

#2017-008

AGREEMENT BY AND BETWEEN
Rockland Savings Bank, FSB
Rockland, Maine
and
The Comptroller of the Currency

Rockland Savings Bank, FSB, Rockland, Maine (“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, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has found unsafe or unsound banking practices, including those relating to credit administration and underwriting, insufficient internal controls over the Bank Secrecy Act/Anti-Money Laundering (“BSA/AML”) program, management and Board oversight at the Bank, and information technology (“IT”) audit and internal audit deficiencies. In addition, violations of law and regulations were identified, and the Bank’s financial condition has deteriorated.

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 authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) The Bank is federal savings association examined by the Comptroller pursuant to the Home Owners’ Loan Act of 1933, as amended, 12 U.S.C. § 1461 *et seq.* and is defined as a “savings association” within the meaning of 12 U.S.C. § 1813(b)(2).

(2) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1813(c).

(3) Pursuant to 12 U.S.C. § 1813(q), the Comptroller is “the appropriate Federal banking agency” to initiate and maintain the proceeding against the Bank pursuant to 12 U.S.C. §1818(b).

(4) 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).

(5) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(7)(ii). *See* 12 U.S.C. § 1831i.

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

ARTICLE II

PROGRESS REPORTING

(1) The Board shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Agreement, including conducting periodic audits to ensure compliance with each provision of this Agreement.

(2) Within thirty (30) days of the end of each calendar quarter after the effective date of this Agreement, the Board shall submit a written progress report to the Assistant Deputy Comptroller setting forth in detail:

- (a) a description of the actions needed to achieve full compliance with each Article of this Agreement;

- (b) actions taken to comply with each Article of this Agreement;
- (c) the results and status of those actions; and
- (d) the status of any audits completed and the remedial actions required by any audit evaluating compliance with this Agreement.

The progress reports shall also include any actions initiated by the Board and the Bank to address deficiencies and weaknesses described in the most recent Report of Examination and in any subsequent Report of Examination.

ARTICLE III

STRATEGIC AND PROFIT PLAN

- (1) Effectively immediately, the Board shall implement and ensure adherence to the Strategic Plan 2016 Business Plan approved by the Board on March 21, 2016 (“Strategic Plan”).
- (2) At least quarterly, the Board shall prepare a written evaluation of the Bank’s performance against the Strategic Plan and shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Within ten (10) days of completion of its written evaluation, the Board shall submit a copy to the Assistant Deputy Comptroller.
- (3) Commencing in 2017, the Board shall review and revise the Strategic Plan at least annually, by no later than December 31st each year, and more frequently if necessary or if required by the Assistant Deputy Comptroller in writing, to cover at least the next three year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and

market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives.

(4) Revisions to the Bank's Strategic Plan shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection to the revised Strategic Plan, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the Strategic Plan and any amendments or revisions thereto.

(5) Until a revision to the Strategic Plan required under this Article has been submitted by the Bank for OCC review, the Bank has received a written determination of no supervisory objection from the OCC, and the Strategic Plan has been adopted by the Board, the Bank shall not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank contained in the later of (i) the Strategic Plan referenced in Paragraph (1) of this Article or (ii) the most recent Strategic Plan required under this Article that has been submitted by the Bank for OCC review, the Bank has received a written determination of no supervisory objection, and the Strategic Plan has been adopted by the Board without first obtaining the OCC's prior written determination of no supervisory objection to such significant deviation. Any request to the OCC for prior written determination of no supervisory objections to a significant deviation must be submitted in writing to the Assistant Deputy Comptroller at least thirty (30) days in advance of the proposed significant deviation and shall include:

- (a) an assessment of the adequacy of the Bank's management, staffing levels, organizational structure, financial condition, capital adequacy, funding

sources, management information systems, internal controls, and written policies and procedures with respect to the proposed significant deviation, and

- (b) the Bank's evaluation of its capability to identify, measure, monitor, and control the risks associated with the proposed significant deviation.

(6) For purposes of this Article, the phrase "significantly deviate" and "significant deviation" shall be construed in light of the guidance provided in Appendix F (Significant Deviations After Opening) of the "Charters" booklet of the *Comptroller's Licensing Manual* (September 2016), and shall include, but not be limited to, the following:

- (a) any significant change in the products and services offered, the funding sources used, the composition of funding, and the geographic or product markets served compared to the Bank's Strategic Plan;
- (b) any significant change in strategy or philosophy, such as significantly reducing the emphasis on a targeted niche in favor of significantly expanding another area; and
- (c) any significant change in the Bank's personnel, policies, procedures, or operations, including any change in operations resulting from changes in external factors, that may have a material adverse impact on the Bank's operations or financial performance.

ARTICLE IV

BOARD AND MANAGEMENT OVERSIGHT

(1) Within ninety (90) days of the date of this Agreement, the Board shall identify in writing to the Assistant Deputy Comptroller, at a minimum, at least two additional independent directors above the number of directors in place as of the date of this Agreement who possess the necessary competence, experience, character, and integrity to direct the Bank's affairs in a safe, sound, and legal manner. The term "independent" means a person who is not an officer or employee of the Bank; who is not a director, officer or employee of the Bank's affiliates; who is not a director, officer or employee of the related interests, as defined in 12 C.F.R. § 215.2(n), of any current director or senior executive officer; and who is not a family member of any such person.

(2) Within one hundred twenty (120) days of the date of this Agreement, the Board shall ensure that the Bank has competent management in place on a permanent, full-time basis vested with sufficient executive authority to fulfill the duties and responsibilities of the position, carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in safe and sound manner within the scope of that position's responsibilities.

(3) The Board shall endeavor to operate with the number of directors authorized in the Bank's most recent bylaws on record with the Office of the Comptroller of the Currency. If any director or senior executive officer, as defined in 12 C.F.R. § 5.51(c)(3), position is vacant now or in the future, the Board shall within ninety (90) days of the date of this Agreement or the future vacancy, respectively, identify and provide notice to the Assistant Deputy Comptroller, of a competent and full-time candidate for the position who has sufficient experience. The Board

shall comply with the prior notice requirements of 12 U.S.C. § 1831i and 12 C.F.R. § 5.51 when selecting an individual to serve in any director or senior executive officer position.

(4) By no later than the next Board meeting following receipt of the Assistant Deputy Comptroller's written notice of intent not to disapprove a proposed director or senior executive officer, the Board shall appoint that individual to the position.

(5) The Assistant Deputy Comptroller shall have the power to disapprove the appointment of any proposed new director. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed director.

(6) At the next Board meeting immediately following the date of this Agreement, the Board must review the OCC's Director's Toolkit *Detecting Red Flags in Board Reports: A Guide for Directors* (reprinted September 2013) and document the discussion in the Board minutes. The Board shall ensure that Directors are receiving adequate information on the operation of the Bank to enable them to fulfill their fiduciary responsibilities and other responsibilities under law.

(7) The Board must ensure that the risk management practices and internal controls are commensurate with the Bank's risk profile. The Board must provide effective oversight and hold management accountable for effectively implementing policies, operating in a safe and sound manner, and complying with applicable laws and regulations.

(8) Within one hundred twenty (120) days of the date of this Agreement, the Board shall develop and submit to the Assistant Deputy Comptroller a satisfactory written succession plan that allows for the identification, development, and retention of employees to fill key management positions at the Bank, as well as a strategy for Board succession that is consistent

with the Strategic Plan pursuant to Article III. Within ten (10) days of completion of the succession plan, the Board shall forward a copy to the Assistant Deputy Comptroller.

(9) Within ten (10) days of the approval of each Board meeting minutes, the Board shall submit to the Assistant Deputy Comptroller a copy of the minutes, the agenda, and all handouts and attachments for that meeting.

ARTICLE V

CAPITAL PLANNING

(1) Within ninety (90) days of the date of this Agreement, the Board shall develop, adopt, implement and thereafter ensure Bank adherence to an effective internal capital planning process to assess the Bank's capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels. The capital planning process shall be consistent with OCC Bulletin 2012-16, *Guidance for Evaluating Capital Planning and Adequacy* (June 7, 2012), and shall ensure the integrity, objectivity, and consistency of the process through adequate governance. The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least annually or more frequently if requested by the Assistant Deputy Comptroller in writing.

(2) Within sixty (60) days of the date of this Agreement, the Board shall forward to the Assistant Deputy Comptroller for review, pursuant to paragraph (1) of this Article, a written Capital Plan for the Bank, consistent with the Strategic Plan pursuant to Article III, covering at least a three (3) year period. Except as provided in paragraph (3) of this Article, the written Capital Plan shall, at a minimum:

(a) include specific plans for the maintenance of adequate capital;

- (b) identify and evaluate all material risks;
- (c) determine the Bank's capital needs in relation to material risks and strategic direction as described in the Strategic Plan referenced in Article III of this Agreement;
- (d) include specific plans and documentation of supporting rationale for the maintenance of adequate capital;
- (e) include guidelines for conducting capital stress testing consistent with OCC Bulletin 2012-33, *Community Bank Stress Testing: Supervisory Guidance* (October 18, 2012);
- (f) identify and establish a strategy to strengthen capital if necessary and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;
- (g) include well-defined triggers for the Bank to invoke strategies to preserve or improve the Bank's capital position relative to its risk profile; and
- (h) include specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Agreement that will have an impact on the Bank's capital.

(3) Prior to adoption by the Board, a copy of the Bank's written Capital Plan, and any subsequent amendments, revisions, or updates, shall be submitted to the Assistant Deputy Comptroller for prior written determination of no supervisory objection. The Board shall review and update the Bank's written Capital Plan, at least annually and more frequently if required by the Assistant Deputy Comptroller in writing. Revisions to the Bank's written Capital Plan shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no

supervisory objection. At the next Board meeting following receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the written Capital Plan and any amendments or revisions thereto.

- (4) At least quarterly, the Board shall:
 - (a) review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the Capital Plan; and
 - (b) prepare a written evaluation of the Bank's performance against the written Capital Plan, which shall include a description of the actions the Board will require the Bank to take to address any deficiencies.

The Board's review and preparation of the written evaluation shall be documented in the Board meeting minutes.

ARTICLE VI

ALLOWANCE FOR LOAN AND LEASE LOSSES / IMPAIRMENT

(1) Within ninety (90) days of the date of this Agreement, the Board shall establish and forward to the Assistant Deputy Comptroller for his review, pursuant to paragraph (3) of this Article, written policies and procedures for the maintenance of an adequate Allowance for Loan and Lease Losses ("Allowance"). These written policies and procedures shall be consistent with (i) U.S. generally accepted accounting principles ("GAAP"); (ii) OCC Bulletin 2006-47, the Federal Financial Institutions Examination Council's *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (December 13, 2006); and (iii) the instructions for

reporting the Allowance on the Consolidated Reports of Condition and Income. The policies and procedures shall, at a minimum, incorporate the following:

- (a) criteria and procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with Accounting Standards Codification (ASC) 310-10 (*formerly Statement of Financial Accounting Standards No. 114*);
- (b) procedures requiring use of the correct accounting method for measuring the amount of impairment;
- (c) procedures to document the reasons for impairment;
- (d) procedures to maintain documentation for each impaired loan;
- (e) review of each impaired loan no less than quarterly;
- (f) procedures to ensure that if a loan is collateral dependent the fair value of the collateral is supported by a current appraisal or other appropriate evaluation;
- (g) procedures requiring that, for any impaired loan, any loan balance in excess of the fair value less cost to sell is charged off within ten (10) calendar days for all collateral dependent loans;
- (h) criteria and procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with Accounting Standards Codification (ASC) 450-20 (*formerly Statement of Financial Accounting Standards No. 5*);
- (i) an outline of qualitative factors, including the rate of exceptions within the loan portfolio, that will be used in Allowance calculations;

- (j) written narratives to support qualitative factor adjustments;
- (k) presentation to the Board no less than quarterly of a written narrative to support the Allowance balance; and
- (l) independent validation of the Allowance no less than annually.

(2) The Board must review the Allowance at least once each calendar quarter. The Board shall review the Allowance more frequently if required by the Assistant Deputy Comptroller in writing. The Board shall ensure that the Bank remedies any deficiency in the Allowance in the quarter it is discovered by additional provisions from earnings. The Board shall maintain written documentation indicating the factors it considered and conclusions it reached in determining the adequacy of the Allowance. The Board's review of the Allowance must be documented in the Board minutes.

(3) Prior to adoption by the Board, policies and procedures required by paragraph (1) of this Article shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. The Board shall review and update the Bank's policies and procedures required by paragraph (1) of this Article at least annually and more frequently if necessary or if required by the Assistant Deputy Comptroller in writing. Revisions to the Bank's policies and procedures required by paragraph (1) of this Article shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the policies and procedures required by paragraph (1) of this Article and any amendments or revisions thereto.

ARTICLE VII

INFORMATION TECHNOLOGY AUDIT PROGRAM

(1) Within one hundred twenty (120) days of the date of this Agreement, the Board shall develop, adopt, implement, and thereafter ensure Bank adherence to a comprehensive, timely, and effective internal informational technology audit program that comports with Appendix B to 12 C.F.R. Part 30, the FFEIC Audit IT Examination Handbook (April 2012), and OCC Bulletin 2003-12, *Interagency Policy Statement on Internal Audit and Internal Audit Outsourcing* (“Internal IT Audit Program”). At minimum, the Internal IT Audit Program shall include:

- (a) a competent and independent third party to schedule and complete information technology audits no less than annually;
- (b) control testing for the network, systems, applications, databases and all aspects of information technology operations that, at minimum, focuses on information and systems access, separation of duties, systems security administration, network security, third-party arrangements, e-banking systems and operations, contingency planning and disaster recovery, patch management, and other controls for ensuring safe and sound information technology operations;
- (c) audit objectives that include a determination of compliance with related laws, regulations, and regulatory guidance;
- (d) an effective methodology for tracking outstanding audit findings; and

- (e) requirements for effective and timely responses to audit findings, including responses from management that include effective and timely remediation plans for resolving identified internal control issues; and
- (f) reports to the Board, or a Committee thereof, no less than quarterly on the status of corrective actions.

(2) Within ten (10) days of adopting the Internal IT Audit Program, the Board shall forward a copy of the Bank's Internal IT Audit Program to the Assistant Deputy Comptroller.

ARTICLE VIII

INVESTMENT PORTFOLIO RISK MANAGEMENT

(1) Within ninety (90) days of the date of this Agreement, the Board shall revise, adopt, implement, and thereafter ensure Bank adherence to an investment policy that ensures that pre-purchase and ongoing analysis of municipal and corporate securities complies with (i) the limitations for the types of investments purchases to those permissible for federal savings associations set forth in 12 U.S.C. § 1464(c) and 12 C.F.R. § 160.30; (ii) OCC Bulletin 1998-20, *Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities* (April 27, 1998); and (iii) OCC Bulletin 2012-18, *Guidance on Due Diligence Requirements in Determining Whether Securities Are Eligible for Investment* (June 26, 2012) ("Investment Policy"). At minimum, the Investment Policy must:

- (a) specify the types of analyses and documentation that should be conducted for various types of instruments both prior to purchase and on an ongoing basis;

- (b) require documentation to consider the impact of credit, interest rate, liquidity, and other risks associated with investments on the Bank's capital and earnings; and
 - (c) include investment limits for all investment classes.
- (2) Within ten (10) days of adopting the Investment Policy, the Board shall forward a copy of the Bank's Investment Policy to the Assistant Deputy Comptroller.

ARTICLE IX

INTERNAL AUDIT

(1) Within ninety (90) days of the date of this Agreement, the Board shall develop a written independent, internal audit program that: (i) comports with the standards for Internal Audit Systems set forth in Section II.B of 12 C.F.R. Part 30, Appendix A, *Interagency Guidelines Establishing Standards for Safety and Soundness*; (ii) is consistent with the guidance set forth in OCC Bulletin 2003-12, *Interagency Policy Statement on the Internal Audit Function and Its Outsourcing* (March 17, 2003), and (iii) is sufficient to:

- (a) detect irregularities and weak practices in the Bank's operations;
- (b) determine the Bank's level of compliance with all applicable laws, rules, and regulations;
- (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (d) adequately cover all areas;
- (e) establish a risk assessment process to accurately identify the scope and frequency of internal audits to ensure the program is appropriate for the

Bank's size, complexity of activities, scope of operations, and risk profile;
and

- (f) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

(2) As part of this audit program, the Board 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. Within ninety (90) days of the date of this Agreement, the Board shall ensure that the Bank maintains an audit tracking log that includes, at minimum, all outstanding audit findings, the proposed corrective action dates, the management member responsible for corrective actions, and the steps taken to address each corrective action. The description of the steps taken to address each corrective action must be updated no less than quarterly for each corrective action. No less than quarterly the Board, or a Committee thereof, must review this audit tracking log to ensure that proper corrective actions are completed in a timely manner. Within ten (10) days of the review of the audit tracking log by Board, or a Committee thereof, a copy of the audit tracking log must be forwarded to the Assistant Deputy Comptroller.

(3) 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. Any internal auditors who are employees of the Bank must receive annual training on internal audit standards and practices.

(4) 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, or a Committee thereof, which shall have the sole power to direct their activities. All

reports prepared by the audit staff shall be filed directly with the Chair of the Board of Directors, or another Director designated to receive such reports, and not through any intervening party.

The Board, or a committee thereof, must meet at least quarterly with internal auditors to discuss findings and include discussion of the Board's review of internal audit reports within meeting minutes.

(5) The Board, or a Committee thereof, shall review and approve the audit scope and schedule at least annually. At least quarterly, the Board, or a Committee thereof, shall review the status of the audit schedule to ensure all audits have been completed in a timely manner.

(6) All audit reports shall be in writing. The Board, or a Committee thereof, shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and the Board, or a Committee thereof, shall maintain a written record describing those actions. The Board must also require that internal audit reports clearly state an overall conclusion, include a conclusion on the adequacy of internal controls in each review area, and clearly communicate corrective actions for each deficiency identified.

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

(8) Upon development of the internal audit program required by paragraphs (1) through (7) of this Article, a copy shall be promptly submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection to the internal audit program, the Board shall adopt and the Bank, subject

to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the audit program.

ARTICLE X

OREO RISK MANAGEMENT AND ACCOUNTING

(1) Within ninety (90) days of the date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to a policy to ensure that Other Real Estate Owned (“OREO”) is managed in accordance with (i) 12 C.F.R. § 160.172; (ii) GAAP; and (iii) the guidance set forth in the “Other Real Estate Owned” booklet of the *Comptroller’s Handbook* (Sept. 13, 2013) (“OREO Policy”). The OREO Policy shall address:

- (a) responsibility and authority for OREO properties;
- (b) proper accounting procedures for OREO properties from transfer to the Bank and until and upon sale to a third party;
- (c) procedures to require timely appraisals or evaluations of OREO, as appropriate, pursuant to 12 C.F.R. § 160.172 and 12 C.F.R. Part 34, Subparts C and E;
- (d) diligent sales efforts; and
- (e) reporting systems.

(2) Upon adoption, the Board shall submit a copy of the OREO Policy to the Assistant Deputy Comptroller.

(3) Within forty-five (45) days of the date of this Agreement, the Board shall obtain updated appraisals or evaluations on all existing OREO properties that do not have valuations

since September 30, 2015, and record all OREO properties at the lower of: (i) fair value at time of acquisition into OREO less cost to sell or (ii) current valuation less costs to sell.

ARTICLE XI

CREDIT UNDERWRITING

(1) Within sixty (60) days of the date of this Agreement, the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the most recent Report of Examination, 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 in writing by the OCC.

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

- (a) identifying the expected source of repayment in writing;
- (b) structuring the repayment terms to coincide with the expected source of repayment;
- (c) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
- (d) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on the collateral where applicable; and
- (e) if a commercial loan, (i) underwriting is based on financial analysis of the borrower and the primary source of repayment with exceptions reported based on borrower financial analysis and the primary source of repayment,

and (2) global cash flow performed to include guarantor and related entities.

Failure to obtain the information in subparagraph (c) of this paragraph 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 subparagraph (c) of this paragraph would be detrimental to the best interests of the Bank. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).

(3) Within sixty (60) days of the date of this Agreement, the Board shall develop an appropriate written exception reporting process (“Exception Reporting Process”). At minimum, the Exception Reporting Process must include:

- (a) aggregated underwriting policy exceptions by key areas (debt-to-income, credit scores, and loan-to-value, as well as other criteria as appropriate) as identified in the Board approved Loan Policy for each loan type;
- (b) limits for exceptions by key exception type as well as overall exceptions based on dollar volume as a percent of capital for each portfolio;
- (c) exception reporting must include the actual debt-to-income, credit score, and loan-to-value, as well as any other criteria, of each loan rather than just stating that it is outside policy limits;
- (d) the supervisory loan to value limits set forth in the Appendix to 12 C.F.R. § 160.101, Interagency Guidelines for Real Estate Lending Practices; and
- (e) quarterly reporting to the Board.

(4) Upon completion of the Exception Reporting Process developed pursuant to paragraph (3) of this Article, a copy shall be promptly submitted to the Assistant Deputy

Comptroller for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection to the Exception Reporting Process, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the Exception Reporting Process.

(5) Within ninety (90) days of the date of this Agreement, the Board shall ensure that management has reviewed all 2015 and 2016 loan originations, identified all supervisory loan-to-value exceptions during that time, and reported all those supervisory loan-to-value exceptions to the Board.

(6) Within ninety (90) days of the date of this Agreement, the Board shall develop, implement, and thereafter ensure adherence to collateral valuation procedures for equipment lending, including the use and documentation of independent valuation sources.

(7) Within ninety (90) days of the date of this Agreement, the Board shall ensure that management develops, implements, and thereafter ensures adherence to stress testing procedures for individual adjustable rate mortgages to ensure borrowers have the ability to repay in the event that the rate adjustments increase the required payments.

(8) Within ninety (90) days of the date of this Agreement, the Board shall ensure that all employees responsible for completing commercial financial analysis are properly trained.

ARTICLE XII

BANK SECRECY ACT INTERNAL CONTROLS

(1) Within ninety (90) days of the date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program of policies and

procedures to provide for compliance with Bank Secrecy Act, as amended, 31 U.S.C. §§ 5311 *et seq.*; the regulations promulgated thereunder, including 31 C.F.R. §§ 1000-1099, 12 C.F.R. Part 21, Subpart C, and 12 C.F.R. § 163.180(d); and the rules and regulations of the Office of Foreign Assets Control (“OFAC”) (collectively referred to as the “Bank Secrecy Act” or “BSA”) and for the appropriate identification and monitoring of transactions that pose greater than normal risk for compliance with the BSA (“BSA Program”). At minimum, the BSA Program shall include the following:

- (a) enhanced policies and procedures for identifying and monitoring transactions that pose greater than normal risk for compliance with the BSA;
- (b) well-defined policies and procedures for investigating and resolving the Bank’s response to transactions that have been identified as posing greater than normal risk for compliance with the BSA;
- (c) customer due diligence policies, procedures, and processes that enable the Bank to understand the types and volumes of transactions in which a customer is likely to engage at the time of account opening and on an ongoing basis to effectively monitor and investigate suspicious or unusual activity that includes:
 - (i) risk based program requirements regarding the identification of customers and the scope of due diligence information to be collected, analyzed, and documented at account opening; and

- (ii) updates to customer due diligence to reflect changes in customer's behavior, activity profile, derogatory information, periodic reviews of customer relationships, or other factors that impact the risk;
- (d) enhanced due diligence procedures for higher-risk customers to understand their anticipated transactions that, at minimum:
 - (i) identify account owners and beneficial owners to the extent required by applicable statutes, regulations, and regulatory guidance; and
 - (ii) provide for documentation for all customers that pose greater than normal risk for compliance with the BSA, consistent with that required by the *2014 FFEIC Bank Secrecy Act/Anti-Money Laundering Examination Manual*.
- (e) an effective system to conduct ongoing monitoring of higher-risk customers and their transactions that, at a minimum:
 - (i) maintains an accurate and complete list of high-risk customers; and
 - (ii) provides for periodic risk-based review to affirm risk ratings, no less than annually, on all higher-risk customers;
- (f) adequate controls and procedures to ensure that all suspicious and large currency transactions are identified and reported;
- (g) an effective system to conduct ongoing monitoring of all customer's accounts to effectively identify suspicious activity;
- (h) procedures that require written Suspicious Activity Report ("SAR") narratives to be consistent with guidance in the Financial Crimes

Enforcement Network's *Guidance on Preparing a Complete & Sufficient Suspicious Activity Report Narrative*;

- (i) an effective system to document evidence supporting the decision making process when the Bank determines not to file a SAR; and
- (j) cash aggregation reporting that identifies customer deposits and withdrawals from all sources, including automated teller machines ("ATMs").

(2) The BSA Officer or his or her designee shall periodically review, not less than once each calendar year, all account documentation for all high risk accounts and the related accounts of those customers at the Bank to determine whether the account activity is consistent with the customer's business and the stated purpose of the account.

ARTICLE XIII

BANK SECRECY ACT OFFICER AND STAFFING

(1) Within thirty (30) days of the date of this Agreement, the Board shall designate a qualified individual to serve as the Bank's BSA Officer. In particular, the Board shall ensure that the BSA Officer has sufficient training, authority, skill, resources, and time to perform his or her assigned responsibilities and maintain an effective BSA/AML program.

(2) The Board must provide the BSA Officer the ability to communicate directly with the Board, including reporting no less than quarterly on overall BSA/AML compliance, SARs filed with the Financial Crimes Enforcement Network, and other pertinent BSA-related information, for the Board to make informed decisions.

(3) Within one hundred twenty (120) days of the date of this Agreement, the Board shall determine whether any changes are needed regarding the Bank's BSA Officer's supporting staff, including the responsibilities, authority, structure, independence, competencies, or capabilities of the BSA Officer's supporting staff.

(4) Within one hundred twenty (120) days of the date of this Agreement, the Board shall develop, adopt, implement, and thereafter ensure Bank adherence to a comprehensive training program for all appropriate operational and supervisory personnel to ensure their awareness of their responsibility for compliance with the requirements of the Office of Foreign Assets Control, the BSA (31 U.S.C. §§ 5311 *et seq.*), and the regulations promulgated thereunder, including the reporting requirements associated with SARs pursuant to 12 C.F.R. § 163.180(d), regardless of the size of the relationship or type of customer involved.

(5) This comprehensive training program shall include strategies for mandatory attendance, the frequency of training, procedures and timing for updating training programs and materials, and the method for delivering training.

ARTICLE XIV

GENERAL BOARD RESPONSIBILITIES

(1) In each instance in which Articles (II) through (XIII) impose responsibilities upon the Board or a Board committee, it is intended to mean that the Board or Board Committee shall:

- (a) authorize, direct, and adopt such actions on behalf of the Bank as may be necessary to perform the obligations and undertakings of the Board or the Board Committee under the terms of Articles (II) through (XIII);

- (b) ensure that the Bank has sufficient processes, management, personnel, and control systems to monitor, effectively implement, and adhere to all provisions of Articles (II) through (XIII), that Bank management and personnel have sufficient training and authority to execute their duties and responsibilities including those under or resulting from Articles (II) through (XIII), and that Bank management and personnel are held accountable for executing their duties and responsibilities, including those under or resulting from Articles (II) through (XIII);
- (c) require appropriate, adequate, and timely reporting by Bank management of such actions directed by the Board to be taken under the terms of Articles (II) through (XIII);
- (d) follow-up on any noncompliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner of any noncompliance with such actions.

ARTICLE XV

OTHER PROVISIONS

- (1) 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, by overnight mail, to:

Michael P. Moriarty, Assistant Deputy Comptroller
Office of the Comptroller of the Currency
Boston Field Office
Suite 1400
99 Summer Street
Boston, MA 02110

(2) Although the Board has agreed that the Bank or the Board shall submit certain programs, plans, and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's books and records.

(3) Except as otherwise expressly provided herein, any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement.

(4) If the Bank requires an extension of any timeframe within this Agreement, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief. Any written request submitted pursuant to this Article shall include a statement setting forth in detail the special facts and circumstances that prevent the Bank from complying with a provision within a timeframe specified in this Agreement and that require an extension of that timeframe.

(5) All such written requests shall be accompanied by relevant supporting documentation, and any other facts upon which the Bank relies. The Assistant Deputy Comptroller's written decision concerning a request for an extension of any timeframe within this Agreement is final and not subject to further review.

(6) 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.

(7) Each citation or referenced guidance included in this Agreement includes any subsequent guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(8) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him 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.

(9) 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 Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his 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 Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements, or prior arrangements between the parties, whether oral or written.

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

/s/ Michael P. Moriarty
Michael P. Moriarty
Assistant Deputy Comptroller
Boston Field Office

1-17-17
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.

/s/ Dusting Glidden
Dustin Glidden

1-17-17
Date

/s/ Harry C. Mank, Jr.
Harry C. Mank, Jr.

1-17-17
Date

/s/ Neal Shepard
Neal Shepard

1-17-17
Date

/s/ Arthur Sprowl
Arthur Sprowl

1-12-17
Date