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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 27th day of March, 1992, by and between Second National Federal Savings Bank, Salisbury, Maryland, OTS No. 8161, for itself and its wholly owned service corporations and subsidiaries ("Second National" or "Institution"), and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b)(1988 and Supp. I 1989); and

WHEREAS, the Institution, in the interest of regulatory cooperation and compliance, and without admitting or denying that such grounds exist, is willing to enter into this Agreement to avoid the initiation of such administrative proceedings on the matters covered by this Agreement; and

WHEREAS, the OTS is willing to forbear from the initiation of such administrative proceedings against the Institution to require the actions specifically covered by this Agreement for so long as the Institution is in compliance with the provisions of this Agreement; and

WHEREAS, it is understood by the parties that execution of this Agreement does not preclude the OTS from taking further supervisory or enforcement measures to require actions not specifically covered by this Agreement which the OTS considers appropriate under the circumstances.

NOW, THEREFORE, in consideration of the above-stated forbearance, it is agreed between the parties hereto as follows:

Asset Quality

1. The Board of Directors shall form an Asset Review Committee, consisting of at least three outside directors, to review and analyze the Institution's problem asset workout activities and make written recommendations for improving the effectiveness of such activities. The recommendations shall specifically set forth steps to be taken by Second National to increase executive management's direct involvement in and oversight of problem asset workout activities. In addition, the review and analysis shall evaluate whether adequate resources have been dedicated to problem asset workouts. Within sixty (60) days after the effective date of this Agreement, the Board of Directors shall submit a report outlining plans and strategies to improve and strengthen problem asset workout efforts to the Regional

Director.

2. The Asset Review Committee shall develop a written strategy for the collection, disposition or restructuring of each parcel of Real Estate Owned ("REO"), nonaccrual assets with a balance in excess of \$2 million, and any other criticized asset with an unpaid balance of \$5 million or more. Such strategies shall include operating budgets reflecting the level of additional funds that will be required to facilitate the workout of these assets. The Asset Review Committee shall submit quarterly progress reports to the Board of Directors.

3. Within sixty (60) days after the effective date of this Agreement, the Asset Review Committee shall submit a report identifying each parcel of REO and each nonaccrual asset with a balance in excess of \$2 million and each other criticized asset with a balance in excess of \$5 million to the Regional Director. An updated report outlining the progress made with respect to each such asset shall be submitted to the Regional Director within thirty (30) days after the close of any calendar quarter following receipt of the first report.

Capital Enhancement

4. Second National shall not pay cash dividends on its outstanding common or preferred stock without the prior written approval of the Regional Director.

5. Second National shall take immediate action to address its capital deficiency, including consenting to and complying with an OTS capital directive when requested by OTS to do so.

Transactions with Affiliates

6. Within sixty (60) days of the effective date of this Agreement, the Board of Directors shall identify and correct loans and other transactions that represent the appearance of a conflict of interest or an actual conflict of interest. In addition, the Board of Directors shall take any steps it deems necessary to avoid such transactions in the future. At a minimum, such steps shall include the board's adoption of procedures and policies to prevent conflicts that shall be applicable to all persons affiliated with Second National.

7. The Board of Directors shall seek to terminate any existing legal, consulting, or service contracts with current or past affiliated persons who have been involved in transactions representing the appearance of or actual conflicts of interest.

8. The Board of Directors shall not enter into any future legal, consulting, service, or loan contract agreements with any past or current affiliated persons who have been involved in situations representing the appearance of, or actual conflicts of

interest without the prior written approval of the Regional Director.

Profitability Enhancement

9. Second National shall adopt a formal plan for reducing the cost and volatility of its deposit portfolio. A copy of such plan shall be submitted to the Regional Director within sixty (60) days of the effective date of this Agreement.

10. The Board of Directors shall not increase, either directly or indirectly, compensation, including bonuses or other incentives, paid to senior executives (which is defined as the President and Executive Vice President) in excess of five percent (5%) per year, per executive, above the levels in effect as of December 31, 1991, without the prior written approval of the Regional Director.

Sale of Assets

11. In order to maintain the intrinsic value of Second National, the Board of Directors shall determine whether the proposed sale of any fixed asset, loan or package of loans valued in excess of \$2 million is in the best interest of the Institution. Second National shall provide the Regional Director with written notification fifteen (15) days prior to the sale of any assets valued in excess of \$5 million. However, the Board of Directors need not notify the Regional Director prior to the sale of any current residential production, mortgage-backed or other investment securities where the amount of the sale and reinvestment of the proceeds is in compliance with existing regulations and guidelines.

Operating Restrictions

12. Within ninety (90) days of the effective date of this Agreement, the Board of Directors shall adopt policies and procedures designed to ensure compliance with the growth restrictions of Regulatory Bulletin 3a-1 and Section 5(t)(6)(B)(i) of the Home Owners' Loan Act of 1933 ("HOLA"), 12 U.S.C. Section 1464(f)(6)(B)(i) (Supp. I 1989), which prohibits any asset growth for an association not in compliance with its capital standards.

Internal Controls and Policies and Procedures

13. Within sixty (60) days of the effective date of this Agreement, the Board of Directors shall direct management to develop or review and revise, where appropriate, the Institution's written policies and procedures to establish corresponding internal control procedures, and systems and to comply at all times with such policies, procedures and controls with regard to the following:

(a) Conflicts of Interest. The Board of Directors shall develop, adopt, and implement a policy regarding conflicts of interest. The policy shall fully comply with the guidelines at 12 C.F.R. § 571.7;

(b) Loans to Directors, Officers, and Principal Shareholders. The Board of Directors shall develop, adopt, and implement a policy regarding loans or extensions of credit to executive officers, directors and principal shareholders. The policy shall comply with Section 22(h) of the Federal Reserve Act, 12 U.S.C. § 375(b), as applied to savings associations by Section 11(b) of the HOLA, 12 U.S.C. § 1468(b);

(c) Appraisals. The Board of Directors shall take all steps necessary to ensure that Second National's appraisal policy complies with all regulatory requirements, including 12 C.F.R. Part 564;

(d) Valuation of Assets Classified as In-Substance Foreclosures and REO. The Board of Directors shall develop, adopt, and implement a policy regarding the proper recording of fair value losses associated with assets classified as in-substance foreclosures and REO. The policy shall fully comply with the requirements of 12 C.F.R. §§ 563.172, 563.170, and 571.18.

(e) Restructuring of Principal Curtailments Due for Lien Releases. The Board of Directors shall develop, adopt, and implement a policy for the release of security property from any lien. The policy shall comply with 12 C.F.R. § 545.36; and

(f) Charge-off Practices Related to Severely Delinquent, Unsecured, or Marginally Secured Loans. The Board of Directors shall develop, adopt, and implement a policy for charging off severely delinquent, unsecured, or marginally secured loans. The policy shall comply with 12 C.F.R. § 561.13.

Board Oversight

14. Within thirty (30) days after the effective date of this Agreement, the Board of Directors of the Institution shall establish an Oversight Committee, consisting of outside directors, which shall be responsible for compliance with this Agreement. The Oversight Committee shall provide a quarterly written report to the Board of Directors regarding the Institution's compliance with this Agreement. The first such report shall be submitted within sixty (60) days of the effective date of this Agreement. Said report also shall be available for review by OTS.

15. The Board of Directors shall oversee the operations of the Institution and take action to ensure that the operations comply with adopted policies and procedures and with applicable laws and regulations, and that said operations are consistent with

safe and sound banking practices.

All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry. For purposes of this Agreement references to regulations, bulletins, memoranda and publications shall include any successor regulations, bulletins, memoranda and publications which are provided pursuant to, issued or remain in effect under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub.L. No. 101-73, 103 Stat. 183.

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. It is understood and agreed that this Agreement is a "written agreement entered into with the agency" as that phrase is used in Section 8(b)(1) of the FDIA, 12 U.S.C. 1818(b)(1), as amended.

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

This Agreement shall remain in effect until terminated, modified or suspended by the OTS, acting through the Regional Director. The Regional Director may suspend, in his sole discretion, any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS, acting through the Regional Director and the Institution, by its duly elected directors, have executed this Agreement.

SECOND NATIONAL FEDERAL SAVINGS BANK
SALISBURY, MARYLAND

By 151
Director

Date: March 27, 1992

By: 151
Director

Date: March 27, 1992

By: 151
Director

Date: March 27, 1992

By: 151
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Date: _____

By: 151
Director

Date: 3/27/92

OFFICE OF THRIFT SUPERVISION

By: 151
John E. Ryan
Regional Director

Date: 4/17/92

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Second National Federal Savings Bank, Salisbury, Maryland ("Institution"), hereby certify that the following is a true copy of a resolution duly adopted by its Board of Directors at a meeting duly called and held on March 27, 1992, and at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now in full force and effect:

RESOLUTION

WHEREAS, the officers and directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(b), as amended; and

WHEREAS, said officers and directors have been informed that the OTS will forbear from the initiation of such administrative proceedings in connection with the matters referred to in the attached Supervisory Agreement ("Agreement") if the Agreement is executed by the Institution and if its terms are thereafter complied with by the Institution; and

WHEREAS, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on March 27, 1992, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement:

NOW, THEREFORE, BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Institution. The officers and employees of the Institution are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of Second National Federal Savings Bank this 1st day of April, 1992.

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Secretary J. J. J.