FORM SC 13D

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities

Filing Date: **1996-02-07**
SEC Accession No. 0000916641-96-000081

SUBJECT COMPANY

FIRST WASHINGTON BANCORP INC

CIK:**757762**| IRS No.: **363207840** | State of Incorp.:**DE** | Fiscal Year End: **0630**
Type: **SC 13D** | Act: **34** | File No.: **005-44965** | Film No.: **96512596**
SIC: **6035** Savings institution, federally chartered

Business Address
570 HERNDON PARKWAY
HERNDON VA 22070
7035789100

FILED BY

FIRST MARYLAND BANCORP

CIK:**36510**| IRS No.: **520981378** | State of Incorp.:**MD** | Fiscal Year End: **1231**
Type: **SC 13D**
SIC: **6021** National commercial banks

Business Address
FIRST MARYLAND BLDG
25 S CHARLES ST
BALTIMORE MD 21201
4102444000

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D

UNDER THE SECURITIES EXCHANGE ACT OF 1934

1ST WASHINGTON BANCORP, INC.
(Name of Issuer)

COMMON STOCK, $.01 PAR VALUE
(Title of Class of Securities)

336909106
(CUSIP Number)

GREGORY K. THORESON
VICE PRESIDENT AND GENERAL COUNSEL
FIRST MARYLAND BANCORP
25 SOUTH CHARLES STREET, MS101-850
BALTIMORE, MARYLAND 21201
(410) 244-3800
(Name, Address and Telephone Number of Persons
Authorized to Receive Notices and Communications)

January 23, 1996
(Date of Event which Requires Filing of this Statement)

IF THE FILING PERSON HAS PREVIOUSLY FILED A STATEMENT ON SCHEDULE 13G TO REPORT THE ACQUISITION WHICH IS THE SUBJECT OF THIS SCHEDULE 13D, AND IS FILING THIS SCHEDULE BECAUSE OF RULE 13D-1(B)(3) OR (4), CHECK THE FOLLOWING BOX. |_|

CHECK THE FOLLOWING BOX IF A FEE IS BEING PAID WITH THE STATEMENT. |X|

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1. Name of Reporting Person/SS or IRS Identification Number of Above Person
First Maryland Bancorp

2. Check the Appropriate Box if a Member of a Group
(a)
(b)

3. SEC Use Only

4. Source of Funds
WC

5. Check Box if Disclosure of Legal Proceedings is Required Pursuant to Item 2(d) or 2(e)
Not applicable [ ]

6. Citizenship or Place of Organization
State of Maryland

Number of Shares Beneficially Owned by Each Reporting Person With	7. Sole Voting Power: 1,966,692
	8. Shared Voting Power:
	9. Sole Dispositive Power: 1,966,692
	10. Shared Dispositive Power

11. Aggregate Amount Owned by Each Reporting Person
1,966,692

12. Check Box if the Aggregate Amount in Row 11 Excludes Certain Shares
[ ]

13. Percent of Class Represented by amount in Row 11:
19.9%

14. Type of Reporting Person:
CO

ITEM 1. SECURITY AND ISSUER

The class of equity security to which this statement relates is the Common Stock, $.01 par value (the "WF Common Stock"), of 1st Washington Bancorp, Inc., a Delaware corporation. ("1st Washington"). The principal executive

offices of 1st Washington are located at 570 Herndon Parkway, Herndon, Virginia 22070.

ITEM 2. IDENTITY AND BACKGROUND

The person filing this statement is First Maryland Bancorp, a corporation organized under the laws of the State of Maryland ("First Maryland"). The address of First Maryland's principal business and its principal office is 25 South Charles Street, Baltimore, Maryland 21201. First Maryland is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and through its various bank and non-bank subsidiaries, provides a variety of financial services and products to individuals, businesses and others. Schedule 1 to this statement sets forth certain information with respect to the directors and executive officers of First Maryland.

All of the outstanding common stock of First Maryland is owned by Allied Irish Banks, p.l.c., Bankcentre, Ballsbridge, Dublin 4 Ireland ("AIB"). AIB also controls 99% of the voting power of First Maryland's outstanding capital stock. AIB is an Irish banking corporation and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Shares of AIB common and preferred stock are traded on the Dublin, London and New York stock exchanges. AIB and its subsidiaries, including First Maryland, provide a diverse range of banking, financial and related services principally in Ireland, the United States and the United Kingdom. Schedule 2 to this statement sets forth certain information with respect to the directors and executive officers of AIB.

During the past five years, neither First Maryland or AIB, nor to the knowledge of First Maryland, any director or executive officer of First Maryland or AIB, (i) has been convicted in a criminal proceeding or (ii) has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction where, as a result of such proceeding, was or is subject to a judgement, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding a violation with respect to such laws.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

The source of funds for any exercise of the Option (as defined in Item 4) would be provided from First Maryland's

working capital. If First Maryland exercised the Option in full, the exercise price would be approximately $13.8 million.

ITEM 4. PURPOSE OF THE TRANSACTION.

On January 23, 1996, First Maryland, 1st Washington and FMB Acquisition Corp. ("Newco"), a wholly owned subsidiary of First Maryland formed for the purpose of facilitating the transaction described below, entered into a definitive Agreement and Plan of Merger (the "Merger Agreement"). Under the Merger Agreement, Newco will merge with and into 1st Washington, shareholders of 1st Washington will receive $8.125 per share of WF Common Stock outstanding (including stock options outstanding to 1st Washington employees), and 1st Washington will become a wholly owned subsidiary of First Maryland (the "Merger"). Contemporaneously with, or immediately following, the consummation of the Merger, the business of 1st Washington and its principal subsidiary, Washington Federal Savings Bank, will be integrated into the business of First Maryland. Consummation of the transactions contemplated by the Merger Agreement is subject to approval by the shareholders of 1st Washington and to receipt of all required regulatory approvals. A copy of the Merger Agreement is filed as an exhibit to this statement and is incorporated herein by reference.

In connection with the Merger Agreement, 1st Washington and First Maryland entered into a Stock Option Agreement, dated January 23, 1996 (the "Option Agreement"), pursuant to which 1st Washington granted to First Maryland an option (the "Option") to acquire up to 1,966,692 shares of WF Common Stock at an exercise price of $7.00 per share. The option is exercisable only upon the occurrence of certain events, as set forth in Section 2 of the Option Agreement. First Maryland may cause 1st Washington to repurchase the Option (and any shares in respect of which it has been exercised) under certain circumstances, as described in Section 7 of the Option Agreement. Reference is hereby made to the Option Agreement filed as an exhibit to this statement for a complete description of the terms and conditions of the Option.

The purpose of the Option Agreement is to increase the likelihood that the Merger will be completed as contemplated by the Merger Agreement.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

As a result of the Option Agreement, First Maryland (and AIB) may, pursuant to Rule 13d-3(d)(i) under the Securities Exchange Act of 1934, be deemed to own beneficially up to 1,966,692 shares of WF Common Stock, which is 19.9% of the outstanding WF Common Stock as of January 23, 1996, or 16.6% of the outstanding WF Common Stock as of January 23, 1996, after giving effect to the full exercise of the Option. If the Option were to be exercised, First Maryland would have sole voting power and,

subject to the Option Agreement, sole dispositive power, with respect to the shares of WF Common Stock acquired upon exercise.

To the knowledge of First Maryland, Robert I. Schattner, DDS, a director of First Maryland, may, pursuant to Rule 13d-3(d)(i) under the Securities Exchange Act of 1934, be deemed to own beneficially 836,062 shares of WF Common Stock (including the shares descibed in the immediately succeeding paragraph), or 8.46% of the outstanding WF Common Stock. To the knowledge of First Maryland, Dr. Schattner has sole voting and sole dispositive powers with respect to such shares.

First Maryland has been informed that Dr. Shattner purchased a total of 66,300 shares of WF Common Stock during the period from January 24, 1996 through February 2, 1996.

Except as set forth above, neither First Maryland or AIB, nor to the knowledge of First Maryland, any of their respective directors and executive officers, have effected transactions in shares of WF Common Stock during the past 60 days.

ITEM 6. CONTRACTS, AGREEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.

Except as set forth above, neither First Maryland or AIB, nor to the knowledge of First Maryland, any of their respective directors and executive officers, has any contracts, arrangements, understandings or relationships (legal or otherwise) with any person with respect to any securities of 1st Washington, including but not limited to, transfer or voting of any securities of 1st Washington, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

7.1 Stock Option Agreement, dated January 23, 1996, between 1st Washington Bancorp, Inc. and First Maryland Bancorp.

7.2 Agreement and Plan of Merger, dated as of January 23, 1996, among First Maryland Bancorp, 1st Washington Bancorp, Inc. and FMB Acquisition Corp.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 6, 1995

FIRST MARYLAND BANCORP

By: ROBERT W. SCHAEFER
Robert W. Schaefer, Executive Vice President and Chief Financial Officer

SCHEDULE 1 TO SCHEDULE 13D

DIRECTORS AND EXECUTIVE OFFICERS OF FIRST MARYLAND BANCORP

The names, business addresses and present principal occupations or employments of the directors and executive officers of First Maryland Bancorp are set forth below. If no business address is given, the director's or executive officer's address is First Maryland Bancorp, 25 South Charles Street, Baltimore, Maryland 21201. Unless otherwise indicated, (i) each occupation set forth opposite an individual's name refers to First Maryland Bancorp and (ii) each individual is a citizen of the United States. Individuals marked with an asterisk are citizens of Ireland.

Name	Present Principal Occupation or Employment
Frank P. Bramble	President and Chief Executive Officer
Benjamin L. Brown	Former General Counsel and Executive Director of the National Institute of Municipal Law Officers (retired)
Jeremiah E. Casey	Chairman of the Board
J. Owen Cole	Former Chairman of the Board of First Maryland Bancorp (retired)
Edward A. Crooke P.O. Box 1475 Baltimore, MD 21203	President and Chief Operating Officer of Baltimore Gas and Electric Company

John F. Dealy 2300 N Street, NW Washington, DC 20037	Distinguished Professor of the Georgetown University School of Business and Senior Counsel to Shaw, Pittman, Potts and Trowbridge
Mathias J. DeVito 10275 Little Patuxent Pkwy. Columbia, MD 21044	Chairman of the Board of The Rouse Company
Rhoda M. Dorsey	President Emeritus of Goucher College
Jerome W. Geckle	Former Chairman of the Board of PHH Corporation (retired)

Frank A. Gunther	Former Chairman of the Board and President of Albert Gunther Inc. (retired)
Curran W. Harvey, Jr. 1119 St. Paul Street Baltimore, MD 21201	General Partner of Spectra Enterprise Associates; Special Partner of New Enterprise Associates
Margaret M. Heckler	Attorney
Kevin J. Kelly* Bankcentre Ballsbridge, Dublin 4	Group Financial Director of Allied Irish Banks, p.l.c.; Group General Manager of AIB Bank
Henry J. Knott 3904 Hickory Ave. Baltimore, MD 21211	Chairman and Chief Executive Officer of Real Estate Resource Management, Inc.
Thomas P. Mulcahy* Bankcentre Ballsbridge, Dublin 4	Group Chief Executive of Allied Irish Banks, p.l.c.
William M. Passano, Jr.	Chairman of the Board of

351 W. Camden Street Baltimore, MD 21230	Waverly, Inc.
Robert I. Schattner 5901 Montrose Rd. Rockville, MD 20852	President of The R. Schattner Foundation for Medical Research; President and Chief Executive Officer of Sporicidin International

Executive Officers Who Are Not Directors

Name	Position with First Maryland
Harry E. Berry	Executive Vice President and Chief Credit Officer
David M. Cronin*	Executive Vice President and Treasurer
Jerome W. Evans	Executive Vice President and Chief Administrative Officer
Walter R. Fatzinger, Jr.	Executive Vice President
Susan M. Keating	Executive Vice President

Jeffrey D. Maddox	Executive Vice President
Frederick W. Meier, Jr.	Executive Vice President
Robert W. Schaefer	Executive Vice President and Chief Financial Officer
Richard H. White	Executive Vice President

DIRECTORS AND EXECUTIVE OFFICERS OF ALLIED IRISH BANKS, P.L.C.

The names, business addresses and present principal occupations or employments of the directors and executive officers of Allied Irish Banks, p.l.c. ("AIB") are set forth below. If no business address is given, the director's or executive officer's address is Allied Irish Banks, p.l.c., Bankcentre, Ballsbridge, Dublin 4 Ireland. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to AIB. Except for Mr. Casey, who is a citizen of the United States, and for Mr. Carson, who is a citizen of the United Kingdom, each individual is a citizen of Ireland.

Name	Present Principal Occupation or Employment
James P. Culliton	Chairman
Thomas P. Mulcahy	Group Chief Executive
Michael D. Buckley	Group General Manager, Capital Markets
William M. Carson	Chairman, AIB Group Northern Ireland plc.
Jeremiah E. Casey	Chief Executive, USA Division
Tom Cavanagh	Chairman, Earlsfort Centre Hotel Proprietors Ltd.
Padraic M. Fallon	Chairman, Euromoney Publications plc
Kevin J. Kelly	Group Financial Executive; Group General Manager of AIB Bank
John B. McGuckian	Chairman, Ulster Television plc and the Industrial Development Board
Raymond J. McLoughlin	Managing Director, James Crean plc.
Carol Moffett	Managing Director, Moffett Engineering Limited
Denis J. Murphy	Chairman, St. Patrick's Wollen Mills and The Swansea Cork Car Ferries Ltd.

Miriam H. O'Brien	Chairman, Foundation for Fiscal Studies and the European Cultural Foundation
Lochlann Quinn	Director, Glen Dimplex
Seamus J. Sheehy	Professor of Agricultural Economics, University College, Dublin
Peter Sutherland	Chairman, Goldman Sachs International

Executive Officers Who Are Not Directors

Brian Cregg	Head of Group Human Resources and Strategic Technology and member of Group Executive Committee
John Hickey	Head of Direct Banking and member of Group Executive Committee
Pat Ryan	Group Treasurer and member of Group Executive Committee

STOCK OPTION AGREEMENT

THE TRANSFER OF THIS AGREEMENT IS SUBJECT TO
CERTAIN PROVISIONS CONTAINED HEREIN AND TO
RESALE RESTRICTIONS UNDER THE
SECURITIES ACT OF 1933, AS AMENDED

STOCK OPTION AGREEMENT, dated January 23, 1996, between 1ST WASHINGTON BANCORP, INC., a Delaware corporation ("Issuer"), and FIRST MARYLAND BANCORP, a Maryland Corporation ("Grantee").

W I T N E S S E T H:

WHEREAS, Grantee and Issuer have entered into an Agreement and Plan of Merger dated as of January 23, 1996 (the "Merger Agreement"); and

WHEREAS, as a condition to Grantee's entering into the Merger Agreement and in consideration therefor, Issuer has agreed to grant Grantee the Option (as hereinafter defined):

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein and in the Merger Agreement, the parties hereto agree as follows:

1. (a) Issuer hereby grants to Grantee an unconditional, irrevocable option (the "Option") to purchase, subject to the terms hereof, up to 1,966,692 fully paid and nonassessable shares of Issuer's Common Stock, par value $.01 per share (the "Common Stock"), at a price of $$7.00 per share of Common Stock (the "Option Price"); provided, however, that in no event shall the number of shares of Common Stock for which this Option is exercisable exceed 19.9 percent of the Issuer's issued and outstanding shares of Common Stock, without giving effect to any shares subject or issued pursuant to the Option. The number of shares of Common Stock that may be received upon the exercise of the Option and the Option Price are subject to adjustment as herein set forth.

(b) In the event that any additional shares of Common Stock are issued or otherwise become outstanding after the date of this Agreement (other than pursuant to this Agreement), the number of shares of Common Stock subject to the Option shall be increased so that, after such issuance, it equals 19.9 percent of the number of shares of Common Stock then issued and outstanding, without giving effect to any shares subject or issued pursuant to the Option. Nothing contained in this Section 1(b) or elsewhere in this Agreement shall be deemed to authorize Issuer to breach any provision of the Merger Agreement.

2. (a) The Holder (as hereinafter defined) may exercise the Option, in whole or in part, and from time to time, if, but only if, both an Initial Triggering Event (as hereinafter defined) and a Subsequent Triggering Event (as hereinafter defined) shall have occurred prior to the occurrence of an Exercise Termination Event (as hereinafter defined), provided that the Holder shall have sent the written notice of such exercise (as provided in subsection (e) of this Section 2) within sixty (60) days following such Subsequent Triggering Event. The term "Exercise Termination Event" shall mean and shall be deemed to have occurred upon each and any of the following: (i) the Effective Time of the Merger; (ii) termination of the Merger Agreement in accordance with the provisions thereof if such termination occurs prior to the occurrence of an Initial Triggering Event except a termination by Grantee pursuant to Section 7.1(d) of the Merger Agreement (unless the breach by Issuer giving rise to such right of termination is non-volitional); (iii) the passage of 12 months after termination of the Merger Agreement if such termination follows the occurrence of an Initial Triggering Event or is a termination by Grantee pursuant to Section 7.1(d) of the Merger Agreement (unless the breach by Issuer giving rise to such right of termination is nonvolitional) (provided that if an Initial Triggering Event continues or occurs beyond such termination and prior to the passage of such 12-month period, the Exercise Termination Event shall be 12 months from the occurrence of the Last Triggering Event (as hereinafter defined) but in no event more than 18 months after such termination) or (iv) the second anniversary of the date hereof. The "Last Triggering Event" shall mean the last Initial Triggering Event to occur during the 12-month period described in clause 2(a)(iii). The term "Holder" shall mean the holder or holders of the Option.

(b) The term "Initial Triggering Event" shall mean any of the following events or transactions occurring after the date hereof:

(i) Issuer or any of its Subsidiaries (each an "Issuer Subsidiary"), without having received Grantee's prior written consent, shall have entered into an agreement to engage in an Acquisition Transaction (as hereinafter defined) with any person (the term "person" for purposes of this Agreement having the meaning assigned thereto in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder) other than Grantee or any of the Subsidiaries of Grantee (each a "Grantee Subsidiary") or the Board of Directors of Issuer shall have recommended that the stockholders of Issuer approve or accept any such Acquisition Transaction. For purposes of this Agreement, the term "Acquisition Transaction" shall mean (w) a merger or consolidation, or any similar transaction, involving Issuer or any Significant

Subsidiary (the term "Significant Subsidiary" for purposes of this Agreement having the meaning assigned thereto in Rule 1-02 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC")) of Issuer, (x) a purchase, lease, or other acquisition of all or a substantial portion of the assets of Issuer or any Significant Subsidiary of Issuer, (y) a purchase or other acquisition (including by way of merger, consolidation, share exchange or otherwise) of securities representing 10 percent or more of the voting power of Issuer or any Significant Subsidiary of Issuer, or (z) any substantially similar transaction;

(ii) Issuer or any Issuer Subsidiary, without having received Grantee's prior written consent, shall have authorized, recommended, proposed, or publicly announced its intention to authorize, recommend, or propose, to engage in an Acquisition Transaction with any person other than Grantee or a Grantee Subsidiary, or the Board of Directors of Issuer shall have publicly withdrawn or modified, or publicly announced its interest to withdraw or modify, in any manner adverse to Grantee, its recommendation that the stockholders of Issuer approve the transactions contemplated by the Merger Agreement;

(iii) Any person other than Grantee, any Grantee Subsidiary, or any Issuer Subsidiary acting in a fiduciary capacity in the ordinary course of its business shall have acquired beneficial ownership or the right to acquire beneficial ownership of 15 percent or more of the outstanding shares of Common Stock (the term "beneficial ownership" for purposes of this Agreement having the meaning assigned thereto in Section 13(d) of the Exchange Act, and the rules and regulations thereunder);

(iv) Any person other than Grantee or any Grantee Subsidiary shall have made a bona fide proposal to Issuer or its stockholders by public announcement or written communication that is or becomes the subject of public disclosure to engage in an Acquisition Transaction;

(v) After an overture is made by a third party to Issuer or its stockholders to engage in an Acquisition Transaction, Issuer shall have breached any covenant or obligation contained in the Merger Agreement and such breach (x) would entitle Grantee to terminate the Merger Agreement and (y) shall not have been cured prior to the Notice Date (as defined below); or

(vi) Any person other than Grantee or any Grantee Subsidiary, other than in connection with a transaction to which Grantee has given its prior written consent, shall have filed an application or notice with the Federal Reserve Board, or other federal or state bank regulatory authority, which application or

notice has been accepted for processing, for approval to engage in an Acquisition Transaction.

(c) The term "Subsequent Triggering Event" shall mean either of the following events or transactions occurring after the date hereof:

(i) The acquisition by any person of beneficial ownership of 25 percent or more of the then outstanding Common Stock; or

(ii) The occurrence of the Initial Triggering Event described in clause (i) of subsection (b) of this Section 2, except that the percentage referred to in clause (y) shall be 25 percent.

(d) Issuer shall notify Grantee promptly in writing of the occurrence of any Initial Triggering Event or Subsequent Triggering Event (together, a "Triggering Event"), it being understood that the giving of such notice by Issuer shall not be a condition to the right of the Holder to exercise the Option.

(e) In the event the Holder is entitled to and wishes to exercise the Option, it shall send to Issuer a written notice (the date of which being herein referred to as the "Notice Date") specifying (i) the total number of shares it will purchase pursuant to such exercise and (ii) a place and date not earlier than three (3) business days nor later than sixty (60) business days from the Notice Date for the closing of such purchase (the "Closing Date"); provided that if prior notification to or approval of the Federal Reserve Board or any other regulatory agency is required in connection with such purchase, the Holder shall promptly file the required notice or application for approval and shall expeditiously process the same and the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which any required notification periods have expired or been terminated or such approvals have been obtained and any requisite waiting period or periods shall have passed. Any exercise of the Option shall be deemed to occur on the Notice Date relating thereto.

(f) At the closing referred to in subsection (e) of this Section 2, the Holder shall pay to Issuer the aggregate purchase price for the shares of Common Stock purchased pursuant to the exercise of the Option in immediately available funds by wire transfer to a bank account designated by Issuer, provided that failure or refusal of Issuer to designate such a bank account shall not preclude the Holder from exercising the Option.

(g) At such closing, simultaneously with the delivery of immediately available funds as provided in subsection (f) of this Section 2, Issuer shall deliver to the Holder a certificate or certificates representing the number of shares of Common Stock purchased by the Holder and, if the Option should be exercised in part only, a new Option evidencing the rights of the Holder thereof to purchase the balance of the shares purchasable hereunder, and the Holder shall deliver to Issuer a copy of this Agreement and a letter agreeing that the Holder will not offer to sell or otherwise dispose of such shares in violation of applicable law or the provisions of this Agreement.

(h) Certificates for Common Stock delivered at a closing hereunder may be endorsed with a restrictive legend that shall read substantially as follows:

> "The transfer of the shares represented by this certificate is subject to certain provisions of an agreement between the registered holder hereof and Issuer and to resale restrictions arising under the Securities Act of 1933, as amended. A copy of such agreement is on file at the principal office of Issuer and will be provided to the holder hereof without charge upon receipt by Issuer of a written request therefor."

It is understood and agreed that: (i) the reference to the resale restrictions of the Securities Act of 1933, as amended (the "Securities Act"), in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the Holder shall have delivered to Issuer a copy of a letter from the staff of the SEC, or an opinion of counsel, in form and substance reasonably satisfactory to Issuer, to the effect that such legend is not required for purposes of the Securities Act; (ii) the reference to the provisions to this Agreement in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the shares have been sold or transferred in compliance with the provisions of this Agreement and under circumstances that do not require the retention of such reference; and (iii) the legend shall be removed in its entirety if the conditions in the preceding clauses (i) and (ii) are both satisfied. In addition, such certificates shall bear any other legend as may be required by law.

(i) Upon the giving by Holder to Issuer of the written notice of exercise of the Option provided for under subsection (e) of this Section 2 and the tender of the applicable purchase price in immediately available funds, the Holder shall be deemed to be the holder of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books

of Issuer shall then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to the Holder. Issuer shall pay all expenses, and any and all United States federal, state, and local taxes

and other charges that may be payable in connection with the preparation, issue, and delivery of stock certificates under this Section 2 in the name of the Holder or its assignee, transferee, or designee.

3. Issuer agrees: (i) that it shall at all times maintain, free from preemptive rights, sufficient authorized but unissued or treasury shares of Common Stock so that the Option may be exercised without additional authorization of Common Stock after giving effect to all other options, warrants, convertible securities, and other rights to purchase Common Stock; (ii) that it will not, by charter amendment or through reorganization, consolidation, merger, dissolution, or sale of assets, or by any other voluntary act, avoid or seek to avoid the observance or performance of any of the covenants, stipulations, or conditions to be observed or performed hereunder by Issuer; (iii) promptly to take all action as may from time to time be required (including (x) complying with all premerger notification, reporting, and waiting period requirements specified in 15 U.S.C. Section 18 and regulations promulgated thereunder and (y) in the event, under the Bank Holding Company Act of 1956, as amended (the "BHCA"), the Home Owners Loan Act, as amended, or the Change in Bank Control Act of 1978, as amended, or any state banking law, prior approval of or notice to any federal bank regulatory authority or any state regulatory authority is necessary before the Option may be exercised, cooperating fully with the Holder in preparing such applications or notices and providing such information to such federal or state regulatory authority as they may require) in order to permit the Holder to exercise the Option and Issuer duly and effectively to issue shares of Common Stock pursuant hereto; and (iv) promptly to take all action provided for in Section 5 hereof to protect the rights of the Holder against dilution.

4. This Agreement (and the Option granted hereby) are exchangeable, without expense, at the option of the Holder, upon presentation and surrender of this Agreement at the principal office of Issuer, for other Agreements providing for Options of different denominations entitling the holder thereof to purchase, on the same terms and subject to the same condition as are set forth herein, in the aggregate the same number of shares of Common Stock purchasable hereunder. The terms "Agreement" and "Option" as used herein include any Stock Option Agreements and related Options for which this Agreement (and the Option granted hereby) may be exchanged. Upon receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction, or mutilation of this Agreement, and (in the case of loss, theft, or

destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, Issuer will execute and deliver a new Agreement of like tenor and date. Any such new Agreement executed and delivered shall constitute an additional contractual obligation on the part of

Issuer, whether or not the Agreement so lost, stolen, destroyed, or mutilated shall at any time be enforceable by anyone.

5. In addition to the adjustment in the number of shares of Common Stock that are purchasable upon exercise of the Option pursuant to Section 1 of this Agreement, the number of shares of Common Stock purchasable upon the exercise of the Option and the Option Price shall be subject to adjustment from time to time as provided in this Section 5. In the event of any change in, or distributions in respect of, the Common Stock by reason of stock dividends, split-ups, mergers, recapitalizations, combinations, subdivisions, conversions, exchanges of shares, distributions on or in respect of the Common Stock that would be prohibited under the terms of the Merger Agreement, or the like, the type and number of shares of Common Stock purchasable upon exercise hereof and the Option Price shall be appropriately adjusted in such manner as shall fully preserve the economic benefits provided hereunder and proper provision shall be made in any agreement governing any such transaction to provide for such proper adjustment and the full satisfaction of the Issuer's obligations hereunder.

6. Upon the occurrence of a Subsequent Triggering Event that occurs prior to an Exercise Termination Event, Issuer shall, at the request of Grantee delivered within sixty (60) days of such Subsequent Triggering Event (whether on its own behalf or on behalf of any subsequent holder of this Option (or part thereof) or any of the shares of Common Stock issued pursuant hereto), promptly prepare, file, and keep current a shelf registration statement under the Securities Act covering this Option and any shares issued and issuable pursuant to this Option and shall use its reasonable best efforts to cause such registration statement to become effective and remain current in order to permit the sale or other disposition of this Option and any shares of Common Stock issued upon total or partial exercise of this Option (the "Option Shares") in accordance with any plan of disposition requested by Grantee. Issuer will use its reasonable best efforts to cause such registration statement first to become effective and then to remain effective for such period not in excess of one-hundred-eighty (180) days from the date such registration statement first becomes effective or such shorter time as may be reasonably necessary to effect such sales or other dispositions. Grantee shall have the right to demand two such registrations. The foregoing notwithstanding, if, at the time of any request by Grantee for registration of the Option or Option

Shares as provided above, Issuer is in registration with respect to an underwritten public offering of shares of Common Stock, and if in the good faith judgment of the managing underwriter or managing underwriters, or, if none, the sole underwriter or underwriters, of such offering the inclusion of the Holder's Option or Option Shares would interfere with the successful marketing of the shares of Common Stock offered by Issuer, the number of Option Shares otherwise

to be covered in the registration statement contemplated hereby may be reduced; and provided, however, that after any such required reduction the number of Option Shares to be included in such offering for the account of the Holder shall constitute at least 25 percent of the total number of shares to be sold by the Holder and Issuer in the aggregate; and provided further, however, that if such reduction occurs, then the Issuer shall file a registration statement for the balance as promptly as practical and no reduction shall thereafter occur. Each such Holder shall provide all information reasonably requested by Issuer for inclusion in any registration statement to be filed hereunder. If requested by any such Holder in connection with such registration, Issuer shall become a party to any underwriting agreement relating to the sale of such shares, but only to the extent of obligating itself in respect of representations, warranties, indemnities, and other agreements customarily included in such underwriting agreements for the Issuer. Upon receiving any request under this Section 6 from any Holder, Issuer agrees to send a copy thereof to any other person known to Issuer to be entitled to registration rights under this Section 6, in each case by promptly mailing the same, postage prepaid, to the address of record of the persons entitled to receive such copies. Notwithstanding anything to the contrary contained herein, in no event shall Issuer be obligated to effect more than two registrations pursuant to this Section 6 by reason of the fact that there shall be more than one Grantee as a result of any assignment or division of this Agreement.

7. (a) Immediately prior to the occurrence of a Repurchase Event (as defined below), (i) following a request of the Holder, delivered prior to an Exercise Termination Event, Issuer (or any successor thereto) shall repurchase the Option from the Holder at a price (the "Option Repurchase Price") equal to the amount by which (A) the market/offer price (as defined below) exceeds (B) the Option Price, multiplied by the number of shares for which this Option may then be exercised and (ii) at the request of the owner of Option Shares from time to time (the "Owner"), delivered within ninety (90) days of such occurrence (or such later period as provided in Section 10), Issuer shall repurchase such number of the Option Shares from the Owner as the Owner shall designate at a price (the "Option Share Repurchase Price") equal to the market/offer price multiplied by the number of Option Shares so designated. The term "market/offer price"

shall mean the highest of the following amounts with respect to the six-month period immediately preceding the date the Holder gives notice of the required repurchase of this Option or the Owner gives notice of the required repurchase of Option Shares, as the case may be, (i) the price per share of Common Stock at which a tender offer or exchange offer therefor has been made, (ii) the price per share of Common Stock to be paid by any third party pursuant to an agreement with Issuer, (iii) the highest closing price for shares of Common Stock, or (iv)

in the event of a sale of all or a substantial portion of Issuer's assets, the sum of the price paid in such sale for such assets and the current market value of the remaining assets of Issuer as determined by a nationally recognized investment banking firm selected by the Holder or the Owner, as the case may be, divided by the number of shares of Common Stock of Issuer outstanding at the time of such sale. In determining the market/offer price, the value of consideration other than cash shall be determined by a nationally recognized investment banking firm selected by the Holder or Owner, as the case may be, and reasonably acceptable to Issuer. Notwithstanding the foregoing, if the same person who has participated in a Triggering Event has entered, or after such Triggering Event has occurred enters, into any agreement or understanding with Grantee relating to Grantee's rights under this Option or with respect to the Option Shares or directly or indirectly relating to Issuer, Grantee shall, notwithstanding the terms of such agreement or understanding, at any time upon the occurrence of a Subsequent Triggering Event of the type set forth in Section 3(d)(i) without Issuer's approval, recommendation or consent, promptly request that Issuer repurchase the Option and any Option Shares held by Grantee as provided in this Section 8 and Issuer shall do so.

(b) The Holder and the Owner, as the case may be, may exercise its right to require Issuer to repurchase the Option and any Option Shares pursuant to this Section 7 by surrendering for such purpose to Issuer, at its principal office, a copy of this Agreement or certificates for Option Shares, as applicable, accompanied by a written notice or notices stating that the Holder or the Owner, as the case may be, elects to require Issuer to repurchase this Option and/or the Option Shares in accordance with the provisions of this Section 7. Within the latter to occur of (x) five (5) business days after the surrender of the Option and/or certificates representing Option Shares and the receipt of such notice or notices relating thereto and (y) the time that is immediately prior to the occurrence of a Repurchase Event, Issuer shall deliver or cause to be delivered to Holder the Option Repurchase Price and/or to the Owner the Option Share Repurchase Price therefor or the portion thereof that Issuer is not then prohibited under applicable law and regulation from so delivering.

(c) To the extent that Issuer is prohibited under applicable law or regulation from repurchasing the Option and/ or the Option Shares in full, Issuer shall immediately so notify the Holder and/or the Owner and thereafter deliver or cause to be delivered, from time to time, to the Holder and/or the Owner, as appropriate, the portion of the Option Repurchase Price and the Option Share Repurchase Price, respectively, that it is no longer prohibited from delivering, within five (5) business days after the date on which Issuer is no longer so prohibited; provided, however, that if Issuer at any time after

delivery of a notice of repurchase pursuant to paragraph (b) of this Section 7 is prohibited under applicable law or regulation from delivering to the Holder and/or the Owner, as appropriate, the Option Repurchase Price and the Option Share Repurchase Price, respectively, in full (and Issuer hereby undertakes to use its best efforts to obtain all required regulatory and legal approvals and file any required notices as promptly as practicable in order to accomplish such repurchase), the Holder or Owner may revoke its notice of repurchase of the Option or the Option Shares either in whole or to the extent of the prohibition, whereupon, in the latter case, Issuer shall promptly (i) deliver to the Holder and/or the Owner, as appropriate, that portion of the Option Repurchase Price or the Option Share Repurchase Price that Issuer is not prohibited from delivering; and (ii) deliver, as appropriate, either (A) to the Holder, a new Stock Option Agreement evidencing the right of the Holder to purchase that number of shares of Common Stock obtained by multiplying the number of shares of Common Stock for which the surrendered Stock Option Agreement was exercisable at the time of delivery of the notice of repurchase by a fraction, the numerator of which is the Option Repurchase Price less the portion thereof theretofore delivered to the Holder and the denominator of which is the Option Repurchase Price, or (B) to the Owner, a certificate for the Option Shares it is then so prohibited from repurchasing.

(d) For purposes of this Section 7, the term "Repurchase Event" shall mean and shall be deemed to have occurred upon each and any of the following: (i) the consummation of any merger, consolidation, or similar transaction involving Issuer or any purchase, lease, or other acquisition of all or a substantial portion of the assets of Issuer, or (ii) the acquisition by any person of beneficial ownership of 50 percent or more of the then outstanding shares of Common Stock, provided that no such event shall constitute a Repurchase Event unless a Subsequent Triggering Event shall have occurred prior to an Exercise Termination Event. The parties hereto agree that Issuer's obligations to repurchase the Option or Option Shares under this Section 7 shall not terminate upon the occurrence of an Exercise Termination Event unless no Subsequent Triggering Event shall have occurred prior to the occurrence of an Exercise Termination Event.

8. (a) In the event that prior to an Exercise Termination Event, Issuer shall enter into an agreement (i) to consolidate with or merge into any person, other than Grantee or one of the Subsidiaries of Grantee, and shall not be the continuing or surviving corporation of such consolidation or merger, (ii) to permit any person, other than Grantee or one of the Grantee Subsidiaries, to merge into Issuer and Issuer shall be the continuing or surviving corporation, but, in connection with such merger, the then outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other

person or cash or any other property or the then outstanding shares of Common Stock shall after such merger represent less than 50 percent of the outstanding voting shares and voting share equivalents of the merged company, or (iii) to sell or otherwise transfer all or substantially all of its assets to any person, other than Grantee or one of the Grantee Subsidiaries, then, and in each such case, the agreement governing such transaction shall make proper provision so that the Option shall, upon the consummation of any such transaction and upon the terms and conditions set forth herein, be converted into, or exchanged for, an option (the "Substitute Option"), at the election of the Holder, of either (x) the Acquiring Corporation (as hereinafter defined) or (y) any person that controls the Acquiring Corporation.

(b) The following terms have the meanings indicated:

(1) "Acquiring Corporation" shall mean (i) the continuing or surviving corporation of a consolidation or merger with Issuer (if other than Issuer), (ii) Issuer in a merger in which Issuer is the continuing or surviving person, and (iii) the transferee of all or substantially all of Issuer's assets.

(2) "Substitute Option Issuer" shall mean the issuer of the Substitute Option.

(3) "Substitute Common Stock" shall mean the common stock issued by the Substitute Option Issuer upon exercise of the Substitute Option.

(4) "Assigned Value" shall mean the market/offer price, as defined in Section 7.

(5) "Average Price" shall mean the average closing price of a share of the Substitute Common Stock for the one year immediately preceding the consolidation, merger, or sale in question, but in no event higher than the closing price of the shares of Substitute Common Stock on the date preceding such consolidation, merger or sale; provided that if Issuer is the Substitute Option Issuer, the Average Price shall be computed with respect to a share of common stock issued by the person merging into

Issuer or by any company which controls or is controlled by such person, as the Holder may elect.

(c) The Substitute Option shall have the same terms as the Option, provided, that if the terms of the Substitute Option cannot, for legal reasons, be the same as the Option, such terms shall be as similar as possible and in no event less advantageous to the Holder. The Substitute Option Issuer shall also enter into an agreement with the then Holder or Holders of the Substitute Option

in substantially the same form as this Agreement, which shall be applicable to the Substitute Option.

(d) The Substitute Option shall be exercisable for such number of shares of Substitute Common Stock as is equal to the Assigned Value multiplied by the number of shares of Common Stock for which the Option is then exercisable, divided by the Average Price. The exercise price of the Substitute Option per share of Substitute Common Stock shall then be equal to the Option Price multiplied by a fraction, the numerator of which shall be the number of shares of Common Stock for which the Option is then exercisable and the denominator of which shall be the number of shares of Substitute Common Stock for which the Substitute Option is exercisable.

(e) In no event, pursuant to any of the foregoing paragraphs, shall the Substitute Option be exercisable for more than 19.9 percent of the shares of Substitute Common Stock outstanding prior to the exercise of the Substitute Option. In the event that the Substitute Option would be exercisable for more than 19.9 percent of the shares of Substitute Common Stock outstanding prior to exercise but for this clause (e), the Substitute Option Issuer shall make a cash payment to Holder equal to the excess of (i) the value of the Substitute Option without giving effect to the limitation in this clause (e) over (ii) the value of the Substitute Option after giving effect to the limitation in this clause (e). This difference in value shall be determined by a nationally recognized investment banking firm selected by the Holder or the Owner, as the case may be, and reasonably acceptable to the Acquiring Corporation.

(f) Issuer shall not enter into any transaction described in subsection (a) of this Section 8 unless the Acquiring Corporation and any person that controls the Acquiring Corporation assume in writing all the obligations of Issuer hereunder.

9. (a) At the request of the holder of the Substitute Option (the "Substitute Option Holder"), the Substitute Option Issuer shall repurchase the Substitute Option from the Substitute Option Holder at a price (the "Substitute Option Repurchase Price") equal to the amount by which (i) the Highest Closing

Price (as hereinafter defined) exceeds (ii) the exercise price of the Substitute Option, multiplied by the number of shares of Substitute Common Stock for which the Substitute Option may then be exercised, and at the request of the owner (the "Substitute Share Owner") of shares of Substitute Common Stock (the "Substitute Shares"), the Substitute Option Issuer shall repurchase the Substitute Shares at a price (the "Substitute Share Repurchase Price") equal to the Highest Closing Price multiplied by the number of Substitute Shares so designated. The term "Highest Closing Price" shall mean the highest closing

price for shares of Substitute Common Stock within the six-month period immediately preceding the date the Substitute Option Holder gives notice of the required repurchase of the Substitute Option or the Substitute Share Owner gives notice of the required repurchase of the Substitute Shares, as applicable.

(b) The Substitute Option Holder and the Substitute Share Owner, as the case may be, may exercise its respective rights to require the Substitute Option Issuer to repurchase the Substitute Option and the Substitute Shares pursuant to this Section 9 by surrendering for such purpose to the Substitute Option Issuer, at its principal office, the agreement for such Substitute Option (or, in the absence of such an agreement, a copy of this Agreement) and certificates for Substitute Shares accompanied by a written notice or notices stating that the Substitute Option Holder or the Substitute Share Owner, as the case may be, elects to require the Substitute Option Issuer to repurchase the Substitute Option and/or the Substitute Shares in accordance with the provisions of this Section 9. As promptly as practicable, and in any event within five (5) business days after the surrender of the Substitute Option and/or certificates representing Substitute Shares and the receipt of such notice or notices relating thereto, the Substitute Option Issuer shall deliver or cause to be delivered to the Substitute Option Holder the Substitute Option Repurchase Price and/or to the Substitute Share Owner the Substitute Share Repurchase Price therefor or the portion thereof which the Substitute Option Issuer is not then prohibited under applicable law and regulation from so delivering.

(c) To the extent that the Substitute Option Issuer is prohibited under applicable law or regulation from repurchasing the Substitute Option and/or the Substitute Shares in part or in full, the Substitute Option Issuer shall immediately so notify the Substitute Option Holder and/or the Substitute Share Owner and thereafter deliver or cause to be delivered, from time to time, to the Substitute Option Holder and/or the Substitute Share Owner, as appropriate, the portion of the Substitute Share Repurchase Price, respectively, which it is no longer prohibited from delivering, within five (5) business days after the date on

which the Substitute Option Issuer is no longer so prohibited; provided, however, that if the Substitute Option Issuer is at any time after delivery of a notice of repurchase pursuant to subsection (b) of this Section 9 prohibited under applicable law or regulation from delivering to the Substitute Option Holder and/or the Substitute Share Owner, as appropriate, the Substitute Option Repurchase Price and the Substitute Share Repurchase Price, respectively, in full (and the Substitute Option Issuer shall use its best efforts to receive all required regulatory and legal approvals as promptly as practicable in order to accomplish such repurchase), the Substitute Option Holder or Substitute Share Owner may revoke its notice of repurchase of the Substitute Option or the

Substitute Shares either in whole or to the extent of the prohibition, whereupon, in the latter case, the Substitute Option Issuer shall promptly (i) deliver to the Substitute Option Holder or Substitute Share Owner, as appropriate, that portion of the Substitute Option Repurchase Price or the Substitute Share Repurchase Price that the Substitute Option Issuer is not prohibited from delivering; and (ii) deliver, as appropriate, either (A) to the Substitute Option Holder, a new Substitute Option evidencing the right of the Substitute Option Holder to purchase that number of shares of the Substitute Common Stock obtained by multiplying the number of shares of the Substitute Common Stock for which the surrendered Substitute Option was exercisable at the time of delivery of the notice of repurchase by a fraction, the numerator of which is the Substitute Option Repurchase Price less the portion thereof theretofore delivered to the Substitute Option Holder and the denominator of which is the Substitute Option Repurchase Price, or (B) to the Substitute Share Owner, a certificate for the Substitute Option Shares it is then so prohibited from repurchasing.

10. The 60-day period for exercise of certain rights under Sections 2, 6, 7, and 13 shall be extended: (i) to the extent necessary to obtain all regulatory approvals for the exercise of such rights and for the expiration of all statutory waiting periods; and (ii) to the extent necessary to avoid liability under Section 16(b) of the Exchange Act by reason of such exercise.

11. Issuer hereby represents and warrants to Grantee as follows:

(a) Issuer has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the Board of Directors of Issuer and no other corporate proceedings on the part of Issuer are necessary to authorize this Agreement or to

consummate the transactions so contemplated. This Agreement has been duly and validly executed and delivered by Issuer.

(b) Issuer has taken all necessary corporate action to authorize and reserve and to permit it to issue, and at all times from the date hereof through the termination of this Agreement in accordance with its terms will have reserved for issuance upon the exercise of the Option, that number of shares of Common Stock equal to the maximum number of shares of Common Stock at any time and from time to time issuable hereunder, and all such shares, upon issuance pursuant hereto, will be duly authorized, validly issued, fully paid, nonassessable, and will be delivered free and clear of all claims, liens,

encumbrances, and security interests and not subject to any preemptive rights.

12. Grantee hereby represents and warrants to Issuer that:

(a) Grantee has all requisite corporate power and authority to enter into this Agreement and, subject to any approvals or consents referred to herein, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Grantee. This Agreement has been duly executed and delivered by Grantee.

(b) The Option is not being, and any shares of Common Stock or other securities acquired by Grantee upon exercise of the Option will not be, acquired with a view to the public distribution thereof and will not be transferred or otherwise disposed of except in a transaction registered or exempt from registration under the Securities Act.

13. Neither of the parties hereto may assign any of its rights or obligations under this Option Agreement or the Option created hereunder to any other person, without the express written consent of the other party, except that in the event a Subsequent Triggering Event shall have occurred prior to an Exercise Termination Event, Grantee, subject to the express provisions hereof, may assign in whole or in part its rights and obligations hereunder within sixty (60) days following such Subsequent Triggering Event (or such later period as provided in Section 10); provided, however, that until the date fifteen (15) days following the date on which the Federal Reserve Board approves an application by Grantee under the BHCA to acquire the shares of Common Stock subject to the Option, Grantee may not assign its rights under the Option except in (i) a widely dispersed public distribution, (ii) a private placement in which no one party acquires the right to purchase in excess of two (2) percent of the voting shares of Issuer, (iii) an assignment to a

single party (e.g., a broker or investment banker) for the purpose of conducting a widely dispersed public distribution on Grantee's behalf, or (iv) any other manner approved by the Federal Reserve Board.

14. Each of Grantee and Issuer will use its best efforts to make all filings with, and to obtain consents of, all third parties and governmental authorities necessary to the consummation of the transactions contemplated by this Agreement, including without limitation making application to list the shares of Common Stock issuable hereunder on the NASDAQ National Market upon official notice of issuance and applying to the Federal Reserve Board under the BHCA for approval to acquire the shares issuable hereunder, but Grantee shall not be obligated to apply to state banking authorities for approval to acquire the shares of Common Stock issuable hereunder until such time, if ever, as it

deems appropriate to do so.

15. The parties hereto acknowledge that damages would be an inadequate remedy for a breach of this Agreement by either party hereto and that the obligations of the parties hereto shall be enforceable by either party hereto through injunctive or other equitable relief.

16. If any term, provision, covenant, or restriction contained in this Agreement is held by a court or a federal or state regulatory agency of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the terms, provisions, and covenants and restrictions contained in this Agreement shall remain in full force and effect, and shall in no way be affected, impaired, or invalidated. If for any reason such court or regulatory agency determines that the Holder is not permitted to acquire, or Issuer is not permitted to repurchase pursuant to Section 7, the full number of shares of Common Stock provided in Section 1(a) hereof (as adjusted pursuant to Section 1(b) or 5 hereof), it is the express intention of Issuer to repurchase such lesser number of shares as may be permissible, without any amendment or modification hereof.

17. All notices, requests, claims, demands, and other communications hereunder shall be deemed to have been duly given when delivered in person, by cable, telegram, telecopy, or telex, or by registered or certified mail (postage prepaid, return receipt requested) at the respective addresses of the parties set forth in the Merger Agreement.

18. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

19. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

20. Except as otherwise expressly provided herein, each of the parties hereto shall bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereunder, including fees and expenses of its own financial consultants, investment bankers, accountants, and counsel.

21. Except as otherwise expressly provided herein or in the Merger Agreement, this Agreement contains the entire agreement between the parties with respect to the transactions contemplated hereunder and supersedes all prior

arrangements or understandings with respect thereof, written or oral. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, and their respective successors except as assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein.

22. Capitalized terms used in this Agreement and not defined herein shall have the meanings assigned thereto in the Merger Agreement.

IN WITNESS WHEREOF, Grantee and Issuer have caused this Agreement to be executed by their respective officers thereunto duly authorized, all as of the date first above written.

1ST WASHINGTON BANCORP, INC., Issuer

By: CARROLL E. AMOS
Carroll E. Amos, Chief Executive Officer

FIRST MARYLAND BANCORP, Grantee

By: JEREMIAH E. CASEY
Jeremiah E. Casey, Chairman of the Board

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of January 23, 1996 (this "Agreement"), between First Maryland Bancorp, a Maryland corporation ("First Maryland"), FMB Acquisition Corporation, a Maryland corporation ("Newco"), and 1st Washington Bancorp, Inc., a Delaware corporation ("Falcon").

NOW, THEREFORE, in consideration of the mutual benefits to be derived from this Agreement, and of the representations, warranties, conditions and promises herein contained, the parties hereto agree as follows:

ARTICLE I: THE MERGER

1.1 Merger. (a) At the Effective Time of the Merger (as defined in Article VI hereof), Newco shall be merged with and into Falcon, the separate corporate existence of Newco shall cease, and Falcon shall be the surviving company and shall become a wholly owned subsidiary of First Maryland (the "Merger").

(b) Falcon shall thereupon and thereafter: (i) possess all the rights, privileges, immunities and franchises, of a public as well as of a private nature, of each of the merging corporations; and all property, real, personal and mixed, and all debts due on whatever account, and all other choses in action, and all and every other interest, of or belonging to or due to each of the corporations so merged, shall be taken and deemed to be transferred to and vested in Falcon without further act or deed, and the title to any real estate or any interest therein, vested in any of such corporations, shall not revert or be in any way impaired by reason of the Merger; and (ii) be responsible and liable for all the liabilities and obligations of each of the corporations so merged.

1.2 Charter; By-Laws; Directors and Officers. The Certificate of Incorporation and By-Laws of the surviving company of the Merger shall be those of Falcon, as in effect immediately prior to the Effective Time of the Merger. The directors and officers of Newco immediately prior to the Effective Time of the Merger shall be the directors and officers of the surviving company of the Merger until their successors are elected and qualify.

1.3 Taking of Necessary Action. In case at any time after the Effective Time of the Merger, First Maryland shall consider it necessary or desirable that any further deeds, assignments or assurances in law or any other acts be undertaken to (a) vest, perfect or conform, of record or otherwise, in First Maryland its right, title or interest in, to or under any of the rights, properties or assets of Falcon, or (b) otherwise carry out the purposes of this Agreement, Falcon and its officers and directors shall be deemed to have granted to First Maryland an irrevocable power of attorney to execute and deliver all such deeds, assignments or assurances in law or any other acts as are necessary

or desirable to (i) vest, perfect or conform, of record or otherwise, in First Maryland its right, title or interest in, to or under any of the rights, properties or assets of Falcon, or

(ii) otherwise carry out the purposes of this Agreement, Falcon and its officers and directors shall be deemed to have granted to First Maryland an irrevocable power of attorney to execute and deliver all such deeds, assignments or assurances in law and to all acts necessary or proper to vest, perfect or conform title to and possession of such rights, properties or assets in First Maryland and otherwise to carry out the purposes of this Agreement, and the officers and directors of First Maryland are authorized in the name of Falcon or otherwise to take any and all such action.

ARTICLE II: TERMS OF THE MERGER.

2.1 Conversion of Stock and Stock Options. At the Effective Time of the Merger:

(a) Each share of Falcon Common Stock (as defined herein) which is issued and outstanding at the Effective Time of the Merger (other than Dissenting Shares (as defined in Section 2.4)) shall, and without any action by the holder thereof, be converted into the right to receive $8.125 in cash (the "Cash Price") from First Maryland.

(b) Each Falcon Option (as defined herein) which is issued and outstanding at the Effective Time of the Merger (whether or not then exercisable) shall, and without any action by the holder thereof, be converted into the right to receive cash in an amount (the "Option Cash Price") equal to the difference between the Cash Price and the per share exercise price of such option as set forth on the Falcon Disclosure Schedule (as defined herein).

(c) Each share of Newco capital stock outstanding at the Effective Time of the Merger shall, without any action by Falcon or by the holder thereof, be converted into one share of Falcon Common Stock.

(d) All shares of Falcon Common Stock that are owned by Falcon as treasury stock and all shares of Falcon Common Stock owned by First Maryland or any of its subsidiaries immediately prior to the Effective Time of the Merger, other than any such shares held directly or indirectly in trust accounts, managed accounts and similar accounts or otherwise held in a fiduciary or custodial capacity that are beneficially owned by third parties and other than any shares of Falcon Common Stock held by First Maryland or its subsidiaries in respect of debt previously contracted, shall be cancelled and retired and shall cease to exist and no consideration shall be delivered in exchange therefor.

2.2 Manner of Exchange.

(a) After the Effective Time of the Merger, each holder of a certificate for theretofore outstanding shares of Falcon Common Stock, or each optionee under a Falcon Option, upon surrender to The First National Bank of Maryland, as exchange agent (the "Exchange Agent"), of such certificate or such instrument or agreement representing a Falcon Option, as applicable, and a letter of transmittal, which shall be mailed to each holder of a certificate for theretofore outstanding shares of Falcon Common Stock or an agreement for an Falcon Option, as applicable, by the Exchange Agent promptly following the Effective Time of the Merger, shall be entitled to receive in exchange therefor a cashier's check for the Cash Price or the Option Cash Price, as applicable. Until so surrendered, each outstanding certificate or agreement, as applicable, which, prior to the Effective Time of the Merger, represented Falcon Common Stock or a Falcon Option will be deemed to evidence the right to receive the Cash Price or the Option Cash Price, respectively. After the Effective Time of the Merger, there shall be no further registration or transfer on the records of Falcon of Falcon Common Stock and Falcon Options shall cease to be exercisable or convertible into Falcon Common Stock. No interest shall accrue or be payable on the Cash Price or the Option Cash Price, regardless of when any such amount is actually received by a holder of Falcon Common Stock or a Falcon Option.

(b) At the Effective Time of the Merger, each Dissenting Share shall be treated in accordance with Section 262 of the General Corporation Law of the State of Delaware (the "Delaware Corporation Law").

2.3 Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, shares of Falcon Common Stock which are issued and outstanding immediately prior to the Effective Time of the Merger and which are held by a stockholder who has the right (to the extent such right is available by law) to demand and receive payment of the fair value of his shares of Falcon Common Stock ("Dissenting Shares") pursuant to Section 262 of the Delaware Corporation Law shall not be converted into or be exchangeable for the right to receive the consideration provided in Section 2.1 of this Agreement, unless and until such holder either shall fail to perfect such holder's right to dissent or shall have effectively withdrawn or lost such right under the Delaware Corporation Law, as the case may be. If such holder shall have so failed to perfect such holder's right to dissent or shall have effectively withdrawn or lost such right, each of such holder's Falcon Common Stock shall thereupon be deemed to have been converted into, at the Effective Time of the Merger, the right to receive the Cash Price as provided in Section 2.1(a).

2.4 Withholding Rights. First Maryland shall be entitled to deduct and withhold from any amounts otherwise payable pursuant to this Agreement to any holder of shares of Falcon Common Stock or Falcon Options such amounts as First Maryland is required under the Code or any provision of state, local or foreign tax law to deduct and withhold with respect to the making of such payment. Any amounts so withheld shall be treated for all purposes of this Agreement as having been paid to the holder of Falcon Common Stock or Falcon Options in respect of which such deduction and withholding was made by First Maryland.

ARTICLE III: REPRESENTATIONS AND WARRANTIES OF FALCON.

Falcon makes the following representations and warranties to First Maryland on the date hereof and on the Effective Date of the Merger. As used in this Article III, "Falcon" means Falcon and all of its Subsidiaries (as defined herein) unless otherwise expressly stated

3.1 Organization, Standing and Power. (a) Falcon is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is qualified to do business as a foreign corporation in each jurisdiction in which its ownership or lease of property or the nature of business conducted by it makes such qualification necessary, except for such jurisdictions in which the failure to be so qualified would not have a material adverse effect upon the financial condition, results of operations, business or prospects of Falcon on a consolidated basis. Falcon is registered as a savings and loan holding company under the Home Owners Loan Act, as amended ("HOLA"). Falcon has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Falcon has delivered to First Maryland complete and correct copies of (i) its Certificate of Incorporation and all amendments thereto to the date hereof and (ii) its By-laws as amended to the date hereof.

(b) Washington Federal Savings Bank ("Falcon Bank") is a savings bank duly organized, validly existing and in good standing under the laws of the United States and has all requisite power and authority to own, lease and operate its properties and to carry on its businesses as now being conducted. Falcon has delivered to First Maryland complete and correct copies of (i) the charter of Falcon Bank and all amendments thereto to the date hereof and (ii) the by-laws of Falcon Bank as amended to the date hereof.

3.2 Subsidiaries. The disclosure schedule delivered by Falcon to First Maryland as of the date of this Agreement (the "Falcon Disclosure Schedule") sets forth each corporation, partnership, limited liability company or other entity (other than Falcon Bank, which is also a Subsidiary) with respect to

which Falcon owns or controls more than 50% of the voting power or control (each, a "Subsidiary"). Each Subsidiary has been duly organized, and is validly existing and in good standing under the laws of the jurisdiction of its formation and is qualified to do business in each jurisdiction in which its ownership or lease of property or the nature of its business makes such qualification necessary, except for such jurisdictions in which the failure to be so qualified would not have a material adverse effect on the business, financial condition, results of operations or prospects of such Subsidiary. Each Subsidiary has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Falcon has obtained all necessary regulatory approvals and authorizations to own and operate each Subsidiary. Falcon has delivered to First Maryland complete and correct copies of the organic organizational documents, as amended to the date hereof, for each Subsidiary.

3.3 Capital Structure. (a) The authorized capital stock of Falcon consists of 17,500,000 shares of common stock, $.01 par value ("Falcon Common Stock") and 1,000,000 shares of preferred stock $.01 par value (the "Preferred Stock"). On the date hereof, 9,882,877 shares of Falcon Common Stock were outstanding, no shares of Preferred Stock were outstanding, 398,000 shares of Falcon Common Stock were subject to Falcon Options and no shares of Falcon Common Stock were held in treasury. All of the outstanding shares of Falcon Common Stock are validly issued, fully paid and nonassessable. Except for the Falcon Options, there are no outstanding subscriptions, contracts, conversion privileges, options, warrants, calls or other rights obligating Falcon to issue, sell or otherwise dispose of or to purchase, redeem or otherwise acquire, any shares of Falcon Common Stock or Preferred Stock.

(b) The authorized capital stock of Falcon Bank consists of 22,500,000 shares of common stock. On the date hereof, 9,882,877 shares of Falcon Bank common stock were outstanding and all of such outstanding shares are validly issued, fully paid and non-assessable and owned by Falcon, free and clear of any liens, claims, encumbrances, charges or rights of third parties of any kind whatsoever. There are no outstanding subscriptions, contracts, conversion privileges, options, warrants, calls or other rights obligating Falcon Bank or Falcon to issue, sell or otherwise dispose of or to purchase, redeem or otherwise acquire, any shares of common stock of Falcon Bank.

(c) The authorized capital stock and number of shares outstanding as of the date hereof of each Subsidiary is set forth on the Falcon Disclosure Schedule. All such outstanding Subsidiary capital stock is validly issued, fully paid and non-assessable and owned by Falcon, free and clear of any liens, claims, encumbrances, charges or rights of third parties of any kind whatsoever. There are no outstanding subscriptions, con-

tracts, conversion privileges, options, warrants, calls or other rights obligating Falcon or any Subsidiary to issue, sell or otherwise dispose of or to purchase, redeem or otherwise acquire, any shares of capital stock of any Subsidiary.

(d) All outstanding shares of Falcon Common Stock have been issued in compliance with the applicable requirements of the Securities Act of 1933 and the rules and regulations promulgated pursuant thereto (the "1933 Act"). No person has any right, contractual or otherwise, to require registration of Falcon Common Stock under the 1933 Act. Except as set forth in the Falcon Disclosure Schedule, Falcon knows of no person who beneficially owns, or has the right to acquire, 5% or more of the outstanding common stock of Falcon as of the date hereof.

3.4 Authority. (a) Subject to the approval of the Merger by the stockholders of Falcon in accordance with Delaware Corporation Law and as contemplated by Section 4.2 hereof, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary actions on the part of Falcon, and this Agreement is a valid and binding obligation of Falcon, enforceable against Falcon in accordance with its terms. The execution and delivery of this Agreement, the consummation of the transactions contemplated hereby and compliance by Falcon with any of the provisions hereof will not (i) conflict with or result in a breach of any provision of its Certificate of Incorporation or By-laws or a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, debenture, mortgage, indenture, license, material agreement or other material instrument or obligation to which Falcon is a party, or by which it or any of its properties or assets may be bound, or (ii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Falcon or any of its properties or assets.

(b) Assuming (i) that the requirements of the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated pursuant thereto (the "Exchange Act") are met, (ii) that any filings or approvals required to be obtained from the Board of Governors of the Federal Reserve System (the "FRB") under or pursuant to the BHCA, from the Office of Thrift Supervision (the "OTS"), and from the Virginia State Corporation Commission under or pursuant to applicable state law are obtained, (iii) that the filing of any appropriate Certificate of Merger and Articles of Merger pertaining to the Merger is made, (iv) that the approval of the Merger and this Agreement by the holders of Falcon Common Stock is obtained, and (v) that such other consents as have been disclosed in the Falcon Disclosure Schedule are obtained, then no consent or approval by any governmental authority or other person is required in connection with the execution and delivery of Falcon of this Agreement or

the consummation by Falcon of the transactions contemplated hereby.

3.5 Investments. (a) All securities owned by Falcon of record and beneficially (i) are permissible investments for them under applicable federal law, (ii) except as disclosed on the Falcon Disclosure Schedule, are free and clear of all mortgages, liens, pledges, encumbrances or any other restriction, whether contractual or statutory, which would materially impair the ability of Falcon freely to dispose of any such security at any time and (iii) are properly classified in accordance with generally accepted accounting principles on the Falcon Financial Statements as of September 30, 1995. Falcon does not own securities in an amount equal to 5% or more of the issued and outstanding voting securities of any issuer thereof, other than those of a Falcon Subsidiary. There are no voting trusts or other agreements or undertakings with respect to the voting of any such securities. With respect to all repurchase agreements to which Falcon is a party, Falcon, has a valid, perfected first lien security interest in the securities or other collateral securing the repurchase agreement, and the value of such securities or other collateral equals or exceeds the amount of the debt secured thereby.

(b) Except as disclosed in the Falcon Disclosure Schedule, Falcon is not a party to any interest rate or currency exchange swap transaction, interest rate cap, collar or option, basis swap, forward rate contract, commodity swap, commodity option, equity or equity-linked swap or option, structured note, financial futures contract or any contract or agreement commonly known as a derivative contract or product (collectively, "Derivatives"). The purchase or acquisition of each Derivative by Falcon was in accordance with investment policies approved by the Board of Directors of Falcon.

3.6 Reports and Financial Statements. Falcon has previously furnished First Maryland with true and complete copies of Annual Reports on Form 10-K for fiscal years 1990 through 1995 for Falcon or Falcon Bank, Falcon's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, and each other material report, schedule, registration statement and definitive proxy statement, filed by Falcon with the SEC from and after December 31, 1993 (collectively, the "Falcon Reports"). As of their respective dates, the Falcon Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstance under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of Falcon included in the Falcon Reports (collectively, the "Financial Statements") have been prepared in accordance with generally accepted accounting principles applied on a consistent basis (except as may be

indicated therein or in the notes thereto) and fairly present the consolidated financial position of Falcon and its Subsidiaries (as hereinafter defined) as of the dates thereof and the results of their operations and changes in cash flows for the periods then ended subject, in the case of the unaudited interim financial statements, to normal year-end and audit adjustments and any other adjustments described therein. Except as disclosed in the Falcon Reports, there exist no material liabilities of Falcon or any of its Subsidiaries, contingent or otherwise.

3.7 Absence of Undisclosed Liabilities. At September 30, 1995, Falcon had no obligations or liabilities (contingent or otherwise) of any nature which were not reflected in the unaudited interim financial statements contained in the Falcon Reports as of such date or disclosed in the notes thereto, and from September 30, 1995 through the date hereof Falcon has incurred no obligations or liabilities (contingent or otherwise) of any nature, except for those which in the aggregate are not material to the financial condition, results of operations, business or prospects of Falcon on a consolidated basis.

3.8 Taxes. (a) Falcon has previously furnished to First Maryland true and correct copies of the all federal, state and local income tax returns, and state and local property and sales tax returns and any other tax returns filed by Falcon or any Subsidiary for each of the fiscal years that remains open for examination or assessment of tax. Falcon has prepared in good faith and duly and timely filed, or caused to be duly and timely filed, all federal, state, local and foreign income, estimated tax, withholding tax, franchise, sales and other tax returns and such information and other reports required to be filed by Falcon or any Subsidiary. Falcon has paid, or has made adequate provision or reserve for the payment of, all taxes imposed by any taxing authority on Falcon or any Subsidiary with respect to any Pre-Closing Tax Period (as hereinafter defined), together with any interest, additions or penalties related to any such taxes. Neither Falcon nor any Subsidiary (i) has consented to extend the statute of limitations with respect to the assessment of any tax, (ii) is a party to any action or proceeding by any governmental entity in connection with the determination, assessment or collection of any taxes or penalties, and to the best knowledge of Falcon no such action or proceeding is threatened, (iii) has received any deficiency notices or reports in respect of any material deficiencies for any tax, assessments, penalties or governmental charges or (iv) has failed to timely file any information or other reports required under applicable law.

(b) The term "Pre-Closing Tax Period" shall mean (i) each taxable period that ends on or before the Effective Time of the Merger and (ii) any taxable period that includes (but does not end on) the Effective Time of the Merger (the period described in this clause (ii) being hereafter referred to as a "Straddle

Period"). In the case of any tax for a Straddle Period, the representation and warranty in the third sentence of this Section 3.1(g) shall be limited to the Pre-Closing Tax Amount determined as follows:

(1) in the case of a periodic tax that is not based on income or receipts (e.g., an ad valorem property tax), the "Pre-Closing Tax Amount" shall be an amount equal to the amount of such tax for the entire Straddle Period multiplied by a fraction the numerator of which is the number of days elapsed between the beginning of the Straddle Period and the Effective Time of the Merger and the denominator of which is the total number of days in the Straddle Period; and

(2) in the case of any other tax, the "Pre-Closing Tax Amount" shall be the amount of such tax for which Falcon would have been liable if the Straddle Period had ended as of the close of business on the day of the Effective Time of the Merger.

3.9 Options, Warrants and Related Matters. There are no outstanding unexercised subscriptions, contracts, conversion privileges, options, warrants, calls, commitments or agreements of any character to which Falcon is a party or by which it is bound, calling for the issuance of securities of Falcon or any Subsidiary or any security representing the right to purchase or otherwise receive any such security, except for the Falcon Options. The Falcon Disclosure Schedule lists as of the date hereof (i) the name of each holder of Falcon Options, (ii) the number of Falcon Options held by each such holder, and (iii) the exercise price of each Falcon Option held by each such holder.

3.10 Property. (a) Falcon owns or leases all property reflected in the consolidated statements of condition of Falcon contained in the Falcon Reports as of September 30, 1995 (except property sold or otherwise disposed of in the ordinary course of business). All property shown as being owned is owned free and clear of all mortgages, liens, pledges, charges or encumbrances of any nature whatsoever, except those referred to in the Financial Statements or the notes thereto, liens for current taxes not yet due and payable, any unfiled mechanics' liens and such encumbrances and imperfections of title, if any, as are not substantial in character or amount or otherwise materially impair Falcon's consolidated business operations. The leases relating to leased property are in full force and effect and are fairly reflected in the Financial Statements, and true and correct copies of all such leases have been delivered by Falcon to First Maryland.

(b) The Falcon Disclosure Schedule describes, as of the date hereof, all interests in real property owned, leased, subleased or otherwise claimed by Falcon, including other real estate owned. Except as set forth in the Falcon Disclosure

Schedule, Falcon has "nondisturbance agreements" from all mortgagees of real property leased or subleased by them and utilized in their respective businesses.

(c) All property and assets material to the business or operations of Falcon are in substantially good operating condition and repair and such property and assets are adequate for the business and operations of Falcon as currently conducted.

3.11 Employee Matters. (a) The Falcon Disclosure Schedule sets forth as of the date hereof (i) the name, SSN, employment commencement date, original hire date (for employee benefit plan purposes) and current base salary of all present employees of Falcon, (ii) the entity by which each such employee is employed or retained, (iii) the current position or capacity of each such employee, (iv) all accrued vacation owed to each such employee, and (v) any accrued salary or wages owed to each such employee. Each listed employee receives a fixed salary and does not receive any commission or other cash compensation other than as set forth on the Falcon Disclosure Schedule. Except as set forth on the Falcon Disclosure Schedule, since September 30, 1995, Falcon has not increased the compensation payable to or to be payable to any of its employees, or instituted or changed any personnel policies, employee or fringe benefits or other compensation arrangements other than in the ordinary course of business or as provided for in this Agreement.

(b) The Falcon Disclosure Schedule sets forth all employment, consulting, severance, bonus, retention or similar written agreements or arrangements to which Falcon is a party and which cover any individual listed as an employee on the Falcon Disclosure Schedule, or any former employee or independent contractor of Falcon. Falcon has previously provided First Maryland with true and complete copies of all such agreements and arrangements.

(c) Except as set forth on the Falcon Disclosure Schedule, there are no investigations, claims or proceedings pending or, to the best knowledge of Falcon, threatened relating to or arising out of the employment of any employee or former employee, including without limitation equal employment, employment practices or the terms and conditions of employment or termination of employment. None of the employees listed on the Falcon Disclosure Schedule is represented by a union or other collective bargaining organization, and there is no organizational effort involving Falcon pending or, to the best knowledge of Falcon, threatened which could reasonably be expected to result in such representation. Falcon is not a party to any union or labor agreement.

3.12 Material Agreements. The Falcon Disclosure Schedule sets forth all notes, bonds, mortgages, indentures, licenses, real and personal property lease and sublease agreements, noncom-

petition agreements and arrangements and other material instruments, agreements and obligations to which Falcon is a party as of the date hereof, except for any mortgages in which Falcon or any Subsidiary is mortgagee (the "Material Contracts"). All Material Contracts are valid and in full force and effect, and Falcon is not in breach of any material provision of, or are in default in any material respect under the terms of, any such Material Contract, the effect of which breach or default would have a material adverse effect upon the financial condition, results of operations, business or prospects of Falcon on a consolidated basis.

3.13 Legal Proceedings; Compliance with Laws. (a) Except as set forth on the Falcon Disclosure Schedule, there is no legal, administrative, arbitration or other proceeding or governmental investigation pending or, to the best knowledge of Falcon's management, threatened or probable of assertion, which if decided adversely would have a material adverse effect on the financial condition, results of operations, business or prospects of Falcon on a consolidated basis. Falcon is not aware of any pending or threatened investigation of Falcon by any federal, state, local or foreign governmental or regulatory authority or any formal assertion by any other person relating to or arising out of: (i) the lending patterns, practices, procedures or policies of Falcon (other than examinations of the OTS conducted in the normal course of business) including any claim of disparate impact on, or disparate treatment of, similarly situated applicants or other prospective customers of Falcon; (ii) compliance by Falcon with federal and state regulations governing the conduct of Falcon's banking business or (iii) compliance by Falcon with federal and state securities laws.

(b) Falcon has complied in all material respects with all laws, ordinances, requirements, regulations, rules or orders applicable to its businesses (including, but not limited to environmental, capital adequacy, fair lending and affiliate transactions laws, securities laws, ordinances, requirements, regulations, rules or orders). Falcon does not permit, and for the past three years has not permitted, the charging of overages by any originator of any consumer loan (other than any residential first mortgage loan) or small business loan. With respect to any loan originated pursuant to which an overage was charged, the charging of such overage, in the opinion of Falcon, did not and will not result in a disparate impact on, or in the disparate treatment of, similarly situated applicants or customers of Falcon.

(c) Falcon has all licenses, permits, orders and approvals of any federal, state, local or foreign governmental or regulatory body that are necessary for the conduct of the respective businesses of Falcon and each of the Subsidiaries (collectively, the "Falcon Permits"). The Falcon Permits are in full

force and effect, no material violations are or have been recorded in respect to any Falcon Permits, and no proceeding is pending or, to the best knowledge of Falcon, threatened to revoke or limit any Falcon Permit. Falcon is not subject to any judgment, order, writ, injunction or decree which materially adversely affects or might reasonably be expected materially adversely to affect, the financial condition, results of operations, business or prospects of Falcon on a consolidated basis.

3.14 Employee Benefit Plans. (a) The Falcon Disclosure Statement includes a correct and complete list of, and First Maryland has been furnished a true and correct copy of: (i) all retirement, pension, thrift and profit-sharing plans, all deferred compensation, consulting, severance, stock-based compensation and bonus plans, all group insurance contracts and all other incentive, welfare and employee benefit plans, and any trust, annuity or other funding agreements with respect to any of such plans, and all other agreements (including oral agreements) that are presently in effect, or have been approved prior to the date hereof, maintained for the benefit of employees or former employees of Falcon or the dependents or beneficiaries of any employee or former employee of Falcon (the "Employee Plans"), whether or not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); (ii) the most recent actuarial and financial reports prepared or required to be prepared with respect to any Employee Plan; and (iii) the most recent annual reports filed with any governmental agency, the most recent favorable determination letter issued by the Internal Revenue Service, and any open requests for rulings or determination letters, that pertain to any such qualified Employee Plan. The Falcon Disclosure Schedule identifies each Employee Plan that is intended to be qualified under Section 401(a) of the Code and each such plan is so qualified.

(b) Neither Falcon nor any employee pension benefit plan (as defined in Section 3(2) of ERISA and herein, a "Pension Plan") maintained by it, has incurred any liability to the Pension Benefit Guaranty Corporation ("PBGC") or to the Internal Revenue Service with respect to any such plan. There is not currently pending with the PBGC any filing with respect to any reportable event under Section 4043 of ERISA nor has any reportable event occurred as to which a filing is required and has not been made.

(c) Except as described in the Falcon Disclosure Schedule, full payment has been made (or proper accruals have been established) of all contributions required to be made under the terms of each Employee Plan, ERISA, or a collective bargaining agreement, no accumulated funding deficiency (as defined in Section 302 of ERISA or Section 412 of the Code) whether or not waived, exists with respect to any Pension Plan, and there is no

"unfunded current liability" (as defined in Section 412 of the Code) with respect to any Pension Plan.

(d) No Employee Plan is a "multiemployer plan" (as defined in Section 3(37) of ERISA). Falcon has not incurred any liability under Section 4201 of ERISA for a complete or partial withdrawal from a multiemployer plan (as defined in Section 3(37) of ERISA). Falcon has not participated in or agreed to participate in, a multiemployer plan (as defined in Section 3(37) of ERISA).

(e) All Employee Plans that are "employee benefit plans," as defined in Section 3(3) of ERISA, comply, and have been administered in compliance, in all material respects with ERISA and all other applicable legal requirements, including the terms of such plans, collective bargaining agreements and securities laws. Falcon has no liability under any such plan that is not reflected in the consolidated financial statements of Falcon contained in the Falcon Reports as of September 30, 1995.

(f) No prohibited transaction has occurred with respect to any Employee Plan that is an "employee benefit plan" (as defined in Section 3(3) of ERISA) that would result, directly or indirectly, in liability under ERISA or in the imposition of a excise tax under Section 4975 of the Code.

(g) The Falcon Disclosure Schedule identifies each Employee Plan that is an "employee welfare benefit plan" (as defined in Section 3(1) of ERISA) and which is funded. The funding under each such plan does not exceed the limitations under Section 419A(b) or 419A(c) of the Internal Revenue Code of 1986, as amended (the "Code"). Falcon is not subject to taxation on the income of any such plan.

(h) The Falcon Disclosure Schedule identifies the method of funding (including any individual accounting) for all post-retirement medical or life insurance benefits for the employees of Falcon. The Falcon Disclosure Schedule also discloses the funded status of these Employee Plans.

3.15 Insurance. (a) All policies or binders of fire, liability, product liability, workers' compensation, vehicular and other insurance currently maintained by or on behalf of Falcon ("Insurance Policies") are listed in the Falcon Disclosure Schedule, and copies of all Insurance Policies, as well as copies of all insurance policies or binders of Falcon which were in force at any time during the past five years have been maintained by Falcon and have been made available to First Maryland. The Insurance Policies are valid and enforceable in accordance with their terms, are in full force and effect, and insure against risks and liabilities to the extent and in the manner customary for the industry and are deemed appropriate and sufficient by

Falcon. Falcon is not in default with respect to any provision contained in any Insurance Policy and has not failed to give any notice or present any claim under any Insurance Policy in due and timely fashion, in either case where such default or failure to give notice or present any claim would have a material adverse effect on the financial condition, results of operations, business or prospects of Falcon on a consolidated basis. Falcon has not received notice of cancellation or non-renewal of any Insurance Policy. Falcon has no knowledge of any inaccuracy in any application for any Insurance Policy, any failure to pay premiums when due or any similar state of facts that might form the basis for termination of any Insurance Policy. Falcon has no knowledge of any state of facts or of the occurrence of any event that is reasonably likely to form the basis for any material claim against it not fully covered (except to the extent of any applicable deductible) by the Insurance Policies. Falcon has not received notice from any of its insurance carriers that any insurance premiums will be increased in the future or that any such insurance coverage will not be available in the future on substantially the same terms as now in effect.

(b) Since at least January 1, 1991, Falcon has continuously maintained fidelity, surety, mortgage errors and omissions and savings and loan blanket bond coverages in the amounts customary for a savings association of its size. Since January 1, 1991, the aggregate amount of all claims under such bonds has not exceeded [$100,000.00], and neither Falcon nor Falcon Bank is aware of any facts which would form the basis of a claim under such bonds. Neither has a reason to believe that its fidelity coverage will not be renewed by its carrier on substantially the same terms as its existing coverage.

3.16 Loan Portfolio. Each loan outstanding on the books of Falcon is in all respects what it purports to be, was made in the ordinary course of business, was not known to be uncollectible at the time it was made, and was made in accordance with Falcon's established loan policies. The records of Falcon regarding all loans outstanding on its books are accurate in all material respects. The allowance for loan losses (the "Allowance") shown in the Falcon Reports as of September 30, 1995 was, and the Allowance shown on the consolidated statements of condition for Falcon and its Subsidiaries as of dates subsequent to this Agreement will, in the opinion of Falcon's management, be adequate: (i) to provide for losses relating to or inherent in the loan and lease portfolios (including accrued interest receivables) of Falcon and its Subsidiaries and other extensions of credit (including letters of credit and commitments to make loans or extend credit) by Falcon and its Subsidiaries, (ii) within the meaning of generally accepted accounting principles and (iii) under all applicable regulatory requirements. Except as set forth in the Falcon Disclosure Schedule, no loan or other asset has been classified by Falcon Bank or any regulatory examiner as

"Other Assets Specially Mentioned", "Substandard", "Doubtful", "Classified", "Criticized", "Credit Risk", "Loss", "Concerned Loans", "Watch List Loans" or words of similar import (collectively "Nonperforming Assets"). Each loan reflected as an asset on the Financial Statements contained in the Falcon Reports, is, to the knowledge of Falcon, the legal, valid and binding obligation of the obligor and any guarantor, and no defense, offset or counterclaim has been asserted with respect to any such loan which if successful would have a material adverse effect on the financial condition, results of operations, business or prospects of Falcon on a consolidated basis. Except as set forth in the Falcon Disclosure Schedule, Falcon does not know of any pending or threatened action in connection with any material loan or commitment presently or previously made by Falcon relating to claims based on theories of "lender liability" or any other basis. The other real estate owned and in-substance foreclosures included in any Nonperforming Assets are accrued net of reserves at the lesser of cost or market value based on current independent appraisals or current management appraisals.

3.17 Absence of Changes. Since September 30, 1995, there has not been any material adverse change in the consolidated financial condition, results of operations, business or prospects of Falcon, other than changes resulting from or attributable to (i) changes since such date in laws or regulations (whether enacted or proposed), generally accepted accounting principles or interpretations of either thereof that affect the banking or savings and loan industries generally, (ii) changes since such date in the general level of interest rates, (iii) expenses since such date incurred in connection with the transactions contemplated by this Agreement, (iv) accruals and reserves by Falcon since such date pursuant to the terms of Section 4.5 hereof or (v) any other accruals, reserves or expenses incurred by Falcon since such date with First Maryland's prior written consent. Since September 30, 1995, the business of Falcon has been conducted only in the ordinary course.

3.18 Brokers and Finders. Except for Legg Mason Wood Walker, Incorporated, neither Falcon nor any of its officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated herein.

3.19 Environmental Matters. (a) For purposes of this subsection, the following terms shall have the indicated meaning:

"Environmental Law" means any federal, state or local law, statute, ordinance, rule, regulation, code, license, permit, authorization, approval, consent, order, judgment, decree, injunction or agreement with any governmental entity relating to (i) the protection, preservation or restoration of the environ-

ment (including, without limitation, air, water vapor, surface water, groundwater, drinking water supply, surface soil, subsurface soil, plant and animal life or any other natural resource), and/or (ii) the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, production, release or disposal of Hazardous Substances. The term "Environmental Law" includes without limitation (A) the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. ss.9601, et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. ss.6901, et seq.; the Clean Air Act, as amended, 42 U.S.C. ss.7401, et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. ss.1251, et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. ss.9601, et seq.; the Emergency Planning and Community Right To Know Act, 42 U.S.C. ss.11001, et seq.; the Safe Drinking Water Act, 42 U.S.C. ss.300f, et seq.; and all comparable state and local laws, and (B) any common law (including without limitation common law that may impose strict liability) that may impose liability or obligations for injuries or damages due to, or threatened as a result of, the presence of or exposure to any Hazardous Substance.

"Hazardous Substance" means any substance presently listed, defined, designated or classified as hazardous, toxic, radioactive or dangerous, or otherwise regulated, under any Environmental Law, whether by type or by quantity, including any material containing any such substance as a component. Hazardous Substances include, without limitation, petroleum or any derivative or byproduct thereof, asbestos, radioactive material, and polychlorinated biphenyls.

"Real Property" means all real property serving as collateral for any loans made by Falcon and any real property owned or operated by Falcon or any other real estate owned (including property held as a trustee or in any other fiduciary capacity).

(b) Except as set forth in the Falcon Disclosure Schedule,

(i) Falcon has not been and is not now in violation of or liable under any Environmental Law;

(ii) none of the Real Property either (A) has been or is in violation of or liable under any Environmental Law or (B) contains any Hazardous Substance; and there are no underground storage tanks on, in or under, and no underground storage tanks have been removed from, any Real Property;

(iii) except for any real property owned or operated by Falcon or other real estate owned identified on the Falcon Disclosure Schedule, Falcon has not, and does not now, exercise dominion, management or control over, or participate in the management or control of, any Real Property; and

(iv) there are no actions, suits, demands, notices, claims, investigations or proceedings pending or threatened relating to the liability of any of the Real Property under any Environmental Law, including without limitation any notices, demand letters or requests for information from any federal or state environmental agency relating to any such liabilities under or violations of Environmental Law, except in the case of clauses (i), (ii) and (iii) above for such violations and liabilities, and actions, suits, demands, notices, claims, investigations or proceedings, which would not singly or in the aggregate have a material adverse effect on the business, financial condition, results of operations or prospects of Falcon on a consolidated basis.

3.20 Certain Regulatory Matters. (a) Except as set forth in the Falcon Disclosure Schedule, Falcon is not, and since January 1, 1994 has not been, a party to any written agreement or memorandum of understanding with, or a party to any commitment letter, board resolution or similar undertaking to, or subject to any order or directive by, or is a recipient of any extraordinary supervisory letter from, any governmental entity which restricts materially the conduct of its business, or in any manner relates to its capital adequacy, its credit or reserve policies or its management, nor has Falcon been advised by any governmental entity that is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, extraordinary supervisory letter, commitment letter or similar submission. Falcon knows of no reason why the regulatory approvals referred to in Section 5.1(c) hereof should not be obtained.

(b) Except as set forth in the Falcon Disclosure Schedule: (i) Falcon is in compliance in all material respects with the applicable rules and regulations of the OTS, and Falcon has obtained the necessary exemptions or exceptions from such rules and regulations as to the matters noted in the Falcon Disclosure Schedule; (ii) Falcon Bank is in compliance in all material respects with the rules and regulations of the FDIC to the extent such rules and regulations are deemed applicable by regulatory determination (including the rules and regulations issued by the FDIC in its administration of the SAIF); and (iii) Falcon does not, either directly or through a Subsidiary, hold any corporate debt security not of "investment grade," as defined in Section 222 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), and Falcon is in compliance with the applicable divestiture requirements established by the FDIC as to any such investments noted as exceptions in the Falcon Disclosure Schedule.

(c) As of September 30 1995, (i) Falcon was in compliance with the minimum capital requirements applicable to savings associations pursuant to 12 CFR ss.567 et seq., including as to

leverage ratio requirements, tangible capital requirements and risk based capital requirements and (ii) Falcon met the Qualified Thrift Lender test as set out and defined in Section 303 of FIRREA.

(d) Since the enactment of FIRREA, Falcon Bank has not made loans on the security of non-residential real property in an aggregate amount in excess of 400% of its capital. Falcon has not been advised by appropriate regulatory authorities that it is in "default" or "danger of default" (as those terms are defined in FIRREA Sections 204(x)(1) and (2)). Since the enactment of FIRREA, except as may be noted in the Falcon Disclosure Schedule, Falcon has been in compliance in all material respects with Sections 23A and 22(h) of the Federal Reserve Act. Except as set forth in the Falcon Disclosure Schedule, there are no "covered transactions" (such term is defined in Section 23A of the Federal Reserve Act) between Falcon Bank and any affiliate Falcon Bank. Falcon has provided all required notices in connection with the addition of new members of the Board of Directors or employment of senior executives as required by Section 914 of FIRREA. All payments, fees and charges assessed by appropriate federal agencies against Falcon, including the Federal Home Loan Bank Board and the OTS, including those assessed pursuant to 12 C.F.R.
ss.502, have been paid in full.

3.21 Regulation O. Except as set forth in the Falcon Disclosure Schedule, Falcon Bank has no loans to any "principal shareholder," "director" or "executive officer," or to any "related interest" of any such person, as such terms are defined in Regulation O promulgated by the FRB.

3.22 State Takeover Laws. Falcon has taken all steps necessary to irrevocably exempt the Merger from any applicable state takeover law and from any applicable charter or contractual provision containing change of control or anti-takeover provisions.

3.23 Falcon Action. The Board of Directors of Falcon (at a meeting duly called and held) has by the requisite vote (i) determined that the Merger is advisable and in the best interest of each of Falcon and its stockholders, and (ii) approved this Agreement and the transactions contemplated by this Agreement and (iii) directed that the Merger be submitted for consideration by Falcon's stockholders at a special meeting of the stockholders duly called by the Falcon Board of Directors.

3.24 Vote Required. The affirmative vote of the holders of a majority of the outstanding shares of Falcon Common Stock entitled to vote thereon is the only vote of the holders of any class or series of Falcon capital stock necessary to approve this Agreement and the transactions contemplated hereunder.

3.25 Material Interest of Certain Persons. Except as disclosed in the Falcon Disclosure Schedule, no officer or director of Falcon nor any "associate" (as such term is defined in Rule 14a-1 under the 1934 Act) of any such officer or director, has any material interest in any Material Contract or property (real or personal), tangible or intangible, used in or pertaining to the business of Falcon.

3.26 Persons Authorized to Act. The Falcon Disclosure Schedule sets forth (i) the current directors and officers of Falcon and (ii) each bank account of Falcon and each person authorized to draw on such account; each safe deposit box of Falcon and each person entitled to have access thereto; and each person authorized to borrow money on behalf of Falcon.

3.27 Information in Disclosure Documents, Registration Statement, etc. None of the information with respect to Falcon provided by Falcon for inclusion in any proxy statement of Falcon (the "Proxy Statement") required to be mailed to Falcon's stockholders in connection with the Merger will, in the case of the Proxy Statement or any amendment or supplements thereto, at the time of the mailing of the Proxy Statement and any such amendments and supplements, and at the time of the Falcon stockholder meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the provisions of the 1934 Act and the rules and regulations promulgated thereunder.

3.28 Disclosure. Except to the extent of any subsequent correction or supplement with respect thereto furnished prior to the date hereof, no written statement, certificate, schedule, list, document or other written information furnished by or on behalf of Falcon at any time to First Maryland, in connection with this Agreement, including, without limitation, the Falcon Disclosure Schedule, when considered as a whole, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements herein or therein, in light of the circumstances under which they were made, not misleading. Each document delivered or to be delivered by Falcon to First Maryland is or will be a true and complete copy of such document, unmodified except by another document delivered by Falcon.

IIIA. REPRESENTATIONS AND WARRANTIES OF FIRST MARYLAND.

First Maryland represents and warrants to Falcon on the date hereof and on the Closing Date as follows:

3A.1 Organization, Standing and Power. (a) First Maryland is a corporation duly organized, validly existing and in good standing (where applicable) under the laws of the State of Maryland and is duly qualified to do business as a foreign corporation in each jurisdiction in which its ownership or lease of property or the nature of business conducted by it makes such qualification necessary, except for such jurisdictions in which the failure to be so qualified would not have a material adverse effect upon its financial condition, results of operations, business or prospects on a consolidated basis. First Maryland is registered as a bank holding company under the BHCA. First Maryland has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted.

(b) Newco is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland and is duly qualified to do business as a foreign corporation in each jurisdiction in which its ownership or lease of property or the nature of business conducted by it makes such qualification necessary, except for such jurisdictions in which the failure to be so qualified would not have a material adverse effect upon its financial condition, results of operations, business or prospects on a consolidated basis. Newco has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted. All of the outstanding capital stock of Newco is owned by First Maryland, free and clear of any lien, claim or other encumbrance.

3A.2 Authority. (a) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary action on the part of First Maryland, and this Agreement is a valid and binding obligation of First Maryland, enforceable in accordance with its terms. The execution and delivery of this Agreement, the consummation of the transactions contemplated hereby and compliance by First Maryland, respectively with any of the provisions hereof will not (i) conflict with or result in a breach of any provision of its Charter or Articles of Incorporation or By-laws or a default (or give rise to any right of termination cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement or other instrument or obligation to which First Maryland is a party, or by which it or any of its properties or assets may be bound or (ii) violate any order, writ, injunction, decree, statute, rule or regulation applicable or First Maryland, respectively or any of their respective properties or assets.

(b) Assuming (i) that the requirements of the Exchange Act are met, (ii) that any filings or approvals required to be obtained from the FRB under or pursuant to the BHCA, from the OTS,

from the Virginia State Corporation Commission under or pursuant to applicable state law, from the Minister for Employment and Enterprise of Ireland and from the Central Bank of Ireland are obtained, (iii) that the filing of any appropriate Certificate of Merger and Articles of Merger pertaining to the Merger is made, and (iv) that the approval of the Merger and this Agreement by the holders of Falcon Common Stock is obtained, no consent or approval by any governmental authority or other person is required in connection with the execution and delivery by First Maryland of this Agreement or the consummation by such entity of the transactions contemplated hereby.

3A.3 Reports and Financial Statements. Since January 1, 1994, First Maryland has filed all reports, registrations and statements, together with any required amendments thereto, that it was required to file with the SEC under the 1934 Act ("FMB Reports"). As of their respective dates, the FMB Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstance under which they were made, not misleading. The audited consolidated financial statements of First Maryland included in the FMB Reports have been prepared in accordance with generally accepted accounting principles applied on a consistent basis (except as may be indicated therein or in the notes thereto) and fairly present the financial position of First Maryland its subsidiaries taken as a whole as at the dates thereof and the consolidated results of their operations and changes in cash flows for the periods then ended subject, in the case of the unaudited interim financial statements, to normal year-end and audit adjustments and any other adjustments described therein. There exist no material liabilities of First Maryland and its consolidated subsidiaries, contingent or otherwise, except as disclosed in the FMB Reports.

3A.4 Brokers and Finders. Neither First Maryland nor any of its officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated herein.

3A.5 Agreements with Bank Regulators, etc. Neither First Maryland nor any of its bank subsidiaries is a party to any written agreement or memorandum of understanding with, or a party to any commitment letter, board resolution or similar undertaking to, or subject to any order or directive by, or is a recipient of any extraordinary supervisory letter from, any governmental entity that is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, extraordinary supervisory letter, commitment letter or similar submission. First Maryland does not know of any reason why the regulatory

approvals referred to in Section 5.1(c) hereof should not be obtained.

3A.6 Proxy Statement. None of the information with respect to First Maryland provided by it for inclusion in the Proxy Statement will in the case of the Proxy Statement or any amendment or supplements thereto and at the time of the mailing of the Proxy Statement and any amendments and supplements thereto, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they are made, not misleading.

ARTICLE IV: CONDUCT AND TRANSACTIONS PRIOR TO THE EFFECTIVE TIME OF THE MERGER.

4.1 Access to Records and Properties of Falcon and its Subsidiaries. Between the date of this Agreement and the Effective Time of the Merger, Falcon agrees to give First Maryland reasonable access to all the premises and books and records (including tax returns filed and those in preparation) of it and its Subsidiaries and to cause its officers to furnish First Maryland with such financial and operating data and other information with respect to the business and properties as First Maryland shall from time to time request for the purposes of verifying the warranties and representations set forth herein, preparing applicable regulatory filings (as set forth in Section 4.9), confirming the conditions to Closing and preparing consolidated financial statements of Falcon as of a date prior to the Effective Time of the Merger in order to assist First Maryland in performance of its post-Closing Date financial reporting requirements; provided, however, that any such investigation shall be conducted in such manner so as not to interfere unreasonably with the operation of the business of Falcon or its Subsidiaries. In the event of termination of this Agreement, First Maryland will return to Falcon all documents, work papers and other material (including all copies made thereof) obtained pursuant hereto in connection with the transactions contemplated hereby and will use all reasonable efforts to keep confidential any information obtained pursuant to this Agreement unless such information is readily ascertainable from public or published information or trade sources.

4.2 Proxy Statement; Stockholder Approval. Falcon will duly call and will hold a special meeting of its stockholders as soon as practicable for the purpose of approving the Merger and will comply fully with the provisions of the Delaware Corporation Law, the 1933 Act and the 1934 Act, and the Certificate of Incorporation and By-laws of Falcon relating to the calling and holding of a

special meeting of stockholders for such purpose. Unless the Board of Directors of Falcon have received the written opinion of Muldoon, Murphy & Faucette or other independent counsel reasonably acceptable to First Maryland ("Falcon Counsel") to the effect that making such a recommendation would cause the Board of Directors to violate its fiduciary duty under Delaware Corporation Law, then the Board of Directors of Falcon will recommend to stockholders of Falcon that they vote in favor of and approve the Merger. Falcon will, with the cooperation and assistance of First Maryland, prepare the Proxy Statement to be used in connection with such meeting, and Falcon covenants and agrees that it will not include information in the Proxy Statement or otherwise use proxy material in connection with such meeting to which First Maryland reasonably objects. Falcon covenants that none of the information supplied by Falcon, and First Maryland covenants that none of the information supplied by

First Maryland, in the Proxy Statement will, at the time of the mailing of the Proxy Statement to Falcon stockholders, contain any untrue statement of a material fact nor will any such information omit any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading; and at all times subsequent to the time of the mailing of the Proxy Statement, up to and including the date of the meeting of Falcon stockholders to which the Proxy Statement relates, none of such information in the Proxy Statement as amended or supplemented, will contain an untrue statement of a material fact or omit any material fact required to be stated therein in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

4.3 Operation of the Business of Falcon. Falcon agrees that from the date hereof to the Effective Time of the Merger, it will operate and cause to be operated its businesses substantially as presently operated and only in the ordinary course and in general conformity with applicable laws and regulations, and, consistent with such operation, it will use its best efforts to preserve intact its present business organizations and its relationships with persons having business dealings with it (including, without limitation, key officers and employees). Without limiting the generality of the foregoing, Falcon agrees that it will not, without the prior written consent of First Maryland, (i) make any change in the compensation or title of any executive officer of Falcon; (ii) make any change in the compensation or title of any other employee of Falcon, other than those permitted by current employment policies in the ordinary course of business, any of which changes shall be reported promptly to First Maryland; (iii) enter into or make any payments or awards under any bonus, incentive compensation, deferred compensation, profit sharing, thrift, retirement, pension, group insurance or other benefit plan or any employment or consulting agreement or increase benefits under existing plans; provided, (A) that Falcon may pay cash bonuses to employees pursuant to the terms of the Falcon periodic cash bonus plans described in the Falcon Disclosure Schedule and (B) that prior

to the Closing, in consultation with First Maryland, Falcon may by letter to certain employees identified in the Falcon Disclosure Schedule confirm such employees' terms of continued employment with Falcon, as the case may be; (iv) create or otherwise become liable with respect to any indebtedness for money borrowed or purchase money indebtedness except in the ordinary course of business; (v) amend any Certificate of Incorporation, Charter, Articles of Association or By-laws; (vi) declare or pay any dividend in cash, property or securities of Falcon, other than the regular quarterly dividend of $.03 per share on the Falcon Common Stock out of current earnings, or issue or contract to issue any shares of Falcon capital stock or securities exchangeable for or convertible into capital stock, except shares of

Falcon Common Stock which may be issued pursuant to the exercise of Falcon Options outstanding as of the date hereof; (vii) purchase any shares of Falcon Common Stock; (viii) enter into or assume any material contract or obligation, except in the ordinary course of business; (ix) waive any right of substantial value; (x) propose or take any other action which would make any representation or warranty in Article III hereof untrue at the Effective Time of the Merger; (xi) materially modify any existing deposit instrument or materially amend its policies and procedures relating the establishment of the rate of interest paid on deposits; (xii) make any change in policies respecting applications for credit, extensions of credit or loan charge-offs; (xiii) change its reserve requirement policies; (xiv) change its liquidity, asset/liability management, investment or Derivatives policies; (xv) modify, extend or renew any lease or other Material Contract and will notify First Maryland in writing not less than thirty (30) days prior to the expiration of any applicable notice period with respect to any extension or renewal option or the expiration of the term of any such agreement; or (xvi) propose or take any action with respect to the closing, relocation or remodeling of any branches. Falcon further agrees that, between the date of this Agreement and the Effective Time of the Merger, it will consult and cooperate with First Maryland regarding: (w) loan portfolio management, including management and work-out of nonperforming assets, and credit review and approval procedures; (x) testing, review and implementation of fair lending compliance procedures; (y) investment securities, Derivatives and funds management, including management of interest rate risk; and (z) the termination of any Falcon contract required by First Maryland to be terminated as of the Effective Time of the Merger.

4.4 Commercial Credits. Between the date hereof and the Effective Time of the Merger, Falcon will (a) advise First Maryland of any loan, letter of credit or other credit facility of Falcon in excess of $500,000 (i) which it proposes to extend to a new or existing borrower, (ii) which it proposes to restructure with an existing borrower, (iii) under which it proposes to take enforcement or collection action, or (iv) which it proposes to sell or transfer, and (b) await First Maryland's advice (if any) with respect to any such credit

facilities prior to taking any action it is considering with regard to any such credit facilities. If First Maryland advises Falcon that any such credit facility or the action to be taken with respect to any such credit facility does not meet with existing First Maryland credit standards or procedures, Falcon shall use their respective best efforts to undertake such action with respect to such facility as is recommended by First Maryland.

4.5 Operating Synergies; Conformance to Reserve Policies, Etc. (a) Between the date hereof and the Effective Time of the Merger, Falcon management will work with First Maryland to

achieve appropriate operating efficiencies following the Closing Date. At the request of First Maryland and upon receipt by Falcon of written confirmation from First Maryland that there are no conditions to the obligations of First Maryland under this Agreement set forth in Article V which it believes will not be fulfilled so as to permit them to consummate the transactions contemplated hereby, on the day prior to the Effective Time of the Merger, Falcon shall establish such additional accruals, reserves and charge-offs, through appropriate entries in its accounting books and records, as may be necessary to conform Falcon's accounting and credit loss reserve practices and methods to those of First Maryland (as such practices and methods are to be applied from and after the Effective Time of the Merger) and to First Maryland's plans with respect to the conduct of the business of Falcon following the Merger and the costs and expenses relating to the consummation by Falcon of the transactions contemplated hereby. Any such accrual, reserve or charge-off requested by First Maryland under this Section 4.5 (and not otherwise specifically required by another provision of this Agreement) shall not be deemed to cause any representation and warranty of Falcon to not be true and accurate as of the Effective Time of the Merger.

(b) Falcon may, with the concurrence of First Maryland, terminate the employment of Carroll E. Amos ("Amos") and/or Wade Hotsenpiller ("Hotsenpiller") prior to the Closing Date. If such a termination occurs, then First Maryland agrees that the execution and delivery this Agreement constitutes a "change in control" under the terms of the Employment Agreements, each dated November 1, 1995, between Falcon and Amos and Hotsenpiller, respectively (the "Amos Agreement" and the "Hotsenpiller Agreement," respectively) and that Falcon may make the payments and incur the obligations set forth under Section 5 of the Amos Agreement and the Hotsenpiller Agreement. First Maryland further agrees that in such event, Falcon may also make payments to Amos and Hotsenpiller pay in respect of earned and unused vacation for calendar year 1996 and for any earned and unused vacation carried over from calendar year 1995 in accordance with Falcon's vacation policy as set forth in the Falcon Disclosure Schedule.

4.6 Consents and Estoppel Letters. Falcon shall use its best efforts to

obtain, within ninety (90) days of the date of this Agreement, (a) from all lessors (direct and indirect) of real property leased or subleased by Falcon ("Lessors"), and to deliver copies of the same to First Maryland, (i) any Lessor consents required to assign any leases of real property (the "Leases") to First Maryland (such consents being subject only to the consummation of the Merger) and (ii) estoppel letters in form and content reasonably satisfactory to First Maryland, and (b) from any third party, any required third party consents necessary to assign any Material Contract of Falcon to First Maryland. Falcon further agrees to use its best efforts to obtain, or to

cause its Subsidiaries to obtain, such consents, assignments and estoppel letters with respect to leases or subleases of its Subsidiaries as may be reasonably requested by First Maryland in order to effect a merger or a sale of assets of any Subsidiary with or to one or more subsidiaries of First Maryland.

4.7 Public Announcements. The initial press release announcing this Agreement shall be a joint press release and thereafter each party will consult with the other before issuing any press release or otherwise making any public statements or making any filings with governmental or regulatory entities with respect to the Merger, and shall not issue any press release or make any such public statement prior to such consultations except as may be required by law.

4.8 No Solicitation. Unless and until this Agreement shall have been terminated pursuant to its terms or First Maryland shall have otherwise consented in writing, neither Falcon, any Subsidiary nor any of their executive officers, directors, representatives, agents or affiliates shall, directly or indirectly, encourage, solicit or initiate discussions or negotiations (with any person other than First Maryland) concerning any merger, sale of substantial assets, tender offer, sale of shares of stock or similar transaction involving Falcon or disclose, directly or indirectly, any information not customarily disclosed to the public concerning Falcon, afford to any other person access to the properties, books or records of Falcon or otherwise assist any person preparing to make or who has made such an offer, or enter into any agreement with any third party providing for a business combination transaction, equity investment or sale of significant amount of assets, except in a situation in which a majority of the full Board of Directors of Falcon has determined in good faith, upon the written opinion of Falcon Counsel, that such Board has a fiduciary duty to shareholders under applicable law to consider and respond to a bona fide proposal by a third party (which proposal was not directly or indirectly solicited by Falcon or any of their respective officers, directors, representatives, agents or affiliates) and provides written notice of its intention to consider such proposal and the material terms thereof to First Maryland at least five (5) days before responding to the proposal. Falcon will promptly communicate to First Maryland the terms of any proposal which it may receive in respect to any of the foregoing transactions, and any discussions or

negotiations or any similar activity with respect to any of the foregoing transactions with any party other than First Maryland which may have heretofore been conducted shall cease immediately.

4.9 Regulatory Filings; Best Efforts. First Maryland and Falcon shall jointly prepare all regulatory filings required to consummate the transactions contemplated by the Agreement and submit the filings for approval with the Central Bank of Ireland,

the Minister for Employment and Enterprise for Ireland, the FRB, the OTS and the Virginia State Corporation Commission as soon as practicable after the date hereof. First Maryland and Falcon shall use their best efforts to obtain approvals for such filings. Each of First Maryland and Falcon shall use its best efforts, in good faith, to take all such actions and to do or cause to be done all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the Merger and to consummate and make effective a merger or sale of assets of any Subsidiary with or to one or more subsidiaries of First Maryland.

4.10 Additional Pre-Closing Covenants of Falcon. (a) Within seventy (70) days of the date of this Agreement, Falcon shall obtain from a consultant reasonably satisfactory to First Maryland an environmental assessment as to such matters as First Maryland shall reasonably request of any and all real property owned or leased by Falcon or any Subsidiary (whether used in the operation of the respective businesses of such entities or classified as other real property owned) ("Environmental Assessments");

(b) On or before the Closing Date, Falcon shall take such remedial action as may be necessary, in the reasonable judgment of First Maryland to remove any Hazardous Substance or to otherwise ensure compliance with any and all Environmental Laws ("Remedial Action");

(c) On or before the Closing Date, Falcon shall cooperate with First Maryland in connection with First Maryland's efforts to arrange for the post-Closing divestiture of certain assets of Falcon; and

(d) Promptly following receipt by Falcon, Falcon shall provide a copy of the actuarial valuation of Falcon's pension plan assets as of June 30, 1995.

ARTICLE V: CONDITIONS OF MERGER.

5.1 Conditions to Each Party's Obligations to Effect the Merger. The respective obligations of each party to perform this Agreement are subject to the satisfaction at or prior to the Effective Time of the Merger of the following conditions:

(a) All action necessary to authorize the execution, delivery and performance of this Agreement by Falcon and the consummation of the transactions contemplated herein (including the stockholder actions referred to in Section 4.2) shall have been duly and validly taken by the Boards of Directors of Falcon and by the stockholders of Falcon and Falcon shall have full power and right to merge on the terms provided herein.

(b) All action necessary (i) to authorize the execution, delivery and performance of this Agreement by First Maryland and the consummation of the transactions contemplated herein shall have been duly and validly taken by the Board of Directors of Allied Irish Banks, p.l.c., parent of First Maryland and (ii) to authorize the execution, delivery and performance of this Agreement by First Maryland and the consummation of the transactions contemplated herein shall have been duly and validly taken by the Board of Directors of First Maryland.

(c) All authorizations, consents, orders or approvals of, and all expirations of waiting periods imposed by, any federal, state and foreign regulatory authorities having jurisdiction over any of the parties (collectively, "Consents") which are necessary for the consummation of the Merger, (other than immaterial Consents, the failure to obtain which would not be materially adverse to the combined businesses of First Maryland and Falcon taken as a whole) shall have been obtained or shall have occurred and shall be in full force and effect at the Effective Time of the Merger; provided, however, that no such authorization, consent, order or approval shall be deemed to have been received if it shall include any conditions or requirements which would so materially adversely impact the economic or business benefits of the transactions contemplated by this Agreement so as to render inadvisable, in the reasonable opinion of the Board of Directors of First Maryland or of Falcon, the consummation of the transactions contemplated hereby.

(d) No temporary restraining order, preliminary or permanent injunction or other order by any federal or state court in the United States or any comparable order issued by any court in Ireland which prevents the consummation of the Merger shall have been issued and remain in effect.

5.2 Conditions to Obligations of First Maryland to Effect the Merger. The obligations of First Maryland to perform this Agreement are subject to the satisfaction at or prior to the

Effective Time of the Merger of the following conditions unless waived by First Maryland:

(a) The representations and warranties of Falcon set forth in Article III hereof shall be true and correct in all material respects as of the date of this Agreement and as of the Effective Time of the Merger, as though made on and as of such time (or on the date when made in the case of any representation and warranty which specifically relates to an earlier date); Falcon shall have performed and complied with in all material respects all obligations required to be performed or complied with by it under this Agreement prior to the Effective Time of the Merger; and First Maryland shall have received a certificate signed by the President of Falcon to such effect and setting forth all changes to the Falcon Disclosure Schedule from the date hereof to the Effective Time of the Merger.

(b) Between the date hereof and the Closing Date, there shall have been no material adverse change in the business, financial condition, results of operations or prospects of Falcon, other than (i) changes during such time period in laws or regulations (whether enacted or proposed), generally accepted accounting principles or interpretations of either thereof that affect the banking or savings and loan industries generally, (ii) changes since such date in the general level of interest rates, (iii) expenses incurred in connection with the transactions contemplated by, and which are permitted by, this Agreement, (iv) accruals and reserves by Falcon since such date pursuant to the terms of Section 4.5 hereof or (v) any other accruals, reserves or expenses incurred by Falcon since such date with First Maryland's prior written consent.

(c) No litigation, arbitration, mediation, investigation, inquiry or other proceeding is pending, threatened or, in the reasonable, good faith judgement of First Maryland, likely to be commenced against Falcon, any Subsidiary or any of its stockholders, directors, officers or employees, or against First Maryland, any subsidiary of First Maryland or any of their respective directors, officers or employees, relating to or arising out of (i) trading in Falcon Common Stock prior to the date of this Agreement, (ii) the alleged disparate treatment of similarly situated loan applicants or other customers of Falcon or any Subsidiary or (iii) the alleged disparate impact of any policies or procedures of Falcon or any Subsidiary on similarly situated loan applicants.

(d) The form and substance of all legal matters contemplated hereby and all papers delivered hereunder shall be reasonably acceptable to counsel for First Maryland, and First Maryland shall have received from Falcon Counsel an opinion addressed to First Maryland and dated the Closing Date, covering the matters set forth on Exhibit A hereto.

5.3 Conditions to Obligations of Falcon. The obligation of Falcon to perform this Agreement is subject to the satisfaction at or prior to the Effective Time of the Merger of the following conditions:

(a) The representations and warranties set forth in Article IIIA hereof shall be true and correct in all material respects as of the date of this Agreement and as of the Effective Time of the Merger as though made on and as of the Effective Time of the Merger (or on the date when made in the case of any representation and warranty which specifically relates to an earlier date); First Maryland shall have performed or complied with in all material respects all obligations required to be performed or complied with by them under this Agreement prior to the Effective Time of the Merger; and Falcon shall have received a certificate signed by an executive officer of First Maryland to such effect.

(b) The Board of Directors of Falcon shall have received a letter, in form and substance reasonably satisfactory to it, from Legg Mason Wood Walker, Incorporated to the effect that the terms of the Merger are fair from a financial point of view to the holders of Falcon Common Stock.

(c) The form and substance of all legal matters contemplated hereby and of all papers delivered hereunder shall be reasonably acceptable to Falcon Counsel.

ARTICLE VI: CLOSING DATE; EFFECTIVE TIME.

6.1 Closing Date. Unless another date or place is agreed to in writing by the parties, the closing (the "Closing") of the transactions contemplated in this Agreement shall take place at the offices of First Maryland, 25 South Charles Street, Baltimore, Maryland 21201, at 10:00 o'clock A.M., local time, on such date as First Maryland shall designate to Falcon at least 10 days prior to the designated Closing Date and is reasonably acceptable to Falcon; provided, that the date so designed shall not be earlier than 30 days or later than 60 days following date of the decision of the FRB, the OTS, the Virginia Bank Commissioner, the Minister for Employment and Enterprise for Ireland or the Central Bank of Ireland, whichever decision is later, approving the Merger (the "Closing Date").

6.2 Filings at Closing. Subject to the provisions of Article V, at the Closing Date, First Maryland shall cause a Certificate of Merger relating to the Merger to be filed in accordance with the Delaware Corporation Law and Articles of Merger in accordance with Maryland law and each of First Maryland and Falcon shall take any and all lawful actions to cause the Merger to become effective.

6.3 Effective Time. Subject to the terms and conditions set forth herein, including receipt of all required regulatory approvals, the Merger shall become effective at the time of the last to occur of the filing of: (a) the Certificate of Merger with the Delaware Secretary of State or (b) Articles of Merger with the Maryland State Department of Assessments and Taxation (the "Effective Time of the Merger").

ARTICLE VII: TERMINATION; SURVIVAL OF REPRESENTATIONS, WARRANTIES AND COVENANTS; WAIVER AND AMENDMENT.

7.1 Termination. This Agreement shall be terminated, and the Merger abandoned, if the stockholders of Falcon shall not have given the approval required by Section 4.2 on or before June 30, 1996. Notwithstanding such approval by such stockholders, this Agreement may be terminated at any time prior to the Effective Time of the Merger:

(a) by the mutual consent of First Maryland and Falcon, as expressed by their respective Boards of Directors;

(b) by either First Maryland or Falcon, as expressed by their respective Board of Directors, after June 30, 1997, or such later date as may be established by First Maryland, in its sole discretion, to permit any Remedial Action required by First Maryland to be completed;

(c) by First Maryland in writing authorized by its Board of Directors if Falcon has, or by Falcon in writing authorized by its Board of Directors if First Maryland has, in any material respect, breached (i) any covenant or agreement contained herein, or (ii) any representation or warranty contained herein, in any case if such breach has not been cured by the earlier of 30 days after the date on which written notice of such breach is given to the party committing such breach or the Closing Date; provided that it is understood and agreed that either party may terminate this Agreement on the basis of any such material breach of any representation or warranty contained herein notwithstanding any qualification therein relating to the knowledge of the other party;

(d) by either First Maryland or Falcon, as expressed by their respective Boards of Directors, in the event that any of the conditions precedent to the obligations of such parties to consummate the Merger have not been satisfied or fulfilled or waived by the party entitled to so waive on or before the Closing Date, provided that neither party shall be entitled to terminate this Agreement pursuant to this subparagraph (d) if the condition precedent or conditions precedent which provide the basis for termination can reasonably be and are satisfied within a

reasonable period of time, in which case, the Closing Date shall be appropriately postponed;

(e) by First Maryland, if its Board of Directors shall have determined in its sole discretion that the Merger has become inadvisable or impracticable by reason of (i) the institution of any litigation, proceeding, inquiry or investigation to restrain or prohibit the consummation of the transactions contemplated by this Agreement or to obtain other relief in connection with this Agreement or (ii) public commencement of a competing offer for Falcon Common Stock which is better than First Maryland's offer, which is accepted or not opposed by Falcon and which First Maryland certifies to Falcon, in writing, it is unwilling to meet;

(f) by First Maryland if any Environmental Assessment has not been completed or is for any reason not reasonably satisfactory to First Maryland or if Falcon shall fail to undertake any Remedial Action in accordance with Section 4.10(b) hereof;

(g) by First Maryland or Falcon if the FRB, the OTS, the Virginia State Corporation Commission, the Minister for Employment and Enterprise for Ireland or the Central Bank of Ireland deny approval of the Merger and the time period for all appeals or requests for reconsideration has run; or

(h) by First Maryland if dissents to the Merger shall have been filed with Falcon by the holders of 15% or more of the outstanding shares of Falcon Common Stock pursuant to the Delaware Corporation Law.

7.2 Effect of Termination. In the event of the termination and abandonment of this Agreement pursuant to Section 7.1, this Agreement, other than the provisions of Sections 4.1 (last sentence), 7.2 and 9.1, shall become void and have no effect, without any liability on the part of any party or its directors, officers or stockholders. Nothing contained in this Section 7.2 shall relieve any party from liability for any breach of this Agreement.

7.3 Survival of Representations, Warranties and Covenants. The respective representations and warranties, obligations, covenants and agreements (except for those contained in Sections 1.3, 2.1, 2.2, 2.3, 2.4, 2.5, 4.1 (last sentence), 8.1 and 9.1, which shall survive the effectiveness of the Merger) of First Maryland and Falcon contained herein shall expire with, and be terminated and extinguished by, the effectiveness of such merger and shall not survive the Effective Time of the Merger.

7.4 Waiver and Amendment. Any term or provision of this Agreement may be waived in writing at any time by the party which is, or whose stockholders are, entitled to the benefits thereof

and this Agreement may be amended or supplemented by written instructions duly executed by all parties hereto at any time, whether before or after the meeting of Falcon stockholders referred to in Section 4.2 hereof, excepting statutory requirements and requisite approvals of stockholders and regulatory authorities, provided that any such amendment or waiver executed after stockholders of Falcon have approved this Agreement shall not modify either the amount or form of the consideration to be received by such stockholders for their shares of Falcon Common Stock or otherwise materially adversely affect such stockholders without their approval.

ARTICLE VIII: ADDITIONAL COVENANTS.

8.1 Indemnification of Falcon Officers and Directors. After the Effective Time of the Merger, First Maryland shall indemnify and hold harmless directors, officers and employees who have rights to indemnification from Falcon under the Certificate of Incorporation and By-laws of Falcon immediately prior to the Effective Time of the Merger (the "Indemnified Parties") from and against any and all claims, suits, actions, investigations and other proceedings arising out of or in connection with activities in such capacity prior to the Effective Time of the Merger, or on behalf of, or at the request of Falcon ("Claims"), and shall advance expenses incurred with respect to the foregoing, as they are incurred, in each case to the fullest extent permitted under the Certificate of Incorporation and By-laws of Falcon, as in effect on the date hereof, and to the extent legally permitted to do so. The obligations of First Maryland under this Section 8.1 shall survive the Merger and shall continue in full force and effect following the Effective Time of the Merger for a period of not less than three years; provided, that all rights to indemnification in respect of any Claim asserted or made within such period shall continue until the final disposition of such Claim; and further provided, that First Maryland shall have no obligation to indemnify or to advance expenses to any person who is the subject of a Claim relating to or arising out of his or her trading in Falcon Common Stock prior to the date of this Agreement.

8.2 Employee Matters. (a) Nothing contained in this Agreement shall be construed to obligate First Maryland to continue the employment of any employee of Falcon or any Subsidiary after the Effective Time of the Merger.

(b) For purposes of this Section 8.2, (i) the term "Terminated Employee" means an employee of Falcon as of the date of this Agreement and with respect to whom First Maryland notifies Falcon in writing that such person's employment will not be continued by First Maryland following the Closing Date and (ii) the term "Continued Employee" means an employee of Falcon as of the date of this Agreement and with respect to whom First

Maryland notifies Falcon in writing that such person's employment will be continued by First Maryland following the Closing Date. Neither term shall include Carroll E. Amos or Wade Hotsenpiller.

(c) Each Terminated Employee will be entitled to a severance payment from First Maryland, the amount of which will be calculated using such person's base salary (exclusive of commissions and bonuses) as of the Closing Date as set forth ont he falcon Disclosure Schedule and the formulas set forth on Schedule 8.2A, giving credit for all service with Falcon through the Closing Date; provided, that if a Terminated Employee is listed on Schedule 8.2B, then the number of weeks used to calculate the severance payment shall be as provided on Schedule 8.2B. Any such severance payment (less applicable income and employment tax withholding) will be paid in a lump sum within fifteen days after the Closing Date. Each Terminated Employee will also be entitled to receive a payment (i) in respect of earned and unused vacation for calendar year 1996 and for any earned and unused vacation carried over from calendar year 1995 in accordance with Falcon's vacation policy as set forth in the Falcon Disclosure Schedule and (ii) for amounts, if any, payable to such person under the Falcon cash bonus plans disclosed on the Falcon Disclosure Schedule, prorated (on a monthly basis) as necessary if the Closing Date occurs prior to June 30, 1996.

(d) If within six months after the Closing Date, the employment with First Maryland of any Continued Employee is terminated by First Maryland for any reason other than "Cause" and the Employee is not offered a "comparable job" with First Maryland, then such Employee will be entitled to a severance payment from First Maryland, the amount of which will be calculated using such person's base salary (exclusive of commissions and bonuses) as of the Closing Date as set forth ont he falcon Disclosure Schedule and the formulas set forth on Schedule 8.2A, giving credit for all service with Falcon before, and with First Maryland after, the Closing Date; provided, that if such Continued Employee is listed on Schedule 8.2B, then the number of weeks used to calculate the severance payment shall be as provided on Schedule 8.2B. Any such severance payment (less applicable income and employment tax withholding) will be paid in a lump sum within ten days after the Continued Employee's employment with First Maryland is terminated.

(e) After the Closing Date, First Maryland shall determine in its discretion whether the Falcon qualified pension plan will be terminated, will be maintained as a separate plan and if so, for how long and under what conditions, or will be merged into a qualified pension plan maintained by First Maryland or one of its affiliates.

(f)(i) Subject to the following provisions of this paragraph (f), commencing on January 1, 1997 or such earlier date

as First Maryland may determine in its discretion (such date, the "Benefit Commencement Date"), a Continued Employee shall be eligible to participate in the employee benefit plans of First Maryland on the same basis as such plans and benefits are offered to similarly situated employees of First Maryland, and such Continued Employee shall receive credit for eligibility, vesting and, with respect to First Maryland's qualified pension plan, benefit accrual purposes, under each employee benefit plan provided by First Maryland to Employees for the service credited for such purpose under the comparable employee benefit plan (if any) provided to a Continued Employee immediately prior to the Effective Date of the Merger. The Benefit Commencement Date may be different for different First Maryland employee benefit plans and other fringe benefits. Until the Benefit Commencement Date for a particular employee benefit plan, First Maryland will maintain the analogous Falcon Employee Plan on the same terms and conditions as in effect immediately prior to the Effective Time of the Merger.

(ii) For purposes of this paragraph (f) only, "employee benefit plans" includes, without limitation, pension and profit sharing plans, health and dental insurance, flexible spending accounts (health care and dependent care), disability insurance, life and accident insurance, severance, sickness and vacation benefits and employee loan and banking privileges; provided, that during the six-month period following the Closing Date, participation in any First Maryland severance plan shall be determined under Section 8.2(d) hereof.

(iii) First Maryland agrees that for any Continued Employee who becomes a participant as of the Benefit Commencement Date in a health, life insurance or long-term disability plan maintained by First Maryland, any preexisting condition limitation or exclusion, any proof of insurability requirement or any waiting period in such plan shall not be applicable to such Continued Employee or to such Continued Employee's eligible dependents who are enrolled in any such plan of Falcon's as of the Closing Date.

(g) Notwithstanding anything in this Agreement to the contrary, a Continued Employee's benefit under the First Maryland pension plan shall be calculated using the benefit formula under the Falcon pension plan in effect at the Effective Time of the Merger for the period of time from such employee's original hire date at Falcon to the Closing Date, and using the benefit formula under the First Maryland pension plan for the period of time from the Closing Date to such employee's termination date.

(h) The home mortgage loan program maintained by Falcon for its employees, which is described in the Falcon Disclosure Schedule, will be terminated on the Closing Date. Each Terminated Employee and Continued Employee participating in such

program as of the Closing Date shall have six months from the Closing Date within which to refinance his or her home mortgage loan obtained under the program. After the end of such period, any such loan which has not been refinanced will bear interest at the rate specified in the related loan documents for a non-employee of Falcon.

(i) For purposes of this Section 8.2, the terms "Cause" and "comparable job" shall have the meanings given them in Schedule 8.2C.

8.3 Certain Change of Control Matters. From and after the date hereof, except as otherwise expressly provide for in this Agreement and except with respect to the employment agreements, each dated November 1, 1995, between Falcon and Carroll E. Amos and Wade Hotsenpiller, respectively, Falcon shall take all action necessary so that he execution and delivery of this Agreement will not (i) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute or otherwise) becoming due to any employees under any Falcon benefit plan or otherwise; (ii) increase any benefits otherwise payable under any Falcon benefit plan or (iii) result in any acceleration of the time of payment or vesting of any such benefits.

ARTICLE IX: MISCELLANEOUS.

9.1 Expenses. Each party hereto shall bear and pay the costs and expenses incurred by it relating to the transactions contemplated hereby.

9.2 Entire Agreement. This Agreement contains the entire agreement First Maryland, Newco and Falcon with respect to the Merger and the related transactions and supersedes all prior arrangements or understandings with respect thereto.

9.3 Descriptive Headings. Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provisions of this Agreement.

9.4 Notices. All communications and notices permitted or required under this Agreement shall be in writing and shall be sent (i) by hand delivery, (ii) by commercial overnight courier, (iii) by first class mail, postage prepaid, or (iv) by facsimile transmission, to a party using the following information, or such other information as a party has given to the other party in the manner specified in this Section 9.4:

If to First Maryland:

First Maryland Bancorp
25 S. Charles Street, MS 101-870
Baltimore, Maryland 21201

Attn: Jeffrey D. Maddox
Fax: (410) 244-4459

Copy to:

First Maryland Bancorp
25 S. Charles Street, MS101-850
Baltimore, Maryland 21201
Attn: General Counsel
Fax: (410) 244-3817

If to Falcon:

Falcon Bancorp, Inc.
570 Herndon Parkway
Herndon, Virginia 22070
Attn: Carroll E. Amos
Fax: (703) 478-0457

Copy to:

Muldoon, Murphy & Faucette
5101 Wisconsin Ave., NW
Washington, D.C. 20016
Attn: George W. Murphy, Jr.
Fax: (202) 363-5068

A notice hereunder shall be deemed given (a) upon receipt, in the case of hand delivery, (b) one day after delivery to the courier, in the case of commercial overnight courier, (c) three days after deposit in the U.S. mail, in the case of first class mail or (d) when completely sent and received, as evidenced by a transmission or activity report of the sender's facsimile machine, in the case of facsimile transmission.

9.5 Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

9.6 Governing Law. Except as may otherwise be required by the laws of the United States, this Agreement shall be governed by and construed in accordance with the laws of the State of Maryland.

9.7 Assignment. None of the parties to this Agreement may assign or

delegate any of their respective rights, duties or obligations hereunder without the prior written consent of the other parties hereto; provided, however, the parties expressly agree that First Maryland and/or Newco shall be permitted to assign and delegate all, but not less than all, of its rights, duties and obligations hereunder to any person or entity con-

trolled by, in control of, or under common control with, First Maryland and that upon any such assignment and delegation, such assignee shall be deemed for all purposes to have made the covenants, representations and warranties of First Maryland contained herein.

(rest of page left blank intentionally)

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on its behalf and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the date set forth above.

WITNESS/ATTEST

FIRST MARYLAND BANCORP

_____

By: JEREMIAH E. CASEY
Jeremiah E. Casey, Chairman of

the Board

FMB ACQUISITION CORP.

_____

By: JEREMIAH E. CASEY
Jeremiah E. Casey, Chairman of the Board

1ST WASHINGTON BANCORP, INC.

_____

By: CARROLL E. AMOS
Carroll E. Amos, Chief Executive Officer