

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

VIRGINIA BUREAU OF FINANCIAL INSTITUTIONS
RICHMOND, VIRGINIA

Written Agreement by and among

VIRGINIA BUSINESS BANK
Richmond, Virginia

FEDERAL RESERVE BANK
OF RICHMOND
Richmond, Virginia

and

VIRGINIA BUREAU OF FINANCIAL
INSTITUTIONS
Richmond, Virginia

Docket No. 09-117-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Virginia Business Bank, Richmond, Virginia (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Richmond (the “Reserve Bank”), and the Virginia Bureau of Financial Institutions (the “Bureau”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on August 20, 2009, the Bank’s board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing Frank B. Miller, III, Chairman of the Board, to consent to this Agreement on behalf of the Bank, and consenting to compliance with each and every applicable provision of this Agreement by the Bank, and its institution-affiliated

parties, as defined in sections 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1813(u)).

NOW, THEREFORE, the Bank, the Reserve Bank, and the Bureau agree as follows:

Board Oversight

1. Within 30 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Bureau a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s major operations and activities, including but not limited to, credit risk management, loan review, processes to mitigate risks associated with credit concentrations, asset liability management, and earnings;

(b) the actions that the board of directors will take to ensure that the Bank’s audit program is independent of senior management; and

(c) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s adversely classified assets, concentrations of credits, allowance for loan and lease losses (“ALLL”), capital, liquidity, and earnings.

Corporate Governance and Management Review

2. (a) Within 60 days of this Agreement, the outside directors of the Bank shall complete an assessment of the Bank’s management and staffing needs and the qualifications and performance of all senior Bank management. The primary purpose of the review shall be to aid in the development of a suitable management structure commensurate with the size and complexity

of the Bank that is adequately staffed by qualified personnel (the “Management Review”). A copy of the Management Review shall be provided to the Reserve Bank and the Bureau at the same time that it is provided to the full board of directors. The Management Review shall, at a minimum, address, consider, and include:

- (i) the identification of the type and number of officers needed to manage and supervise properly the affairs of the Bank, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Agreement;
- (ii) the identification of present and future management and staffing needs for each area of the Bank, particularly in the areas of credit risk management, loan underwriting, appraisal review, credit administration, and problem asset resolution; and
- (iii) an assessment of the current structure and composition of the board of directors’ committees, and a determination of the structure and composition needed to adequately supervise the affairs of the Bank.

(b) For purposes of this Agreement, the term “outside director” is defined as any director who is not an executive officer or principal shareholder of the Bank, as defined in Sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)).

3. Within 30 days of receipt of the Management Review, the full board of directors shall submit a written management plan to the Reserve Bank and the Bureau that fully addresses the findings and recommendations in the Management Review and describes the

specific actions that the board of directors proposes to take in order to strengthen the Bank's management and corporate governance, and to hire, as necessary, additional officers or staff.

Concentrations of Credit

4. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan to strengthen the Bank's management of commercial real estate ("CRE") concentrations, including steps to reduce or mitigate the risk of concentrations in light of current market conditions. The plan shall be consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1), and, at a minimum, address, consider, and include:

- (a) Establishment of concentration of credit risk tolerances or limits by types of loan products, geographic locations, and other common risk characteristics or sensitivities;
- (b) documented strategies to manage CRE concentration levels, including a contingency plan to reduce or mitigate concentrations;
- (c) enhanced monitoring and reporting of CRE concentrations to management and the board of directors; and
- (d) strategic planning that considers CRE concentrations in relation to the Bank's planned growth, projected earnings, and capital plans and overall operations.

Credit Risk Management

5. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Periodic review and revision of risk exposure limits to address changes in market conditions and strategies to minimize credit losses;

(b) timely and accurate identification and quantification of credit risk within the loan portfolio; and

(c) management's monitoring and controlling of problem assets.

(d) loan underwriting and credit administration procedures that include and provide for, documented analysis of the borrower's repayment source and overall debt service ability, and global cash flow analysis for related borrowers.

Loan Review Program

6. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written program for the ongoing review and grading of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall, at a minimum, address, consider, and include:

(a) The scope and frequency of loan review;

(b) standards and criteria for assessing the credit quality of loans;

(c) application of loan grading standards and criteria to the loan portfolio;

(d) controls to ensure adherence to the revised loan review and grading standards; and

(e) written reports to the board of directors, at least quarterly, that identify the status of nonperforming or adversely graded loans, and the prospects for full collection or strengthening of the quality of any such loans.

Asset Improvement

7. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by

the Bank or classified, in whole or in part, “loss” in the report of examination commenced May 4, 2009 by the Reserve Bank (“Report of Examination”) or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the Bank’s board of directors.

The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower’s credit file for subsequent supervisory review. For purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan designed to improve the Bank’s position through

repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$500,000, including OREO, that: (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) At the next progress report date following any additional loan or other asset in excess of \$500,000, including OREO, that: (i) becomes past due as to principal or interest for more than 90 days; (ii) is on the Bank's problem loan list; or (iii) is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Bureau to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, extension report, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and the Bureau and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

9. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “loss” in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified “loss” unless otherwise approved in writing by the Reserve Bank and the Bureau.

(b) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written program for the maintenance of an adequate ALLL, including a methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau within 30 days after the end of each calendar quarter, a written report regarding the board of directors’ quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank.

11. The Bank shall notify the Reserve Bank and the Bureau, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the plan's minimum ratios. Together with the notification, the Bank shall submit an acceptable capital plan that details the steps it will take to increase the Bank's capital ratios to or above the plan's minimums.

Strategic Plan and Budget

12. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau a strategic plan to improve the Bank's earnings, and a budget for 2009.

The written plan and budget shall include, but not be limited to:

(i) identification of the major areas where, and means by which, the board of directors will seek to improve the Bank's operating performance;

(ii) a realistic and comprehensive budget for calendar year 2009, including income statement and balance sheet projections; and

(iii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A strategic plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and the Bureau at least 30 days prior to the beginning of that calendar year.

Liquidity and Funds Management

13. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

(a) Measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity to the board of directors;

(b) a timetable to reduce reliance on short-term wholesale funding, including brokered deposits; and

(c) specific liquidity targets and parameters and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands.

14. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

Interest Rate Risk Management

15. Within 60 days of the Agreement, the bank shall submit an acceptable policy to improve interest rate risk management practices. The policy shall, at a minimum, address the following:

- (a) Appropriate guidelines for GAP management;
- (b) an adequate system to model and control the vulnerability of net interest income to changes in interest rates; and
- (c) appropriate parameters governing the economic risk to the Bank's capital due to changes in interest rates.

Asset/Liability Committee

16. The Bank's Asset/Liability Committee (the "ALCO") shall review, on a monthly basis, all asset/liability management decisions made by the Bank's management, paying particular attention to whether each decision was made in accordance with approved policies. The ALCO shall document all exceptions to approved policies, the reasons for the exceptions, and the continuance of the exceptions, taking into account the Bank's overall goals and strategies. The continuance of any exception shall be approved by a majority of the ALCO members.

17. The ALCO shall maintain full and complete minutes of its actions and shall provide monthly written reports to the board of directors to enable the board to make informed decisions about the Bank's management of market and liquidity risks.

Dividends

18. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the Bureau.

(b) Any request to declare or pay dividends must be consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). All requests for prior approval shall be received by the Reserve Bank and the Bureau at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and loan loss reserve needs of the Bank.

Regulatory Reports

19. The Bank shall immediately take steps to ensure that all required regulatory reports and notices filed with the Federal Reserve and the FFIEC accurately reflect the Bank's financial condition and are filed in accordance with the applicable instructions for preparation.

Compliance with Laws and Regulations

20. The Bank shall comply with the provisions of Section 29 of the FDI Act (12 U.S.C. § 1831f) and the FDIC's accompanying regulations at 12 C.F.R. § 337 that are applicable to the Bank. The Bank shall notify the Reserve Bank and the Bureau, in writing, if the Bank requests any waiver of the restrictions imposed by Section 29 from the FDIC and shall

notify the Reserve Bank and the Bureau of the FDIC's disposition of any request for such a waiver.

21. The Bank shall comply with the appraisal requirements of Subpart G of Regulation Y of the Board of Governors (12 C.F.R. § 225.63).

22. (a) The Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. §§ 225.71 *et seq.*) in the appointment of new directors and the hiring or promotion of senior executive officers.

23. The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

24. (a) Within 10 days of this Agreement, the board of directors of the Bank shall appoint a committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the board of directors of the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau written progress

reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans, Programs and Policy

25. (a) The Bank shall submit written plans, programs, and a written policy that are acceptable to the Reserve Bank and the Bureau within the applicable time periods set forth in paragraphs 4, 5, 6, 8(a), 9(c), 10, 13, 14, and 15 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Bureau, the Bank shall adopt the approved plans, programs, and policy. Upon adoption, the Bank shall promptly implement the approved plans, programs, and policy, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, programs, and policy shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Bureau.

Communications

26. All communications regarding this Agreement shall be sent to:

- (a) A. Linwood Gill, III
Vice President
Federal Reserve Bank of Richmond
P.O. Box 27622
Richmond, VA 23261-7622
- (b) John M. Crockett
Deputy Commissioner
Virginia Bureau of Financial Institutions
P.O. Box 640
Richmond, VA 23218-0640
- (c) Frank B. Miller, III
Chairman of the Board
Virginia Business Bank
9020 Stony Point Pkwy
Suite 225
Richmond, VA 23235

Miscellaneous

27. Notwithstanding any provision of this Agreement, the Reserve Bank and the Bureau may, in its sole discretion, grant written extensions of time the Bank to comply with any provision of this Agreement.

28. The provisions of this Agreement shall be binding upon the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

29. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Bureau.

30. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Bureau, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

31. Pursuant to Section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under Section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 20th day of August, 2009.

VIRGINIA BUSINESS BANK

By: /s/ Frank B. Miller, III
Frank B. Miller, III
Chairman of the Board

FEDERAL RESERVE BANK OF
RICHMOND

By: /s/ A. Linwood Gill, III
A. Linwood Gill, III
Vice President

VIRGINIA BUREAU OF FINANCIAL
INSTITUTIONS

By: /s/ John M. Crockett
John M. Crockett
Deputy Commissioner