CARROLLTON BANK

THOMAS W. HOUGH
Chief Executive Officer

October 20, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments / Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Jennifer J. Johnson, Secretary
Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Feldman and Ms. Johnson:

This letter, directed to the FDIC, Carrollton Bank's primary federal regulator, and to the Federal Reserve System, the regulator of Carrollton Bank's holding company, CBX Corporation, is being written to provide comment on the proposed Basel III capital requirements.

Carrollton Bank supports the over-arching, big-picture concepts of Basel III:
> a well-capitalized banking system in the U.S.;
> capital requirements that apply to all U.S. banks, including the very largest;
> a level playing field internationally with regard to bank capitalization;
> the recognition that common equity capital is the truest and best form of capital.

However, two specific aspects of the proposed Basel III rules are troubling to Carrollton Bank, and should be changed, as follows:

1. The Capital Conservation Buffer requirements should not apply to distributions made by Subchapter S banks to their shareholders for the payment of income taxes on bank income passed through to them. I'm relatively certain that the existence of Subchapter S banks in the United States wasn't taken into account (understandably) by the G20 framers, but Carrollton Bank, and many other community banks, are Sub S banks. U.S. bank regulators should make a simple technical exception to Basel III to treat S banks the same as C banks (which pay their income taxes at the corporate level rather than the shareholder level).

2. Unrealized gains and losses on Available-for-Sale (AFS) securities should not be included in Tier 1 capital. Carrollton Bank's entire $187 million bond portfolio is designated AFS rather than Held to Maturity; its average maturity is a very-short 3.27 years, with 77% of the portfolio maturing in the next four years, all of which reflects its primary uses: (a) liquidity, and (b) interest rate risk mitigation (as opposed to yield

and profit maximization). This is a very prudent approach to bank financial management that regulators rightfully encourage. However, if our bond portfolio were "shocked" with interest rates up by 3.00% - not at all out of the question given today's historically-low rate environment - the current $2.5 million unrealized gain in the portfolio would turn into a $10.8 million "paper" loss, and would reduce our Tier 1 Leverage Ratio a full 1% under the proposed Basel III rules. Such a potentially fluctuating scenario would certainly make it difficult for Carrollton Bank, as a privately-owned community bank with limited access to public markets, to properly manage its capital position and serve the borrowing needs of its local customers on a consistent basis.

Thank you for this opportunity to comment on the Basel III capital proposals. Carrollton Bank shares your desire to strengthen our financial system and avert another financial crisis. But we respectfully urge you to carefully consider the two aspects of the proposed rules outlined above that we believe have negative unintended consequences.

Sincerely,

Thomas W. Hough
Chairman and CEO