



CODE OF CONDUCT & ETHICS

Keystone Nazareth Bank & Trust (the “Bank”) and KNBT Bancorp, Inc. (the “Company”) support the corporate values of caring, commitment, trust, and cooperation, trust being the key word. When we accept a customer’s money for deposit or other transactions, we are doing this based upon the trust and confidence they have in us to handle their financial business. This code of conduct details behaviors that help ensure that we maintain a high level of trust and confidence with all our customers, the public and our shareholders and we keep it over the life of our relationship with them. Because both regulations and laws impact the Bank and the Company, regulatory and legal requirements are incorporated into these standards, which Bank employees and Board members are expected to follow and to which they are subject.

Please review the information and use it as a reference. We expect you to become familiar with the information and perform your day-to-day responsibilities with these principles in mind.

A. CONFIDENTIALITY OF BUSINESS INFORMATION

All relationships between the Bank and customers are confidential. No information should be disclosed except as authorized by the customer or as required by statute or a court of competent jurisdiction.

All employees should use care not to discuss corporate business in any place or manner that risks violation of such confidentiality or that would in any way impair the Bank’s competitive position.

Financial information about the Bank or any of its subsidiaries is not to be given to persons outside the Bank unless it has been reported to the shareholders or otherwise been made available to the public.

The Bank places top priority on the protection of all types of information, particularly that which is produced, stored and transmitted by computer. This includes customer records, financial transactions, business strategies, software systems, and all corporate correspondence, interoffice or between the Bank and its outside contacts.

Employees are alerted not only to the protection of information in their immediate areas, but also in any other area where information is inadvertently discovered, such as from computer terminals, interoffice mail, faxes or telephones.

Although the Bank has established formal controls and guidelines, good judgment and sensitivity must be a part of every employee’s code of confidentiality.

B. CONFLICTS OF INTEREST AND BANK BRIBERY LAW POLICY

The Bank acknowledges that it is the duty and responsibility of each employee and Board member to knowingly not place themselves in a position which creates, or which leads to a conflict of interest or the appearance of a conflict of interest. Should any of such individuals become aware of a conflict of interest based on the preceding sentence, such individual shall bring the possible conflict to the attention of the Board of Directors, CEO or the Director of Internal Audit and shall refrain from any further action in their position for the Bank with respect to the matter which gives rise to the possible conflict.

In compliance with the Federal Bank Bribery Act, no employee or Board member of the Bank shall seek or accept anything of value in connection with any transaction or business of the Bank except:

1. Gifts, not exceeding \$100.00 in value, that do not create a sense of business obligation to the giver.
2. Gifts from family or close friends that clearly are not intended to influence a business relationship or transaction.
3. Business-related meals, refreshments, entertainment, or travel provided that the Bank would otherwise reimburse the expense.
4. Gifts of reasonable value for such occasions as promotions, birthdays, weddings, holidays or retirement.
5. Promotional materials such as pens, mugs, T-shirts, etc.
6. Civic, charitable, educational or religious organization awards.

Also, employees and Board members may not offer or promise anything to influence a prospective customer except items that are normally included as part of the products or services the Bank offers. If any employee or Board member is offered any other item of value in connection with the business of the Bank, they should immediately report the offer to their supervisor, the CEO, or the Director of Internal Audit.

The basic premise of this standard is that each employee and Board member represents the Bank and is expected to act in the Bank's best interests, and in the best interests of its customers, without regard to his or her personal or financial interests. If an employee or Board member has any doubt about a certain situation, they should consult their supervisor, the CEO, or the Director of Internal Audit.

The strictest compliance with these procedures by all personnel at every level is expected. Failure to observe them may result in serious legal difficulties for you as well as the Bank. A failure to follow the letter and spirit of these procedures would be considered a matter of extreme seriousness and may result in disciplinary action, up to and including termination.

C. FAIR DEALING

Employees and Board members are required to deal fairly with the Bank's customers, suppliers, competitors and other staff members. No staff person shall take unfair advantage of anyone through manipulation, concealment, abuse of privileged or confidential information, or any other unfair-dealing practice.

Except in a situation where the Bank is participating in a transaction with another institution, no employee or Board member shall have any agreement, understanding or arrangement with any competitor with respect to pricing of services, interest rates, or marketing policies. Employees and Board members should refrain from participating in any activity, which competes with the Bank and should not reveal any of the Bank's proprietary business information to competitors.

Bank customers should always be handled in a professional manner at all times. Employees should not misrepresent or conceal the nature of any material aspect of any transaction when dealing with a customer. Employees may from time to time receive requests from customers for tax or legal advice. Any discussion which could be interpreted as legal or tax advice should be avoided.

All employees are required to provide the most accurate information to auditors and examiners when requested. Any intent to mislead them or provide erroneous information by altering, concealing or destroying documents will result in disciplinary action up to and including termination.

Employees and Board members will have no advantage over the general public in the sale of assets or services to the Bank or for the purchase of any Bank properties including real estate, automobiles, or any other real or personal properties. Services and assets shall be purchased and Bank assets shall be sold in accordance with normal business practices. Illegal kickbacks are improper payments to any party for the referral of business and are strictly prohibited.

D. PERSONAL FINANCES

Keystone Nazareth Bank & Trust employees are entrusted to handle the financial transactions of our customers. The manner in which employees manage their personal finances can affect the Bank's professional image in the community. Employees should handle their own finances in the same manner that is expected when handling our customers' business. Employees should avoid over-extension of debt including repeated overdrafts on their personal checking account. Overdrafts will be charged at the standard overdraft rate and considered serious violations, which could lead to the closing of the account and disciplinary action.

Employees and their immediate families are not permitted to borrow from customers and suppliers of the Bank except those who are engaged in lending in their normal course of business, and only on terms offered to others under similar circumstances without special concessions to interest rates, terms, etc.

Employees and Board members should not in any way exercise authority on behalf of the Bank, or grant direct or indirect credit accommodations or recommendations, with respect to yourself, or members of your family, any individual or organization lending money to or employing you or members of your family, any organization you or members of your family are associated with or in which you hold a material financial interest.

Loans granted by the Bank to employees and Board members will be made with the same underwriting guidelines and with the same terms and conditions granted to the Bank's customers with no exceptions. Employees will be eligible for waiver of fees as stated in this manual. Any exception to the fee waiver policy must be approved by the CEO, EVP and SVP, Retail Lending and be reported to the Board.

E. EMPLOYMENT OF RELATIVES OR PERSONS HAVING CLOSE PERSONAL RELATIONSHIPS

To minimize the potential for conflicts of interest, members of the same immediate family may be employed by the Bank as long as neither family member serves as the immediate supervisor of the other, or they do not work in the same department. In the event that a change of relationship occurs that would result in a violation of this policy, the Bank will transfer one of the employees to a different position. The Bank will make every effort to ensure that the transferred employee is assigned to a position that is comparable, in terms of compensation and duties, as the employee's pre-transfer position.

In the event that no such comparable position is available, however, the employee may be transferred to a non-comparable position (e.g. different duties, lower pay level, etc.) or be terminated. The decision regarding which employee will be transferred will be made solely by KNBT Management.

Further, members of the immediate family of Corporate Officers and/or Directors are not eligible to be hired by the Bank, except for seasonal or temporary employment. In the event that an existing employee is promoted to a Corporate Officer or they should serve as a Trustee, any immediate family member employed by the Bank at that time may be asked to resign. For purposes of this policy, immediate family is defined as spouses, children, grandchildren, parents, brothers, sisters, mother-in-law, and father-in-law.

F. BANK SECRECY ACT AND ANTI-MONEY LAUNDERING COMPLIANCE

The Bank is committed to compliance with the Bank Secrecy Act and other regulations concerning money laundering and other types of illegal activity. Any employee who knowingly and willingly launders currency, or attempts or assists anyone in laundering money is subject to fines, imprisonment or both. Bank employees are prohibited from engaging in money laundering and/or transaction structuring to avoid the currency transaction reporting requirements under the Bank Secrecy Act. All employees are required to immediately report any attempt to launder money, structure transactions, and any suspected suspicious activities to the Security Officer of the Bank. Failure to comply may result in termination of employment and/or federally imposed fines.

G. INSIDER TRADING AND CONFIDENTIALITY POLICY

All personnel at every level must follow the procedures below, arising from our responsibilities as a public company. In addition, certain designated executive officers, as well as the members of our board of directors, are subject to the Company's "Statement of Policy and Procedures Governing Trading in Shares of KNBT Bancorp, Inc."

Prohibition against trading on undisclosed material information: If you are aware of material information relating to the Bank, which has not yet been made available to the public for at least two full business days, you are prohibited from trading in KNBT shares or directly or indirectly disclosing such information to any other persons so that they may trade in KNBT shares. It is difficult to describe extensively what constitutes "material" information, but you should assume that any information, favorable or unfavorable, which may be of significance to an investor in

determining whether to purchase, sell or hold KNBT stock would be material. Information may be significant for this purpose even if it would not alone determine the investor's decision. Examples include, potential acquisitions, internal financial information which departs in any way from what the market would expect, important product or service developments, the acquisition or loss of a major contract, or an important financial transaction. We emphasize that this list is merely illustrative. To avoid any conflict of interest, Bank employees involved in security transactions for the Bank or its customers should not deal personally with the same security broker or dealers with whom the Bank has a business relationship as listed in the Bank's investment policy.

Serious problems could be caused for the Bank by unauthorized disclosure of internal information about the Bank, whether or not for the purpose of facilitating improper trading in the stock. Bank staff should not discuss internal Bank matters or developments with anyone outside of the Bank except as required in the performance of regular corporate duties.

This prohibition applies specifically, but not exclusively, to inquiries about the Bank, which may be made by the financial press, investment analysts or others in the financial community. It is important that all such communications on behalf of the Bank be through an appropriately designated officer under carefully controlled circumstances. Unless you are expressly authorized to the contrary, if you receive any inquiries of this nature, you should decline comment and refer inquiries to the CFO of the Bank. If you have any doubt as to your responsibilities under this guideline, seek clarification and guidance from the CFO before you act. Do not try to resolve uncertainties on your own.

H. COMPLIANCE WITH LAWS AND REGULATIONS

The Bank expects and requires that all employees and Board members abide by federal, state, and local laws and all applicable Banking regulations especially those relating to financial disclosure. If it is determined that any employee or Board member has violated any such laws or regulations, the Bank reserves the right to take whatever action it deems appropriate, including immediate discharge.

I. SPECIAL ETHICS OBLIGATIONS FOR EMPLOYEES WITH FINANCIAL REPORTING RESPONSIBILITIES

As a public company, it is critical that the Company's filings with the Securities and Exchange Commission be accurate and timely. Depending on your position with us, you may be called upon to provide information to assure that our public reports are complete, fair and understandable. We expect you to take this responsibility seriously and to provide prompt and accurate answers to inquiries related to our public disclosure requirements.

All Directors, officers and employees bear a special responsibility for promoting our integrity. The CEO, the CFO, the Treasurer, the Controller, and all those persons acting in a similar capacity have a special role both to adhere to these principles and also to ensure that our corporate culture ensures the fair and timely reporting of our financial results and condition.

Because of this special role, our CEO, CFO, Treasurer, Controller, and all those persons acting in a similar capacity are bound by the following Financial Officer Code of Ethics, and each agrees that he or she will:

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships;
- Provide information that is accurate, complete, objective, relevant, timely and understandable to ensure full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, government agencies and in other public communications made by us;
- Comply with rules and regulations of federal, state and local governments, and other appropriate regulatory agencies;
- Act in good faith, responsibly, and with due care, competence and diligence, without misrepresenting material facts or allowing one's independent judgment to be impaired; and
- Promptly report to the Audit Committee of our Board of Directors any conduct that the individual believes to be a violation of law or business ethics or of any provision of the Code of Conduct, including any transaction or relationship that reasonably could be expected to give rise to a conflict of interest.

Violations of this Financial Officer Code of Ethics, including failures to report potential violations by others, are a serious matter that may result in disciplinary action, including termination of employment. If you believe that a violation of the Financial Officer Code of Ethics has occurred, you should contact the Audit Committee of the Board of Directors.

J. REPORTING CODE OF CONDUCT VIOLATIONS

All KNBT employees and Board members are responsible for adhering to the standards described in this policy. Employees who have questions regarding this policy or who desire an interpretation concerning their own activities should consult with the Human Resources Director.

All employees and Board members are encouraged to make "good faith" reports of suspected illegal or unethical behavior by other employees or Board members. No employee may be adversely affected because the employee refused to carry out a directive, which, in fact, constitutes corporate fraud or is a violation of any local, state, or federal law. The individual will be protected from corporate reprisal, except if he or she has participated in the unethical and/or illegal activity. Legitimate suspicions should be reported in writing to the Chair of the Audit Committee of the Board of Directors.

Complaints regarding Accounting, Internal Control, and/or Audit matters should be reported to the Chair of the Audit Committee of the Board of Directors.

The Audit Committee is responsible for the establishment of procedures to protect those who submit complaints and for receiving and responding to complaints in a timely manner. Every effort will be made to maintain the confidentiality and identity of the reporting individual. Complaints may be submitted anonymously. Retaliation is prohibited against any employee or Board member for making a legitimate report in accordance with this policy.

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