

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

BUREAU OF FINANCIAL INSTITUTIONS
OF THE COMMONWEALTH OF VIRGINIA
RICHMOND, VIRGINIA

Written Agreement by and among)
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)
CONSOLIDATED BANK AND TRUST)
COMPANY) Docket No. 00-01 1-WA/RB-SM
Richmond, Virginia)
)
FEDERAL RESERVE BANK)
OF RICHMOND)
Richmond, Virginia)
)
and)
)
BUREAU OF FINANCIAL)
INSTITUTIONS OF THE)
COMMONWEALTH OF VIRGINIA)
Richmond, Virginia)
)

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of the Consolidated Bank and Trust Company, 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 Bureau of Financial Institutions (the “Bureau”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on September 5, 2000, the board of directors of the Bank at a duly constituted meeting, adopted a resolution:

(1) authorizing and directing V. W. Henley, to enter into this Agreement on behalf of the Bank. and consenting to compliance by the Bank and its institution-affiliated parties, as defined by section 3(u) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u)) (the "FDI Act"), with each and every provision of this Agreement; and

(2) waiving any and all rights that the Bank may have pursuant to 12 U.S.C. 1818: to a hearing for the purpose of taking evidence on any matters set forth in this Agreement; to judicial review of this Agreement; and to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Agreement or any provision hereof.

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

Management

1. The Bank shall take the following steps to develop a management structure that is suitable to the Bank's needs, is adequately staffed by qualified and trained personnel, and will have the ability to (i) restore and maintain all aspects of the Bank to a safe and sound condition, and (ii) comply with the requirements of this Agreement. Within 90 days of this Agreement:

(a) the Bank shall take such preparatory actions as are necessary to hire a new, qualified, permanent full-time president and chief executive officer, and such officer shall be employed by the Bank within 150 days of this Agreement:

(b) the Bank shall submit to the Reserve Bank and the Bureau a written director succession plan; and

(c) the board of directors shall conduct a review of the functions and performance of the officers of the Bank, and shall forward to the Reserve Bank and the Bureau its written findings and conclusions along with a written description of any management changes that may be proposed as a result of the review. The review shall focus on an assessment of the duties performed by each officer and the ability of each officer to perform competently his or her assigned duties.

2. During the term of this Agreement, or as otherwise required by law, the Bank shall comply with the provisions of section 32 of the FDI Act (12 U.S.C. 183 Ii) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart H), with respect to the appointment of any new directors or the hiring or promotion of any senior executive officers as defined in Regulation O of the Board of Governors (12 C.F.R. Part 215).

Board of Directors' Oversight

3. (a) Within 60 days of this Agreement, the Bank's board and management shall submit to the Reserve Bank and the Bureau an acceptable written plan to establish and maintain effective board oversight, control, and supervision of the Bank's senior management and the major operations and activities of the Bank. The plan shall address, at a minimum:

(i) oversight of the development and maintenance of adequate policies and procedures for operations, credit, internal controls, and recordkeeping; and (ii) periodic assessment of management's compliance with policies, procedures, and programs.

(b) Within 120 days of this Agreement, and semi-annually thereafter, the board of directors shall review management's adherence to the Bank's written policies and procedures and shall prepare written findings and conclusions of this review along with written

descriptions of any management or operational changes that are made as a result of the review.

These written findings shall be included in the minutes of the board meetings.

(c) The board of directors shall adopt a written schedule for the annual review and approval of all bank policies, and note such in the minutes of the board meetings.

(d) The board of directors shall maintain adequate and complete minutes of all board meetings, approve such minutes, and retain them for regulatory review.

Capital Adequacy

4. Within 60 days of this Agreement, the Bank's board and management 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 and consider: (i) the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines of the Board of Governors (12 C.F.R. Part 208, App. A and B); (ii) any planned growth in the Bank's assets; (iii) the Bank's level of concentrations of credit; (iv) the volume of the Bank's adversely classified assets; (v) the Bank's anticipated level of retained earnings; (vi) the source and timing of additional funds to fulfill the future capital needs of the Bank; and (vii) any unrealized depreciation in the Bank's available-for-sale securities portfolio.

Loan Policies and Procedures

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau acceptable amended written loan policies and procedures that address, consider, and include:

(a) the establishment and annual approval by the board of directors of appropriate limits on each officer's lending authority for both secured and unsecured loans; and

(b) review and prior approval by the board of directors of extensions and renewals of credit aggregating \$100,000 or more to any single borrower or related interest thereof.

6. The Bank shall take all steps necessary to ensure compliance with its written loan policies, and procedures, including:

(a) Adhering to sound underwriting standards for commercial and commercial real estate loans that include at a minimum:

- (i) complete current financial statements for any borrower or guarantor, submitted at least annually;
- (ii) a written cash flow analysis, including the borrower's repayment capacity and identification of the sources of repayment;
- (iii) a written evaluation of collateral adequacy of secured loans prior to the time credit is extended; and
- (iv) at a minimum, an annual periodic written review of the collateral adequacy on all secured loans in excess of \$100,000, to be retained in the bank's credit files;

(b) monitoring and reporting of past due loans:

(c) risk grading and reporting of all commercial loans in excess of \$100,000;
and

(d) implementing loan workout procedures for all delinquent, classified, and watch list loans, with a detailed monthly status report to the board of directors.

Loan Status Reports

7. Within 30 days following the end of each calendar quarter (September 30, December 31, March 31, and June 30), the Bank shall submit to the Reserve Bank and the Bureau a written quarterly report regarding the status of all classified loans listed in the report of examination that closed on March 23, 2000 (the "Report of Examination"). The report shall include, at a minimum, the current loan balance, date and amount of payments received, present collateral value, discussions with borrower, borrower's commitment to repayment, and estimate of any loss.

Allowance for Loan and Lease Losses

8. (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) The Bank shall maintain, through charges to current operating income, an adequate allowance for loan and lease losses. The adequacy of the allowance for loan and lease losses shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the potential for loan losses in the Bank's portfolio, current economic conditions, examiner's other criticisms as contained in the Report of Examination, and the requirements of the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 22, 1993. The Bank shall conduct, at a

minimum, a quarterly assessment of its allowance for loan and lease losses and shall maintain a written record, for supervisory review, indicating the methodology used in determining the amount of the allowance needed.

Asset/Liability Management

9. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau acceptable written asset/liability management policies designed to improve the management of the Bank's sensitivity to market risk and liquidity.

(b) The policy regarding sensitivity to market risk shall at a minimum, address, consider, and include the following: (i) identification of responsible individuals for measuring, monitoring, and controlling interest rate sensitivity; (ii) appropriate oversight and review by management and the board of directors; (iii) maintenance of documentation to support the validity and accuracy of assumptions used in measuring interest rate risk; (iv) parameters for controlling interest rate risk based on capital levels, earnings performance, and the risk tolerance of the Bank; and (v) action plans to reduce potential interest rate risk in the event that rate sensitivity results fall outside approved limits.

(c) The revised policy regarding liquidity shall, at a minimum, address, consider, and include the following: (i) appropriate standards for volume, mix and maturity of the Bank's loans, investments, deposits, and alternative funding sources; (ii) specific liquidity targets and parameters; (iii) appropriate oversight and review by management and the board of directors; and (iv) a contingency funding plan.

(d) 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 the approved policies.

All exceptions to the policies shall be documented by the ALCO as to the reason for the exceptions and the continuance of the exceptions, taking into account the Bank's overall goals and strategies. 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 regarding the Bank's management of market risk and liquidity.

Call Reports

10. The Bank shall take such actions as are necessary to ensure that all reports submitted or published by the Bank, including Reports of Condition and Income, accurately reflect the condition of the Bank, and that all records indicating how such reports are prepared are adequately maintained for subsequent supervisory review.

Internal Controls

11. (a) Within 45 days of this Agreement, the Bank shall establish account descriptions for all balance sheet accounts and ensure that appropriate staff has full knowledge of all balance sheet accounts and the contents of each account.

(b) Within 45 days of this Agreement, the Bank shall review all accounts for timely resolution of open items. Any items outstanding in excess of 90 days shall be evaluated to determine collectability, and charged off where appropriate. Documentation for such reviews shall be maintained for regulatory review.

(c) Within 45 days of this Agreement, the Bank shall establish written procedures to ensure that official checks are not paid prior to the liability being recorded on the bank's balance sheet. When an exception occurs, the Bank shall maintain documentation as to the cause and corrective action taken.

12. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable written wire transfer policies, procedures, and a plan that shall, at a minimum, address, consider, and include:

(a) procedures for separation of duties for processing, sending, reconciling and reviewing wire transfers;

(b) security procedures, including call backs to authenticate telephoned, faxed or written wire transfer requests; and

(c) a contingency plan for the Fedline terminal.

Securities Transfer Agent

13. Within 30 days of the end of each calendar quarter (September 30, December 31, March 31, and June 30), the Bank shall provide to the Reserve Bank and the Bureau quarterly reports of the monthly turnaround statistics for the Bank's transfer agent activity.

Audit

14. (a) Within 10 days of receipt of its external audit report for each year-end, the Bank shall provide the Reserve Bank and the Bureau with the audit report and management letter.

(b) Within 45 days of the receipt of the audit report and management letter, the Bank shall provide the Reserve Bank and the Bureau with a written plan, including acceptable time frames, to correct any deficiencies noted in the audit report or management letter.

Strategic Plan and Budget

15. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau a written strategic plan and budget concerning the Bank's proposed business activities for the remainder of 2000. This plan shall, at a minimum, provide for or describe:

- (i) the responsibilities of the board of directors regarding the definition, approval, implementation and monitoring of the strategic plan and budget, and the procedures designed to ensure that the board of directors fulfills such responsibilities;
- (ii) management, lending, and operational objectives, given the condition of the Bank as reflected in the Report of Examination and subsequent reports;
- (iii) an earnings improvement plan, with emphasis on reducing overhead expenses;
- (iv) the operating assumptions that form the bases for major projected income and expense components, and the sources and uses of new funds;
- (v) financial performance objectives, including plans for asset growth, earnings, liquidity, and capital supported by detailed quarterly and annual pro forma financial statements, including projected budgets, balance sheets and income statements; and
- (vi) the establishment of a monthly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections.

(b) A strategic plan and budget for each calendar year subsequent to 2000 shall be submitted to the Reserve Bank and the Bureau at least one month prior to the beginning of that calendar year. The board of directors shall each month review actual performance for that month in comparison to each month's budgetary projections and document analysis of significant variances.

Dividends

16. The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Board of Governors' Division of Banking Supervision and Regulation, and the Bureau. Requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, information on consolidated earnings for the most recent annual period and the last quarter.

Compliance with Laws and Regulations

17. (a) The Bank's board and management shall take the necessary steps, consistent with sound banking practices, to correct all violations of law and regulation set forth in the Report of Examination.

(b) The Bank shall immediately initiate an affirmative compliance program in order to ensure compliance with the provisions of all applicable laws, rules, and regulations. Pursuant thereto, the management of the Bank shall familiarize itself with the applicable provisions of the Federal Reserve Act and the regulations promulgated thereunder, and the laws of the Commonwealth of Virginia.

Compliance with Agreement

18. (a) The board of directors shall monitor and coordinate the Bank's compliance with the provisions of this Agreement.

(b) Within 45 days of this Agreement, and, thereafter, within 30 days after the end of each calendar quarter following the date of this Agreement (September 30, December 31, March 31, and June 30), the board of directors shall submit a written progress report to the Reserve Bank and the Bureau setting forth in detail the actions taken to comply with each provision of this Agreement and the results of those actions. The board of directors shall certify in writing to the Reserve Bank and the Bureau that each director has reviewed each quarterly progress report required by this paragraph. Such reports may be discontinued when the Reserve Bank and the Bureau, in writing, release the Bank from making further reports.

Approval of Plans, Policies, and Procedures

19. (a) The plans, policies, and procedures required by paragraphs 3(a), 4, 5, 9(a), and 12 hereof shall be submitted to the Reserve Bank for approval, and a copy of each shall be sent to the Bureau. Acceptable plans, policies, and procedures shall be submitted to the Reserve Bank and the Bureau within the time periods set forth in this Agreement. The Bank shall adopt all approved plans, policies, and procedures within 10 days of approval by the Reserve Bank and then shall fully comply with them. During the term of this Agreement, the Bank shall not amend or rescind the approved plans, policies, and procedures without the prior written approval of the Reserve Bank.

(b) The board of directors shall review all approved plans, policies, and procedures annually.

Communications

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

(a) Jeffrey S. Kane
Senior Vice President
Banking Supervision and Regulation
Federal Reserve Bank of Richmond
Post Office Box 27622
Richmond, Virginia 23261

- (b) E. J. Face, Jr.
Commissioner of Financial Institutions
Bureau of Financial Institutions of the Commonwealth of Virginia
1300 E. Main Street, P.O. Box 640
Richmond, VA 23215-0640

- (c) Vernard W. Henley
Chief Executive Officer
Consolidated Bank and Trust
320 North First Street
Richmond, Virginia 23219

Miscellaneous

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

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

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

24. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors or 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.

25. This Agreement is a “written agreement” for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act (12 U.S.C.18 IX).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 5th day of SEPTEMBER, 2000.

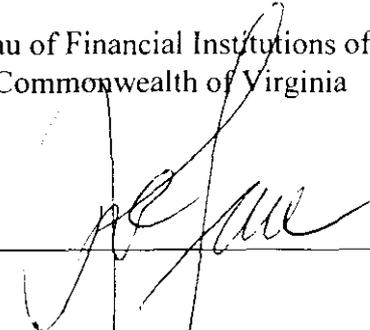
Consolidated Bank and Trust Company

Federal Reserve Bank of Richmond

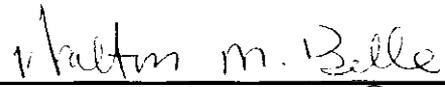
By:  Chairman

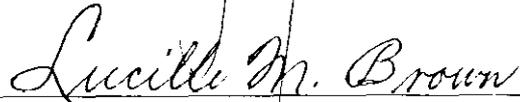
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Bureau of Financial Institutions of
the Commonwealth of Virginia

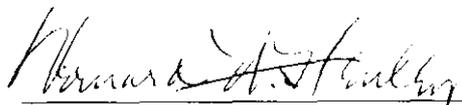
By: 

The undersigned directors of the Bank individually acknowledge reading the foregoing Agreement and approve of the consent thereto by the Bank.

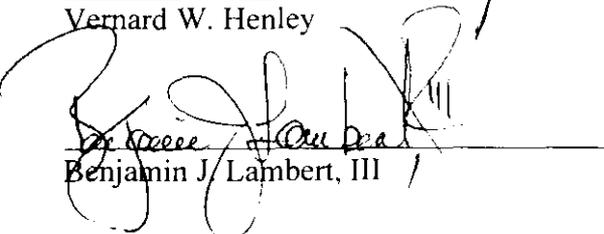

Walton M. Belle

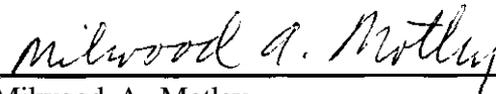

Lucille M. Brown


Doretha P. Fowlkes

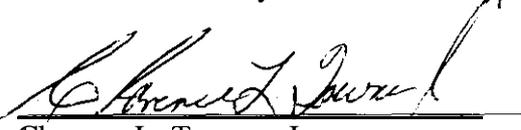

Vernard W. Henley


Allix B. James


Benjamin J. Lambert, III


Milwood A. Motley


Darrel Rollins


Clarence L. Townes, Jr.