



Comptroller of the Currency
Administrator of National Banks

400 7th Street SW Suite 3E-218
Washington, DC 20219
202-649-6260

Licensing Activities

Conditional Approval #1065
April 2013

March 22, 2013

Mr. Kevin B. Cashen, President
Bay Bank, FSB
2328 West Joppa Road – Suite 325
Lutherville, Maryland 21093

Re: Bank Merger Act Application for the merger of Carrollton Bank, Columbia, Maryland
with and into Bay Bank, FSB, Lutherville, Maryland
Control No.: R2-2012-0055 Reference Charter No.: 718140

Dear Mr. Cashen:

The Office of the Comptroller of the Currency (“OCC”) hereby conditionally approves (i) the application filed by Bay Bank, FSB, Lutherville, Maryland (“Bay Bank”) for the merger of Carrollton Bank, Columbia, Maryland, with and into Bay Bank, and (ii) the request by Bay Bank that it be excepted from the Qualified Thrift Lender (“QTL”) test during the first two years following the merger (collectively, the “Applications”). These approvals are granted after a thorough evaluation of the Applications, other materials you have supplied, and other information available to the OCC, including representations made in the Applications by representatives of Bay Bank and Carrollton Bank during the application process, and are subject to the conditions set forth herein.

The principal statutes and regulations to which the merger application is subject are: 12 U.S.C. § 1828(c) (the “Bank Merger Act”); 12 C.F.R. § 163.22; 12 C.F.R. § 152.13; 12 U.S.C. § 2901 et seq. (“CRA”); and 12 C.F.R. § 195.29. The principal statute and regulation to which the QTL exception application is subject are 12 U.S.C. § 1467a(m) and 12 C.F.R. § 152.13(c)(3).

The OCC has reviewed the merger application under the criteria of the Bank Merger Act and the CRA, and applicable OCC regulations and policies. Under the Bank Merger Act, the OCC generally may not approve a merger that would substantially lessen competition. The Bank Merger Act also requires the OCC to take into consideration the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. 12 U.S.C. § 1828(c)(5). The OCC must also consider the effectiveness of any insured depository institution involved in the proposed merger transaction in

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combating money laundering activities. 12 U.S.C. § 1828(c)(11). The OCC must consider the risk of the transaction to the stability of the United States banking or financial system. 12 U.S.C. § 1828(c)(5) (as amended by section 604 of the Dodd-Frank Wall Street Reform and Consumer Protection Act). The OCC considered factors relating to the capital levels of Bay Bank, and the fairness of and disclosure regarding the transaction. 12 C.F.R. § 163.22(d)(1)(i) and (vi). Furthermore, the OCC takes into account the records of the institutions' performance in helping to meet the credit needs of their communities, including low- and moderate-income neighborhoods when evaluating such applications. 12 U.S.C. §§ 2903(a)(2) and 2902(3); 12 C.F.R. § 195.29(a). The OCC considered these factors and found them consistent with approval of this application.

The OCC has also reviewed the QTL exception request filed by Bay Bank in accordance with 12 C.F.R. § 152.13(c)(3). The OCC may grant exceptions from the QTL test if it determines that "extraordinary circumstances" exist. The OCC has granted exceptions when the circumstances necessitating the exception were not wholly within the control of the institution, and where compliance with the QTL test would have given rise to supervisory issues. A two-year exception is prudent to permit the institution to achieve and maintain QTL compliance in an orderly manner. Accordingly, the OCC grants Bay Bank the exception from the QTL test for two years following the consummation of the merger.

These approvals are subject to the following conditions:

1. Bay Bank shall enter into a written Operating Agreement with the OCC, in a form acceptable to the OCC, within ten (10) business days after consummating the conversion.
2. Bay Bank must amend the employment agreements to be assumed from Carrollton Bank to comply with the regulations and guidance applicable to federal savings associations, including 12 C.F.R. § 163.39 and Section 310 of the thrift Examination Handbook, at the next renewal date for each agreement, and submit a copy of each such amended agreement to the OCC within five (5) business days of the renewal.
3. No later than 30 calendar days from the date of consummation of the proposed merger, each individual from Carrollton Bank who will become a senior executive officer or director of Bay Bank must submit to the OCC an executed Application Certification on Form 1606 consistent with the guidance in Regulatory Bulletin 20a. Bay Bank must take such action as required by the Director for Northeast District Licensing ("DDL"), if the DDL objects to any such person based on information obtained in this regard.

These conditions shall be conditions "imposed in writing by a Federal banking agency in connection with any action on any application, notice or other requests" within the meaning of 12 U.S.C. § 1818. As such, the conditions shall be enforceable under 12 U.S.C. § 1818.

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The merger must be consummated no earlier than 15 calendar days from the date of this approval letter. If the merger with Carrollton Bank has not been consummated within 120 calendar days from the approval date, the approval will automatically terminate unless the OCC grants an extension of time period for good cause.

On the business day prior to the date of the consummation of the transaction, the chief financial officers of Bay Bank and Carrollton Bank must certify in writing to the DDL that no material adverse events or material adverse changes have occurred with respect to the financial condition or operation of their respective institutions as disclosed in the Applications. If additional information having a material adverse bearing on any feature of the Applications is brought to the attention of Bay Bank, Carrollton Bank, or the OCC since the date of the financial statements submitted with the Applications, Bay Bank must not consummate the transaction unless the information is presented to the DDL and the DDL provides written nonobjection to consummation of the transaction.

In addition, Bay Bank must submit compliance information related to the conditions and the following information to the OCC Northeastern District Licensing Division ("LIC-NE") within the timeframe noted:

- Prior to the date of consummation of the proposed transaction, Bay Bank shall receive all required regulatory approvals and submit satisfactory evidence of those approvals to LIC-NE.
- No later than five calendar days after the date of consummation of the transaction, Bay Bank must file with LIC-NE a certification stating the effective date of the transaction and that the transaction has been consummated in accordance with all applicable laws and regulations, the Applications, and this letter.
- No later than 30 calendar days after the date of consummation of the transaction, Bay Bank shall advise each account holder whose withdrawable accounts in the resulting savings association would increase above \$250,000, or whose noninsured deposits would increase, as result of the transaction of the effect of the transaction on insurance coverage. Promptly thereafter, Bay Bank must submit a copy of the notice to LIC-NE.
- No later than 30 calendar days following the date of consummation of the proposed transaction, Bay Bank must submit to LIC-NE a copy of the final signed accounting opinion and Federal and State tax opinions.

These conditional approvals and the activities and communications by OCC employees in connection with the filings do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States, or

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any officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. Our approvals are based on the bank's representations, submissions, and information available to the OCC as of this date. The OCC may modify, suspend or rescind this approval if a material change in the information on which the OCC relied occurs prior to the date of the transactions to which this decision pertains. The foregoing may not be waived or modified by any employee or agent of the OCC or the United States.

A separate letter is enclosed requesting your feedback on how the OCC handled your application. We would appreciate your response so we may continue to improve our service.

All correspondence regarding the Applications should reference the control number. If you have any questions, contact Licensing Analyst Justin E. Holder at (212) 790-4014 or by e-mail at holderje@occ.treas.gov.

Sincerely,

Stephen A. Lybarger

Stephen A. Lybarger
Deputy Comptroller for Licensing