

AGREEMENT BY AND BETWEEN
Freedom National Bank
Greenville, RI
and
The Comptroller of the Currency

Freedom National Bank, Greenville, RI (“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 management, asset quality, asset/liability management, and earnings performance 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) This Agreement shall cause the Bank to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(6), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(6) 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:

Melissa F. Scofield, Assistant Deputy Comptroller
New York Metro East Field Office
343 Thornall Street, Suite 610
Edison, NJ 08837

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 three (3) 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 sixty (60) days of the date of this Agreement and quarterly 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

BOARD TO ENSURE COMPETENT BOARD AND MANAGEMENT

- (1) Within ninety (90) days, the Board shall ensure that the Bank has competent senior management in place on a full-time basis, including, but not limited to, its President; Senior Loan Officer; and Senior Vice President positions to carry out the Board's policies, achieve compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.
- (2) Within ninety (90) days, the Board shall review the capabilities of the Bank's management to perform present and anticipated duties and the Board will determine whether management changes should be made, including the need for additions to or deletions from current management.
- (3) Within ninety (90) days, the Board shall ensure that the Bank has a competent Board of Directors in place, including an analysis of the necessary qualifications and skills for individual members to serve as effective directors and properly supervise the Bank's affairs, and

determine whether the Board members are receiving adequate information on the operation of the Bank to enable them to fulfill their fiduciary and other responsibilities under law.

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

(5) If the Board determines that an officer mentioned in Paragraph (1) of this Article will continue in his/her position but that the officer's depth of skills needs improvement, the Board will within ninety (90) days after such determination develop and implement a written program, with specific time frames, to improve the officer's supervision and management of the Bank. At a minimum the written program shall include:

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

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

(6) If a position mentioned in Paragraph (1) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (1) of this Article becomes vacant, the Board shall within ninety (90)

days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority commensurate with his or her duties to endeavor to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

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

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" and "Background Investigations" booklets of the Comptroller's Licensing Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

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

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

ARTICLE IV

STRATEGIC & PROFIT PLAN

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a 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 and, at a minimum, include:

- (a) An evaluation of all major strategic goals and initiatives to determine if they address methods to improve the Bank's current financial condition, as well as serve the long-term viability of the institution and reasonableness thereof;
- (b) the development and execution of special goals and initiatives that will improve the Bank's financial condition, improve earnings, and reduce or mitigate risk exposures over the short and long term;
- (c) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(b) of this Article;
- (d) realistic and comprehensive annual budgets, including projected balance sheets and year-end income statements, as well as key financial ratio measures over the period covered by the strategic plan;

- (e) a budget review process to monitor both the bank's income and expenses, balance sheet composition, and to compare actual figures with budgetary projections;
- (f) defined responsibilities and accountability over the strategic planning process, including the assignment of management responsibility to carry out the execution of the Bank's strategic plan, with specific timeframes for measuring performance and specific accountability measures;
- (g) action plans to address earnings performance, and capital needs, in the event projections do not materialize;
- (h) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(b) of this Article; and
- (i) a management employment and succession program to promote the retention and continuity of capable management.

(2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review and prior written 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 strategic plan.

(3) The Board shall submit to the Assistant Deputy Comptroller annual budgets as described in paragraph (1)(d) above for each year this Agreement remains in effect. The budget for each year shall be submitted on or before November 30, of the preceding year.

(4) 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 V

ASSET/LIABILITY MANAGEMENT POLICY

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written liquidity, asset and liability management policy. In formulating this policy, the Board shall refer to the “Liquidity” booklet of the Comptroller’s Handbook. The policy shall provide for a coordinated asset and liability management strategy and, at a minimum, address:

- (a) Funding strategies, as well as overall asset and liability management practices, designed to ensure the balance sheet is structured in a manner that would provide a reasonable net interest spread and core earnings stream thereby improving profitability and its sustainability;
- (b) adequate management reports that enable the Board and management to monitor the Bank's liquidity position and maintain liquidity at an adequate level;
- (c) limits on concentrations of funding sources; and
- (d) periodic review of the Bank's adherence to the policy.

(2) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.

ARTICLE VI

CONTINGENCY FUNDING PLAN

(1) Within ninety (90) days, the Board shall review and revise the Bank's Contingency Funding Plan (CFP). The Board shall refer to the "Liquidity" booklet of the Comptroller's Handbook as well as other current regulatory materials for guidance. The CFP shall be expanded, at a minimum, to address:

- (a) defining responsibilities and decision-making authority for all personnel in a crisis situation;
- (b) defining and quantifying a liquidity crisis, including early warning indicators to monitor large changes in sources and uses of funds;
- (c) developing early warning liquidity triggers applicable to the bank.
Examples of warning triggers include but are not limited to: reduced ability to access wholesale funding, a run on deposits, credit deterioration, or a decline in your composite CAMELS ratings; and
- (d) documenting and analyzing the amount, availability and timeliness of obtaining funding sources available to the Bank (i.e., Federal Home Loan Bank borrowings, Fed discount window, and holding company capacity) in relation to the various levels of a liquidity crisis.

(2) Upon adoption, a copy of the enhanced CFP shall be forwarded to the Assistant Deputy Comptroller for review.

ARTICLE VII

BROKERED DEPOSITS

(1) “Brokered deposit” shall have the meaning set forth in 12 C.F.R. § 337.6(a)(2).

The limitation of this article 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 any Brokered Deposits, 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.

(3) 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.

(4) 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 VIII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall, within ninety (90) days, review the adequacy of the Bank's Allowance for Loan and Lease Losses ("Allowance") and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the "Allowance for Loan and Lease Losses" booklet of the Comptroller's Handbook dated June 1996 (Narrative) and May 1998 (Procedures) and OCC Bulletin 2006-47, *Interagency Policy Statement on the Allowance for Loan and Lease Losses*, and shall focus particular attention on the following factors:

- (a) Documented processes for impairment evaluation. Management must specify through policy which loans will be evaluated for impairment under FAS 114. Loans within the scope of FAS 114 that are determined to be impaired or are considered troubled debt restructured loans, must be individually reviewed under FAS 114 guidelines, on a quarterly basis, using the three available methods when determining specific reserve allocations:
 - (i) Present value of expected future cash flows discounted at the loan's effective interest rate;
 - (ii) Observable market price; or

- (iii) Fair value of collateral. Required method if the loan is collateral dependent (e.g., repayment is solely contingent on underlying collateral).
 - (b) Incorporating the analysis and support for the existing unallocated reserve calculation to within the FAS 5 component of the methodology.
- (2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

ARTICLE IX

CREDIT RISK MANAGEMENT

- (1) The Board shall, within ninety (90) days, develop implement, and thereafter ensure, Bank adherence to a written program to improve the credit risk management process. The program shall include, but not be limited to:
 - (a) procedures designed to ensure accuracy of the risk ratings and proper and timely problem loan identification, including non-accrual loans;
 - (b) stress testing factors that could impact a commercial borrower's ability to meet debt service requirements, beyond interest rate analysis, including declining revenues, increased overhead costs, or adverse changes in rental, vacancy or capitalization rates;

- (c) procedures and testing designed to ensure the accuracy of credit systems and management information systems; and
- (d) procedures designed to ensure conformance with Call Report instructions regarding non-accrual loan reporting, as well as internal reporting of non-accrual loans.

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

ARTICLE X

INTEREST RATE RISK POLICY

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to written policies regarding interest rate risk model validation and interest rate risk limits. In formulating this policy, the Board shall refer to the “Interest Rate Risk” booklet of the Comptroller’s Handbook and OCC Bulletin 2000-16, *Risk Modeling—Model Validation*.

The policy shall provide for, but not be limited to:

- (a) ensuring the IRR model is independently back-tested in adherence with OCC Bulletin 2000-16 on an annual basis of annual results, at minimum;
- (b) prudent limits on the nature and amount of interest rate risk that can be taken; and
- (c) periodic review of the Bank's adherence to the policy.

(2) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.

ARTICLE XI

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 unless otherwise provided herein. 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.

/s/

3/4/10

Melissa F. Scofield
Assistant Deputy Comptroller
New York Metro East Field Office

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.

Signed
David J. Bruce

3/2/10
Date

Signed

Gary Ezovski

Signed

Frederic D. McDuff

Richard E. Sitzer

Signed

Joseph M. Toole

3-1-10

Date

3/1/10

Date

Date

3/1/10

Date
