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NEWPORT SAVINGS AND LOAN
ASSOCIATION AND THE ISLAND
TRUST COMPANY, NEWPORT,
RHODE ISLAND

AGREEMENT

This AGREEMENT ("Agreement") is made and effective
this 15TH day of March 1989, by and among Newport
Savings and Loan Association, a Rhode Island chartered building
and loan association ("NSL"), The Island Trust Company, a Rhode
Island chartered trust company ("ITC"), Newport, Rhode Island,
the State of Rhode Island, Department of Business Regulation,
Division of Banking and Securities ("STATE"), the Federal
Savings and Loan Insurance Corporation ("FSLIC"), acting
through its agent at the Federal Home Loan Bank of Boston, and
the Federal Deposit Insurance Corporation ("FDIC"), hereafter
referred to as the "REGULATORS".

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WHEREAS, the FSLIC and the State conducted a joint special examination of NSL and ITC as evidenced by the Report of Examination dated October 24, 1988; and

WHEREAS, the FDIC and the State conducted a joint regular examination of ITC as evidenced by the Report of Examination dated October 24, 1988.

WHEREAS, THE STATE, FSLIC and FDIC are of the opinion that NSL and ITC have violated certain of the laws or regulations to which they are subject or have engaged in certain unsafe or unsound practices in conducting their businesses and that such violations and practices provide grounds for the initiation of cease and desist proceedings against NSL and ITC by the STATE, FSLIC and the FDIC; and

WHEREAS, the Board of Directors of NSL and ITC neither admit or deny that either NSL or ITC have violated certain of the laws or regulations to which they are subject or have engaged in certain unsafe or unsound practices in conducting their businesses; and

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WHEREAS, in the interest of regulatory compliance and cooperation, NSL and ITC are willing to enter into this Agreement to avoid the initiation of cease and desist proceedings, it is agreed among the parties hereto as follows:

1. The NSL and ITC shall have and retain certain qualified management. Such management shall include a chief executive officer and a senior lending officer having appropriate qualifications and experience necessary to manage, operate, and administer NSL and ITC under the direction of the Board of Directors to restore NSL and ITC to a fully satisfactory condition. The qualifications of management shall be evaluated by the Board of Directors and the parties hereto on its ability to: (1) comply with the requirements of this Agreement; (2) operate NSL and ITC in a safe and sound manner; (3) comply with applicable laws and regulations; and (4) restore all aspects of the NSL and ITC to a safe and sound condition, including asset quality, loan administration, capital and reserves adequacy, earnings performance, management effectiveness, liquidity

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position and funds management strategies. During the term of this Agreement, the Boards of Directors shall notify the REGULATORS in writing of any changes in senior management. Such notification must include the names and background of any replacement personnel and must be provided to FSLIC and FDIC prior to the individual assuming such position in senior management.

2. NSL and ITC shall record the minutes of their respective Executive Committee meetings and maintain said minutes as official records of the respective institution;
3. The NSL and ITC shall not extend, directly or indirectly, any additional credit to any borrower whose extension of credit (including overdrafts) exceeds \$5,000 and has been adversely classified, in whole or part, without prior specific approval of the Executive Committees of the Boards of Directors.

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4. Within thirty (30) days from the date of the Agreement, the Boards of Directors shall eliminate from the books, by charge-off or otherwise, all assets classified "Loss" and not less than fifty percent (50%) of the aggregate of the assets or portion of the assets classified "Doubtful" in the Reports of Examination.
5. Immediately after the write-down of Loss and 50% of Doubtful assets, the Boards of Directors shall increase the loan valuation reserves by charges to operating expenses to a level commensurate with the remaining exposure existing in the loan portfolios. Thereafter, on a quarterly basis, the adequacy of the loan valuation reserves in relation to the loss potential in the portfolios shall be reviewed by the Boards of Directors and additions to the reserves shall be made accordingly. Details of these reviews shall be included in the minutes of the appropriate Boards of Directors meetings.

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6. The Boards of Directors shall establish and implement collection procedures to reduce, through cash collections, the ratio of delinquent loans to total gross loans to under five percent (5%), and endeavor to further reduce delinquent loans (i.e., sixty (60) days in arrears) in a manner consistent with the best interest of the NSL and ITC. The five percent (5%) overdue loan level should not be construed as a standard for future loan portfolio administration. Further, the Boards of Directors shall closely monitor progress in this effort and require at least monthly reporting of loans delinquent thirty (30) days or more to the Boards of Directors by senior management in an accurate and fully disclosed manner. Overdrafts exceeding \$1000 over five (5) days shall also be reported to the Boards of Directors monthly.
7. The Boards of Directors agree to operate NSL and ITC within a capital structure sufficient in relation to the composition and quality of its assets and funding liabilities. NSL shall maintain its regulatory capital as required by part 563.13 of the FSLIC Insurance

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Regulations. Further, it is agreed that a 20% primary capital to total assets ratio shall be maintained by ITC. For the purpose of ITC capital, the terms "primary capital" and "total assets" are those as defined in Part 325 of the FDIC Rules and Regulations.

8. The Boards shall correct the deficiencies noted in credit administration at the time of the examinations. Corrective procedures shall provide at a minimum for:

- (a) Revision of the written loan policy of NSL and ITC to address the underwriting and administrative weaknesses inherent in adversely classified assets, including the maintenance, review and analysis of complete and current credit files on all borrowers;
- (b) Determine the source and timing of repayment of all loans at the inception of the credit. This determination shall evaluate the capacity of borrowers

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to meet debt service requirements, and provide for the establishment of realistic loan repayment schedules;

- (c) Limit the extent of investment in or credit to be granted to any one individual, related borrowers or entities within the statutory limit, if applicable, and with the intent of preventing undue concentrations of investment or credit risk;
- (d) The approving entity, whether one officer, a loan committee, an executive committee or the full Board of Directors, shall be provided with information on all current borrowings, including overdrafts, of any borrower before NSL and ITC will commit to lend the borrower any funds. Such information shall include, but not be limited to the name of the borrower, the number of loans, total dollars outstanding and payment status of each loan;
- (e) Establish documentation standards and monitoring thereof to ensure that appraisals, guarantees,

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up-to-date financial information, management credit memos to the files, completed loan applications and necessary loan documentation are maintained;

- (f) Establish permissible types of loans and defined credit criteria and limitations thereon, including guidelines for overdraft lending, equity lines of credit, real estate construction and land development loans;
- (g) Establish procedures to adequately monitor advances on land development and real estate construction loans for each stage of development. Documentation will be in sufficient detail to evidence that funds have been used for the specific purpose intended and that a prudent margin of protection for the institution is maintained;
- (h) All notes shall reflect the name of the institution on which they are written. NSL notes shall bear NSL's name and ITC notes shall bear ITC's name;

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- (i) Each loan shall be evidenced by one note. When an additional note is issued, some change in the numbering system shall be made to avoid confusion as to the exact balance of any loan at any time;
 - (j) NSL and ITC shall issue the proceeds of each loan advance to the borrower and require the correct endorsement. In cases that contractually require that the proceeds be made to a third party, the proceeds shall be issued to the third party and the borrower upon appropriate endorsements;
 - (k) Provide an adequate loan administration staff to satisfactorily perform the above responsibilities, and maintain loan departmental operations within prudent banking standards.
9. Within ninety (90) days from the date of the Agreement, the Boards of Directors shall revise, adopt and thereafter strictly follow a written investment and funds management

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policy or policies, which will enable management to operate NSL and ITC with an acceptable level of liquidity, and effectively administer funding and investment strategies. Such policy/policies shall include, but not be limited to, the following:

- (a) Asset/liability mix and matching guidelines;
- (b) Rate sensitivity parameters, gap objectives, and liquidity provisions;
- (c) The allocation of funds as to type of investment, including diversification and quality standards for each category.

10. Within ninety (90) days of the date of this Agreement, the Boards of Directors shall develop and formally adopt a Code of Ethics (the "Code") for all directors, officers, employees, agents and attorneys of each institution. The Code should include standards of conduct that preclude

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conflicts of interest by those individuals directly or indirectly representing NSL and ITC interests.

11. The Boards of Directors shall immediately take all steps reasonably necessary consistent with sound banking practices, to correct any violations of law as set forth in the October 24, 1988, Reports of Examination.
12. The Boards of Directors shall, in an expedient manner, ensure that all operational deficiencies and external control exceptions, as set forth in the October 24, 1988, Reports of Examination, are promptly and properly addressed. Further, the Boards of Directors shall require that NSL and ITC have in place and have implemented systems of internal routine and controls consistent with safe and sound banking practices. In view of such operational deficiencies, the Boards of Directors shall employ the services of a qualified independent certified public accountant to conduct an annual audit of satisfactory scope, giving appropriate attention to operational and administrative

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matters determined to represent areas of exposure to the
NSL and ITC, including the following:

- (a) NSL and ITC shall each establish, implement and maintain a system of recordkeeping and accounting that provides an accurate and complete record of all respective business transacted by NSL and ITC;
- (b) Funds shall not be released by check or cash or by wire transfer without a proper accounting entry on the books of NSL or ITC;
- (c) All correspondent bank accounts shall be reconciled at least monthly and all errors in said accounts shall be resolved within ten (10) days of month end. All said reconciliations shall be reviewed by a respective officer of NSL or ITC to determine reasonableness, timeliness, and collectability;

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- (d) Blank checks and other negotiable items shall be issued in consecutive order and the issuance thereof reflected on the respective books of NSL and ITC in a timely manner;
- (e) A separate general ledger account for cash items shall be created and maintained;
- (f) Management of NSL and ITC shall submit monthly reports to their respective Board of Directors reflecting all adjusting entries made to the general ledger in excess of \$1000, and the status of the due from bank accounts and of cash items in excess of \$1000 held; and
- (g) NSL and ITC shall only issue checks drawn on themselves or their correspondents in exchange for good funds.

13. Within sixty (60) days of the date of this Agreement, the Boards shall adopt and implement a written policy(s) satisfactory to the REGULATORS governing the relationship

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between NSL and ITC. Said policy(s) should limit the payment of any direct or indirect fees, allocation of income and expenses, and the upstreaming income tax payments, to only those reasonably allocated or paid in connection with income earned or expense incurred or services performed by the affiliate(s) on behalf or for the benefit of NSL or ITC. Moreover, the policy(s) established should prohibit the transfer to or from the affiliate(s) of any low quality (adversely classified) asset as prescribed in Section 23A of the Banking Affiliates Act of 1982 as amended.

14. The Boards agree to evaluate all other matters commented upon in the October 24, 1988, Reports of Examination and will establish that appropriate corrective actions are implemented.
15. On the 10th day of the first month following the effective date of this Agreement and on each succeeding calendar quarter thereafter, NSL and ITC shall furnish written progress

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reports to the REGULATORS detailing the form, content and manner of any actions taken to secure compliance with this Agreement and the results thereof. Such quarterly reports shall also include the most recent profit and loss statement, and balance sheet of NSL and ITC and delinquent loan summary. Additionally, a status and balance report on each adversely classified asset shall be provided. Said reports may be discontinued only when the corrections required under this Agreement have been accomplished, and the REGULATORS have, in writing, released the Boards from making further reports.

This Agreement shall remain in effect until terminated by the State, FSLIC, and the FDIC. The State, the FSLIC, and the FDIC will grant written requests for termination of the Agreement, if, in their sole discretion, NSL and ITC have complied with the terms of this Agreement.

In WITNESS THEREOF, the parties or their duly authorized officer or agent, have executed this agreement.

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Board of Directors
Newport Savings and Loan Association
Association of Newport
The Island Trust Company
Newport, Rhode Island

Dated MARCH 15, 1989

/s/

Roger P. Braman

/s/

Anthony T. Carrellas, M.D.

Alexander F. Grande

/s/

Charles A. Hambly

/s/

William R. Harvey

/s/

Fred R. Alofsin

/s/

L. Eugene Rankin

/s/

Michael Hayes

/s/

~~Jesse C. Snyder~~ Paul H. Wiechman
Regional Director
FDIC

Charles T. Kaul

/s/

Robert S. Lazar

/s/

Harold C. Petropoulos

/s/

Peter W. Rector

/s/

E. Patrick Rooney

Edward A. Sherman, Jr.

/s/

Alton R. Karoli

/s/

Susan D. Hayes
Associate Director and Superintendent
of Banking and Securities
State of Rhode Island

/s/

Thomas A. Barnes
Supervisory Agent
Federal Home Loan Bank of Boston