

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	
)	Order No.: NE-09-23
SAVINGS BANK OF MAINE, MHC)	
Gardiner, ME)	
OTS Docket No. H4515)	
)	Effective Date: August 20, 2009
SAVINGS BANK OF MAINE BANCORP)	
Gardiner, ME)	
OTS Docket No. H4516)	
)	
and)	
)	
SAVINGS BANK OF MAINE)	
Gardiner, ME)	
OTS Docket No. 06947)	
)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Savings Bank of Maine, MHC, Gardiner, Maine OTS Docket No. H4515 (MHC), Savings Bank of Maine Bancorp, Gardiner, Maine OTS Docket No. H4516 (Bancorp) and Savings Bank of Maine, Gardiner, Maine, OTS Docket No. 06947 (Association, and collectively with MHC and Bancorp, the Regulated Entities), by and through their respective Boards of Directors (Boards or Board) each have executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Regulated Entities, by executing the Stipulation, have consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Northeast Region (Regional Director), is authorized to issue Orders to Cease and Desist where there is consent to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

PART I -- PROVISIONS APPLICABLE TO THE ASSOCIATION

Compliance with Laws, Regulations, Safe and Sound Practices and Written Conditions.

1. The Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or the aiding and abetting of the following unsafe or unsound practices, violations of law, rule, regulation, or conditions imposed in writing:

(a) 12 C.F.R. § 555.210 (requiring establishment of prudent internal controls and implementation of security measures relating to electronic operations);

(b) 12 C.F.R. § 560.100 & 101 (requiring adoption of and compliance with prudent written real estate lending standards);

(c) 12 C.F.R. § 560.160 (requiring evaluation and accurate classification of assets);

(d) 12 C.F.R. § 560.170 (requiring establishment and maintenance of certain records relating to lending transactions);

(e) 12 C.F.R. § 563.180(d) (requiring submission of Suspicious Activity Reports);

(f) 12 C.F.R. § 564.3 (requiring Appraisals on Real Estate Loans);

(g) 12 C.F.R. § 568.5 (requiring protection of customer information);

(h) failure to comport with the safety and soundness standards set forth in the Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A to

12C.F.R. Part 570 (Interagency Safety and Soundness Standards) with respect to: (i) internal controls and information systems (Section II.A); (ii) Internal Audit System (Section II.B); and Compensation (Section III);

(i) failure to comport with the safety and soundness standards set forth in the Interagency Guidelines Establishing Information Security Standards, Appendix B to 12 C.F.R. Part 570 (Interagency Information Security Standards) with respect to development and implementation of an Information Security Program (Section III);

(j) operating with capital levels that are in violation of a written condition set forth in the OTS's August 29, 2009 approval of the Association's acquisition of Rivergreen Bank (Conditional Approval);

(k) operating with levels of Higher Risk Loans¹ that: (i) exceed limits imposed in a written condition set forth in the Conditional Approval and (ii) are excessive in relation to capital; and

(l) operating with levels of Nonperforming Assets, Classified Assets² and Criticized Assets³ (collectively Problem Assets) that are excessive in relation to capital.

¹ The term "Higher Risk Loans" means the sum of: (i) Acquisition, Development, Construction or Land Loans required to be reported on the Thrift Financial Report (TFR) at lines SC230, SC235, SC240 and SC265 – (collectively ADCL Loans) ; (ii) Nonresidential Real Estate Loans required to be reported at TFR, Line SC260; (iii) Commercial Loans required to be reported at TFR Lines SC300, 303 and 306; (iv) Auto Loans required to be reported at TFR Line SC323; (v) Home Improvement Loans required to be reported at TFR Lines SC316 or SC251; (vi) Mobile Home Loans required to be reported at TFR Line SC326; (vii) Credit Card Receivables required to be reported at TFR Line SC 328; and (viii) Other Consumer Loans and Leases required to be reported at TFR Line SC357.

² The term "Classified Assets" means assets that currently are, and/or subsequent to the Effective Date have been classified as "substandard," "doubtful," or "loss," either by the Association (pursuant to 12 C.F.R. § 560.160(a)(1)) or by the OTS (pursuant to 12 C.F.R. § 560.160(a)(2)). Classified Assets are reported at lines VA965, VA970 and VA975 of TFR, Schedule VA.

³ The term "Criticized Assets" means assets that currently are, and/or subsequent to the Effective Date have been: (i) Classified Assets as defined above; plus (ii) classified as "special mention," either by the Association (pursuant to

Capital.

2. (a) By September 30, 2009, the Board shall approve and submit to the Regional Director an acceptable written Capital Plan covering the time period beginning with the quarter ending December 31, 2009 through the quarter ending December 31, 2011, that:

(i) establishes projected capital levels and quarterly Regulatory Capital Ratios⁴ (Projected Regulatory Capital Ratios) during the term of the plan that are sufficient to:

(A) comply with the Conditional Approval;

(B) support the Association's existing and prospective risk profile, considering the risks and weaknesses identified in the March 2, 2009 Report of Examination (ROE) and any anticipated capital distributions over the term of the Plan; and

(C) comply with the requirement in Paragraph 3 to reduce the Association's Problem Assets Ratios.

(ii) projects additions and reductions to capital through retained earnings or deficit operations;

(iii) projects capital infusions by the Association's stockholders;

(iv) provides for a Capital Contingency Plan, that:

(A) will be implemented whenever: (1) the Association materially fails to meet its Projected Regulatory Capital Ratios for two consecutive quarters and the Regional Director notifies the Association in writing that the Capital Contingency

12 C.F.R. § 560.160(a)(1)) or by the OTS (pursuant to 12 C.F.R. § 560.160(a)(2)). Special Mention Assets are reported at lines VA960 of TFR Schedule VA.

⁴ The term "Regulatory Capital Ratio" means the Tier 1 (Core) Capital Ratio and Total Risk-Based Capital Ratio as computed quarterly on Schedule CCR of the TFR.

Plan must be implemented or (2) the Association's Tier 1 (Core) Capital Ratio is less than five percent (5%) or its total risk based capital ratio is less than ten percent (10%); and

(B) describes the actions necessary (with specific time frames) to achieve a merger with or acquisition by another banking institution or banking institution holding company, or such other transaction that OTS may approve. For purposes of this Paragraph, a material failure to meet the Projected Regulatory Capital Ratios shall mean that one or both the Association's actual Regulatory Capital Ratios is less than seventy-five (75%) of the corresponding Projected Regulatory Capital Ratio for that quarter.

(b) Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall revise the Capital Plan to incorporate the comments, if any, and adopt the Capital Plan (Approved Capital Plan). Thereafter, the Association shall implement and adhere to the Approved Capital Plan.

Reduction of Problem Assets and Problem Asset Ratios.

3. (a) By September 30, 2009, the Board shall approve and submit to the Regional Director an acceptable comprehensive written plan to reduce the Association's Classified-Assets-to-Capital Ratio⁵ and Criticized-Assets-to-Capital Ratio⁶ (collectively Problem Asset Ratios)

⁵ The term "Classified Assets to Capital Ratio" means the percentage that is determined when the total dollar amount of the Association's Classified Assets (the numerator) are divided by a denominator amount equal to the sum of: (i) the Association's Tier 1 (Core) Capital (TFR Line CCR30); and (ii) the Association's total allowance for loan and lease losses (ALLL) properly reported at lines SC283 and SC357 of TFR Schedule SC.

⁶ The term "Criticized Assets to Capital Ratio" means to the percentage that is determined when the total dollar amount of the Association's Criticized Assets (the numerator) are divided by a denominator amount equal to the sum of: (i) the Association's Tier 1 (Core) Capital (TFR Line CCR30); and (ii) the Association's ALLL properly reported at lines SC283 and SC357 of TFR Schedule SC.

covering the time period beginning with the quarter ending December 31, 2009 through the quarter ending December 31, 2011 (Problem Asset Reduction Plan). The Problem Asset Reduction Plan shall:

(i) establish a schedule of quarterly targeted reductions in the Problem Asset Ratios (Projected Problem Asset Ratios);

(ii) describe the means by which reductions of Criticized Assets will be effected, including collection of principal balance owed, enhancement of collateral, guarantees or other factors contributing to the quality of the asset, or a write-down of the Criticized Assets;

(iii) be supervised by a Board Committee or a Senior Executive Officer⁷ of the Association who is independent of the lending function and whose responsibilities shall be: (A) to develop and implement Asset Action Plans (as required by Subparagraph (c)) with respect to each Classified Asset; and (B) to report to the Board on implementation of the Asset Action Plans on a monthly basis; and

(iv) provide for a Contingency Plan, that shall:

(A) be implemented whenever: (1) the Association's actual Classified-Assets-to-Capital Ratio materially exceed the Projected Classified-Assets-to-Capital Ratio for two consecutive quarters and (2) the Regional Director notifies the Association in writing that the Contingency Plan must be implemented; and

(B) describe the actions necessary (with specific time frames) to achieve a merger with or acquisition by another banking institution or banking institution

⁷ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

holding company, or such other transaction that OTS may approve.

For purposes of this Paragraph, a material failure to meet the targeted Classified-Assets-to-Capital Ratio shall mean that the Association's actual Classified-Assets-to-Capital Ratio is greater than one hundred twenty percent (120%) of the corresponding Classified-Assets-to-Capital Ratio for that quarter.

(b) Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall revise the Problem Asset Reduction Plan to incorporate the comments and adopt the Problem Asset Reduction Plan (Approved Problem Asset Reduction Plan). Thereafter, the Association shall implement and adhere to the Approved Problem Asset Reduction Plan.

(c) Pursuant to the Approved Problem Asset Reduction Plan, and by September 15, 2009, the Association shall prepare and thereafter implement written Asset Action Plans for each Classified Asset exceeding five hundred thousand dollars (\$500,000) (excluding Home Mortgage Loans⁸) that shall, at a minimum, include:

(i) a comprehensive analysis of all loan documents and the identification of any missing documentation;

(ii) a realistic analysis of: (A) the available cash flow to service the debt; (B) the value of any collateral; and (C) the ability of the Association to enforce any guarantees;

(iii) an evaluation of potential impairment under Financial Accounting Standard 114, inclusive of collateral dependency and loss analysis;

(iv) an assessment of potential legal issues or impediments for the Classified Asset;
and

⁸ The term "Home Mortgage Loan" means a mortgage loan secured by a borrower's primary residence and that is not a "Business purpose loan" defined at 24 C.F.R. § 3500.5(b).

(v) based on the above, a schedule to complete all actions necessary to address and resolve the weaknesses and deficiencies leading to its classified asset status.

(d) Within forty-five (45) days after the close of each calendar quarter beginning with the quarter ending September 30, 2009, management shall prepare and submit to the Board a written quarterly status report that: (i) calculates the Association's actual Problem Asset Ratios using quarter-end TFR data; (ii) compares the actual Problem Asset Ratios with the Projected Problem Asset Ratios; (iii) discusses the actions taken by the Association during the quarter to improve such ratio and reduce the level of Criticized Assets; and (iv) describes the actions the Association plans to take to improve such ratios and reduce the level of Criticized Assets.

Restrictions on Lending.

4. (a) Effective immediately, except with the prior written non-objection of the Regional Director, the Association shall not directly or indirectly make, invest in, purchase, refinance, extend or otherwise modify or commit to make, invest in, purchase, refinance, extend or otherwise modify any: (i) ADCL Loan; (ii) loan to a borrower who has an existing loan that is a Criticized Asset; or (iii) other type of Higher Risk Loan (collectively Restricted Lending Activities). Such a request for non-objection must be received by the Regional Director at least fifteen (15) days prior to the date of the proposed action.

(b) Notwithstanding the restrictions at Subparagraph (a) above, the Association may:

(i) make advances necessary to honor legally binding commitments to fund loans (Commitments) or loans-in-process (LIP) in existence as of the Effective Date, provided that the Association: (A) prior to making any disbursement under any Commitment or LIP, affirmatively determines that all conditions precedent to the Commitment or

disbursement have been satisfied; (B) will not violate any law or regulation by honoring such Commitment or LIP; and (C) with respect to a LIP, confirms, through inspections by persons or firms independent of the borrower(s), that required work or stages of the project have been completed satisfactorily in accordance with the loan agreements and Association policy and

(ii) refinance, renew or modify prudently underwritten, current and performing loans that:

(A) are not Criticized Assets; and

(B) with respect to ADCL Loans:

(1) the Association has demonstrably strengthened its position through a reduction in the outstanding loan balance or has obtained the pledge of additional collateral; and

(2) where an additional interest reserve is to be provided, confirmation that (I) construction is proceeding according to schedule; (II) there are sufficient funds in the LIP account to complete the construction without making an additional advance of funds; and (III) the additional interest reserve does not cause the committed loan balance to exceed supervisory loan-to-value limits established pursuant to Appendix A to 12 C.F.R. § 560.101 – Interagency Guidelines for Real Estate Lending Policies; and

(iii) refinance, renew, or modify a Criticized Asset that:

(A) is part of an Asset Action Plan satisfying the requirements of Paragraph 3(c);

(B) satisfies the requirements of Subparagraph (b)(ii)(B) , and

(C) is approved by the Board and documented in the Board minutes, together with the Asset Action Plan and all other documentation supporting the Board's decision.

(c) Except for the restrictions on (i) ADCL Loans; and (ii) loans to borrowers who have an existing loan that is a Criticized Asset, the restrictions on lending set forth in Subparagraph (a) shall terminate upon a written determination by the Regional Director that the Association has satisfactorily complied with the corrective actions required by paragraphs 3, 5, 6, 7 and 8 of this Order.

Correction of Loan Underwriting and Credit Administration Deficiencies.

5. By August 31, 2009, the Board shall review and approve, and the Association shall thereafter implement and adhere to, a plan to resolve and correct the loan underwriting policies and procedures, documentation and credit administration weaknesses and deficiencies identified in the ROE. At a minimum, this plan shall:

(a) describe each identified weakness and/or deficiency and present a schedule identifying all steps necessary to correct it, together with projected deadlines for the accomplishment of each step and the date on which the corrective action will be completed.

Such corrective actions must be documented in the loan file and include the following:

- (i) obtaining current borrower and guarantor financial statements (including operating statements for businesses and collateral properties) and interim financial statements when annual statements are delayed or not available yet;
 - (ii) obtaining audited financial statements for each borrower whose aggregate lending relationship exceeds ten million dollars (\$10,000,000);
 - (iii) obtaining updated appraisals or evaluations, as appropriate, when the assumptions underlying the original appraisals are no longer valid;
 - (iv) performing reviews of appraisals;
 - (v) increasing use of property inspections to determine whether funds disbursed have been properly utilized by borrowers for their intended purpose;
 - (vi) expanding the monitoring and documentation of ADCL loans to include current unit sales volume, pricing information and comparisons to the original forecasts for such;
 - (vii) assembling all loan documents and officer memoranda in a single file location to facilitate consistent oversight of the borrowing relationship; and
 - (viii) strengthening environmental practices to ensure that current policies are consistently followed for the utilization of Phase 1 environmental audits, as required.
- (b) identify the officer responsible for ensuring that the corrective action is taken, and
 - (c) provide that each weakness or deficiency shall be addressed or corrected by

September 30, 2009.

Reduction of Higher Risk Loans.

6. By September 30, 2009, the Board shall consider and approve a written plan to reduce the ratio of Higher Risk Loans to Tier 1 (Core) Capital (Higher Risk Loans to Capital Ratio) that is acceptable to the Regional Director. To be acceptable, the plan shall:

(a) provide for compliance with the limitation set forth in the Conditional Approval by December 31, 2009;

(b) provide for a schedule of quarterly targeted reductions in the Higher Risk Loans to Capital Ratio; and

(c) provide a detailed description of how such reductions will be effected.

Commercial Loan Department Management.

7. By August 31, 2009, the Board shall establish a new organization structure for the Association's Commercial Loan Department (inclusive of workouts and collections) that is acceptable to the Regional Director. To be acceptable, the organization structure shall be:

(a) appropriate to the size and complexity presented by the Association's Commercial Loan portfolio; and

(b) clearly summarized in an organization chart delineating the department's reporting structure, job descriptions and lines of reporting.

Internal Loan Review.

8. (a) On a quarterly basis, beginning with the quarter ending September 30, 2009, the Association shall conduct an internal loan review to determine compliance with Board-approved lending policies, underwriting standards, and loan administration requirements.

(b) The internal loan reviews shall be carried out under the direction of the Audit Committee of the Board and shall be performed by the third-party Internal Audit service provider hired pursuant to Paragraph 17.

(c) The quarterly loan reviews must be based on: (i) a sample review of new loans made during the previous quarter; (ii) all loans and lending relationships exceeding one million dollars (\$1,000,000), except for loans that are secured by single family, owner-occupied real estate; and (iii) a sample of loans from the Association's existing loan portfolio.

(d) As part of its Internal Loan Review Program, the Association shall adopt, implement and adhere to a risk rating system for all loans that includes risk rating definitions and encompasses establishment and analysis of (i) debt service coverage standards for income producing loans; (ii) required liquidity ratios; (iii) unit sales per quarter and pricing changes for ADCL loans; (iv) delinquency status parameters; and (v) other pertinent criteria, that if not satisfied, would trigger a rating downgrade of the loan by the Association.

(e) On a quarterly basis, the Board's Audit Committee shall provide the Board with, and the Board shall review and evaluate, a written report documenting the findings and recommendations relating to the internal loan reviews. The written report concerning the internal loan reviews must conform to the standards set out in the OTS' "Director's Guide to Management Reports," and, at a minimum, such report shall provide information about:

(i) each loan that constitutes an exception to applicable Association loan policies and procedures (including each loan that was not properly approved) and the nature of the exception;

(ii) each high risk loan for which the risk rating has changed since the last written

report because of an increase in risk;

(iii) each loan file lacking complete documentation (as required by the Association's lending policies, underwriting standards, loan-servicing procedures, or other applicable guidance) and the nature of the exception; and

(iv) the current status of action taken to obtain missing or required loan documentation.

Identification and Reporting of Allowance for Loan and Lease Losses and Criticized Assets.

9. By August 31, 2009, the Board shall review and approve, and the Association shall thereafter implement and adhere to, a revised ALLL Policy (Revised ALLL Policy) that details revisions to the Association's processes for identifying and reporting ALLL. At a minimum, the Revised ALLL Policy shall:

(a) conform to the requirements of generally accepted accounting principles and pertinent regulatory requirements and guidance⁹ and be appropriate for the size of the Association and the complexity of its loan and lease portfolios, and

(b) address weaknesses in the methodology and processes identified in the ROE.

10. By August 31, 2009, and at all times thereafter, the Association shall properly identify and report all Criticized Assets on Schedule VA of the TFR in accordance with 12 C.F.R. § 560.160 and Section 260 of the OTS's Examination Handbook.

⁹ See (i) 12 C.F.R. § 560.160, (ii) Interagency Policy Statement on the Allowance for Loan and Lease Losses and Questions and Answers on Accounting for Loan and Lease Losses issued on December 13, 2006 pursuant to OTS CEO Memorandum 250 (2006 Policy Statement) and (iii) Interagency Policy Statement on the Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions, dated July 2, 2001 (66 Fed. Reg. 35629, published on July 6, 2001).

Information Technology.

11. By September 15 2009, the Association shall implement all corrective actions necessary to address deficiencies identified in the March 30, 2009 Information Technology Report of Examination (IT Corrective Actions). On a quarterly basis thereafter, beginning with the quarter ending September 30, 2009, management shall prepare a written report for the Audit Committee describing the progress made in implementing the IT Corrective Actions within thirty (30) days following the end of the quarter.

Compliance Violations and Deficiencies.

12. By August 31, 2009 the Association shall correct the violations and deficiencies identified in the Compliance portion of the ROE related to: (a) flood hazard determination processes; (b) Home Mortgage Disclosure Act (HMDA) reporting; (c) Homeownership Counseling Notices; and (d) Suspicious Activity Reporting.

Restrictions on Asset Growth and Deposits.

13. (a) Effective immediately, the Association's asset growth in any quarter shall not exceed net interest credited on deposit liabilities during the quarter without the prior written non-objection of the Regional Director.

(b) Effective immediately, the Association shall not accept or renew: (i) any brokered deposits as defined in 12 C.F.R. § 337.6(a)(2) or (ii) any deposit on which the Association would pay a rate in excess of the National Rate plus seventy-five (75) basis points (as published on a weekly basis by the Federal Deposit Insurance Corporation), without the prior written non-objection of the Regional Director.

(c) A request for non-objection under this Paragraph 13 must be submitted to the Regional Director at least forty five (45) days prior to: (i) the anticipated date of acceptance of deposits restricted herein or (ii) the end of the calendar quarter in which the Association seeks to grow in excess of interest credited on deposit liabilities.

Compensation Limitations.

14. Effective immediately, the Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director or Senior Executive Officer of the Association unless it first (i) provides the Regional Director with a minimum of thirty (30) days advance written notice of the proposed transaction and (ii) receives a written notice of non-objection from the Regional Director. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such Senior Executive Officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A. This restriction is imposed in addition to the restrictions on severance payments set forth in paragraph 14.

15. (a) By September 15, 2009, the Board shall approve and submit to the Regional Director an acceptable comprehensive written plan to reduce the Association's compensation paid to directors and advisory board members (Director Compensation) covering the time period beginning with the quarter ending September 30, 2009 through the quarter ending December 31, 2011. The Director Compensation Reduction Plan shall:

(i) establish a schedule of quarterly targeted reductions in Director Compensation and

(ii) describe the means by which reductions of Director Compensation will be effected.

(b) Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall amend the Director Compensation Reduction Plan to incorporate the comments (if any) and adopt the Director Compensation Reduction Plan (Approved Director Compensation Reduction Plan). Thereafter, the Association shall implement and adhere to the Approved Director Compensation Reduction Plan.

Audit Committee.

16. (a) By August 31, 2009, the Association's Audit Committee shall operate pursuant to an Audit Committee Charter in the form set forth in the Model Audit Committee Charter published by the Institute of Internal Auditors and specifically provide for the following duties and responsibilities required by this Order:

(i) oversight of the Association's Internal Audit Function;

(ii) oversight of Compliance with this Order; and

(iii) such other appropriate duties as determined by the Board, after reviewing the guidance set forth at 12 C.F.R. Part 363, Appendix A, ¶ 31.

(b) The Audit Committee shall meet at least monthly, with minutes of such meeting recording the Committee's activities and reflecting the agenda and materials presented to the Committee. Such meetings shall be held prior to scheduled meetings of the full Board in order to

facilitate a prompt and complete reporting to the Board about committee activities, issues, and related recommendations.

Internal Audit.

17. (a) By August 31, 2009, the Association shall retain a third party Internal Audit firm that: (i) has sufficient expertise and depth to adequately perform the Internal Audit function (including the performance of an Information Technology audit) and (ii) is acceptable to the Regional Director.

(b) By September 15, 2009, and on each annual anniversary date thereafter, the Chief Executive Officer shall prepare and submit to the Audit Committee a comprehensive written risk assessment of the Association and its subsidiaries that identifies and describes its highest operating risk areas in rank order (Risk Assessment).

(c) Based on the Risk Assessment and the standards for Internal Audit Systems set forth in Section II.B of the Interagency Safety and Soundness Standards, the Audit Committee shall, by August 31, 2009 and on each annual anniversary date thereafter, establish in writing, and oversee the completion of, Internal Audit reviews of the Association's operations for the following year. The scope of such Internal Audit reviews shall include, without limitation:

(i) whether the Association is in compliance with:

(A) applicable statutes and regulations and

(B) corrective actions required or restrictions imposed by this Order, or

that arise out of regulatory examinations;

(ii) Whether all deficiencies or weaknesses identified in internal and/or external audits have been or are being corrected by management; and

(iii) Whether the information systems and accounting, operating, and administrative controls are adequate and effective.

(d) On a quarterly basis, beginning with the quarter ending September 30, 2009, the Audit Committee shall obtain a written Internal Audit report within thirty (30) days following the end of the quarter, that shall, at a minimum, discuss:

(i) the scope of the review conducted during the preceding quarter;

(ii) any material deficiencies noted during the review, including violations of this Order; and

(iii) the response of management to the material deficiencies or violations.

(e) Management shall address and correct deficiencies cited in the Internal Audit Review and the Audit Committee shall track management's progress in effecting corrective action.

(f) Management shall prepare and submit to the Audit Committee monthly tracking reports that include, at a minimum:

(i) a description of each deficiency and a schedule identifying all steps necessary to correct it, together with projected deadlines for the accomplishment of each step and the date on which the corrective action will be completed;

(ii) the member of management tasked with responsibility for ensuring that the corrective action is taken;

(iii) a detailed listing of actions taken to date to correct the deficiency; and

(iv) an explanation for any corrective actions that are not proceeding according to schedule.

Applicability of Order Requirements to Subsidiaries.

18. The Association (including its Board and officers) shall ensure that each of its subsidiaries will comply fully with the applicable requirements of this Order.

Board Oversight of Compliance with Order.

19. (a) The Audit Committee shall regularly monitor and shall provide timely reports and guidance to the Board and management for the purpose of facilitating the Association's compliance with the provisions of this Order.

(b) On a monthly basis, beginning with the month ending August 31, 2009, the Association's management shall provide to the Audit Committee all necessary information and reports to allow said Committee and the Board to monitor the Association's compliance with the requirements of this Order.

(c) On a quarterly basis, beginning with the quarter ending September 30, 2009, the Audit Committee shall submit a written quarterly progress report to the Board within thirty (30) days after the end of each calendar quarter that: (i) details the actions taken by the Association to comply with each provision of this Order and the results of such actions; and (ii) identifies any violations of this Order and describes all remedial actions that have been effected and/or that are contemplated with respect to such violations.

(d) On a quarterly basis, beginning with the quarter ending September 30, 2009, the Board shall submit to the Regional Director within forty-five (45) days after the end of each calendar quarter: (i) a copy of the Audit Committee's quarterly progress report with any

additional comments made by the Board and (ii) a written certification that each director has reviewed the report.

(e) Nothing contained herein shall diminish the responsibility of the entire Board to oversee the Association's compliance with the provisions of this Order.

PART II -- PROVISIONS APPLICABLE TO MHC AND BANCORP

Compliance with Laws, Regulations, Safe and Sound Practices.

20. MHC and Bancorp (collectively, the Holding Companies) and their directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of the following unsafe or unsound practices and violations of law, rule, or regulation:

(a) 12 C.F.R. § 575.11(b) (Requiring that the proceeds of any loan secured by the stock of a subsidiary savings association are infused into the savings association); and

(b) operating with less than satisfactory ratings, as defined in 12 U.S.C. § 1818(b)(8).

Cooperation With Association's Compliance With Order/Holding Companies Compliance Plan Required.

21. (a) By September 30, 2009, the Holding Companies, pursuant to due authorization by their respective Boards of Directors, shall jointly develop and submit to the Regional Director for review and comment, a written plan that describes all the steps the Holding Companies will take to assist the Association in complying with Part I of this Order (Holding Companies Compliance Plan). The Holding Companies Compliance Plan, at a minimum, shall:

(i) fully document the type and timing of all actions planned or contemplated to provide appropriate assistance to the Association in maintaining compliance with the terms of the Order;

(ii) describe the Holding Companies' plans to raise additional equity capital that will be infused into the Association, together with a schedule of expected timing of such capital infusion(s); and

(iii) provide an alternative strategy in the event that the capital raising efforts are not successful.

(b) Within thirty (30) days of receipt of the Regional Director's comments, if any, on the Holding Companies shall revise the Holding Companies Compliance Plan to address any written comments from the Regional Director. Thereafter, the Holding Companies shall implement and adhere to the Approved Capital Plan.

(c) On a quarterly basis, beginning with the quarter ending September 30, 2009, the respective Boards of the Holding Companies shall conduct documented reviews and evaluations of the Holding Companies performance their respective obligations under the Holding Companies Compliance Plan, and shall provide the Regional Director with a written report addressing such compliance that, at a minimum: (i) describes any material deviations; and (ii) the corrective actions to be taken or have been taken by the Holding Companies to address such material deviations.

22. Effective immediately, the Holding Companies shall not, directly or indirectly incur, renew, roll over, or issue any debt or debt securities, increase any current lines of credit, guarantee the debt of any entity, or otherwise incur any additional debt (other than for accrued and unpaid interest, late fees, or similar charges), or enter into a commitment for debt without the prior written notice of non-objection of the Regional Director. For purposes of this Paragraph the term "debt" includes, but is not limited to, loans, bonds, cumulative preferred stock, guarantees of debt, and hybrid capital instruments, such as subordinated debt or trust preferred securities. For purposes of this Paragraph, the term "debt" does not include liabilities incurred in the normal course of business to acquire goods and services and that are normally recorded as accounts

payable under generally accepted accounting principles. All written requests for such non-objection to the Regional Director to engage in such debt transactions, at a minimum, shall: (a) describe the purpose of the proposed debt; (b) set forth and analyze the terms of the proposed debt and covenants; (c) analyze the Holding Company's current cash flow resources available to satisfy such debt repayment; and (d) set forth the anticipated source(s) of repayment of the proposed debt. The Holding Companies shall submit written requests for such non-objection to the Regional Director at least thirty (30) days prior to incurring, renewing, rolling over, or issuing any debt; increasing any current lines of credit; guaranteeing the debt of any entity or incurring any additional debt.

PART III -- PROVISIONS APPLICABLE TO ALL REGULATED ENTITIES.

Severance Payments.

23. Effective immediately, the Regulated Entities shall not make any golden parachute payment¹⁰ unless with respect to each such payment, the Regulated Entity has complied with the requirements of 12 C.F.R. Part 359.

Directorate and Management Changes.

24. Effective immediately, the Regulated Entities shall comply with the prior notification requirements for changes in Directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H.

Effective Date, Incorporation of Stipulation.

25. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

26. This Order shall remain in effect until terminated, modified, or suspended by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

27. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

28. The Regional Director, or an OTS authorized representative, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Regulated Entities

¹⁰ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

29. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

30. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

(a) To the OTS:

<u>Original to:</u> Michael E. Finn Regional Director Office of Thrift Supervision Harborside Financial Center Plaza Five Suite 1600 Jersey City, NJ 07311	<u>Copy to:</u> John F. Burke Assistant Director Office of Thrift Supervision 35 Braintree Hill Office Park, Suite 201 Braintree, MA 02184
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(b) To the Regulated Entities:

<u>To the Association</u> Board of Directors c/o Arthur C. Markos Savings Bank of Maine 190 Water St. Gardiner, ME 04345-2109	<u>To MHC</u> Board of Directors c/o Arthur C. Markos Savings Bank of Maine, MHC 190 Water Street Gardiner, ME 04345-2109
<u>To Bancorp</u> Board of Directors c/o Arthur C. Markos Savings Bank of Maine Bancorp 190 Water Street Gardiner, ME 04345-2109	

No Violations Authorized.

31. Nothing in this Order or the Stipulation shall be construed as allowing the Regulated Entities, their Boards, officers, or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
Michael E. Finn
Regional Director, Northeast Region

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	
)	Order No.: NE-09-23
SAVINGS BANK OF MAINE, MHC)	
Gardiner, ME)	
OTS Docket No. H4515)	
)	Effective Date: August 20, 2009
SAVINGS BANK OF MAINE BANCORP)	
Gardiner, ME)	
OTS Docket No. H4516)	
)	
and)	
)	
SAVINGS BANK OF MAINE)	
Gardiner, ME)	
OTS Docket No. 06947)	
)	
_____)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Northeast Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Savings Bank of Maine, MHC, Gardiner, Maine OTS Docket No. H4515 (MHC), Savings Bank of Maine Bancorp, Gardiner, Maine OTS Docket No. H4516 (Bancorp) and Savings Bank of Maine, Gardiner, Maine, OTS Docket No. 06947 (Association, and collectively with MHC and Bancorp, the Regulated Entities), that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Regulated Entities pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where there is consent to the issuance of an order; and

WHEREAS, the Regulated Entities desire to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceedings by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1 through 4 below concerning Jurisdiction, hereby stipulate and agree to the following terms:

Jurisdiction.

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).
2. MHC and Bancorp (collectively, the Holding Companies) are “savings and loan holding companies” within the meaning of 12 U.S.C. § 1813(w)(3) and 12 U.S.C. § 1467a because they own and control the Association. Accordingly, MHC and Bancorp are “depository institution holding companies” as defined in 12 U.S.C. § 1813(w)(1).
3. Pursuant to 12 U.S.C. § 1818(b)(9), the “appropriate Federal banking agency” may initiate a cease-and-desist proceeding against a savings and loan holding company in the same manner and to the same extent as a savings association for regulatory violations and unsafe or unsound acts or practices
4. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against savings associations and savings and loan holding companies. Therefore, the Regulated Entities

are subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against them pursuant to 12 U.S.C. § 1818(b)(1) and (b)(9).

OTS Findings of Fact.

5. Based on its March 2, 2009 and March 30, 2009 examinations of the Association, the OTS finds that the Association has engaged unsafe or unsound practices, violations of law, rule, regulation and conditions imposed in writing, including:

- (a) 12 C.F.R. § 555.210 (requiring establishment of prudent internal controls and implementation of security measures relating to electronic operations);
- (b) 12 C.F.R. § 560.100 & 101 (requiring adoption of and compliance with prudent written real estate lending standards);
- (c) 12 C.F.R. § 560.160 (requiring evaluation and accurate classification of assets);
- (d) 12 C.F.R. § 560.170 (requiring establishment and maintenance of certain records relating to lending transactions);
- (e) 12 C.F.R. § 563.180(d) (requiring submission of Suspicious Activity Reports);
- (f) 12 C.F.R. § 564.3 (requiring Appraisals on Real Estate Loans);
- (g) 12 C.F.R. § 568.5 (requiring protection of customer information);
- (h) failure to comport with the safety and soundness standards set forth in the Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A to 12 C.F.R. Part 570 (Interagency Safety and Soundness Standards) with respect to: (i) internal controls and information systems (Section II.A); (ii) Internal Audit System (Section II.B); and (iii) Compensation (Section III);
- (i) failure to comport with the safety and soundness standards set forth in the

Interagency Guidelines Establishing Information Security Standards, Appendix B to 12 C.F.R. Part 570 (Interagency Information Security Standards) with respect to development and implementation of an Information Security Program (Section III);

(j) operating with capital levels that are in violation of a written condition set forth in OTS's August 29, 2009 approval of the Association's acquisition of another financial institution (Conditional Approval);

(k) operating with levels of Higher Risk Loans that: (i) exceed limits imposed in a written condition set forth in the Conditional Approval; and (ii) are excessive in relation to capital; and

(l) operating with levels of Nonperforming Assets, Classified Assets and Criticized Assets that are excessive in relation to capital.

6. Based on its April 17, 2009 examination of the Holding Companies, the OTS finds that the Holding Companies have engaged in unsafe or unsound practices and violations of law, rule, regulation, including:

(a) 12 C.F.R. § 575.11(b) (requiring that the proceeds of any loan secured by the stock of a subsidiary savings association are infused into the savings association); and

(b) operating with less than satisfactory ratings, as defined in 12 U.S.C. § 1818(b)(8).

Consent.

7. The Regulated Entities consent to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Regulated Entities further agree to comply with the terms of the Order upon the Effective Date of the Order and stipulate that the Order complies with all requirements of law.

Finality.

8. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

Waivers.

9. The Regulated Entities each waive the following:

- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

OTS Authority Not Affected.

10. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association and/or the Holding Companies if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

11. The Association and the Holding Companies acknowledge and agree that their consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 10 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association and/or the Holding Companies that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

12. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

13. If any provision of this Stipulation and/or the Order 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 or her sole discretion determines otherwise.

14. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

15. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

16. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

17. The Stipulation and Order shall remain in effect until terminated, modified, or suspended

in writing by the OTS, acting through its Regional Director or other authorized representative.

Signature of Directors/Board Resolution.

18. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association, MHC and Bancorp respectively, to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting at each of the Regulated Entities. A copy of the Board Resolution for each Regulated Entity authorizing execution of this Stipulation shall be delivered to the OTS, along with the executed original(s) of this Stipulation.

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WHEREFORE, the Regulated Entities, by their respective directors, execute this Stipulation.

<p>SAVINGS BANK OF MAINE</p> <p>By: _____ /s/ Richard L. Goodwin Chairman of the Board</p>	<p>SAVINGS BANK OF MAINE BANCORP</p> <p>By: _____ /s/ Richard L. Goodwin Chairman of the Board</p>
<p>SAVINGS BANK OF MAINE, MHC</p> <p>By: _____ /s/ Richard L. Goodwin Chairman of the Board</p>	<p>Accepted by: OFFICE OF THRIFT SUPERVISION</p> <p>By: _____ /s/ Michael E. Finn Regional Director, Northeast Region</p> <p>Date: See Effective Date on page 1</p>

The signatures of the other directors of Savings Bank of Maine, Savings Bank of Maine, MHC and Savings Bank of Maine Bancorp are set out below.

<p>Other Directors of Savings Bank of Maine, MHC:</p> <p>_____/s/ Everett L. Ayer, Director</p> <p>_____/s/ Al C. Graceffa, Director</p> <p>_____/s/ Daniel F. Hollingdale, Director</p> <p>_____/s/ Robert P. Lacasse, Director</p> <p>_____/s/ Arthur C. Markos, Director</p> <p>_____/s/ John Rizzo, Director</p>	<p>Other Directors of Savings Bank of Maine Bancorp:</p> <p>_____/s/ Everett L. Ayer, Director</p> <p>_____/s/ Al C. Graceffa, Director</p> <p>_____/s/ Daniel F. Hollingdale, Director</p> <p>_____/s/ Robert P. Lacasse, Director</p> <p>_____/s/ Arthur C. Markos, Director</p> <p>_____/s/ John Rizzo, Director</p>
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