

#2015-097

AGREEMENT BY AND BETWEEN
The National Capital Bank of Washington
Washington, District of Columbia
and
The Comptroller of the Currency

The National Capital Bank of Washington, Washington, District of Columbia (“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 or unsound banking practices, including those relating to credit administration, internal controls, and management and Board oversight 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) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

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

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

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

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

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

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days of the date of this Agreement, the Board shall establish a Compliance Committee comprised of at least three (3) directors, of which no more than one 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) The Compliance Committee shall ensure that the Bank conducts periodic audits to ensure compliance with each provision of this Agreement.

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

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

(5) 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

STRATEGIC PLAN

(1) Within one hundred twenty (120) days of the date of this Agreement, the Board shall develop, approve, and forward to the Assistant Deputy Comptroller, pursuant to paragraph (4) of this Article, its written Strategic Plan for the Bank covering at least a three (3) year period. The Strategic Plan shall include objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital

and liquidity adequacy, sound risk management practices, and adequate staffing, together with strategies to achieve those objectives and, at a minimum, include:

- (a) mission and risk appetite statements that form the framework for the establishment of strategic goals, objectives, and risk tolerances;
- (b) an assessment of the Bank's present and future operating environment;
- (c) an assessment of strengths, weaknesses, opportunities, and threats that impact strategic goals and objectives;
- (d) the strategic goals and objectives to be accomplished over the short- and long-term, including key financial indicators and risk tolerances;
- (e) 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)(d) of this Article;
- (f) an identification and prioritization of initiatives and opportunities, including timeframes that take into account the requirements of this Agreement;
- (g) product line development and market segments that the Bank intends to promote or develop;
- (h) the identification of appropriate risk management systems to identify, measure, monitor, and control risks (including, but not limited to compliance, operations, information technology and personnel), that are consistent with safe and sound banking practices within the Bank's present and planned products and services;

- (i) an action plan to improve and sustain bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;
- (j) a realistic and comprehensive budget, to include quarterly projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the Strategic Plan, that corresponds to the Strategic Plan's goals and objectives;
- (k) provisions for injections of equity capital, as necessary;
- (l) documented assumptions surrounding financial projections, including asset growth, funding needs, capital requirements, operating and provision expenses, and non-interest income;
- (m) documented loan and deposit pricing guidelines;
- (n) assigned responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment;
- (o) a description of the systems and metrics to monitor the Bank's progress in meeting the plan's goals and objectives; and
- (p) a description of the processes in place to ensure the Bank has sufficient and adequate processes, personnel and control systems to effectively implement and adhere to the Strategic Plan, adequately support the Bank's risk profile, maintain compliance with applicable regulatory capital requirements, comply with this Agreement, and maintain appropriate levels of liquidity;

(2) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan and shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Within thirty (30) days of completing its written evaluation, the Board shall submit a copy of the evaluation to the Assistant Deputy Comptroller.

(3) The Board shall review and revise the Strategic Plan at least annually, by no later than December 31st each year, and more frequently if necessary or if required by the Assistant Deputy Comptroller in writing, to cover at least the next three year period.

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

(5) Until the Strategic Plan required under this Article has been submitted by the Bank for OCC review, has received a written determination of no supervisory objection from the OCC, and has been adopted by the Board, the Bank shall not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed before the later of (i) execution of this Agreement or (ii) the most recent Strategic Plan required under this Article that has been submitted by the Bank for OCC review, has received a written determination of no supervisory objection from the OCC, and has been adopted by the Board without first obtaining the OCC's

prior written determination of no supervisory objection to such significant deviation. Any request to the OCC for prior written determination of no supervisory objection to a significant deviation must be submitted in writing to the Assistant Deputy Comptroller thirty (30) days in advance of the significant deviation and shall include:

- (a) an assessment of the adequacy of the Bank's management, staffing levels, organizational structure, financial condition, capital adequacy, funding sources, management information systems, internal controls, and written policies and procedures with respect to the proposed significant deviation; and
- (b) the Bank's evaluation of its capability to identify, measure, monitor, and control the risks associated with the proposed significant deviation.

(6) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE IV

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within one hundred twenty (120) days of the date of this Agreement, the Board shall ensure that the Bank has competent management in place on a permanent, full-time basis, including in its Chief Executive Officer, Chief Financial Officer, and Chief Lending Officer positions, vested with sufficient executive authority to fulfill the duties and responsibilities of the position, carry out the Board's policies, ensure compliance with this Agreement, applicable laws,

rules and regulations, and manage the day-to-day operations of the Bank in safe and sound manner within the scope of that position's responsibilities.

(2) Within five (5) days of the date of this Agreement, the Board shall ensure that Directors are receiving adequate information on the operation of the Bank to enable them to fulfill their fiduciary responsibilities and other responsibilities under law.

(3) Within forty-five (45) days, the Board shall complete a written assessment of the capabilities of the Bank's senior executive officers, including but not limited to the Chief Executive Officer, President, Chief Financial Officer, and any other individual acting in the capacity of a senior executive officer, as defined by 12 C.F.R. § 5.51(c)(3), to perform present and anticipated duties, taking into account the findings contained in the most recent Report of Examination ("ROE"), and factoring in the officer's past actual performance, experience, and qualifications compared with the position description, duties, and responsibilities along with the officer's proposed responsibilities to execute the Strategic Plan and correct the concerns raised in the most recent ROE. Upon completion of the written assessment, a copy of shall be submitted to the Assistant Deputy Comptroller.

(4) If the Board determines that an officer will continue in his or her position but that the officer's depth of skills needs improvement, the Board shall within forty-five (45) days of 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 for a prior written determination of no supervisory objection.

(5) Within sixty (60) days of the date of this Agreement, the Board shall develop a formal performance appraisal program and compensation program for senior executive officers designed to ensure that compensation is commensurate with actual job responsibilities and performance. Performance appraisals for each senior executive officer shall be completed at least annually, and address the following:

- (a) compliance with objectives established by the Board;
- (b) compliance with Board-approved policies and procedures;
- (c) compliance with the Board-approved consumer compliance program;
- (d) compliance with Board-approved strategic and capital plans;
- (e) compliance with action plans to remedy issues raised in any ROE, audit reports, or loan review reports;
- (f) execution of safe and sound banking practices; and
- (g) compliance with laws, regulations, and regulatory guidance.

(6) Within sixty (60) days of the date of this Agreement, the Board shall develop a satisfactory management succession plan that allows for the identification, development, and retention of employees to fill key management positions at the Bank.

(7) If any senior executive officer, as defined in 12 C.F.R. § 5.51(c)(3), position is vacant now or in the future, the Board shall within forty-five (45) days of the date of this Agreement or the future vacancy, respectively, identify and provide notice to the Assistant Deputy Comptroller, of a competent and full-time candidate for the position who has sufficient experience. The Board shall comply with the prior notice requirements of 12 U.S.C. § 1831i and 12 C.F.R. § 5.51 when selecting an individual to serve in any senior executive officer position.

(8) Within ten (10) days of receiving the Assistant Deputy Comptroller's written notice of intent not to disapprove a proposed senior executive officer position, the Board shall appoint that individual to the senior executive officer position on a permanent and full-time basis. Any senior executive officer shall be vested with sufficient executive authority to fulfill the duties and responsibilities of his or her position, carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and ensure the safe and sound operation of the Bank within the scope of that position's responsibilities. The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to this Article.

ARTICLE V

CAPITAL PLANNING

(1) Within one hundred twenty (120) days of the date of this Agreement, the Board shall develop, adopt, implement and thereafter ensure Bank adherence to an effective internal capital planning process to assess the Bank's capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels. The capital planning process shall be consistent with OCC Bulletin 2012-16, *Guidance for Evaluating Capital Planning and Adequacy*

(June 7, 2012). The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least annually or more frequently if requested by the Assistant Deputy Comptroller in writing.

(2) Within sixty (60) days of the date of this Agreement, the Board shall approve and forward to the Assistant Deputy Comptroller for her review, pursuant to paragraph (4) of this Article, a written Capital Plan for the Bank, consistent with the Strategic Plan pursuant to Article III, covering at least a three (3) year period. The written Capital Plan shall, at a minimum:

- (a) identify and evaluate all material risks;
- (b) determine the Bank's capital needs in relation to material risks and strategic direction as described in the strategic plan developed pursuant to Article III of this Agreement
- (c) include specific plans and documentation of supporting rationale for the maintenance of adequate capital;
- (d) include guidelines for conducting capital stress testing consistent with OCC Bulletin 2012-33, *Community Bank Stress Testing: Supervisory Guidance*, (October 18, 2012);
- (e) identify and establish a strategy to strengthen capital if necessary and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;
- (f) include well-defined triggers for the Bank to invoke strategies to preserve or improve the Bank's capital position relative to its risk profile;
- (g) support any valuation given to the Bank's stock; and

(h) include specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Agreement that will have an impact on the Bank's capital.

(3) The Bank may declare or pay a dividend or make a capital distribution only:

(a) when the Bank is in compliance with its approved written Capital Plan and would remain in compliance with its approved written Capital Plan immediately following the declaration or payment of any dividend or the capital distribution;

(b) when the dividend or capital distribution would comply with 12 U.S.C. §§ 56, 60 and 1831o(d)(1) and 12 C.F.R. § 3.11(a)(4); and

(c) following the prior written determination of supervisory no objection by the Assistant Deputy Comptroller.

(4) Prior to adoption by the Board, a copy of the Bank's written Capital Plan, and any subsequent amendments, revisions, or updates, shall be submitted to the Assistant Deputy Comptroller for prior written determination of no supervisory objection. The Board shall review and update the Bank's written Capital Plan, including after expiration of the three (3) year period referenced in paragraph (2) of this Article, at least annually and more frequently if required by the Assistant Deputy Comptroller in writing. Within thirty (30) days of receipt following receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the written Capital Plan and any amendments or revisions thereto.

ARTICLE VI

LOAN PORTFOLIO MANAGEMENT

(1) Within ninety (90) days of the date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management ("Loan Portfolio Management Program"). The Loan Portfolio Management Program shall include, at a minimum:

- (a) prudent underwriting standards, including minimum liquidity and cash flow requirements, that are consistent with safe and sound banking practices;
- (b) procedures that require any extensions of credit (new, maturity extension, or renewal) are made only after the credit officer prepares a documented credit analysis, which shall include an assessment of current credit information about the borrower and any guarantor sufficient to fully assess and analyze the borrower's and guarantor's global cash flow, debt service requirements, contingent liabilities, global liquidity condition, and ability to repay principal and interest over a reasonable period;
- (c) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and documenting the current valuation of any supporting collateral;
- (d) procedures to ensure satisfactory and perfected collateral documentation;
- (e) a description of the types of credit information required from borrowers and guarantors, including, but not limited to, annual financial statements,

interim financial statements, personal financial statements, and tax returns with supporting schedules;

- (f) guidelines for the performance of interim financial analysis or annual reviews using alternative procedures for borrowers refusing to provide periodic financial information;
- (g) procedures for annual reviews of loans and unsecured lines of credit over a specific dollar threshold, which shall be established by the Board to be no greater than two hundred fifty thousand dollars (\$250,000);
- (h) procedures to ensure: (i) that borrowers and guarantors are contractually obligated, through appropriate loan covenants, to provide financial statements and other information that would facilitate the Bank's ongoing review of the collectability of the loan and (ii) completion of timely financial analysis on borrower and guarantors, including processes to request and track receipt and analysis of borrower and guarantor financial information on an ongoing basis;
- (i) procedures to identify "evergreen" and stagnant lines of credit and restructure or amortize those lines of credit;
- (j) procedures for periodic verification of accounts receivable, inventory, and liquidity;
- (k) procedures to ensure conformance with loan approval requirements and the Bank's credit policies;
- (l) procedures to ensure that all exceptions to the credit policy shall be clearly documented on the loan offering sheet and other management information

systems (“MIS”) and approved by the Board or a committee thereof before the loan is funded or renewed;

- (m) appropriate MIS to monitor and track financial, policy, collateral, and supervisory loan-to-value exceptions that are reported to the Board no less than quarterly;
- (n) limits, established by the Board, for each type of exception as a percentage of the loan portfolio and capital;
- (o) procedures to ensure exceptions to policy and credit and collateral exceptions are within levels consistent with prudential standards and internal limits;
- (p) procedures to ensure the accuracy of internal MIS;
- (q) prudent concentration limits for outstanding and committed unsecured lending exposure;
- (r) procedures to ensure conformance with Consolidated Reports of Condition and Income (“Call Report”) instructions; and
- (s) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters.

(2) Upon completion of the Loan Portfolio Management Program, a copy of the Loan Portfolio Management Program shall be forwarded to the Assistant Deputy Comptroller within sixty (60) days of its completion for a written determination of no supervisory objection.

(3) Within ninety (90) days of the date of this Agreement, the Board must ensure implementation of an appropriate structure to allow for effective oversight of the Bank's commercial loan portfolio on an ongoing basis, including on a monthly basis that Bank management must provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) policy, financial, credit, and collateral exceptions;
- (d) the identification and status of credit-related violations of law, rule or regulation;
- (e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this paragraph;
- (f) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios; and
- (g) the identification and amount of loans and leases, including overdrafts, to executive officers, directors, principal shareholders (and their related interests) of the Bank.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed pursuant to this Article.

ARTICLE VII

INTERNAL LOAN REVIEW

(1) Within ninety (90) days of the date of this Agreement, the Board shall revise, and the Bank, subject to Board review and monitoring, shall immediately implement and thereafter adhere to an effective, independent and ongoing loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. In addition, the system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in the "Rating Credit Risk" booklet of the *Comptroller's Handbook*; Attachment 1, "Loan Review Systems", of OCC Bulletin 2006-47, *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (December 13, 2006); and OCC Bulletin 2000-20, *Uniform Retail Credit Classification and Account Management Policy* (June 20, 2000). Such reports shall include, at a minimum, conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) the volume of credit and collateral documentation exceptions by dollar amount and percentage of the loan portfolio;
- (e) a listing of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies;
- (e) the identification and status of credit related violations of law, rule or regulation;

- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article;
- (g) concentrations of credit;
- (h) loans and leases, including overdrafts, to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (i) loans over a predetermined amount established by the Board that in no event is greater than two hundred fifty thousand dollars (\$250,000).

(2) A written description of the review system and program called for in paragraph (1) of this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation.

(3) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to this Article.

ARTICLE VIII

CRITICIZED ASSETS

(1) Within ninety (90) days of the date of this Agreement, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to a written program designed to protect the Bank's interest in those assets

criticized in the most recent ROE in any subsequent ROE, by any internal or external loan review, or in any list provided to management by the OCC during any examination as “doubtful,” “substandard,” or “special mention.” The program shall include the development of Criticized Asset Reports (“CARs”) identifying all credit relationships and other assets totaling in aggregate two-hundred fifty thousand dollars (\$250,000) or more, criticized as “doubtful,” “substandard,” or “special mention.” The CARs shall be updated and submitted to the Board and to the Assistant Deputy Comptroller quarterly. Each CAR shall cover an entire credit relationship and include, at a minimum, analysis and documentation of the following:

- (a) a brief factual summary of the relationship, including reason for the basis of criticism, the origination date, maturity date, any renewal or extension dates, amount, purpose of the loan, sources of repayment, payment history, accrual status, impairment (if applicable), and the originating and current loan officer(s);
- (b) an analysis of current and satisfactory credit information regarding the repayment capacity of the borrower, including identification of the expected sources of repayment and cash flow analysis;
- (c) an assessment of collateral supporting the loan, including an evaluation of the appraisal of such collateral and the position of the Bank’s lien on such collateral where applicable;
- (d) an evaluation of any guarantees, including the guarantor’s financial capacity and willingness to provide support for the credit;
- (e) an assessment of the appropriateness of loan accrual status;

- (f) results of any Accounting Standards Codification (“ASC”) 310-10 impairment analysis;
- (g) significant developments, including a discussion of changes since the prior CAR, if any;
- (h) summary of borrower discussions, including willingness to work with the Bank; and
- (i) the proposed action(s) to eliminate the basis of criticism, identification of employees responsible for implementing the action(s), and the time frame for accomplishment of the proposed action(s).

(2) Upon adoption, a copy of the criticized assets program shall be submitted to the Assistant Deputy Comptroller.

(3) The Bank may not extend credit, directly or indirectly, including renewals, extensions, or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in any ROE, in any internal or external loan review, or in any list provided to management by the OCC unless and until each of the following conditions is met:

- (a) the Board, or designated committee thereof, finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending, or capitalizing any additional credit, a majority of the full Board, or designated committee thereof, approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank;
- (b) the Bank performs all written credit and collateral analysis required by paragraph (1) of this Article; and

(c) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the extension of additional credit.

(4) A copy of the approval of the Board, or of the designated committee thereof, shall be maintained in the file of the affected borrower.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE IX

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days of the date of this Agreement, the Board shall revise the Bank's program for the maintenance of an adequate Allowance for Loan and Lease Losses ("Allowance"). The revisions shall be designed in light of (i) the comments on maintaining a proper Allowance found in the "Allowance for Loan and Lease Losses" booklet of the *Comptroller's Handbook*; (ii) U.S. generally accepted accounting principles ("GAAP"); (iii) OCC Bulletin 2006-47, *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (December 13, 2006); and (iii) the instructions for reporting the Allowance on the Call Report. The program, and any revisions thereto, shall focus particular attention on the following:

(a) historical loss period must reflect the Bank's current economic environment and incorporate guidance for selecting an appropriate historical loss period;

- (b) discounts applied to collateral values during impairment analyses must be well-supported and documented;
- (c) reasonable documentation to support qualitative factor adjustments to ASC 450-20 loan pools to include:
 - (i) description of each qualitative factor;
 - (ii) management's analysis of each factor's change over time;
 - (iii) narrative detailing loss rate adjustments to each loan pool;
 - (iv) amount by which loss estimates have been adjusted for changes in conditions;
 - (v) explanation of method used to estimate the impact; and
 - (vi) other available data that supports the reasonableness of the adjustments; and
- (d) credit losses on off balance sheet credit exposures must be estimated in accordance with ASC 450-20 and reported as an "Other Liability" account.

(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 Call Report, 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.

(3) The Bank shall implement and adhere to the program.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE X

AUDIT PROGRAM

(1) Within thirty (30) days of the date of this Agreement, the Board or the Board Audit Committee must perform an assessment of the adequacy of the Bank's internal and external audit firms.

(2) Within ninety (90) days of the date of this Agreement, the Board shall adopt, and the Bank, subject to Board review and monitoring, shall implement and thereafter ensure Bank adherence to a comprehensive audit program comprised of both an independent, internal audit program and an external audit program. The Board must update the Audit Committee Charter and develop an Audit Policy that provides guidelines to direct the audit process, including the roles, responsibilities, and reporting of the internal audit function and Audit Committee and clearly outline the requirements of engaging a third-party audit firm.

(3) The independent, internal audit program referenced in paragraph (2) of this Article shall, at minimum, be sufficient to:

- (a) detect irregularities and weak practices in the Bank's operations;
- (b) identify the root causes of irregularities and weak practices in the Bank's operations;
- (c) determine the Bank's level of compliance with all applicable laws, rules and regulations;

- (d) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (e) evaluate the Bank's adherence to established policies and procedures;
- (f) adequately and timely evaluate the efficiency and effectiveness of the Bank's internal controls and risk management functions;
- (g) establish an annual audit plan using a risk based approach sufficient to achieve the objectives outlined in this Article, including requirements for written reports to the Board or Board Audit Committee at least quarterly; and
- (h) comply with 12 C.F.R. Part 30, Appendix A and OCC Bulletin 2003-12, *Interagency Policy Statement on Internal Audit and Internal Audit Outsourcing* (March 17, 2003).

(4) Before the end of each fiscal year during the term of this Agreement, the Board or the Board Audit Committee shall retain the services of a qualified and independent Certified Public Accountant to render an opinion on the Bank's annual Balance Sheet and Income Statement for that fiscal year.

(5) The Board shall ensure independence of the Bank's audit program. The persons responsible for implementing the audit program described in this Article shall be independent, qualified and report directly to the Board or Board Audit Committee, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board or Board Audit Committee and not through any intervening party.

(6) Within thirty (30) days of the date of this Agreement, the Audit Committee shall designate or appoint an independent person as the Audit Liaison and thereafter ensure the Audit

Liaison is reviewing the overall quality of the audit work performed by the outsourced internal auditors. No less than quarterly, the Audit Liaison must select a sample of audits including the corresponding workpapers to ensure the scope of the audits is being sufficiently performed, as well as to determine that the audit workpapers provide a clear audit trail and tie back to the audit scope. The Audit Liaison shall complete his or her review within fifteen (15) days of the end of each calendar quarter and report the results of the review directly to the Audit Committee within thirty (30) days of completing his or her quarterly review. The Audit Committee shall review the findings of the Audit Liaison and document actions taken in response to deficiencies identified. The Audit Committee shall designate or appoint an independent person within thirty (30) days of the Audit Liaison position becoming vacant.

(7) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(8) All audit reports shall be in writing. The Board shall ensure timely follow-up on identified deficiencies and weak practices to ensure timely implementation, verification and documentation of corrective action. The Board shall maintain a written record describing the deficiency, the projected corrective action, and the status of the corrective action. The Board shall ensure that management provides detailed written explanation in those circumstances, if any, where the deficiencies cannot be remedied, and that the audit staff maintain a written record describing those actions. The Board shall provide for a timely, independent, written follow-up for any uncorrected deficiencies.

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

(10) A copy of the a copy of the internal audit program shall be submitted to the Assistant Deputy Comptroller within fifteen (15) days of its adoption by the Board.

(11) A copy of the external audit engagement letter specified in paragraph (4) of this Article shall be submitted to the Assistant Deputy Comptroller within fifteen (15) days of its execution.

(12) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE XI

VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule or regulation cited in the most recent ROE and in any subsequent ROE, or brought to the Board's or Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts. Within sixty (60) days after the violation is cited or brought to the Board's or Bank's attention, the Bank shall provide to the Board a written list of any violations that have not been corrected. This written list shall include a written explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and an action plan to correct the violation by a specified date.

(2) Within sixty (60) days of the date of this Agreement and within sixty (60) days after the violation is cited or brought to the attention of the Board (including any committee thereof) or the Bank in a manner described in paragraph (1) of this Article, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to:

- (a) specific procedures to prevent violations as cited in the most recent ROE and to prevent future violations as cited in subsequent ROEs or as subsequently brought to the attention of the Board (including any committee thereof) or the Bank in a manner described in paragraph (1) of this Article; and
- (b) general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

(3) Within fifteen (15) days after adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

ARTICLE XII

OTHER PROVISIONS

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

Anne Marie Fernandez, Assistant Deputy Comptroller
Washington, D.C. Field Office
400 7th Street, SW, Suite 3E-218, M/S 2W-11
Washington, DC 20219

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

(3) In each instance in this Agreement in which the Board or a Board committee is required to ensure adherence to and undertake to perform certain obligations of the Bank, including the obligation to implement plans, policies or other actions, it is intended to mean that the Board or Board committee shall:

- (a) ensure that the Bank has sufficient processes, management, personnel, and control systems to ensure implementation of and adherence to the programs developed pursuant to this Agreement, that Bank management and personnel have sufficient training and authority to execute their duties and responsibilities, including under this Agreement;
- (b) authorize, direct, and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner on any non-compliance with such actions.

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

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

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

(7) 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.

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

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

(10) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements, or prior arrangements between the parties, whether oral or written.

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

/s/

Anne Marie Fernandez
Assistant Deputy Comptroller
District of Columbia Field Office

8/25/15

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/	8/18/15
_____ Robert F. Comstock	_____ Date
/s/	8/18/15
_____ Donald A. Didden	_____ Date
/s/	8/20/15
_____ James M. Didden	_____ Date
/s/	8/18/15
_____ Kathryn H. Didden	_____ Date
/s/	8/19/15
_____ R. Andrew Didden, Jr.	_____ Date
/s/	8/18/15
_____ Robert B. Donohoe	_____ Date
/s/	8/18/15
_____ William Durkin Jr.	_____ Date
/s/	8/18/15
_____ George T. Pedas	_____ Date
/s/	8/18/15
_____ William T. Pedas	_____ Date
/s/	8/18/15
_____ Dennis T. Scurletis	_____ Date