

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

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In the Matter of	)	CONSENT ORDER
	)	
CARTER BANK & TRUST	)	
MARTINSVILLE, VIRGINIA	)	FDIC-16-0055b
	)	
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Carter Bank & Trust, Martinsville, Virginia (“Bank”), under section 3(q) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER” (“CONSENT AGREEMENT”), dated July 27, 2016, that is accepted by the FDIC and the Virginia Bureau of Financial Institutions (“Bureau”).

With the CONSENT AGREEMENT, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation related to weaknesses in the Bank’s compliance with the Bank Secrecy Act, subchapter II of Chapter 53 of Title 31 of the United States Code, and its implementing rules issued by the U.S. Department of Treasury, 31 C.F.R. Chapter X; the FDIC’s BSA compliance regulations, 12 C.F.R. § 326.8; and the FDIC’s suspicious activity report (“SAR”) regulations, 12 C.F.R. Part 353 (“Part 353”) (collectively, the “BSA”), to the issuance of this Consent Order (“ORDER”) by the FDIC and the Bureau. The Bureau may issue an order pursuant to the provisions of Va. Code Ann. Section 6.2-906 (2010).

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Va. Code Ann. Section 6.2-906 (2010) have been satisfied, the FDIC and the Bureau hereby order that:

BOARD SUPERVISION

1. (a) As of the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed: audit reports; internal control reviews including management's responses; high-risk deposit accounts; non-bank financial institutions; domestic Automated Clearing House Transactions ("ACH"); BSA risk rating; BSA staffing; BSA training; BSA independent testing; BSA compliance; and compliance with this ORDER. Board meeting minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Board shall establish a Board committee ("Directors' Committee"), consisting of at least five members, to oversee the Bank's compliance with the ORDER. At least four of the members of the Directors' Committee shall be directors not employed in any capacity by the Bank other than as a director. The Directors' Committee shall formulate and review monthly reports detailing the Bank's actions with respect to compliance with this ORDER. The Directors' Committee shall present a report detailing the Bank's adherence to this ORDER to the Board at each regularly scheduled Board meeting. Such report shall be recorded in the appropriate minutes of the Board's meetings and shall be retained in the Bank's records. Establishment of this committee does not in any way

diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

BSA COMPLIANCE PROGRAM

2. Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement its written plan ("Compliance Plan") for administration of a program reasonably designed to ensure and maintain compliance with the law and regulations related to the BSA.

The Bank shall submit the Compliance Plan to the Supervisory Authorities of the FDIC's Atlanta Regional Office ("Regional Director") and the Bureau (collectively "Supervisory Authorities")

for review and comment. The Compliance Plan shall be consistent with the guidance for

BSA/AML Risk Assessment set forth in the Federal Financial Institutions Examination

Council's Bank Secrecy Act/Anti-Money Laundering Examination Manual

(http://www.ffiec.gov/bsa_aml_infobase/default.htm) ("BSA Manual"). The Compliance Plan

shall be tailored to address the risk profile of the Bank identified in the Bank's BSA risk

assessment required by paragraph 3 of this ORDER and shall address all recommendations in the

Report of Examination dated October 19, 2015 ("Report"). Upon receipt of the Supervisory

Authorities' comments, if any, the Board shall revise, review, and approve the Compliance Plan.

After the Board has approved the Compliance Plan, the review and approval shall be recorded in the minutes of the Board.

RISK ASSESSMENT

3. (a) Within 60 days from the effective date of the ORDER, the Board shall review and revise as appropriate its written policies, procedures, and processes for a risk assessment of the Bank's operations ("Risk Assessment") consistent with the guidance for BSA/AML Risk Assessments set forth in the BSA Manual.

(b) Within 60 days from the effective date of the ORDER, the Bank shall conduct a Risk Assessment and thereafter shall conduct a Risk Assessment no less than annually. The Board shall review and approve the Risk Assessment and forward it to the Supervisory Authorities with the progress report required by this ORDER that is next due following the Board's approval. The Risk Assessment shall weigh all relevant factors, including identification and measurement of the specific risk characteristics of the Bank's products, services, customers, affiliates, and geographic locations, with analysis of the major risk categories including foreign nationals, non-resident aliens, ACH, high-risk deposit accounts, and non-bank financial institutions. The Risk Assessment shall address all pertinent risk factors that affect the overall BSA/AML risk profile of the Bank and the deficiencies and recommendations contained in the Report, and ensure that risk ratings are accurate and well supported by qualitative and quantitative data.

INTERNAL CONTROLS

4. (a) Within 60 days from the Risk Assessment conducted pursuant to Paragraph 3, the Bank shall develop a revised system of internal controls designed to ensure full compliance with the BSA ("BSA Internal Controls") taking into account its size and risk profile and addressing the deficiencies and recommendations contained in the Report.

(b) At a minimum, the BSA Internal Controls shall include policies, procedures, and processes addressing the following areas:

(i) Suspicious Activity Monitoring and Reporting: Taking into account its size and risk profile, the Bank shall develop, adopt, and implement policies, procedures, processes, and systems, and systems for monitoring, detecting, and reporting suspicious activity being conducted in all areas within or through the Bank. The Board needs to ensure that the resources deployed are commensurate with the Bank's transaction volume levels. While this

may be achieved through either manual or automated monitoring systems, the methodology for used to perform transaction monitoring needs to be comprehensive and utilize multiple time periods to ensure that potentially suspicious activities are being appropriate identified and reported as necessary. The Bank shall monitor all areas of the Bank for suspicious activity, including, but not limited to: cash transactions, international and domestic wire transfers, ACH, foreign nationals, non-resident aliens, high-risk deposit accounts, and non-bank financial institution accounts. The Bank shall cause the timely, accurate, and complete filing of SARs. The Bank shall require the appropriate level of documentation and support for any decision to file or not to file a SAR, as required by law.

(ii) Customer Due Diligence: The Bank shall review and enhance its customer due diligence (“CDD”) policies, procedures, and processes for new and existing customers (“CDD Program”):

(A) the CDD Program shall be consistent with guidance for CDD set forth in the BSA Manual;

(B) the CDD Program shall operate in conjunction with the Bank’s Customer Identification Program (“CIP”); and

(C) At a minimum, the CDD Program shall include:

(1) a risk rating system to assess the Bank’s customer base to ensure that the risk level of each customer is accurately identified based on the potential for money laundering or other illicit activity posed by the customer’s activities. Each risk rating assessment shall take into account the purpose of the account, the customer’s business or occupation, the actual or anticipated type and volume of account activity, types of products and services offered, and locations and markets served by the customer;

(2) policies and procedures with respect to high-risk accounts and customers, including a formal visitation program for all high-risk customers, periodic update of risk grades based on changes in risk factors, and a process for obtaining higher-level approvals for accounts and transactions where appropriate;

(3) an appropriate level of ongoing monitoring commensurate with the customer's risk level to ensure that the Bank can reasonably detect suspicious activity and accurately determine whether the customer requires enhanced due diligence ("EDD");

(4) a sufficient level of customer information at account opening and appropriate analysis of that information to assist and support the risk rating assigned;

(5) procedures for documenting and supporting the risk analysis conducted under the CDD process, including procedures for validating risk ratings assigned at account opening and resolving issues in the event insufficient or inaccurate information is obtained; and

(6) procedures reasonably designed to ensure the timely identification and accurate reporting of known or suspected criminal activity, as required by Part 353.

(iii) Enhanced Due Diligence: The Bank shall establish EDD policies, procedures, and processes to conduct EDD necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of suspicious activity ("EDD Program"), including, but not limited to, high-risk accounts:

(A) the EDD program shall be consistent with the guidance for EDD set forth in the BSA Manual;

(B) the EDD Program shall operate in conjunction with the Bank's CIP and CDD policies, procedures and processes; and

(C) At a minimum, the EDD Program shall include:

(1) procedures to determine the frequency of ongoing reviews based on customer risk level;

(2) procedures to determine the appropriate documentation necessary to conduct and support ongoing reviews and analyses in order to reasonably understand the customer's normal and expected transactions; and

(3) procedures reasonably designed to ensure the timely identification and accurate reporting to law enforcement and the Supervisory Authorities of known or suspected criminal activity against or involving the Bank, as required by Part 353.

(iv) Taking into account its size and risk profile, the Bank shall develop, adopt, and implement policies, procedures, processes, and systems, including automated monitoring systems, to provide for adequate systems for account aggregation to ensure sufficient data exists to determine if SARs and CTRs should be filed;

(v) The policies, procedures, and processes that comprise the Bank's BSA Internal Controls shall operate in conjunction with each other and shall be consistent with the guidance for account/transaction monitoring and reporting set forth in the BSA Manual, including dissemination of the high-risk customer list to appropriate departments within the Bank.

(vi) Required Reporting: The Bank's BSA Internal Controls shall provide for periodic reports that address the following areas of activity: high-volume wire transfer accounts, activity by risk code, and transactions by country. The reports shall also include tracking data to ensure appropriate CIP information is obtained, site visitations are conducted, and monitoring

and SAR reporting systems procedures are being implemented in a timely manner. Such reports shall be provided to the Board prior to each Board meeting.

(c) The Bank shall adopt and implement the BSA Internal Controls. The BSA Internal Controls shall be submitted to the Supervisory Authorities for review and comment. Within 30 days of receipt of the Supervisory Authorities' comments and after incorporation and adoption of all comments, the Board shall approve the revised BSA Internal Controls, which approval shall be recorded in the minutes of the Board meeting.

BSA TRAINING

5. (a) The Bank shall ensure that all appropriate personnel are aware of, and can comply with, the requirements of the BSA applicable to the individual's specific responsibilities to assure the Bank's compliance with the BSA.

(b) Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement effective training programs designed for the Board, management, and staff and their specific compliance responsibilities on all relevant aspects of laws, regulations, and Bank policies, procedures and processes relating to the BSA ("Training Program"). The Training Program shall ensure that all appropriate personnel are aware of, and can comply with, the requirements of the BSA on an ongoing basis, including as they relate to high-risk accounts, products, and services. The Training Program should incorporate specialized training for internal auditors to identify BSA/AML issues. The Training Program shall, at a minimum, include:

(i) an overview of the BSA for new staff along with specific training designed for their specific duties and responsibilities upon hiring;

(ii) training on the Bank's BSA, AML, and OFAC policies, procedures and processes along with new rules and requirements as they arise for appropriate personnel designed to address their specific duties and responsibilities;

(iii) a requirement that the Bank fully document the training of each employee with respect to the BSA, AML, and OFAC policies, procedures, and processes; and

(iv) a requirement that training be conducted no less frequently than annually.

BSA OFFICER AND STAFF

6. (a) Within 60 days from the effective date of the ORDER, the Bank shall assess its BSA staffing needs to ensure adequate qualified personnel are in place at all times. The assessment should be performed by parties with appropriate skills and expertise necessary for assessing the knowledge, experience, and qualifications of staff within the BSA function at the Bank. Within 90 days from the effective date of the ORDER, the Bank shall develop and implement a written plan of action to develop or recruit personnel and hire additional or replacement personnel with the requisite ability, experience, and other qualifications necessary to ensure BSA compliance ("BSA Staffing Plan"). The BSA Staffing Plan shall include, at a minimum, consideration of the Bank's size and growth plans, geographical areas served, products and services offered, and changes in the BSA, AML, and OFAC practices, procedures, rules, and regulations.

(b) The Board shall review and approve the BSA Staffing Plan. Periodically thereafter, but no less often than annually, the Bank shall assess its BSA staffing needs to ensure adequate and appropriate BSA staffing resources are in place at all times.

(c) As part of the BSA Staffing Plan, the Board shall designate a qualified individual or individuals ("BSA Officer"), acceptable to the Supervisory Authorities, with delegated authority and adequate time, training, and appropriate resources to implement the Bank's BSA

Compliance Program. The BSA Officer's qualifications shall be commensurate with the complexity of the Bank's activities and the appointment of the BSA Officer shall conform to the guidance regarding BSA officers set forth in the BSA Manual. The BSA Officer shall report to the Board and shall provide reports as required directly to the Board or to the Directors' Committee established by the Board pursuant to paragraph 1(b) of this ORDER.

INDEPENDENT TESTING

7. Within 60 days from the effective date of the ORDER, the Bank shall contract with an external independent testing firm that specializes in the BSA, AML, and OFAC rules and regulations for a review. The scope of the testing to be performed shall be in writing and reviewed and approved by the Board. Testing results and recommendations for improvement shall be in writing and shall be approved by the Board within 60 days of completion. Testing procedures shall be consistent with the guidance for independent testing set forth in the BSA Manual and in compliance with the procedures described in *Bank Secrecy Act Provision for Independent Testing for BSA/AML Compliance*, FIL 38-2008 (May 16, 2008). Thereafter, the Bank shall have external independent testing performed no less than annually.

BSA REPORTS

8. The Bank shall ensure that all required reports including Currency Transaction Reports ("CTRs"), SARs, Reports of International Transportation of Currency or Monetary Instruments, Reports of Foreign Bank and Financial Accounts, and any other similar or related reports required by law or regulation are completed accurately and properly filed within required timeframes.

LOOK BACK REVIEW

9. (a) Within 30 days from the effective date of this ORDER, the Bank shall engage an independent qualified firm, acceptable to the Supervisory Authorities, to conduct a review of all

high-risk accounts based on the Bank's risk assessment conducted pursuant to this ORDER and all high-risk transaction activity for the period beginning December 1, 2014, through the effective date of this ORDER to determine whether SARs and CTRs should be filed ("Look Back Review").

(b) Within 60 days from the effective date of this ORDER, the Bank shall submit to the Supervisory Authorities a written plan ("Look Back Review Plan") for approval that sets forth:

(i) the scope of the Look Back Review, including the types of transactions to be reviewed;

(ii) the methodology for conducting the Look Back Review, including any sampling procedures to be followed;

(iii) the expertise and resources devoted to the Look Back Review;

(iv) the anticipated completion date of the Look Back Review; and

(v) a commitment that any interim reports, draft reports or work papers associated with the Look Back Review will be made available to the Supervisory Authorities upon request.

(c) Within 120 days of receipt of the Supervisory Authorities' non-objection to the Look Back Review Plan, the Look Back Review shall be completed and submitted to the Board. The Bank shall prepare any CTRs and SARs necessary based on the review.

(d) The review firm shall present its findings from the Look Back Review directly to the Board at a Board meeting and the presentation, conclusions, and discussion of the findings shall be reflected in the minutes for the meeting.

(e) Upon completion of the Look Back Review, the Bank shall submit a copy of the Look Back Review and copies of any additional SARs and CTRs filed to the Supervisory Authorities.

VIOLATIONS OF LAW, REGULATION, AND CONTRAVENTION OF POLICY

10. Within 60 days from the effective date of this ORDER, the Bank will eliminate and/or correct all violations of laws, regulations, and/or contraventions of statements of policy in the Report and shall adopt and implement appropriate procedures to ensure future compliance with all such applicable federal and state laws, regulations, and/or statements of policy.

PROGRESS REPORTS

11. Within 30 days from the end of the first quarter following the effective date of this ORDER, and within 30 days from the end of each quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Supervisory Authorities have released the Bank in writing from making further reports. All progress reports and other written responses to this ORDER shall be reviewed by the Board and made a part of the appropriate Board meeting minutes.

DISCLOSURE TO SHAREHOLDERS

12. Following the issuance of this ORDER, the Bank shall provide to its shareholders or otherwise furnish a description of this ORDER (i) in conjunction with the Bank's next shareholder communication or (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Risk Management Supervision, Accounting and Securities

Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 and to the Bureau of Financial Institutions, P.O. Box 640, Richmond, Virginia 23218-0640 to review at least twenty (20) days prior to dissemination to shareholders. Any changes requested to be made by the Supervisory Authorities shall be made prior to dissemination of the description, communication, notice, or statement. The Bank may satisfy this disclosure to shareholders requirement by timely filing a Form 8-K describing the entry into this Order and attaching a complete copy of this Order thereto.

OTHER ACTIONS

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the Supervisory Authorities.

Issued Pursuant to Delegated Authority,

Dated: August 2nd, 2016

By:

/s/

Michael J. Dean
Division of Risk Management Supervision
Federal Deposit Insurance Corporation

The Commissioner of Virginia having duly approved the foregoing ORDER, and the Bank, through its Board, agree that the issuance of the said ORDER by the Federal Deposit Insurance Corporation shall be binding as between the Bank and the Bureau to the same degree and legal effect that such ORDER would be binding on the Bank if the Bureau had issued a separate ORDER that included and incorporated all of the provisions of the foregoing ORDER pursuant to Va. Code Ann. Section 6.2-906 (2010).

Dated this 29th day of July, 2016.

/s/

E. Joseph Face, Jr.
Commissioner of Financial Institutions
Commonwealth of Virginia