

#2006-17

AGREEMENT BY AND BETWEEN
Maryland Bank and Trust Company, National Association
Lexington Park, MD
and
The Office of the Comptroller of the Currency

Maryland Bank and Trust Company, National Association, Lexington Park, MD (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his/her National Bank Examiner, has examined the Bank, and his/her findings are contained in the Report of Examination, dated as of 12/31/2004 (ROE).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his/her authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Maryann H. Kennedy
Maryland National Capital Area Satellite Office
250 E Street, NW, Suite 3-5
Washington, DC 20219

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be employees of the Bank or any of its affiliates (as the term "affiliate" is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Formal Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within sixty (60) days of the appointment of the Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) actions taken to comply with each Article of this Formal Agreement; and

(b) the results of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

ARTICLE III

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within one hundred and twenty (120) days, the Board shall ensure that the Bank has competent management in place on a full-time basis in its Chief Executive Officer, Senior Loan Officer, Chief Credit Officer and Compliance Officer positions to carry out the Board's policies, ensure compliance with this Formal Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within ninety (90) days, the Board shall review the capabilities of the Bank's management to perform present and anticipated duties, paying special attention to the lending, compliance management, and Bank Secrecy Act program functions, and the Board will determine whether management changes should be made, including the need for additions to or deletions from current management.

(3) For incumbent officers in the positions mentioned in Paragraph (1) of this Article, the Board shall within ninety (90) days assess each of these officers' experience, other qualifications and performance compared to the position's description, duties and responsibilities.

(4) If the Board determines that an officer will continue in his/her position but that the officer's depth of skills needs improvement, the Board will within one hundred and fifty (150) days develop and implement a written program, with specific time frames, to improve the

officer's supervision and management of the Bank. At a minimum the written program shall include:

- (a) an education program designed to ensure that the officer has skills and abilities necessary to supervise effectively;
- (b) a program to improve the effectiveness of the officer;
- (c) objectives by which the officer's effectiveness will be measured; and
- (d) a performance appraisal program for evaluating performance according to the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller.

(5) If a position mentioned in Paragraph (1) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (1) of this Article becomes vacant, the Board shall within one hundred and eighty (180) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Formal Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(6) Prior to the appointment of any individual to an executive officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate Manual, together with a legible fingerprint card for the proposed individual;

(b) a written statement of the Board's reasons for selecting the proposed officer; and

(c) a written description of the proposed officer's duties and responsibilities.

(7) The Bank shall on a continuing basis maintain a performance appraisal program consistent with 4 (d) of this article for each senior manager and maintain a compensation program that is tied to performance pursuant to this appraisal program. The program shall include an annual process for establishing goals and objectives for each senior manager and reviewing their performance.

(8) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(9) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the Comptroller to complete his/her review and act on any such information or authority within ninety (90) days.

ARTICLE IV

STAFFING PLAN

(1) Within one hundred and eighty (180) days, the Board shall develop a staffing plan for the lending and compliance management functions that will provide for adequate resources to implement and maintain a sound system of internal controls and risk management and is consistent with the bank's strategic plan. At a minimum, the plan will consist of the following:

(a) identification of the skills and expertise needed to implement and maintain

a sound system of internal controls and risk management in the lending and compliance management functions;

- (b) identification of the skills and expertise of the Bank's current staff; and
- (c) comparison of the current staff's skills and expertise identified in (1) (b) of this Article to the skills and expertise identified in (1)(a) of this Article.
- (d) adequacy of staff to perform operational functions.

(2) Within thirty (30) days of the development of the staffing plan, the Board will implement the plan and direct any changes necessary to provide the Bank with a staff that possesses the skills and expertise identified in (1)(a) of this Article. Thereafter the Board will ensure that the Bank adheres to the staffing plan.

(3) Upon completion of the actions required by this article, the Board will submit the required information and be subject to the prior veto provisions by the Assistant Deputy Comptroller.

ARTICLE V

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall immediately and thereafter maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) Tier 1 capital at least equal to twelve percent (12%) of risk-weighted assets;
- (b) Tier 1 capital at least equal to eight percent (8%) of adjusted total assets.
- (c) Total capital at least equal to fourteen percent (14%) of risk-weighted assets

(2) The requirement in this Formal Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be "well capitalized" for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:

- (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of paragraph (1);
- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) With the prior written approval of the Assistant Deputy Comptroller.

(4) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for approval. Upon approval by the Assistant Deputy Comptroller, the

Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

ARTICLE VI

INSIDER TRANSACTIONS - COMPLIANCE

- (1) Effective immediately, the Board shall adopt a written program to comply with the requirements of 12 CFR 215. Specifically, this program shall include:
 - (a) A provision for training lending personnel (including operational staff) and members of the Board. Training shall cover all aspects of Regulation O and should be performed on at least on an annual basis.
 - (b) A process to identify executive officers and related interests as defined by 12 CFR 215.2
 - (c) A process to identify all transactions subject to the requirements of 12 CFR 215
 - (d) A process by which the bank maintains adequate, centralized records. These records shall include:
 - (1) the names of the parties to the transaction other than the Bank,
 - (2) state the relationship of the parties to the Bank,
 - (3) provide a brief description of the transaction and its terms,
 - (4) provide a notation of the approval of the transaction by the

Board including the vote of each director and the bases for any dissenting or abstaining votes.

- (5) The Bank shall require each executive officer, director and principal shareholder to provide at least annually and in writing, a listing of the preceding parties' respective Related Interests as defined in 12 C.F.R. Part 215. The list of these persons' Related Interests shall be maintained by the Board and any changes to these listings of Related Interests shall be promptly reported to the Board and reflected in the centralized records, and
- (e) Provide for an internal audit of appropriate scope and frequency. The scope of the audit shall test compliance with regulatory compliance and compliance with this program.

ARTICLE VII

CONSUMER COMPLIANCE PROGRAM

(1) Within one hundred and twenty (120) days, the Bank shall adopt, implement, and thereafter ensure adherence to a written consumer compliance program designed to ensure that the Bank is operating in compliance with all applicable consumer protection laws, rules and regulations. This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer and other staff members charged with effecting compliance;

- (b) adequate internal controls, including but not limited to a comprehensive and effective compliance monitoring program, to ensure compliance with consumer protection laws, rules, and regulations. Such a program shall include periodic testing of a frequency that is appropriate considering the volume of transactions and the compliance risk exposure;
- (c) the preparation of a policies and procedures manual covering all consumer protection laws, rules and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities;
- (d) semiannual updates of the written policies and procedures manual to ensure it remains current with respect to bank practice and regulatory requirements;
- (e) an audit program to test for compliance with consumer protection laws, rules and regulations;
- (f) procedures to ensure that exceptions, including violations of law and regulation, noted in the audit reports are corrected and responded to by the appropriate Bank personnel;
- (g) an appropriately documented training program of all appropriate Bank personnel in the requirements of all federal and state consumer protection laws, rules and regulations supported by appropriate documentation; and
- (h) regular reporting of significant issues affecting the bank's compliance posture, including results of compliance monitoring efforts and compliance audits to the Board or a committee thereof. The frequency of reporting to the Board should be at least quarterly.

(2) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review within ninety (90) days.

ARTICLE VIII

BANK SECRECY ACT - INTERNAL CONTROLS

(1) Within one hundred and twenty (120) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program of policies and procedures to ensure compliance with the Bank Secrecy Act, as amended (31 U.S.C. §§ 5311 - 5330), the regulations promulgated thereunder at 31 C.F.R. Part 103, as amended, and 12 C.F.R. Part 21, Subparts B and C (collectively referred to as the Bank Secrecy Act). At a minimum, this written program shall establish:

- (a) a system of internal controls and independent testing and auditing to ensure ongoing compliance with the Bank Secrecy Act and the bank's policies and procedures;
- (b) operating procedures for both the opening of new accounts and the monitoring of high-risk accounts;
- (c) adequate controls and procedures to ensure that all suspicious and large currency transactions are identified and reported. Procedures should be comprehensive as to all points of cash entry and exit;
- (d) procedures to ensure that records are maintained on monetary instrument transactions and funds transfers, as required by the Bank Secrecy Act;
- (e) comprehensive procedures to identify and report to appropriate

management personnel:

- (i) frequent or large volume cash deposits or wire transfers or book entry transfers to or from offshore or domestic entities or individuals;
 - (ii) wire transfers or book entry transfers that are deposited into several accounts;
 - (iii) receipt and disbursement of wire transfers or book entry transfers without an apparent business reason;
 - (iv) receipt and disbursement of wire transfers or book entry transfers when they are inconsistent with the customer's business;
 - (v) receipt and disbursement of currency or monetary instruments when they are inconsistent with the customer's business; and
 - (vi) bank accounts opened in the name of a casa de cambio (money exchange house) or any "financial institution" as defined in 31 C.F.R. § 103.11(n) (bank, broker/dealer, currency dealer or exchanger, issuer or seller or redeemer of traveler's checks or money orders, transmitter of funds, telegraph company, casino, etc.);
- (f) a comprehensive training program for all appropriate operational and supervisory personnel to ensure their awareness of and compliance with the requirements of the Bank Secrecy Act and the Office of Foreign Assets Control (OFAC), including the currency reporting and monetary instrument and funds transfer recordkeeping requirements, and the

reporting requirements associated with Suspicious Activity Reports (SARs) pursuant to 12 C.F.R. Part 21, Subpart B;

- (g) an officer who will be responsible for filing Currency Transaction Reports (CTRs), Reports of International Transportation of Currency or Monetary Instruments (CMIRs), and Reports of Foreign Bank and Financial Accounts (FBARs);
- (h) comprehensive guidelines and procedures to identify and report both the shipment and receipt of currency or monetary instruments via common couriers, which guidelines should specifically detail procedures that will cover and address improperly labeled courier pouches containing monetary instruments, as well as related procedures for reporting and filing Suspicious Activity Reports for such pouches; and
- (i) comprehensive guidelines, procedures, and systems for compliance with the rules and regulations of the Office of Foreign Assets Control (OFAC).

(2) Upon completion, a copy of this program shall be submitted to the Assistant Deputy Comptroller for review. In the event the Assistant Deputy Comptroller recommends changes to the program, the Board shall immediately incorporate those changes into the program.

ARTICLE IX

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within one hundred and twenty (120) days the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the

ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Within one hundred and twenty (120) days the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (3)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (3)(d) would be detrimental to the best interests of the Bank.
 - (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed

by this Office in subsequent examinations of the Bank; and

(e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

(4) The bank shall maintain a process for timely resolution of credit and collateral exceptions.

(5) The Bank shall maintain a sound process for identifying, tracking and reporting credit, collateral and policy exceptions. Such a process shall include controls to ensure the accuracy of pertinent reports.

(6) The bank shall implement and maintain a sound process for identifying, tracking and reporting loans that exceed the supervisory loan to value limits. Such a process shall include controls to ensure the accuracy of pertinent reports.

(7) The Bank shall strengthen controls over collateral margin monitoring for asset based loans and perform independent verification of the reliability of each asset-based borrower's books and records.

ARTICLE X

APPRAISALS OF REAL PROPERTY

(1) Within sixty (60) days, the Bank shall engage the services of an independent, professionally certified, or licensed appraiser(s) to provide:

(a) a written or updated appraisal, in accordance with 12 C.F.R. Part 34, for each parcel of real property that represents primary collateral behind any extension of credit where the ROE or loan review identified the loan as being in violation of 12 CFR 34

(2) The Bank shall specifically instruct the appraiser(s) to comply with the requirements of 12 C.F.R. Part 34.

(3) All such appraisals shall be completed within ninety (90) days, and certification by the Board attesting to the completion of the appraisals shall be forwarded to the Assistant Deputy Comptroller within ninety (90) days.

(4) The bank shall implement and maintain a comprehensive and effective appraisal review process that involves appropriate documentation of appraisal reviews.

ARTICLE XI

LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within one hundred and twenty (120) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (c) procedures to ensure conformance with loan approval requirements;
- (d) a system to track and analyze exceptions;
- (e) procedures to ensure conformance with Call Report instructions;
- (f) procedures to ensure the accuracy of internal management information systems;
- (g) a performance appraisal process, including performance appraisals, job

descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters; and

- (h) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

(3) Within one hundred and twenty (120) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

- (a) early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, division, group, indirect dealer, and individual lending officer;
- (c) previously charged-off assets and their recovery potential;
- (d) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;
- (e) adequacy of credit and collateral documentation; and
- (f) concentrations of credit.

(4) Beginning December 31, 2005, on a quarterly basis management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) credit and collateral documentation exceptions;
- (d) the identification and status of credit related violations of law, rule or regulation;
- (e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph;
- (f) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios;
- (g) the identification and amount of loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (h) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

ARTICLE XII

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners

during any examination.

(2) Within one hundred and twenty (120) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding three hundred thousand dollars (\$300,000) shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or

exceeds three hundred thousand dollars (\$300,000);

- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed three hundred thousand dollars (\$300,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE XIII

MANAGEMENT INFORMATION SYSTEMS FOR THE LOAN PORTFOLIO

(1) The Board shall develop, implement, and thereafter ensure Bank adherence to a written program establishing an effective management information system (MIS) which facilitates risk identification, establishes controls, and delivers accurate information for timely review. In so doing, the Board shall identify the Bank's specific information requirements, particularly regarding the loan portfolio, and establish effective reporting mechanisms to guide decisions. The program shall include procedures for:

- (a) expediting the timely delivery of current information;
- (b) establishing controls to ensure the accuracy and confidentiality of information;
- (c) ensuring that data are processed and compiled uniformly to facilitate meaningful trend analysis, and provide for future systems changes;
- (d) producing complete and relevant information in a summarized form, for Board and management reports, to permit effective decision-making;
- (e) accurately identifying, recording, and tracking missing, incomplete, or imperfect loan and collateral documentation, including lacking or outdated appraisals and operating statements on real estate projects;
- (f) generating periodic reports, on at least a monthly basis, which identify emerging problem loans, identified problem loans, Other Real Estate Owned (OREO), and foreclosed assets;
- (g) maintaining a system by which the Board, or a delegated committee of the Board, can identify at the time of extension of credit, the aggregate

customer liability relationship of that customer with the Bank;

- (h) maintaining systems and reports which identify and analyze real estate portfolio concentrations, including commitments, by type, collateral and location;
- (i) maintaining a system to calculate each concentration as a percentage of total capital;
- (j) maintaining systems and reports identifying each real estate loan or project that evidences one or more of the following characteristics: slower than anticipated sales, lease or rental activity; slower than anticipated construction progress; cost overruns; other impediments to orderly project completion; or inadequate reserves to pay interest and/or tenant improvements until project stabilization; and
- (k) producing the information, which is listed in the ROE, that is necessary to effectively supervise the loan portfolio.

(2) As a part of the Board's ongoing responsibility to ensure that the Bank has an effective MIS, the Board shall designate a senior officer to coordinate the execution of this program.

(3) The Board shall submit a copy of the program to the Assistant Deputy Comptroller within one hundred and twenty (120) days.

ARTICLE XIV

INTERNAL LOAN REVIEW

- (1) The Board shall within sixty (60) days employ or designate a sufficiently

experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases.

(2) Within ninety (90) days, the Board shall establish an effective, independent and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in the Rating Credit Risk booklet, a section of the Comptroller's Handbook. Such reports shall, at a minimum, include conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article;
- (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (i) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.
- (j) the accuracy of credit risk ratings and the reliability of the credit risk

rating system.

(3) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program providing for independent review of problem loans and leases in the Bank's loan and lease portfolios for the purpose of monitoring portfolio trends, on at least a quarterly basis. The program shall require a quarterly report to the Board. At a minimum the program shall provide for an independent reviewer's assessment of the Bank's:

- (a) monitoring systems for early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, indirect dealer, and individual lending officer;
- (c) system for monitoring previously charged-off assets and their recovery potential;
- (d) system for monitoring compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and
- (e) system for monitoring the adequacy of credit and collateral documentation.

(4) A written description of the programs called for in this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(6) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(7) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE XV

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's internal loan review performed by the internal audit department;
- (b) results of the Bank's external loan review;
- (c) an estimate of inherent loss exposure on each credit in excess of one hundred thousand dollars (\$100,000);
- (e) loan loss experience;
- (f) trends in lending policies and procedures, including underwriting standards and collection, chargeoff, and recovery practices.
- (g) trends in national and local economic and business conditions, including

the condition of various market segments.

- (h) changes in the nature and volume of the portfolio.
- (i) changes in the experience, ability, and depth of lending management and staff.
- (j) trends in the volume and severity of past due and classified loans; and in the volume of nonaccruals, troubled debt restructurings, and other loan modifications.
- (k) changes in the quality of the bank's loan review system and the degree of oversight by the bank's board of directors.
- (l) the existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- (m) the effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the bank's current portfolio.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and approval within ninety (90) days.

ARTICLE XVI

INTERNAL AUDIT

- (1) The Board shall maintain an independent, internal audit program sufficient to:
 - (a) determine the Bank's level of compliance with all applicable laws, rules and regulations;
 - (b) evaluate the Bank's adherence to established policies and procedures;
 - (c) ensure adequate audit coverage in all areas, including but not limited to sensitivity to market risk, investments, and compliance with Regulation Q, Regulation U, Regulation O, and the Bank Secrecy Act; and
- (2) As part of this audit program, the audit committee shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.
- (3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.
- (4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed. In addition, the Board shall also relieve the internal auditors from all credit administration and compliance management functions currently performed by audit that are responsibilities of the lending and compliance departments.
- (5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board that shall have the sole power to direct their activities. All reports prepared by the

audit staff shall be filed directly with the Board and not through any intervening party.

(6) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports and reports of examination, and that auditors maintain a written record describing those actions.

(7) The audit staff shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

ARTICLE XVII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are

amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC’s exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his/her hand on behalf of the Comptroller.

Signed

Maryann H. Kennedy
Assistant Deputy Comptroller,
Maryland-National Capitol Area Satellite Office
Comptroller of the Currency

2/10/06

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

<i>Signed</i> _____ Michael A. Besche	_____ Date
<i>Signed</i> _____ G. Thomas Daugherty	_____ 2-10-06 Date
<i>Signed</i> _____ Bonita Grier	_____ 2/10/06 Date
<i>Signed</i> _____ Edwin L. Kelly	_____ 2/10/06 Date
<i>Signed</i> _____ Martha G. Rymer	_____ 2/10/06 Date
<i>Signed</i> _____ Francis E. Taylor, Jr.	_____ 2/10/06 Date
<i>Signed</i> _____ Gregory B. Verga	_____ 2-10-06 Date
<i>Signed</i> _____ Thomas B. Watts	_____ 2/10/06 Date
<i>Signed</i> _____ Lawrence H. Wright	_____ Date