



Comptroller of the Currency
Administrator of National Banks and Federal Thrifts

Northeastern District Office
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August 18, 2011

Corporate Decision #2011-15
September 2011

Filip G. Feller
Senior Vice President and CFO
Capital Bank, National Association
1 Church Street, Suite 300
Rockville, MD 20850

Re: Acquisition by Capital Bank, National Association, Rockville, Maryland, of Assets and
Liabilities from Public Savings Bank, Huntingdon Valley, Pennsylvania
Application Control No: 2011 NE 02 0022

Dear Mr. Feller:

The Office of the Comptroller of the Currency (“OCC”) approves the application of Capital Bank, National Association, Rockville, Maryland, (“Acquirer” or “CBNA”) to purchase certain assets of and assume certain liabilities of Public Savings Bank, Huntingdon Valley, Pennsylvania, (“Failed Entity”), for the reasons set forth below. As discussed below, the transaction may be consummated immediately upon approval. 12 U.S.C. § 1828(c)(6).

“Failed Entity,” a Pennsylvania state-chartered bank with deposits insured by the Federal Deposit Insurance Corporation (“FDIC”), was declared closed by the Pennsylvania Department of Banking on August 18, 2011, and the FDIC was appointed as receiver. The Comptroller has now been asked to grant his written approval of the proposed agreement negotiated between the FDIC and Acquirer by which the latter would purchase certain assets and assume certain liabilities of Failed Entity.

This approval is granted based upon the information contained in the Acquirer’s application and other information and representations made to the OCC during its processing of the application. Additionally, this approval is granted based on the following:

- Acquirer will create risk management processes necessary to manage the acquisition of Failed Entity and all aspects of it, including the creation of a workout group to manage problem loans.

- Acquirer's Parent, Capital Bancorp, Inc., has committed to downstream \$1 million in capital prior to the consummation of this Transaction.

The Purchase and Assumption

Acquirer applied to the OCC for approval to purchase certain assets of and assume certain liabilities of Failed Entity under 12 U.S.C. §§ 24 (Seventh) and 1828(c) (the "Transaction"). The acquirer is located in Maryland and operates branches in District of Columbia. Failed Entity is located in Huntington Valley, Pennsylvania and the Failed Entity does not operate any branches. A national bank may acquire all or part of a depository institution through a purchase and assumption transaction under 12 U.S.C. § 24 (Seventh). Thus, the Transaction is legally authorized and the OCC approves the Transaction.

Acquirer also requested OCC approval to operate the main office of the Failed Entity as branch upon consummation of the Transaction.

Generally, an application to engage in an interstate merger transaction pursuant to the Riegle-Neal Act is subject to certain requirements and conditions set forth in sections 1831u(a)(4) and (5) and 1831u(b). These conditions are: (1) compliance with state imposed age limits, if any, subject to the Riegle-Neal Act's limits; (2) compliance with certain state filing requirements, to the extent the filing requirements are permitted in the Riegle-Neal Act; (3) compliance with nationwide and state concentration limits; (4) expanded community reinvestment analysis and compliance; (5) adequacy of capital and management skills; and (6) limits on single branch acquisitions. These requirements, however, do not apply to a transaction, such as this, where the FDIC has provided assistance under 12 U.S.C. § 1823(c), or one of the banks involved is in default or in danger of default. 12 U.S.C. § 1831u(e). Moreover, in approving a transaction under the Riegle-Neal Act, the OCC may authorize the acquiring bank to retain as branches the main office and any branches of the target bank. 12 U.S.C. §§ 1831u(d)(1) and 36(d). Thus, the acquisition by CBNA of certain assets and deposit liabilities of Failed Entity is legally permissible under 12 U.S.C. § 24 (Seventh) and the retention by CBNA of the main office of Failed Entity as a branch is legally authorized under the Riegle-Neal Act.

Bank Merger Act

The OCC reviewed the proposed purchase and assumption Transaction under the criteria of the Bank Merger Act, 12 U.S.C § 1828(c), and applicable OCC regulations and policies. The OCC considered the financial and managerial resources of the banks, their future prospects, and the convenience and needs of the communities to be served. In addition, the Bank Merger Act requires the OCC to consider "the effectiveness of any insured depository institution involved in the proposed merger Transaction in combating money laundering activities, including overseas branches," 12 U.S.C. § 1828(c)(11). We considered these factors and found them consistent with approval under the statutory provisions.

In addition, the OCC also finds, under the standards set forth in the Bank Merger Act that it must act on the application immediately. 12 U.S.C. § 1828(c)(3), (4)(C)(i), and (6). Consequently, there is no requirement for publication of notice of the Transaction, for a request by the OCC of a competitive factors report from the Attorney General, or for a post-approval waiting period prior to consummation of the Transaction.

Community Reinvestment Act

The Community Reinvestment Act (“CRA”) requires the OCC to take into account the applicants’ record of helping to meet the credit needs of the community, including low-and-moderate-income (“LMI”) neighborhoods, when evaluating certain applications, including transactions that are subject to the Bank Merger Act. 12 U.S.C. § 2903; 12 C.F.R. § 25.29. The OCC considers the CRA Performance Evaluation (“PE”) of each institution involved in the Transaction. CBNA’s latest PE, dated April 20, 2009, and issued by the OCC, assigned the bank a “Satisfactory” rating.¹ Among the major factors supporting CBNA’s rating were: 1) CBNA’s quarterly average net loan-to-deposit ratio is more than reasonable and exceeds the standards of satisfactory performance; 2) a majority of the loans were originated in the assessment area; 3) reasonable loan penetration among businesses of different sizes; and 4) reasonable dispersion of business loans throughout the census tracts of different income levels. No evidence of illegal or discriminatory lending practices was noted in the PE.

The Failing Institution’s most recent CRA PE, dated September 20, 2010, and issued by the FDIC, reflected a “Needs to Improve” rating because of declining trends and negligible lending levels of home mortgage and small business loans originated within the assessment area and the borrower and geographic distribution of these loans was also considered poor.² The PE also states that a violation of the Federal Reserve Board’s Regulation B³ was identified during the CRA review period; however, the bank’s CRA Rating was not negatively impacted.

CBNA’s current plan is to close the main office of the failing institution within 90 days after consummation of this Transaction. However, if CBNA decides to permanently retain and operate the Failing Institution’s main office as a branch, it will expand the assessment area to include the current assessment area of the Failing Institution. In addition, CBNA will implement its CRA program in the expanded assessment area. Accordingly, the OCC believes that approval of the Transaction is consistent with the Community Reinvestment Act.

¹ CBNA was examined using the Small Bank CRA Examination Procedures. The overall evaluation period for the 2009 PE was January 1, 2006, through December 31, 2008.

² Public was examined using the Small Bank CRA Examination Procedures. The overall evaluation period for the 2010, was 2008, 2009, and the first nine months of 2010.

³ Regulation B implements the Equal Credit Opportunity Act (“ECOA”).

Filip G. Feller
Senior Vice President and CFO
Capital Bank, National Association
Page 4

Consummation Guidance

This approval is granted based on our understanding that other applicable regulatory approvals, non-objections or waivers with respect to the proposed Transaction will have been received prior to the consummation of the Transaction.

Within seven days of consummation of the Transaction, please provide the Northeastern District Office with copies of the following documents:

- Documentation that all other conditions that the OCC imposed have been met.
- An executed purchase and assumption agreement.

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. Our approval is based on the bank's representations, submissions, and information available to the OCC as of this date. The OCC may modify, suspend or rescind this approval if a material change in the information on which the OCC relied occurs prior to the date of the transaction to which this decision pertains. The foregoing may not be waived or modified by any employee or agent of the OCC or the United States.

If you have questions regarding this letter, please contact Senior Licensing Analyst Sandya Reddy at (212) 790-4055 or sandya.reddy@occ.treas.gov. Please reference the application control number in any correspondence.

Sincerely,

/s/

Steven Maggio
Director for District Licensing