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and credit needs, and it exceeds the standard for satisfactory performance. The bank's quarterly average loan-to-deposit ratio over the twelve quarters since the last CRA examination was 85.79%. During this twelve quarter period, the ratio ranged from a quarterly low of 83.24% to a quarterly high of 88.24%. The bank's quarterly average loan-to-deposit ratio is more than reasonable when compared to other similarly situated financial institutions in PA and NY. The quarterly average loan-to-deposit ratio for these similarly situated financial institutions over the same twelve quarters was 71.36%, and the ratio ranged from a quarterly low of 68.84% to a quarterly high of 75.34% during that time. The bank's quarterly average loan-to-deposit ratio compares favorably with other national financial institutions of similar size. The quarterly average loan-to-deposit ratio for national institutions of similar size was 86.80% over the same twelve quarters, and the ratio ranged from a quarterly low of 84.87% to a quarterly high of 89.45% during that time period.

Lending in Assessment Area

A substantial majority of home mortgage loans and small loans to businesses were originated within the bank's combined assessment areas, and this exceeds the standard for satisfactory performance. During the evaluation period, 91% of the number and 87% of the dollar amount of total home mortgage loans and small loans to businesses were made within the bank's combined AAs.

The following table details the bank's lending within the AAs by number and dollar amount of loans.

Table 1 - Lending in PNB's Assessment Areas (AAs)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	347	84	66	16	413	31,856	81	7,343	19	39,199
Home Improvement	237	94	14	6	251	13,830	95	775	5	14,605
Home Refinance	258	94	17	6	275	19,128	93	1,534	7	20,662
Small Business	1,667	92	151	8	1,818	60,737	86	9,513	14	70,250
Totals	2,509	91	248	9	2,757	125,551	87	19,165	13	144,716

Source: HMDA, CRA data 2005-2007

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

State Rating

State of Pennsylvania

CRA Rating for Pennsylvania: Satisfactory

The Lending test is rated: Outstanding

The Community development test is rated: Satisfactory

The primary factors supporting this rating are:

- The bank's distribution of loans represents an excellent penetration among individuals of different income levels and businesses of different income levels; and
- PNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN PENNSYLVANIA

The bank's primary market is in the state of Pennsylvania. Seven of the ten branches are located in Pennsylvania, ninety-three percent of the bank's deposit market share is in Pennsylvania, and ninety-three percent of the bank's lending volume originated in Pennsylvania. As mentioned earlier, PNB has two assessment areas in Pennsylvania: Susquehanna County AA – Non-MSA and Wyoming County AA – MSA 42540. The following provides a description of the bank's Pennsylvania AAs.

The primary AA in Pennsylvania is the Susquehanna County AA - Non-MSA. Susquehanna County is located in Northeastern Pennsylvania, along the I-81 corridor, and it is situated between Binghamton, New York and the Wilkes-Barre-Scranton metropolitan regions. The Susquehanna County AA – Non-MSA consists of all eleven census tracts within Susquehanna County, all of which are designated middle-income geographies. While there are no low- or moderate-income geographies, the entire county has been classified as a distressed and underserved non-metropolitan middle-income county. The AA has a total population of 42,238. Within the AA, there are 11,810 families and 16,543 households. There are 21,829 housing units, of which, 60% are owner-occupied, 16% are rental occupied, and 24% are vacant. The median housing cost was \$85,802. The 2000 median income was \$41,475, and the HUD update median family income is \$49,800. Approximately 19% of the families are low-income, 21% are moderate-income, 24% are middle-income, and 36% are upper-income. Approximately 12% of families are below the poverty level. According to the

2007 business demographics, there are a total of 2,323 businesses in the AA, and approximately 61% of these businesses have revenues less than \$1 million.

There are four branches and three Automated Teller Machines (ATMs) in the Susquehanna County AA – Non-MSA. As of June 30, 2007, PNB had a 38.21% deposit market share in Susquehanna County, ranking it 1st among 5 institutions. PNB's primary competitors in the Susquehanna County market are: Community Bank and Trust Company (26.95% market share), NBT Bank, NA (21.17% market share), Honesdale National Bank (9.60% market share), and Community Bank, NA (4.06% market share).

The economy in the area is characterized as stable. The major employment sectors are health care facilities, school districts, state government and local governments, and the major employers are Barnes-Kasson County Hospital, local school districts, and the state government. According to the Bureau of Labor Statistics, the unemployment rate for Susquehanna County was 4.2% as of December 31, 2007, and the national unemployment rate was 5.0% as of December 31, 2007.

The bank's secondary market in Pennsylvania is the Wyoming County AA – MSA 42540. Wyoming County is part of the Scranton-Wilkes-Barre, PA MSA 42540, which includes Wyoming, Lackawanna, and Luzerne Counties in the northeastern region of Pennsylvania. PNB's Wyoming County AA – MSA 42540 includes all seven of census tracts in Wyoming County, all of which are designated middle-income geographies. The AA has a total population of 28,080. There are 7,779 families and 10,822 households in this AA. There are 12,713 housing units, of which, 67% are owner-occupied, 18% are rental-occupied, and 15% are vacant housing units. The median housing cost was \$91,862. The 2000 median income was \$43,893, and the HUD update median income is \$52,500. Approximately 19% of the families are low-income, 20% are moderate-income, 23% are middle-income, and 38% are upper-income. Approximately 10% of families are below the poverty level. According to the 2007 business demographics, there are a total of 1,423 businesses in the AA, and approximately 66% of these businesses have revenues less than \$1 million.

There are three branches and two ATMs in the Wyoming County AA – MSA 42540. As of June 30, 2007, PNB had a 27.30% deposit market share, ranking it 2nd among 6 institutions. PNB's primary competitors in this market are: Community Bank and Trust Company (28.65%), Community Bank, NA (26.87%), Wachovia Bank, NA (8.70%), and Manufacturers & Traders Trust Company (6.20%).

The economy is characterized as stable. The major industries in the area are agriculture, services and hospitality, and the major employers in the county are Procter and Gamble, Tobyhanna Army Depot, Wyoming Valley Health Care System, Mercy Hospital, and Allied Services Foundation. According to the Bureau of Labor Statistics, the unemployment rate for Wyoming County was 5.7% as of December 31, 2007, and the national unemployment rate was 5.0% as of December 31, 2007.

SCOPE OF EVALUATION IN PENNSYLVANIA

The Susquehanna County AA – Non-MSA received a full-scope review, and the Wyoming County AA – MSA 42540 received a limited-scope review. The Pennsylvania state rating is based primarily on the results of the full-scope review.

The Susquehanna County AA – Non-MSA was most heavily weighted in arriving at our overall conclusions as the bank's largest market share for loans and deposits is concentrated in this AA. Seventy-one percent of the bank's lending and 65% of the bank's deposits are within this AA. The Wyoming County AA – MSA 42540 received a limited-scope review and less weight since only 23% of the bank's lending and 28% of the bank's deposit are within this AA.

The bank's lending to borrowers of different income levels and to businesses of different sizes was most heavily weighted in arriving at the Lending Test conclusions for the state of Pennsylvania. There are no low- or moderate-income geographies in the Susquehanna County AA – Non-MSA or the Wyoming County AA – MSA 42540; therefore, an analysis would not be meaningful and was not performed. However, Susquehanna County was designated as a distressed and underserved non-metropolitan middle-income county for the duration of the evaluation period, and the bank received consideration for lending to the middle-income geographies.

In conducting the assessment of the bank's performance, we contacted one economic development organization and one affordable housing organization. The contacts indicated there are limited opportunities for community development lending and investments. However, there are ample opportunities for community development services, grants, and donation. Identified community development services, grants and donations are: credit education and credit counseling for low- and moderate-income individuals and families, small business seminars, donations to local organizations who assist low- and moderate-income families with affordable housing, and community services and donations to local organizations that assist start-up businesses and small businesses. In addition, both contacts mentioned a need for low interest small businesses loans, and investments in projects that would help stimulate the economy.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN PENNSYLVANIA

LENDING TEST

The bank's performance under the lending test in Pennsylvania is rated "Outstanding". The bank's borrower distribution reflects excellent penetration among borrowers of different income-levels and businesses of different sizes.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Susquehanna County AA – Non-MSA

The distribution of loans in the Susquehanna County AA – Non-MSA reflects excellent penetration among borrowers of different income levels and businesses of different sizes, and PNB's record of lending to borrowers of different income levels and businesses of different sizes exceeds the standards for satisfactory performance.

Home Mortgage Loans

The distribution of home mortgage loans to borrowers of different income levels reflects excellent penetration among borrowers of different income levels. In our analysis, we took into consideration the lack of affordability for a low-income family to purchase a home. The average median housing value in the AA was \$85,802, and a low-income family earned less than \$24,900. Furthermore, 12% of households in the AA are below the poverty level. This lack of affordability limits the opportunity for home purchase, home improvement, and home refinance lending to low-income families; therefore, we placed more emphasis on the moderate-income performance.

The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers meets the percentage of moderate-income families in the AA. PNB's performance is excellent when considering PNB is ranked 1st out of 21 lenders in lending to low-income borrowers, and PNB is ranked 1st out of 31 lenders in lending to moderate-income borrowers.

The percentage of home improvement loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers meets the percentage of moderate-income families in the AA. PNB's performance is excellent when considering PNB is ranked 1st out of 12 lenders in lending to low-income borrowers, and PNB is ranked 1st out of 17 lenders in lending to moderate-income borrowers.

The percentage of home refinance loans made to low-income borrowers is near the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers is near the percentage of moderate-income families in the AA. PNB's performance is excellent when considering PNB is ranked 2nd out of 31 lenders in lending to low-income borrowers, and PNB is ranked 3rd out of 52 lenders in lending to moderate-income borrowers.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2005 through December 31, 2007 as compared to the percent of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Susquehanna County AA – Non-MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type:	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home								
Purchase	19.31	10.71	21.19	20.98	23.45	28.13	36.05	40.18
Improvement	19.31	10.40	21.19	21.39	23.45	30.64	36.05	37.57
Refinance	19.31	17.30	21.19	18.38	23.45	26.49	36.05	37.84

Source: PNB HMDA data 2005-2007, 2000 U.S. Census data

Business Loans

The distribution of loans to businesses of different sizes reflects excellent penetration among businesses of different sizes. Compared to the percentage of AA businesses with gross annual revenues less than or equal to \$1 million, the bank's ratio is higher in terms of the dollar volume and the number of loans originated.

The following table details the bank's performance in lending to businesses of different sizes.

Table 2A - Borrower Distribution of Loans to Businesses in Susquehanna County, PA Non-MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	61.04	4.48	34.48	100
% of Bank Loans in AA by #	84.82	11.38	3.80	100
% of Bank Loans in AA by \$	69.44	27.49	3.07	100

Source: PNB CRA data 2005-2007, 2007 Dunn & Bradstreet data

Geographic Distribution of Loans

Susquehanna County AA – Non-MSA

The geographic distribution of home mortgage loans and business loans reflects reasonable dispersion throughout the AA, and the geographic distribution of home mortgage loans and business loans meets the standard for satisfactory performance.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA, and the geographic distribution of home mortgage loans meets the standard for satisfactory performance. There are no low- or moderate-income geographies in either of the bank's AAs in PA. Though there are no low- or moderate-income geographies in this AA, the area was designated as a distressed and underserved non-metropolitan middle-income county for the duration of the evaluation

period. Therefore, the bank received consideration for lending to the middle-income geographies.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2005 through December 31, 2007.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Susquehanna County AA – Non-MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00
Improvement	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00
Refinance	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00

Source: PNB HMDA data 2005-2007, 2000 U.S. Census data

Business Loans

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout the AA, and the bank’s geographic distribution of business loans meets the standard for satisfactory performance. Though there are no low- or moderate-income geographies in this AA, the area is designated as distressed and underserved for the duration of the evaluation period. Therefore, the bank received consideration for business lending to the middle-income tracts.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A – Geographic Distribution of Loans to Businesses in Susquehanna County AA – Non-MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type Small Business	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00

Source: PNB CRA data 2005-2007, 2007 Dunn & Bradstreet data

Wyoming County AA - MSA 42540, Limited Scope

Based on a limited-scope review, the bank's performance under the lending test in the Wyoming County AA - MSA 42540 is not inconsistent with the bank's overall lending test rating under the full-scope area in Pennsylvania.

Responses to Complaints

During this evaluation period there were no complaints related to the bank's performance in meeting AA credit needs.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in Pennsylvania is rated "Satisfactory".

Susquehanna County AA – Non-MSA

Number and Amount of Community Development Loans

A \$1.1 million loan was made under the Federal Home Loan Bank's Community Lending Program. The loan was to purchase a grocery store and retail space in a middle-income non-metropolitan distressed and underserved area. The loan helped to revitalize and stabilize the area by improving the needed infrastructure, and it allowed for the retention of existing jobs.

Number and Amount of Qualified Investments

There were no investments made during the evaluation period. PNB made twenty donations for a total of \$175 thousand to seven different qualified community development organizations that promoted economic development and provided affordable housing and community services to low- and moderate-income individuals in the AA.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, four officers and employees provided financial and technical expertise to eight qualified community development organizations. The following details the community development services that were provided during the evaluation period:

- One director provides financial and technical expertise by serving on the Board of Directors for an organization that provides scholarships primarily to low- and moderate-income students and adults for education

- An employee provides financial and technical expertise by serving as the secretary of the Board of Directors for an organization that provides community services for low-income individuals and families
- An officer serves as a member of the family selection committee for a local non-profit organization whose primary purpose is affordable housing for low- and moderate-income individuals and families.
- One manager provides financial and technical expertise to a local organization that provides community services primarily to low- and moderate-income women. This person provided financial and technical expertise by serving on a committee that assisted the organization with the purchase a new building.
- One employee served as the Treasurer for a local organization that has two community service projects that primarily benefit low- and moderate-income individuals and families.
- One bank director provides financial and technical expertise by serving as President of a local organization that, in turn, supports a variety of non-profit organizations that provide affordable housing and community services primarily to low- and moderate-income individuals and families.
- One employee provides financial and technical expertise by serving on the Board of Directors for a local organization that helps procure state grant money for home improvements for low- and moderate-income homeowners.
- The Chief Credit Officer and staff provided financial and technical expertise by sponsoring and putting together a loan package so a local community development organization could get funding for a local affordable housing apartment center in Susquehanna County.

Responsiveness to Community Development Needs

PNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

Wyoming County AA - MSA 42540, Limited Scope

Number and Amount of Community Development Loans

No Community Development loans were made during the evaluation period.

Number and Amount of Qualified Investments

There were no investments made during the evaluation period. PNB made nine donations for a total of \$66 thousand to three different qualified community development organizations that provided affordable housing and community services to low- and moderate-income individuals in the AA.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, one director provided financial and technical expertise by serving on the Board of Directors for an organization that provides scholarships primarily to low- and moderate-income adults and students for education.

Responsiveness to Community Development Needs

PNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

State Rating

State of New York

CRA Rating for New York: Satisfactory

The Lending test is rated: Satisfactory

The Community development test is rated: Satisfactory

The primary factors supporting this rating are:

- The bank's distribution of loans represents an excellent penetration among individuals of different income levels and businesses of different income levels;
- The geographic distribution of home mortgage loans and small loans to businesses reflects poor dispersion throughout census tracts of different income levels; and
- PNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AAs.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NEW YORK

PNB has one AA in the state of New York, the Broome County AA – MSA 13780. Broome County is part of the Binghamton, NY MSA, which includes Broome County and Tioga County. Broome County is located in south-central New York directly north of the border with Pennsylvania. PNB's Broome County AA – MSA 13780 includes all 55 census tracts located in Broome County. There are 4 (7%) low-income geographies, 13 (24%) moderate-income geographies, 26 (47%) middle-income geographies, and 12 (22%) upper-income geographies. The AA has a total population of 200,536. Within the AA, there are 50,688 families and 80,917 households. There are 88,817 housing units, of which, 59% are owner-occupied, 32% are rental-occupied, and 9% are vacant housing units. The median housing cost was \$72,610. The 2000 median income was \$45,725, and the HUD updated median income is \$52,800. Approximately 19% of the families are low-income, 19% are moderate-income, 23% are middle-income, and 39% are upper-income. Approximately 13% of families are below poverty level. According to the 2007 business demographics, there are a total of 11,864 businesses, and approximately 63% of these businesses have revenues less than \$1 million. There are 1,245 businesses located in low-income geographies, and there are 2,440 businesses located in moderate-income geographies.

PNB has three branches and three ATMs in the Broome County AA – MSA 13780. As of June 30, 2007, PNB had a 1.13% deposit market share in this AA, ranking it 7th

among 9 institutions. Competition in this AA is strong, and PNB's primary competitors are: Partners Trust Bank (32.77% market share), Manufacturers & Traders Trust Company (29.65% market share), HSBC Bank, NA (15.78% market share), and NBT Bank, NA (9.58% market share).

Over the last five years, the Broome County area has experience corporate downsizing and rising unemployment. This has negatively impacted the local economy. The unemployment rate for Broome County was 4.7% as of December 31, 2007, and the national unemployment rate was 5.0% as of December 31, 2007. Some of the top employers in the county include: Lockheed Martin Corporation, United Health Services, Lourdes Hospital, Binghamton University, and IBM Corporation.

SCOPE OF EVALUATION IN NEW YORK

The Broome County AA – MSA 13780 received a full-scope review because this is the only AA in the state of New York. The Broome County AA – MSA 13780 received less weight than the Pennsylvania AAs because only 7% of the bank's lending and only 7% of the bank's deposits are within this AA.

One community contact was conducted during this examination. The community contact was an affordable housing advocate operating in Broome County, NY. The organization is dedicated to promoting home ownership and education for low- and moderate-income families in the AA. The community contact discussed the economic problems in the area stemming from high unemployment over the past several years due to the downsizing of many of the areas local companies and the affordable housing shortage for low- and moderate-income families and seniors. Revitalizing the community through economic transformation and creating affordable housing are all concerns in the area. PNB was mentioned as one of the local banks in the area still closely connected to the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NEW YORK

LENDING TEST

The bank's performance under the lending test in New York is rated "Satisfactory".

The bank's borrower distribution reflects excellent penetration among borrowers of different income-levels and businesses of different sizes. The bank's geographic distribution of home mortgage loans and small loans to businesses reflects poor dispersion throughout census tracts of different income levels.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans in the Broome County AA – MSA 13780 reflects excellent penetration among borrowers of different income levels and businesses of different sizes, and PNB's record of lending to borrowers of different income levels and businesses of different sizes exceeds the standards for satisfactory performance.

Home Mortgage Loans

The distribution of home mortgage loans to borrowers of different income levels reflects excellent penetration among borrowers of different income levels and exceeds the standard for satisfactory performance.

The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home improvement loans made to low-income borrowers is near the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home refinance loans made to low-income borrowers exceeds the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2005 through December 31, 2007 as compared to the percent of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type:	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.51	11.11	18.98	24.44	22.57	28.89	38.94	35.56
Improvement	19.51	18.75	18.98	31.25	22.57	18.75	38.94	31.25
Refinance	19.51	30.00	18.98	30.00	22.57	20.00	38.94	20.00

Source: PNB HMDA data 2005-2007, 2000 US Census data

Business Loans

The distribution of loans to businesses of different sizes reflects excellent penetration among businesses of different sizes and exceeds the standard for satisfactory performance. Compared to the percentage of AA businesses with gross annual revenues less than or equal to \$1 million, the bank’s ratio is higher in terms of the number of loans originated and lower in terms of the dollar volume of loans originated.

The following table details the bank’s performance in lending to businesses of different sizes.

Table 2A - Borrower Distribution of Loans to Businesses in Broome County AA – MSA 13780				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62.88	5.82	31.30	100%
% of Bank Loans in AA by #	67.33	24.75	7.92	100%
% of Bank Loans in AA by \$	52.70	32.94	14.36	100%

Source: PNB CRA data 2005-2007, 2007 Dunn & Bradstreet data

Geographic Distribution of Loans

The geographic distribution of home mortgage loans and small loans to businesses reflects poor dispersion throughout census tracts of different income levels and does not meet the standard for satisfactory performance.

Home Mortgage Loans

The geographic distribution of loans in the AA reflects poor dispersion throughout census tracts of different income levels and does not meet the standard for satisfactory performance.

There were no home purchase, home improvement, or home refinance loans made in low-income geographies during the evaluation period; however, opportunities for lending in low-income geographies were limited because there were only 657 owner-occupied housing units located in low-income geographies. There were no home improvement loans made in moderate-income geographies. The percentage of home purchase loans made in moderate-income geographies was significantly lower than the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans made in moderate-income geographies is near the percentage of owner-occupied housing units in these geographies.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Table 3 – Geographic Distribution of Residential Real Estate Loans in Broome County AA – MSA 13780								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	1.25	0.00	11.71	2.22	57.68	86.67	29.35	11.11
Improvement	1.25	0.00	11.71	0.00	57.68	75.00	29.35	25.00
Refinance	1.25	0.00	11.71	10.00	57.68	80.00	29.35	10.00

Source: PNB HMDA data 2005-2007, 2000 U.S. Census Data

Business Loans

The bank’s geographic distribution of business loans reflects poor dispersion throughout census tracts of different income levels, and does not meet the standard for satisfactory performance. The percentage of PNB’s small loans to businesses made in low-income geographies is lower than the percentage of businesses that are located in these geographies. The percentage of PNB’s small loans to businesses made in moderate-income geographies is significantly lower than the percentage of businesses that are located in these geographies.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A - Geographic Distribution of Loans to Businesses in Broome County AA – MSA 13780								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type Small Business	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
TOTALS	10.49	5.94	20.57	7.92	45.83	79.21	23.11	6.93

Source: PNB CRA data 2005-2007, 2007 Dunn & Bradstreet data

Responses to Complaints

Neither the bank nor the OCC received any CRA related complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in New York is rated "Satisfactory".

Number and Amount of Community Development Loans

PNB made a \$1.4 million loan under the Federal Home Loan Bank's Community Lending program. The loan was to purchase a grocery store and retail space. This loan helped to revitalize and stabilize the area by improving the needed infrastructure, and it allowed for the retention of jobs.

Number and Amount of Qualified Investments

There were no investments made during the evaluation period. PNB made eight donations for a total of \$9 thousand to three different qualified community development organizations that provided affordable housing and community services to low- and moderate-income individuals in the AA.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, one employee provided financial and technical expertise by serving on the Board of Directors for an organization that provides day care services primarily to low- and moderate-income individuals and families.

Responsiveness to Community Development Needs

PNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AAs.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: 01/01/05 to 12/31/07 Community Development Test: 8/22/05-5/27/08	
Financial Institution	Products Reviewed	
Peoples National Bank (PNB) Hallstead, PA	Home Purchases Home Improvements Home Refinances Small Business loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
NA	NA	NA
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Pennsylvania: Susquehanna County Non-MSA Wyoming County AA – MSA 42540 New York Broome County AA – MSA 13780	Full-scope Limited-scope Full-scope	N/A

Appendix B: Summary of State Ratings

Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
PEOPLES NATIONAL BANK	Outstanding	Satisfactory	Satisfactory
PENNSYLVANIA	Outstanding	Satisfactory	Satisfactory
NEW YORK	Satisfactory	Satisfactory	Satisfactory