

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

Written Agreement by and between

ATLANTIC COMMUNITY BANKERS
BANK
Camp Hill, Pennsylvania

and

FEDERAL RESERVE BANK OF
PHILADELPHIA
Philadelphia, Pennsylvania

Docket No. 20-015-WA/RB-SM

WHEREAS, Atlantic Community Bankers Bank, Camp Hill, Pennsylvania, (the “Bank”) is a state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the most recent examination of the Bank conducted by the Federal Reserve Bank of Philadelphia (the “Reserve Bank”) identified deficiencies in the Bank’s compliance with applicable laws, rules, and regulations relating to anti-money laundering (“AML”), including the Bank Secrecy Act (“BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Chapter X) and the AML requirements of Regulation H of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 208.62 and 208.63) (collectively, “BSA/AML Requirements”); and the regulations issued by the Office of Foreign Assets Control of the U.S. Department of the Treasury (“OFAC”) (31 C.F.R. Chapter V) (the “OFAC Regulations”);

WHEREAS, the Bank, the Board of Governors, and the Reserve Bank have the common goal that the Bank operate in compliance with all applicable BSA/AML Requirements and OFAC Regulations;

WHEREAS, the Bank provides correspondent and certain other banking services to other banks, many of which own shares of the Bank's parent holding company; and

WHEREAS, on September 18, 2020, the board of directors of the Bank adopted a resolution authorizing and directing Craig C. Howie to enter into this Written Agreement (the "Agreement") on behalf of the Bank and consenting to compliance with each and every provision of this Agreement by the Bank.

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

Board Oversight and Corporate Governance

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit a written plan to strengthen board oversight of the Bank's compliance with the BSA/AML Requirements and the OFAC Regulations. The plan shall, at a minimum, address, consider, and include:

(a) the actions that the board of directors will take to maintain effective control and oversight of Bank management's compliance with the BSA/AML Requirements and the OFAC Regulations;

(b) steps to enhance audit committee oversight of the Bank's compliance with the BSA/AML Requirements and OFAC Regulations, including: (i) establishing the frequency of committee meetings and (ii) the maintenance of adequate and complete minutes of all audit committee meetings, approval of such minutes, and their retention for supervisory review;

(c) measures to ensure oversight of senior management and the BSA compliance officer in the implementation of the Bank's board-approved BSA/AML compliance program and related activities;

(d) measures to ensure adherence to approved compliance policies, procedures, and standards;

(e) measures to ensure BSA/AML and OFAC issues are appropriately tracked, escalated, and reviewed by the Bank's senior management;

(f) measures to ensure that the person or groups at the Bank charged with the responsibility of overseeing the Bank's compliance with the BSA/AML Requirements and the OFAC Regulations possess appropriate subject matter expertise and are actively involved in carrying out such responsibilities;

(g) adequate resources for the BSA/AML compliance function, including sufficient staffing levels, and periodic re-evaluation of resources and staffing needs; and

(h) measures to improve the information reported to the board of directors regarding compliance with the BSA/AML Requirements and OFAC Regulations, including assessment of risk and the status and results of measures taken, or to be taken, by senior management to remediate outstanding compliance issues.

BSA/AML Compliance Program

2. Within 60 days of this Agreement, the Bank shall submit an enhanced written BSA/AML compliance program acceptable to the Reserve Bank. The enhanced program shall, at a minimum, include:

(a) a risk assessment that appropriately identifies and considers all products and services, customers, and geographic locations of the Bank, as appropriate, in determining inherent and residual risks;

(b) a system of internal controls reasonably designed to ensure ongoing compliance with the BSA/AML Requirements;

(c) enhanced independent testing procedures to ensure that comprehensive and timely reviews of the Bank's BSA/AML compliance program are performed on a regular basis by qualified parties who are independent of the Bank's business lines and compliance function; and

(d) management of the Bank's BSA/AML compliance program by a qualified compliance officer, who is given full autonomy, independence, and responsibility for implementing and maintaining an effective BSA/AML compliance program that is commensurate with the Bank's size and risk profile, and is supported by adequate staffing levels and resources.

Customer Due Diligence

3. Within 60 days of this Agreement, the Bank shall submit a written revised customer due diligence program for the Bank acceptable to the Reserve Bank. At a minimum, the program shall include:

(a) risk-based policies, procedures, and controls to ensure that the Bank collects, analyzes, and retains complete, accurate, and current customer information for all account holders, including, but not limited to:

i. obtaining and analyzing sufficient customer information to understand the nature and purpose of customer relationships for the purpose of developing a customer risk profile; and

ii. conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information;

(b) a plan, with timelines, to remediate deficient due diligence for existing customer accounts;

(c) a methodology for assigning risk ratings to account holders that considers factors such as type of customer, type of products and services, geographic locations, and expected and actual transactions with or through the Bank;

(d) risk-based policies, procedures, and processes to gather and analyze customer information commensurate with the customer's risk profile, including identification of when and what additional customer information will be collected about the categories of customers that pose a heightened risk of money laundering or terrorist financing; and

(e) risk-based procedures for performing ongoing monitoring of the customer relationship and, on a risk basis, to maintain and update customer information, including beneficial ownership information of legal entity customers.

Suspicious Activity Monitoring and Reporting

4. Within 60 days of this Agreement, the Bank shall submit a written enhanced program acceptable to the Reserve Bank to reasonably ensure the identification and timely, accurate, and complete reporting by the Bank of all known or suspected violations of law or suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

(a) a well-documented methodology for establishing monitoring rules and processes that take into consideration the Bank's risk profile, products, services, customer base, geographic locations, and banking activities;

(b) policies and procedures that provide for periodic review of the monitoring rules;

(c) effective monitoring of customer accounts and transactions;

(d) policies, procedures, and processes for identifying subjects of law enforcement requests, monitoring the transaction activity of those subjects when appropriate, identifying unusual or potentially suspicious activity related to those subjects, and filing, as appropriate, suspicious activity reports related to those subjects;

(e) measures to ensure that alert dispositions are supported with adequate rationale and documentation to evidence the research performed and the due diligence that was relied upon to arrive at the analyst's conclusion; and

(f) controls to ensure that transaction monitoring systems and associated processes are subject to periodic reviews and timely updates.

Transaction Monitoring System

5. Within 60 days of this Agreement, the Bank shall engage an independent third party acceptable to the Reserve Bank to: (i) validate the effectiveness of the Bank's transaction monitoring system ("Transaction Monitoring System Validation") and (ii) prepare a written report of findings, conclusions, and recommendations (the "Transaction Monitoring System Report").

6. Within 10 days of the engagement of the independent third party, but prior to the commencement of the Transaction Monitoring System Validation, the Bank shall submit to the Reserve Bank for approval an engagement letter that provides, at a minimum, for the independent third party to:

(a) evaluate the appropriateness of filtering criteria and thresholds used in the Bank's transaction monitoring system;

(b) test the Bank's transaction monitoring system to ensure that intended information is accurately captured;

(c) complete the Transaction Monitoring System Validation within 60 days of the Reserve Bank's approval of the engagement letter;

(d) provide to the Reserve Bank a copy of the Transaction Monitoring System Report at the same time the report is provided to the Bank; and

(e) commit that any and all interim reports, drafts, workpapers, or other supporting materials associated with the Transaction Monitoring System Validation will be made available to the Reserve Bank upon request.

7. Within 30 days of the completion of the Transaction Monitoring System Report, the Bank shall submit to the Reserve Bank an acceptable written plan to address findings and correct deficiencies cited in the report.

Independent Testing

8. Within 60 days of this Agreement, the Bank shall submit to Reserve Bank a written plan for independent testing of the Bank's compliance with all applicable BSA/AML Requirements. At a minimum, the plan shall include:

(a) procedures to evaluate the adequacy and effectiveness of the Bank's compliance with the BSA, the rules and regulations issued thereunder, and all other applicable BSA/AML requirements, including monitoring of customer activity to ensure reporting of suspicious activity;

(b) provisions for independent testing to be performed on a periodic basis by qualified parties who are independent of the Bank's business lines and compliance function;

(c) procedures for the review of independent testing results by senior Bank management and escalation to the board of directors of the Bank in appropriate circumstances;

(d) procedures to ensure that senior Bank management institute and complete appropriate actions in response to the independent testing results; and

(e) procedures to ensure that independent testing results are communicated to the Reserve Bank on a regular basis and retained for subsequent supervisory review.

Office of Foreign Assets Control Compliance

9. Within 60 days of this Agreement, the Bank shall submit a plan to enhance the Bank's compliance with the OFAC Regulations acceptable to the Reserve Bank, including, but not limited to, enhanced OFAC screening procedures, an improved methodology for assessing OFAC risks, and enhanced policies and procedures to ensure compliance with the OFAC Regulations.

Internal Audit

10. Within 60 days of this Agreement, the Bank shall submit a written revised internal audit program acceptable to the Reserve Bank that shall, at a minimum, provide for:

(a) improved oversight of all aspects of the audit program by the board of directors' audit committee;

(b) setting an appropriate audit schedule based on risk assessments;

(c) timely resolution of audit findings and follow-up reviews to ensure completion of corrective measures; and

(d) comprehensive tracking and reporting of the status and resolution of audit and examination findings to the audit committee.

Compliance with the Agreement

11. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank 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 Programs

12. (a) The Bank shall submit written plans and programs that are acceptable to the Reserve Bank within the time periods set forth in paragraphs 2, 3, 4, 7, 8, 9, and 10 of this Agreement. Each plan or program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program. An independent third party acceptable to the Reserve Bank shall be retained in accordance with the Reserve Bank' requirements by the Bank within the time period set forth in paragraph 5 of this Agreement. The engagement letter shall be submitted to the Reserve Bank within the time period set forth in paragraph 6 of this Agreement.

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

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

Communications

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

(a) Mr. Christopher C. Henderson
Assistant Vice President
Federal Reserve Bank of Philadelphia
Ten Independence Mall
Philadelphia, Pennsylvania 19106

- (b) Mr. Craig H. Howie
President
Atlantic Community Bankers Bank
1400 Market Street
Camp Hill, Pennsylvania 17011-4831

Miscellaneous

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

15. The provisions of this Agreement shall be binding upon the Bank and its institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), in their capacities as such, and their successors and assigns.

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

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

18. 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 September, 2020.

ATLANTIC COMMUNITY
BANKERS BANK

FEDERAL RESERVE BANK
OF PHILADELPHIA

By: /s/ Craig C. Howie
Craig C. Howie
President and Chief Executive Officer

By: /s/ Christopher C. Henderson
Christopher C. Henderson
Assistant Vice President