

AGREEMENT BY AND BETWEEN  
The Milford National Bank & Trust  
Milford, MA  
and  
The Comptroller of the Currency

The Milford National Bank & Trust, Milford, MA (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has found unsafe and unsound banking practices relating to interest rate risk and price risk management and profit planning at the Bank.

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

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

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

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

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

Assistant Deputy Comptroller  
New England Field Office  
20 Winthrop Square, Suite 200  
Boston, MA 02110

## ARTICLE II

### COMPLIANCE COMMITTEE

(1) Within thirty (30) days of the date of this Agreement, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than one (1) shall be an employee or controlling shareholder of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

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

(3) Within thirty (30) days of the date of this Agreement and every month thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the action needed to achieve full compliance with each Article of this Agreement;
  - (b) actions taken to comply with each Article of this Agreement; and
  - (c) the results and status of those actions.
- (4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

### ARTICLE III

#### PROFIT PLAN

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written profit plan to improve and sustain the earnings of the Bank. This plan shall include, at a minimum, the following elements:

- (a) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;
- (b) realistic and comprehensive budgets, including projected balance sheets and year-end income statements;
- (c) a budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections; and
- (d) a description of the operating assumptions that form the basis for major projected income and expense components.

(2) The budgets and related documents required in paragraph (1) above for 2009 shall be submitted to the Assistant Deputy Comptroller upon completion. The Board shall submit to the Assistant Deputy Comptroller annual budgets as described in paragraph (1) above for each

year this Formal Agreement remains in effect. The budget for each year shall be submitted on or before November 30, of the preceding year.

(3) The Board shall forward comparisons of its balance sheet and profit and loss statement to the profit plan projections to the Assistant Deputy Comptroller on a quarterly basis.

#### ARTICLE IV

##### CAPITAL PLAN

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

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

Comptroller, the Bank shall implement and adhere to the dividend policy.

(2) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

## ARTICLE V

### BROKERED DEPOSITS

(1) The Bank shall not exceed the level of brokered deposits, as measured by the Bank's ratio of total brokered deposits to total liabilities, on the effective date of this Agreement, without obtaining the prior written determination of no supervisory objection from the Assistant Deputy Comptroller. "Brokered deposit" shall have the meaning set forth in 12 C.F.R. § 337.6(a)(2). The limitation of this paragraph shall include the acquisition of Brokered Deposits through any transfer, purchase, or sale of assets, including Federal funds transactions.

(2) If the Bank seeks to acquire Brokered Deposits above the level in paragraph (1) of this Article, the Board shall apply to the Assistant Deputy Comptroller for written permission. Such application shall contain, at a minimum, the following:

- (a) the dollar volume, maturities, and cost of the Brokered Deposits to be acquired;
- (b) the proposed use of the Brokered Deposits, i.e., short-term liquidity or restructuring of liabilities to reduce cost;
- (c) alternative funding sources available to the Bank; and

- (d) the reasons why the Bank believes that the acceptance of the Brokered Deposits does not constitute an unsafe and unsound practice in its particular circumstances.
- (e) The Assistant Deputy Comptroller may require the submission of such additional information as necessary to make an informed decision. Upon consideration of the Bank's application, the Assistant Deputy Comptroller will determine whether the proposed acquisition of Brokered Deposits may be accomplished in a safe and sound manner and may condition the Bank's acquisition as the Assistant Deputy Comptroller shall deem appropriate.
- (f) Nothing in this article shall relieve the Bank of its obligation under 12 U.S.C. § 1831f to seek necessary approvals from the Federal Deposit Insurance Corporation before accepting Brokered Deposits and to comply with all the requirements of 12 U.S.C. § 1831f.

## ARTICLE VI

### SENSITIVITY TO MARKET RISK POLICIES AND RISK MANAGEMENT

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written Sensitivity to Market Risk policy. In formulating this policy, the Board shall refer to the “Interest Rate Risk” booklet of the Comptroller’s Handbook and Financial Accounting Standard (FAS) 159 “The Fair Value Option for Financial Assets and Liabilities.” The Sensitivity to Market Risk policy and procedures shall provide for coordinated interest rate risk and price risk strategies, and, at a minimum, address:

- (a) limits on the mark-to-market fluctuations, either as a dollar amount or percentage change, that will maintain capital levels above well-capitalized guidelines and above minimum limits in the Capital and Dividend Policy;
- (b) evaluation of the mark-to-market exposure against the policy limit at least monthly and reported to the Board;
- (c) establishment of action plans if the mark-to-market exposure exceeds the Board's risk tolerance, describing how risk exposure will be reduced to conform to policy limits;
- (d) documentation of these action plans in the Asset/Liability Management Policy;
- (e) review of investment portfolio shock results and the monthly capital simulation with the full Board of Directors;
- (f) reconciliation of capital limits in the Investment Policy and Capital and Dividend Policy to ensure they are prudent and reflect the Board's risk tolerance;

- (g) development of an action plan on how potential exposure will be reduced and provide for capital protection, based on results in the monthly investment portfolio shock and income simulation analysis;
- (h) review of the securities holdings report with the Board at least monthly to assess the credit risk in investments and determine if further action is warranted; and
- (i) employment of competent personnel to manage interest rate risk.

(2) Within sixty (60) days, the Board shall improve the interest rate risk modeling process in order to effectively identify, measure, monitor, and control the level of market risk accepted by the bank. To improve sensitivity to market risk management practices, the Board needs to:

- (a) establish adequate management reports on which to base sound interest rate risk management decisions;
  - (i) develop and include assumptions in the interest rate risk model for non-interest income and expenses in order to quantify the impact of rate changes on net income.
  - (ii) include the purchased interest rate derivatives in the interest rate risk model;
- (b) implement effective tools to measure and monitor the Bank's performance and overall interest rate risk profile, including measuring changes in economic value of equity;



- (c) place limits on the nature and amount of interest rate risk that can be taken either as a dollar amount or percentage change of net income and capital, that will maintain capital levels above well-capitalized guidelines and above minimum limits in the Capital and Dividend Policy;
- (d) report the interest rate derivative in the call report; and
- (e) account for the interest rate cap at fair value per FAS 133, *Accounting for Derivatives and Hedging Activities*, and any changes in value must be reported directly through earnings.

(3) Upon adoption, a copy of the written policy and procedures, including documentation of revised interest rate risk modeling, shall be forwarded to the Assistant Deputy Comptroller for review.

## ARTICLE VII

### CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with OCC Banking Circular 255. The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet to identify any concentrations of credit;
- (b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) policies and procedures to control and monitor concentrations of credit; and
- (d) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in the “Loan Portfolio Management” booklet of the Comptroller's Handbook. Prudent policies and procedures for Commercial Real Estate Loan concentrations are outlined in OCC Bulletin 2006-46 "Concentrations of Commercial Real Estate."

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (b) of paragraph (1) and that the analysis demonstrates that the concentration will not subject the Bank to undue credit or interest rate risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Assistant Deputy Comptroller immediately following the review.

## ARTICLE VIII

### CLOSING

(1) Although the Board has agreed to submit certain programs 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.

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

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

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the 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, has hereunto set his hand on behalf of the Comptroller.

Signed \_\_\_\_\_  
C. Scott Schainost  
Assistant Deputy Comptroller  
New England Field Office

10/29/2008  
\_\_\_\_\_  
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/ \_\_\_\_\_  
Kenneth Cole

10/29/2008  
\_\_\_\_\_  
Date

/s/ \_\_\_\_\_  
Leonard Deloia

10/29/2008  
\_\_\_\_\_  
Date

/s/ \_\_\_\_\_  
Michael Diorio

10/29/2008  
\_\_\_\_\_  
Date

/s/ \_\_\_\_\_  
Dorothy Horne

10/29/2008  
\_\_\_\_\_  
Date

/s/ \_\_\_\_\_  
Roger Lavallee

10/29/2008  
\_\_\_\_\_  
Date

/s/ \_\_\_\_\_  
Bartholomew Molloy

10/29/2008  
\_\_\_\_\_  
Date

/s/ \_\_\_\_\_  
George Marino

\_\_\_\_\_  
Date

\_\_\_\_\_  
Henry Papuga

\_\_\_\_\_  
Date

/s/ \_\_\_\_\_  
Thomas Sawyer

10/29/2008  
\_\_\_\_\_  
Date

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Linda Varney

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Date

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Lisa Vincent Taylor

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Date

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William Vitalini

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Date

**Completed Formal Enforcement Action Form  
For BANKs**

<b>Bank Name</b>	<b>The Milford National Bank &amp; Trust</b>		
<b>City State</b>	<b>Milford, MA</b>		
<b>Charter #</b>	<b>#866</b>		
<b>Company Name (op sub, BHC, etc)</b>	Mnb BC		
<b>Document Date</b>			
<b>Name of OCC Contact</b>	<b>Scott Schainost</b>		
<b>Docket # (if any)</b>			
<b>Document Type</b>			
	<b>Cease &amp; Desist Order</b>		<b>Termination of C&amp;D</b>
<b>X</b>	<b>Formal Agreement</b>		<b>Termination of FA</b>
	<b>PCA Directive</b>		<b>Termination of PCAD</b>
	<b>S&amp;S Order</b>		<b>Termination of S&amp;S</b>
	<b>Securities Enforcement</b>		<b>Termination of SE - Bk</b>
	<b>Civil Money Penalty \$ Amount</b>		<b>Restitution \$ Amount</b>

**ALWAYS** send this form and a copy of the enforcement document to Jackie England, Communications, MS 3-2; also send a Word version to Communications.

**For CMPs only**, send this form and a copy of the enforcement document to Holley Roberts, Enforcement & Compliance, MS 8-10 and to Deborah Thomas, Financial Services, MS 4-6. For wires, please notify Deborah Thomas in advance.

For Flood CMPs, also send a copy of the enforcement document (and any check) to Peggy Hesse, Community & Consumer Law, MS 8-6, and an e-mail about the impending CMP to FEMA (Kevin.Montgomery@dhs.gov).

Communications will list this document in Interpretations and Actions and maintain a copy of the enforcement document in the Public Reading Room. Financial Services will input CMP payments received into SIS/LB or SIS/EV. Send any CMP payments to OCC, P.O. Box 979012, St. Louis, MO 63197-9000.

