

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 14TH day of September, 2004 (Effective Date), by and between Sykesville Federal Savings Association, Sykesville, Maryland, OTS Docket No. 08217 (Sykesville or Bank), a Federally chartered savings association, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Southeast Regional Director or his designee (Regional Director).

WHEREAS, the OTS is the primary federal regulator of the Bank;

WHEREAS, based upon the Bank's May 12, 2003 Report of Examination (2003 Examination) and August 3, 2004 Report of Compliance Examination (2004 Examination), the OTS is of the opinion that Sykesville has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Bank is subject; and/or (ii) are considered to be unsafe and unsound;

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against the Bank;

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Bank will: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices; and

WHEREAS, the Bank, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

Compliance With Laws and Regulations

1. The Bank, its Directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions to comply with the following laws and regulations: The Currency and Foreign Transactions Reporting Act, as amended by the USA PATRIOT Act and other laws (referred to herein as the Bank Secrecy Act or BSA), 31 U.S.C. §§ 5311 et seq., and the related BSA regulations issued by the U. S. Department of the Treasury, 31 C.F.R. §§ 103.11 et seq., and the OTS, 12 C.F.R. § 563.177 (collectively with the aforementioned laws and regulations, the BSA Laws and Regulations).

Anti-Money Laundering/BSA Compliance Program.

2. Effective immediately, the Board shall amend the Bank's policies and procedures regarding compliance with the BSA Laws and Regulations (BSA Policy) to require annual independent testing of the Bank's BSA Compliance Program by a qualified independent outside third

party with knowledge of the BSA Laws and Regulations and experience in compliance with the requirements imposed by such laws and regulations. The BSA Policy shall require the independent test to be completed within ninety (90) days after each fiscal year end. The independent test shall comprehensively review the association's BSA risk-assessment; the Bank's internal controls for preventing money laundering and terrorism financing; and the Bank's compliance with BSA Laws and Regulations. The Board shall ensure that the scope of the test considers and incorporates, as appropriate for the size and complexity of the Bank, the examination procedures established by the OTS in Section 400 of the Compliance Activities Handbook and the BSA checklist contained in the OTS Compliance Self-Assessment Guide. Each independent test shall, at a minimum, include each of the following:

- a. A review of the Bank's policies and procedures regarding compliance with the BSA, Office of Foreign Assets Control (OFAC) required checks, Customer Identification Program, and Suspicious Activity Reports (SARs) to determine that such policies and procedures are in compliance with applicable laws and regulations, including any changes to such laws and regulations;
- b. A test of the Bank's internal control procedures for monitoring compliance with the BSA, OFAC, Customer Identification Program, and SAR Policies, including interviews of employees involved in or responsible for the Bank's compliance, and their supervisors;
- c. A review of the Bank's Currency Transaction Report (CTR) filings for accuracy and completeness;
- d. A test and confirmation of the integrity and accuracy of the systems for the reporting of large currency transactions, including a review of the reasonableness of the amount designated by the Bank as a "large transaction" for inclusion on the report;
- e. A review of the Bank's large currency transactions report and the Bank's analysis of large currency transactions and determinations regarding the filing of any SARs;
- f. A review of all SARs filed by the Bank to evaluate their accuracy and completeness;
- g. A determination of whether the Bank has any customers exempt from CTR filings, a review of the exempt customer list to confirm that the Bank is maintaining the required list, a test of the validity and reasonableness of the CTR filing exemptions granted by the Bank, verification that the Bank is performing an annual review of each customer to determine their continued qualification for an exemption, and confirmation that required procedures to re-designate or, if appropriate, remove customers from the exempt list are being followed;

- h. A test confirming the integrity and accuracy of the bank's recordkeeping system to ensure that all required records are being created and retained by the Bank in accordance with record retention requirements;
- i. A review of the Bank's most recent examination report and the results of the immediately preceding independent test and verification of Board review and the adoption and implementation of adequate and appropriate corrective action;
- j. A test of the Bank's policies and procedures regarding the designation, identification and monitoring of high risk accounts for possible money laundering or other suspicious activity for which a SAR must be filed;
- k. A review of the Bank's policies and procedures for receiving and responding to requests from the Financial Crimes Enforcement Network (FinCEN), made pursuant to Section 314(a) of the USA PATRIOT Act and 31 C.F.R. § 103.100, which shall require, at a minimum, maintenance of a log that lists each Section 314(a) request received by the Bank by the FinCEN assigned control number, the date the request was received, the date that the Bank's review was completed, the number of hits found, and the date the Bank responded to FinCEN;
- l. A test of the Bank's customer identification procedures and requirements to determine the effectiveness in complying with the Bank's customer information policies and applicable legal and regulatory requirements;
- m. A review of the Bank's due diligence procedures for correspondent accounts;
- n. A review of tellers' work forms and CTR forms;
- o. A determination that the Bank has procedures in place for maintaining required information on customers purchasing monetary instruments for cash amounts between \$3,000 and \$10,000 and that appropriate identification measures are in place;
- p. A determination that the Bank is conducting an ongoing training program for its employees and verification that the Bank is maintaining records of such training;
- q. A determination that the Bank is monitoring cash shipments to and from the Federal Reserve Bank or its correspondent bank; and
- r. A determination that the Bank is retaining all workpapers generated by or in connection with each independent test of the Bank's BSA Program, the results and findings of each independent test, and the Board meeting minutes reflecting the Board's review of the independent test results and any required corrective action(s) adopted by the Board.

3. Effective immediately, the Board shall engage a qualified independent outside third party to conduct an independent test of the Bank's BSA Program, including the Bank's compliance with the BSA Laws and Regulations. The independent test shall comply with the requirements set forth in Paragraph 2 above and shall be completed within ninety (90) days after the Effective Date of this Agreement.
4. The final findings of each independent test conducted shall be promptly reported to and reviewed by the Board at the next regularly scheduled Board meeting following completion of the independent test. The Board shall ensure that its discussions of the testing results, including any actions taken or required by the Board, are thoroughly and accurately documented in the Board meeting minutes. The Bank shall retain all workpapers generated by or in connection with the independent testing of the Bank's BSA Program and compliance.

Director Responsibility

5. Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual Director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Bank at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

Compliance with Agreement

6. All policies, procedures, corrective actions, plans, programs, reviews and systems required by this Agreement (collectively, Policies and Procedures) shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall submit copies of all Policies and Procedures required by this Agreement to the Regional Director within the timeframes specified or, in the event a timeframe is not specified, within thirty (30) days after adoption by the Board. The Board shall revise such Policies and Procedures as required by the Regional Director within thirty (30) days of receipt of written direction from the Regional Director. The Policies and Procedures, as modified consistent with the written direction of the Regional Director, shall be incorporated into this Agreement and any deviation from such Policies and Procedures shall be a violation of this Agreement.
7. The Board shall require Management to correct all deficiencies identified in the Bank's 2003 Examination and its 2004 Examination, as directed therein. Further, the Board and Management of the Bank shall take immediate action to cause the Bank to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Bank to continue to carry out the provisions of this Agreement.
8. The Board shall, on a quarterly basis beginning with the calendar quarter ending September

30, 2004, adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including a report from Management regarding the Bank's compliance with each numbered paragraph of this Agreement), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Bank has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall:

- a. specify in detail how, if at all, full compliance was found not to exist; and
 - b. identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.
9. The minutes of each meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution:
- a. the identity of each Director voting in favor of its adoption; and
 - b. the identity of each Director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.
10. Within thirty (30) calendar days after the end of each calendar quarter, beginning with the calendar quarter ending September 30, 2004, the Board shall provide to the Regional Director a certified true copy of the Compliance Resolution[s] adopted at the Board meeting pursuant to Paragraph 8 of this Agreement. The Board, by virtue of the Bank's submission of a certified true copy of such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except that in the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Board meeting minutes.
11. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement, including making Bank records and documents available for OTS examiner review upon request.

Definitions

12. All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, Federal Deposit Insurance Act (FDIA) or OTS Memoranda. Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

Successor Statutes, Regulations, Guidance, Amendments

13. Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

Notices

14. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:
- a. the OTS by the Bank, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, N.E., Atlanta, Georgia, 30309, or telecopied to 404.897.1861 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
 - b. the Bank by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Bank at 1321 Liberty Road, Sykesville, Maryland 21784 or telecopied to 410.549.1715 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

Duration, Termination or Suspension of Agreement

15. This Agreement shall:
- a. become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and
 - b. remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).
16. The Regional Director in his sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

Time Limits

17. Time limitations for compliance with the terms of this Agreement run from the Effective

Date, unless otherwise noted.

Effect of Headings

18. The Section headings herein are for convenience only and shall not affect the construction hereof.

Separability Clause

19. In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

20. Nothing in this Agreement shall be construed as:

- a. allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject; or
- b. restricting the OTS from taking such action(s) as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

Successors in Interest/Benefit

21. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Signature of Directors

22. Each Director signing the Agreement attests, by such act, that she or he voted in favor of a Board resolution authorizing the execution of this Agreement by the Bank.

Integration Clause

23. This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter. However, as noted herein, all Policies and Procedures required by this Agreement shall, upon modification consistent with the direction

of the Regional Director, become part of this Agreement and any deviation from these policies shall be deemed a violation of this Agreement.

Enforceability of Agreement

24. The Bank represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Bank. The Bank acknowledges that this Agreement, is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

Counterparts

25. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and each of which shall be deemed an original.

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IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Bank, in accordance with a duly adopted resolution of its Board, hereby execute this Agreement as of the Effective Date.

THE BANK

OFFICE OF THRIFT SUPERVISION

By: *Harry W. Haight*
Name: HARRY W. HAIGHT
Title: Chairman of Board

By: *John E. Ryan*
John E. Ryan
Southeast Regional Director

Garth L. Lueders
Director

9/14/04
Dated

Evelyn L. Burns
Director

Melvin T. Hush
Director

William R. Atkinson
Director

Robert J. Wilson
Director

David Brown
Director

Gilbert L. Fleming
Director

Alvin L. Howes
Director

Charles E. Wellhead
Director