

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

STATE OF MARYLAND  
DIVISION OF FINANCIAL REGULATION  
BALTIMORE, MARYLAND

Written Agreement by and among

RISING SUN BANCORP  
Rising Sun, Maryland

NBRS FINANCIAL BANK  
Rising Sun, Maryland

FEDERAL RESERVE BANK  
OF RICHMOND  
Richmond, Virginia

and

MARYLAND DIVISION OF FINANCIAL  
REGULATION  
Baltimore, Maryland

Docket Nos. 10-015-WA/RB-HC  
10-015-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Rising Sun Bancorp, Rising Sun, Maryland (“Bancorp”), a registered bank holding company, and its subsidiary bank, NBRS Financial Bank, Rising Sun, Maryland (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, Bancorp, the Bank, the Federal Reserve Bank of Richmond (the “Reserve Bank”), and the Maryland Division of Financial Regulation, Baltimore, Maryland (the “Commissioner”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on January 28, 2010, Bancorp's and the Bank's boards of directors, at duly constituted meetings, adopted resolutions authorizing and directing Stuart A. Cohen, Director, to consent to this Agreement on behalf of Bancorp and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by Bancorp, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, Bancorp, the Bank, the Reserve Bank, and the Commissioner agree as follows:

### **Board Oversight**

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Commissioner 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, processes to mitigate risks associated with credit concentrations, and earnings;

(b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations; 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.

## **Management Review**

2. Within 60 days of this Agreement, the board of directors of the Bank shall complete an assessment of the Bank's management and staffing needs (the "Management Review"). 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 shall, at a minimum, address, consider, and include:

- (a) The identification of the type and number of senior executive officers needed to manage and supervise properly the affairs of the Bank;
- (b) an evaluation of each senior officer's present and anticipated duties;
- (c) an evaluation of reporting lines within the management structure; and
- (d) the identification of present and future management and staffing needs for each area of the Bank, particularly in the areas of credit risk management, credit administration, and problem asset resolution.

3. Within 30 days of completion of the Management Review, the board of directors of the Bank shall submit a written management plan to the Reserve Bank and the Commissioner that includes the findings and conclusions of the Management Review and describes the specific actions that the board of directors will take to strengthen the Bank's management and to hire, as necessary, additional or replacement personnel.

## **Credit Risk Management**

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) The responsibility of the board of directors to establish appropriate risk tolerance guidelines and risk limits;
- (b) periodic review and revision of risk exposure limits to address changes in market conditions;
- (c) strategies to minimize credit losses and reduce the level of problem assets;
- (d) enhancements to the internal loan grading system to ensure timely and accurate risk ratings; and
- (e) enhanced stress testing of loan portfolio segments.

### **Concentrations of Credit**

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to strengthen the Bank's management of commercial real estate ("CRE") concentrations, including steps to reduce the risk of concentrations. The plan shall, at a minimum, include:

- (a) Procedures to identify, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1);
- (b) a schedule for reducing and the means by which the Bank will reduce the level of CRE concentrations, and timeframes for achieving the reduced levels; and
- (c) enhanced monitoring and reporting of CRE concentrations to management and the board of directors.

### **Asset Improvement**

6. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans

or other extensions of credit are criticized in the report of the examination of the Bank conducted by the Reserve Bank that commenced on September 7, 2009 (the “Report of Examination”) or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank’s risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank’s interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit and 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 meetings of the board of directors or its committee, as appropriate, 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 of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 215.2(n)).

7. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner 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 \$250,000, including other real estate owned ("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) Within 30 days of the date that any additional loan or other asset in excess of \$250,000, including OREO: (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 Commissioner 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 Commissioner 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 Commissioner and shall document the review in the minutes of the board of directors' meetings.

## **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 Commissioner.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL 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, and submit a description of the revised methodology to the Reserve Bank and the Commissioner. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank’s loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank’s loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the maintenance of an adequate ALLL. 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 Commissioner, 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**

9. Within 60 days of this Agreement, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner 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) The Bank's current and future capital needs, including 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 adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements; and

(d) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Bancorp serve as a source of strength to the Bank.

10. Bancorp and the Bank shall notify the Reserve Bank and the Commissioner, 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 approved plan's minimum ratios. Together with the notification, Bancorp and 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 approved plan's minimums.

#### **Earnings Plan and Budget**

11. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written business plan for 2010 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(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 2010, 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 business plan and budget for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank and the Commissioner at least 30 days prior to the beginning of that calendar year.

## **Liquidity/Funds Management**

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

## **Dividends**

13. (a) Bancorp and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the “Director”), and, as to the Bank, the Commissioner.

(b) Bancorp shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Bancorp and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on Bancorp’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. Bancorp and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is 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).

### **Debt and Stock Redemption**

14. (a) Bancorp shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bancorp shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

### **Compliance with Laws and Regulations**

15. (a) The Bank shall immediately take all necessary steps to correct all violations of law or regulation cited in the Report of Examination. In addition, the Bank shall take necessary steps to ensure future compliance with all applicable laws and regulations.

(b) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Bancorp and 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 (12 C.F.R. §§ 225.71 *et seq.*).

(c) Bancorp and 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**

16. (a) Within 10 days of this Agreement, the Bancorp's and the Bank's boards of directors shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate Bancorp's and 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 Bancorp and 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 Bancorp's and the Bank's boards of directors.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner joint 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 and Program**

17. (a) The Bank and, as applicable, Bancorp shall submit written plans and a program that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraphs 4, 5, 7, 8(c), 9, 10, and 12 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Commissioner, the Bank and, as applicable, Bancorp shall adopt the approved plans and program. Upon adoption, the Bank and, as applicable, Bancorp shall promptly implement the approved plans and program, and thereafter fully comply with them.

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

### **Communications**

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

- (a) Eugene W. Johnson, Jr.  
Vice President  
Federal Reserve Bank of Richmond  
P.O. Box 27622  
Richmond, Virginia 23261-7622
- (b) Teresa M. Louro  
Assistant Commissioner of Bank Supervision  
State of Maryland Division of Financial Regulation  
500 North Calvert Street  
Room 402  
Baltimore, Maryland 21202
- (c) Jacob H. Goldstein  
President and Chief Executive Officer  
Rising Sun Bancorp  
NBRS Financial Bank  
6 Pearl Street  
P.O. Box 370  
Rising Sun, Maryland 21911-0370

### **Miscellaneous**

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

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

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

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

23. 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 28th day of January, 2010.

RISING SUN BANCORP

FEDERAL RESERVE BANK OF  
RICHMOND

By: /s/ Stuart A. Cohen  
Stuart A. Cohen  
Director

By: /s/ Eugene W. Johnson, Jr.  
Eugene W. Johnson, Jr.  
Vice President

NBRS FINANCIAL BANK

STATE OF MARYLAND  
DIVISION OF FINANCIAL  
REGULATION

By: /s/ Stuart A. Cohen  
Stuart A. Cohen  
Director

By: /s/ Teresa M. Louro  
Teresa M. Louro  
Assistant Commissioner of  
Bank Supervision