



Comptroller of the Currency
Administrator of National Banks

Northeastern District Office
340 Madison Ave, 5th Fl
New York, N.Y. 10017-2613

Licensing Division
Telephone No.: 212.790.4055
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October 17, 2005

Conditional Approval #708
November 2005

Mr. Timothy J. Hynes, III
Legg Mason Trust, fsb
100 Light Street
Baltimore, MD 21202

Re: Application to convert Legg Mason Trust, fsb, Baltimore, Maryland into a limited purpose national trust bank, to be titled Legg Mason Trust Company, National Association ("Bank").
OCC Control No. 2005-NE-01-007

Dear Mr. Hynes:

The Comptroller of the Currency (OCC) has reviewed the above referenced application. After a thorough review of all information available, and reliance upon the representations and commitments made in the conversion application and by the Bank's representatives, we find that your application meets the requirements for approval to convert to a national bank that will engage solely in fiduciary activities pursuant to 12 C.F.R. 5.24 as follows:

Title: Legg Mason Trust Company, National Association
Location: 100 Light Street, Baltimore, MD

The OCC also approves the Bank's plans to continue to perform investment advisory services through Barrett Associates, Inc., and Barrett Capital Growth Partners, L.P, the Bank's operating subsidiaries. We made our decision to grant conditional approval with the understanding that the proposed national bank will apply for membership in the Federal Reserve System.

This conversion approval is subject to the following special conditions:

1. The Bank shall maintain a minimum of \$5 million in Tier 1 capital at all times. If the Bank fails to maintain Tier 1 capital in the amount of \$5 million, the Bank shall be deemed "undercapitalized," for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6, and the OCC shall have the authority to take any action authorized under all provisions of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 applicable to an undercapitalized national bank. For purposes of section 1831o(e)(5), an action "necessary to carry out the purpose of this section" shall include

restoration of the Bank's capital so that it is not "undercapitalized," and any other action deemed advisable by the OCC to address the Bank's capital deficiency or the safety and soundness of its operations. (Hereafter referred to as "minimum capital requirement.")

2. The Bank: (i) shall give the Boston Field Office at least sixty-days (60) prior written notice of the Bank's intent to significantly deviate or change from its business plan or operations¹ and (ii) shall obtain the OCC's written determination of no objection before the Bank engages in any significant deviation or change from its business plan or operations. The OCC may impose additional conditions it deems appropriate in a written determination of no objection to the Bank's notice.

3. The Bank and Legg Mason, Inc. (Parent) shall execute a Capital Assurance and Liquidity Maintenance Agreement ("CALMA") immediately upon consummation of the transaction. The CALMA shall reflect the minimum capital requirement and any other changes that may be appropriate. The terms and provisions of the CALMA must be acceptable to the Bank and OCC. If it becomes necessary for the Bank to secure capital infusions so as to remain in compliance with its Minimum Capital Requirement, the Bank will promptly notify and first make demand on the Parent for such capital contributions pursuant to the CALMA. (A draft copy is enclosed.)

4. The Bank shall maintain FDIC insurance at all times.

5. All transactions between the Bank and any affiliates, domestic or foreign, shall be conducted subject to the applicable provisions of 12 U.S.C. § 371c and c-1, or other applicable Federal law. The Board of Directors of the Bank annually shall review and approve the service agreements and any other transactions with domestic and foreign affiliates, including in particular any cost allocation, fee-sharing or tax-sharing provisions in such agreements or other transactions.

6. The Bank must notify all potential technology-related vendors in writing of the OCC's examination and regulatory authority under 12 U.S.C. § 1867(c). All final technology-related vendor contracts must stipulate that the performance of services provided by the vendors to the Bank is subject to the OCC's examination and regulatory authority. The provisions of 12 C.F.R. Part 9 would be applicable to any fiduciary activities contracted out to vendors.

All conditions of this approval are conditions "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. § 1818 and, as such, are enforceable under 12 U.S.C. § 1818.

This approval is based in part upon the institution's representation that, prior to conversion, the capital structure will be realigned to comply with the minimum capital requirements of 12 USC 35, 36, 52, and 371d to the extent applicable.

¹ If such deviation is the subject of an application filed with the OCC, the OCC does not require any further notice to the supervisory office.

The trust officers should become thoroughly familiar with “Fiduciary Activities for National Banks” at 12 C.F.R. 9 and 12 C.F.R. 5.26. Management is reminded that 12 C.F.R. 5.26 requires a national bank which already has approval to engage in fiduciary activities to provide written notice to the OCC when commencing fiduciary activities in a new state. The Bank will need to develop and implement a fiduciary audit program as required by 12 C.F.R. 9.

The OCC poses no objection to the following persons serving as executive officers and directors of the Bank as proposed in the application.

Executive Officers

Charles W. Cole Jr.	Chairman and CEO.
Harry O’Mealia	President
Timothy J. Hynes, III	Managing Director, Compliance and Regulatory Affairs
Nancy E. McColgan	Chief Operating Officer
Jane E. Trust	Managing Director, Head of Investments and Portfolio Manager
John P. Edgar	Managing Director, Director of Trust Advisory Services
S. Steven Sands, Jr.	Managing Director of Business Development

Directors

William F. Blue	Marc P. Blum
Jane C. Brown	Deepak Chowdhury
Charles W. Cole, Jr.	Peter F. O’Malley
Eugene K. Lawson	David S. Penn
Harry O’Mealia	

Since the Bank has a transactional website, it is subject to the following special requirements:

- The Bank must submit to the Boston Field Office for review, a complete description of the Bank’s information systems and operations architecture as well as the information systems risk assessment and management plan. This should include a discussion of vendor due diligence and contracts; electronic banking security mechanisms and policies; information systems personnel; internal controls; audit plans; and operating policies and procedures, including, but not limited to, vendor management, weblinking, customer authentication and verification, and business resumption contingency plans.
- The Bank must have performed an independent security review and test of its electronic banking platform. The Bank must have this review performed regardless of whether the platform is operated in-house or by one or more third-party service providers. If the Bank outsources the technology platform, it can rely on testing performed for the service provider to the extent that it satisfies the scope and requirements listed herein. The review must be conducted by an objective, qualified independent source (Reviewer). The scope should cover all access points, including the Internet, Intranet, or remote access, the adequacy of physical and logical protection against unauthorized access including individual penetration attempts, computer viruses, denial of service, and other forms of

electronic access.

- By written report, the Reviewer must confirm that the security measures, including the firewall, have been satisfactorily implemented and tested. For additional guidance, refer to "The Internet and the National Bank Charter" booklet of the *Comptroller's Licensing Manual*, pages 37-38, Information System Security. The booklet is located at the Electronic Banking section of the OCC's Web site:
<http://www.occ.treas.gov/corpbook/group4/public/pdf/internetnbc.pdf>.
- The Bank must have a security program in place that complies with the "Interagency Guidelines Establishing Standards for Safeguarding Customer Information" specified at 12 CFR 30, Appendix B.

You are reminded that the following items must be satisfactorily addressed on or before the effective date of the conversion:

1. The Bank must purchase adequate fidelity bond coverage in accordance with 12 CFR 7.2013, which lists four factors the directors should consider to determine adequacy.
2. If a director, officer, employee, or principal shareholder of the bank (including an entity in which such person owns an interest of 10 percent or more) is involved in the sale of credit life insurance to loan customers, the Bank should ensure compliance with 12 CFR 2, which among other things, prohibits a covered person from retaining commissions or other income from the sale of credit life insurance connected with any loan the Bank makes.
3. The board of directors must adopt and have in place policies, practices, and procedures to ensure the safe and sound operation of the Bank. The board also must review those policies, practices, and procedures continually and ensure the Bank's compliance with them. We are enclosing the Minimum Policies and Procedures for national banks.
4. The Bank has represented that it intends to maintain its membership in the Federal Home Loan Bank (FHLB) system. If, at any time, the Bank ceases to be a member of the FHLB system, it must use its best efforts, including contacting the appropriate FHLB or the Federal Housing Finance Board, to dispose of any stock in the FHLB. The OCC will consider this stock a nonconforming asset for any period that the Bank is not a member of the FHLB system.
5. The Bank must apply to the Federal Reserve for membership.
6. The Bank must ensure that all other required regulatory approvals have been obtained. Final authorization to operate as a national bank will not be given to an institution with a bank holding company until the Federal Reserve Board has approved the holding company.
7. The directors must own qualifying shares in conformance with 12 USC 72 and 12 CFR 7.2005.
8. The Bank must notify the OCC if the facts described in the filing materially change at any time prior to consummation of the conversion. Any changes to the executive officers or directors must receive a "no objection" from the OCC.

Upon completion of all steps required to convert to a national banking association, submit the "Conversion Completion Certification" (enclosed) certifying that you have done so. (Can also be found at: <http://www.occ.treas.gov/corpapps/forms.htm#conversions>)

When the Bank has satisfactorily completed all of the above steps, the OCC will issue a Conversion Completion Acknowledgment officially authorizing the institution to commence business as a national banking association. At that time you will receive the charter certificate. If the conversion is not consummated within six months from the date of the decision, the approval will automatically terminate unless the OCC grants an extension of the time period. The OCC is opposed to granting extensions, except under the most extenuating circumstances and expects the conversion to occur as soon as possible.

Please be advised that the OCC is currently reviewing its capital and liquidity policy with respect to national trust banks. Should there be a change to our policy as a result of the review, we will advise you accordingly. In addition, if the Bank's future fiduciary-related assets increase significantly, or if the Bank assumes additional risk, the OCC may require the Bank to hold additional capital.

The OCC will send to you under separate cover an appropriate set of OCC handbooks, manuals, issuances, and selected other publications. This information does not include the *Comptroller's Licensing Manual*, which is available in electronic form on our web site: <http://www.occ.treas.gov/corpapps/corpapplic.htm>.

This approval, and the activities and communications by OCC employees in connection with the filing, do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States, or any officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. The foregoing may not be waived or modified by any employee or agency of the OCC or the United States.

All correspondence regarding this application should reference the application control number noted above. If you have any questions concerning this letter, please contact Licensing Analyst Kerry T. Rice at (215) 245-2606.

Sincerely,

/s/

Beverly L. Evans
Director for District Licensing