

AGREEMENT BY AND BETWEEN  
Williamsburg First National Bank  
Kingstree, South Carolina  
and  
The Comptroller of the Currency

Williamsburg First National Bank, Kingstree, South Carolina (“Bank”), and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has found unsafe and unsound banking practices relating to asset quality, and credit and liquidity risk management at the Bank.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports, programs or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Kent D. Stone  
Assistant Deputy Comptroller  
Carolinas Field Office  
212 South Tryon Street, Suite 700  
Charlotte, North Carolina

## ARTICLE II

### COMPLIANCE COMMITTEE

(1) Within fifteen (15) days, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than one (1) shall be an employee or controlling shareholder of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the action needed to achieve full compliance with each Article of this Agreement;
- (b) actions taken to comply with each Article of this Agreement; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

(5) All reports or plans which the Bank or Board has agreed to submit to the OCC pursuant to this Agreement shall be forwarded, by overnight mail or via email, to:

Kent D. Stone  
Assistant Deputy Comptroller  
Carolinas Field Office  
212 South Tryon Street, Suite 700  
Charlotte, NC 28281

(6) The Board shall ensure that the Bank has sufficient processes, personnel, and control systems to effectively implement and adhere to all provisions of this Agreement, and that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Agreement.

### ARTICLE III

#### STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall forward to the Assistant Deputy Comptroller for his review, pursuant to paragraph (6) of this Article, a written Strategic Plan for the Bank that is acceptable to the Assistant Deputy Comptroller, covering at least a three-year period. At the next Board meeting following receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection, the Board shall adopt and the Bank (subject to Board

review and ongoing monitoring) shall implement and thereafter ensure adherence to the Strategic Plan. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development, and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) a description of the Bank's targeted market(s) and an assessment of the current and projected risks and competitive factors in its identified target market(s);
- (c) the strategic goals and objectives to be accomplished and actions to be taken to achieve identified goals and objectives, including specific time frames;
- (d) specific actions to improve Bank earnings and asset quality, to reduce the level of concentrations of credit and funding costs, and to reduce reliance on non-core funding;
- (e) identification of Bank personnel to be responsible and accountable for achieving each goal and objective of the Strategic Plan, including specific time frames;
- (f) a financial forecast, to include projections for major balance sheet and income statement accounts, targeted financial ratios, and growth projections over the period covered by the Strategic Plan;

- (g) a description of the assumptions used to determine financial projections and growth targets;
- (h) an identification and risk assessment of the Bank's present and planned future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in the Strategic Plan, with the requirement that the risk assessment of new product lines must be completed prior to the offering of such product lines;
- (i) a description of control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (j) assigned responsibilities and accountability for the strategic planning process, new products, growth goals, and proposed changes in the Bank's operating environment; and
- (k) a description of systems to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) The Board shall also include as part of the Bank's Strategic Plan whether to sell, merge or liquidate the Bank or remain an independent national bank. The Board must consider and document in this written analysis various scenarios, including, but not limited to:

- (a) resolution of problem assets (including related costs);
- (b) viable sources of liquidity (including related costs);
- (c) achievement and maintenance of capital requirements as defined in Article IV – Capital Plan and Higher Minimums detailed below; and

(d) ongoing viability of the bank based on current financial and market conditions.

(3) Should the Board decide to sell, merge or liquidate the Bank, the written analysis required under Paragraph (2) of this Article must also include timeframes and procedures for achieving the sale, merger or liquidation of the Bank, and the means by which the Board shall value and market the Bank.

(4) At least monthly, the Board shall review financial reports and earnings analyses prepared by the Bank that evaluates the Bank's performance against the goals and objectives established in the Strategic Plan.

(5) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the established Strategic Plan, including the Board's analysis of the Bank's financial performance and variance reports. The evaluation should also include an explanation of any differences between the established Strategic Plan and actual performance. The written evaluation should also explain significant differences between actual and projected balance sheets, income statements, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. Finally the evaluation shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Within ten (10) days of completing its evaluation, the Board shall submit a copy to the Assistant Deputy Comptroller.

(6) Prior to adoption by the Board, a copy of the Strategic Plan, and any subsequent amendments or revisions, shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a written determination

of no supervisory objection from the Assistant Deputy Comptroller, the Board shall adopt and the Bank shall immediately implement and adhere to the Strategic Plan.

(7) The Bank may not initiate any action that deviates significantly from the Board-approved Strategic Plan without a written determination of no supervisory objection from the Assistant Deputy Comptroller. The Board must give the Assistant Deputy Comptroller advance, written notice of its intent to deviate significantly from the Strategic Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan.

(8) For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's marketing strategies, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or funding strategy, any of which, alone or in aggregate, may have a material impact on the Bank's operations or financial performance; or any other changes in personnel, operations, or external factors that may have a material impact on the Bank's operations or financial performance. For purposes of this paragraph, "personnel" shall include the president, chief executive officer, chief operating officer, chief financial officer, chief credit officer, chief compliance officer, risk manager, auditor, member of the Bank's Board of Directors, or any other position subsequently identified in writing by the Assistant Deputy Comptroller.

## ARTICLE IV

### CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Board shall achieve by December 31, 2009, and thereafter maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) Tier 1 capital to adjusted total assets of nine percent (9%) (adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets);
- (b) Tier 1 risk-based capital to risk-weighted assets of ten percent (10%); and
- (c) Total risk-based capital to risk-weighted assets of eleven percent (11%).

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within ninety (90) days, the Board shall forward to the Assistant Deputy Comptroller for his review, pursuant to paragraph (5) of this Article, a written Capital Plan for the Bank, consistent with the Bank's Strategic Plan as required by Article III, covering at least a three-year period. At the next Board meeting following receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to the Capital Plan. The Capital Plan shall include:

- (a) specific plans for the achievement and maintenance of adequate capital, which may in no event be less than the requirements of paragraph (1) of this Article;



- (b) projections for growth and capital requirements, based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's future needs, as set forth in the Strategic Plan;
- (d) identification of the primary sources from which the Bank will maintain an appropriate capital structure to meet the Bank's future needs, as set forth in the Strategic Plan;
- (e) specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Agreement and with 12 U.S.C. § 1831o, including the restrictions against brokered deposits in 12 C.F.R. § 337.6; and
- (f) contingency plans that identify alternative methods to strengthen capital, should the primary source(s) under paragraph (d) of this Article not be available.

(4) the Bank may pay a dividend or make a capital distribution only:

- (a) when the Bank is in compliance with its approved Capital Plan and would remain in compliance with its approved Capital Plan immediately following the payment of any dividend;
- (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
- (c) following the prior written determination of no supervisory objection by the Assistant Deputy Comptroller.

(5) Prior to adoption by the Board, a copy of the Capital Plan shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall adopt and the Bank shall immediately implement and adhere to the Capital Plan. The Board shall review and update the Bank's Capital Plan at least annually and more frequently if necessary or if requested by the Assistant Deputy Comptroller. Revisions to the Bank's Capital Plan shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(6) If the Assistant Deputy Comptroller determines, in his sole judgment, that the Bank has failed to submit an acceptable Capital Plan as required by paragraph (3) of this Article, or has failed to implement or adhere to a Capital Plan to which the Assistant Deputy Comptroller has taken no supervisory objection pursuant to paragraph (5) of this Article; then within thirty (30) days of receiving written notice from the Assistant Deputy Comptroller of such a determination, the Bank shall develop and shall submit to the Assistant Deputy Comptroller for his review and prior written determination of no supervisory objection a Disposition Plan that shall detail the Board's proposal to sell or merge the Bank, or liquidate the Bank under 12 U.S.C. § 181.

(7) In the event that the Disposition Plan submitted by the Bank's Board outlines a sale or merger of the Bank, the Disposition Plan shall, at a minimum, address the steps that will be taken and the associated timeline to ensure that a definitive agreement for the sale or merger is executed not later than ninety (90) days after the receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection to the Disposition Plan. If the Disposition Plan outlines a liquidation of the Bank, the Disposition Plan shall detail the actions and steps necessary to accomplish the liquidation in conformance with 12 U.S.C. §§ 181 and 182, and the dates by which each step of the liquidation shall be completed, including the date by which the Bank will terminate the national bank charter. In the event of liquidation, the Bank shall hold a

shareholder vote, pursuant to 12 U.S.C. § 181, and commence liquidation within thirty (30) days of receiving the Assistant Deputy Comptroller's written determination of no supervisory objection to the Disposition Plan.

(8) After the Assistant Deputy Comptroller has advised the Bank in writing that he does not take supervisory objection to the Disposition Plan, the Board shall immediately adopt and implement, and shall thereafter ensure adherence to, the terms of the Disposition Plan. Failure to submit a timely, acceptable Disposition Plan, or failure to implement and adhere to the Disposition Plan after the Board obtains a written determination of no supervisory objection from the Assistant Deputy Comptroller, may be deemed a violation of this Agreement, in the exercise of the Assistant Deputy Comptroller's sole discretion.

## ARTICLE V

### BROKERED DEPOSITS

(1) The Bank may accept, renew or rollover Brokered Deposits (as defined by 12 C.F.R. § 337.6(a)(2)) for deposit at the Bank, up to thirty percent (30%) of total deposits<sup>1</sup>, without obtaining a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(2) The limitation of paragraph (1) of this Article shall include the acquisition of Brokered Deposits through any transfer, purchase, or sale of assets, including Federal funds transactions administered through a deposit broker.

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<sup>1</sup> Total deposits as reported in the most recent Consolidated Report of Condition.

(3) Any request to exceed the Brokered Deposit limitation in paragraph (1) of this Article shall be submitted in writing to the Assistant Deputy Comptroller for written determination of no supervisory objection and shall contain, at a minimum, the following:

- (a) the dollar volume, maturities, and cost of the Brokered Deposits to be acquired;
- (b) the proposed use of the Brokered Deposits, i.e., short-term liquidity or restructuring of liabilities to reduce cost;
- (c) alternative funding sources available to the Bank; and
- (d) the reasons why the Bank believes that the acceptance of the Brokered Deposits does not constitute an unsafe and unsound practice in its particular circumstances.

(4) The Assistant Deputy Comptroller may require the submission of such additional information as necessary to make an informed decision. Upon consideration of the Bank's application, the Assistant Deputy Comptroller will determine whether the proposed acquisition of Brokered Deposits may be accomplished in a safe and sound manner and may condition the Bank's acquisition as the Assistant Deputy Comptroller shall deem appropriate.

(5) **Nothing in this article shall relieve the Bank of its obligation under 12 U.S.C. § 1831f to seek necessary approvals from the Federal Deposit Insurance Corporation before accepting Brokered Deposits and to comply with all the requirements of 12 U.S.C. § 1831f.**

## ARTICLE VI

### MANAGEMENT AND BOARD SUPERVISION STUDY

(1) Within ninety (90) days the Board shall employ an independent outside management Consultant and the Consultant shall complete a study of current management and Board supervision presently being provided to the Bank, the Bank's management structure, and its staffing requirements in light of the Bank's present condition. The findings and recommendations of the Consultant shall be set forth in a written report to the Board. At a minimum, the report shall contain:

- (a) the identification of present and future management and staffing requirements of each area of the Bank, with particular emphasis given to the lending area;
- (b) detailed written job descriptions for all executive officers;
- (c) an evaluation of each officer's qualifications and abilities and a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of his/her officer position;
- (d) recommendations as to whether management or staffing changes should be made, including the need for additions to or deletions from the current management team;
- (e) objectives by which management's effectiveness will be measured;
- (f) a training program to address identified weaknesses in the skills and abilities of the Bank's staff and management team;

- (g) an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
- (h) a recommended organization chart that clearly reflects areas of responsibility and lines of authority for all officers, including the Bank's president and chief executive officer;
- (i) an assessment of the Board's strengths and weaknesses along with a director education program designed to strengthen identified weaknesses;
- (j) an assessment of whether Board members are receiving adequate information on the operation of the Bank to enable them to fulfill their fiduciary responsibilities and other responsibilities under law;
- (k) recommendations to expand the scope, frequency and sufficiency of information provided to the Board by management;
- (l) an evaluation of the extent of responsibility of current management and the Board for present weaknesses in the Bank's condition; and
- (m) recommendations to correct or eliminate any other deficiencies in the supervision or organizational structure of the Bank.

(2) Within ninety (90) days of completion of this study, the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan, with specific time frames, that will correct any deficiencies which are noted in the study.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

(4) Copies of the Board's written plan and the Consultant's study shall be forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement. In the event the written plan, or any portion thereof, is not implemented, the Board shall immediately advise the Assistant Deputy Comptroller, in writing, of specific reasons for deviating from the plan.

## ARTICLE VII

### BOARD TO ENSURE COMPETENT MANAGEMENT

(1) The Board shall ensure that the Bank has competent management in place on a full-time basis in all executive officer positions to carry out the Board's policies; ensure compliance with this Agreement; ensure compliance with applicable laws, rules, and regulations; and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within sixty (60) days of the completion of the Management and Supervision Study required by Article VI, the Board shall prepare a written assessment of the capabilities of the Bank's executive officers to perform present and anticipated duties, taking into account the findings contained in the Report of Examination, and factoring in the officer(s)'s past actual performance, experience, and qualifications, compared to their position description, duties and responsibilities, with particular emphasis on their proposed responsibilities to execute the Strategic Plan and correct the concerns raised in the Report of Examination. Upon completion, a copy of the written assessment shall be submitted to the Assistant Deputy Comptroller.

(3) If the Board determines that an officer's performance, skills or abilities needs improvement, the Board will, within thirty (30) days following its determination, require the

Bank to develop and implement a written program, with specific time frames, to improve the officer's performance, skills and abilities. Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller.

(4) If the Board determines that an officer will not continue in his/her position, the Board shall document the reasons for this decision in its assessment performed pursuant to paragraph (2) of this Article, and shall within sixty (60) days of such vacancy identify and provide notice to the Assistant Deputy Comptroller, pursuant to paragraph (5) of this Article, of a qualified and capable candidate for the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(5) Prior to the appointment of any individual to an executive officer position, the Board shall submit to the Assistant Deputy Comptroller written notice, as required by 12 C.F.R. § 5.51 and in accordance with the Comptroller's Licensing Manual. The Assistant Deputy Comptroller shall have the power to disapprove the appointment of the proposed executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer. The requirement to submit information and the prior disapproval provisions of this Article are based upon the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Assistant Deputy Comptroller to complete his review and act on any such information or authority within ninety (90) days.

(6) The Board shall perform, at least annually, a written performance appraisal for each Bank executive officer that establishes objectives by which the officer's effectiveness will be measured, evaluates performance according to the position's description and responsibilities, and assesses accountability for action plans to remedy issues raised in Reports of Examination or



audit reports. Upon completion, copies of the performance appraisals shall be submitted to the Assistant Deputy Comptroller. The Board shall ensure that the Bank addresses any identified deficiencies in a manner consistent with paragraphs (3) and (4) of this Article.

## ARTICLE VIII

### LIQUIDITY RISK MANAGEMENT PROGRAM

(1) Within sixty (60) days, the Board shall develop, implement and ensure adherence to a comprehensive liquidity risk management program which assesses, on an ongoing basis, the Bank's current and projected funding needs, and ensures that sufficient funds or access to funds exist to meet those needs. Such a program must include effective methods to achieve and maintain sufficient liquidity and to measure and monitor liquidity risk, to include at a minimum:

- (a) strategies to maintain sufficient liquidity at reasonable costs including, but not limited to, the following:
  - (i) diversification of funding sources, reducing reliance on high cost providers;
  - (ii) reducing rollover risk;
  - (iii) increasing liquidity by obtaining additional capital, placing limits on asset growth, aggressive collection of problem loans and recovery of charged-off assets, and asset sales; and
  - (iv) monitoring the projected impact on reputation, economic and credit conditions in the Bank's market(s).
- (b) The preparation of liquidity reports which shall be reviewed by the Board on at least a monthly basis, to include, at a minimum, the following:

- (i) a certificate of deposit maturity schedule, including separate line items for brokered deposits and uninsured deposits,
- (ii) a schedule of all funding obligations, including money market accounts, unfunded loan commitments, outstanding lines of credit and outstanding letters of credit, showing the obligations that can be drawn immediately;
- (iii) a listing of funding sources, including federal funds sold; unpledged assets and assets available for sale; and borrowing lines by lender, including original amount, remaining availability, type and book value of collateral pledged, terms, and maturity date, if applicable; and
- (iv) a monthly sources and uses of funds report for a minimum period of six months, updated monthly, which reflects known and projected changes in asset and liability accounts, and the assumptions used in developing the projections. Such reports shall include, at a minimum:
  - 1. the funding obligations and sources required by (ii) and (iii) of this paragraph;
  - 2. projected additional funding sources, including loan payments, loan sales/participations, or deposit increases; and
  - 3. projected additional funding requirements from a reduction in deposit accounts including uninsured and brokered deposits, inability to acquire federal funds purchased, or

availability limitations or reductions associated with borrowing relationships.

- (c) A contingency funding plan that, on a monthly basis, forecasts funding needs, and funding sources under different stress scenarios which represent management's best estimate of balance sheet changes that may result from a liquidity or credit event. The contingency funding plan shall include:
  - (i) the preparation of reports which identify and quantify all sources of funding and funding obligations under best case and worst case scenarios, including asset funding, liability funding and off-balance sheet funding; and
  - (ii) procedures which ensure that the Bank's contingency funding practices are consistent with the Board's guidance and risk tolerances.

(2) The Board shall submit a copy of the comprehensive liquidity risk management program, along with the reports required by this Article, to the Assistant Deputy Comptroller for review.

## ARTICLE IX

### INTERNAL AUDIT

(1) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:

- (a) detect irregularities and weak practices in the Bank's operations;
- (b) ensure areas of concern noted in the ROE receive appropriate corrective action;

- (c) determine the Bank's level of compliance with all applicable laws, rules and regulations;
- (d) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (e) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its loan policies concerning underwriting standards and problem loan identification and classification;
- (f) review and provide an opinion regarding whether regulatory reports beginning with the quarter ending December 2009 contain “material misstatements” within thirty (30) days of filing; for purposes of this Article, “material misstatements” has the same meaning as the term is used in the SEC’s Staff Accounting Bulletin No. 99 on Materiality (“SAB 99”) and Staff Accounting Bulletin No. 108 (“SAB 108”).
- (g) adequately cover all areas; and
- (h) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

(6) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(7) The audit staff shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(8) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Assistant Deputy Comptroller.

## ARTICLE X

### CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the most recent Report of Examination (“ROE”), in any subsequent ROE, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program to eliminate the basis of criticism of assets criticized in the ROE,

in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof ;
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a monthly basis (in a format similar to Appendix A, attached hereto).

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

## ARTICLE XI

### LOAN PORTFOLIO MANAGEMENT

(1) Within sixty (60) days, Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written credit policy to improve the Bank's loan portfolio management. The credit policy shall include (but not be limited to):

- (a) a description of the types of credit information required from borrowers and guarantors, including (but not limited to) annual audited statements, interim financial statements, personal financial statements, and tax returns with supporting schedules;
- (b) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and validating current credit information about the borrower and any guarantor sufficient to fully assess and analyze the borrower's and guarantor's cash flow, debt service requirements, contingent liabilities, and global liquidity condition, and only after the credit officer prepares a documented credit analysis;
- (c) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and documenting the current valuation of any supporting collateral, and that reasonable limits are established on credit advances against collateral, based on a consideration of (but not limited to) a realistic assessment of the value of collateral, the ratio of loan to value, and overall debt service requirements;
- (d) procedures and controls to periodically verify the existence and lien position of collateral;
- (e) procedures to ensure that loans made for the purpose of constructing or developing real estate include (but are not limited to) requirements to:
  - (i) obtain and evaluate detailed project plans; detailed project budget; time frames for project completion; detailed market analysis; and sales projections, including projected absorption rates;



- (ii) conduct stress testing of significant project and lending; and
  - (iii) obtain current documentation sufficient to support a detailed analysis of the financial condition of borrowers and significant guarantors.
- (f) a requirement that borrowers and/or guarantors maintain any collateral margins established in the credit approval process;
  - (g) procedures that prohibit the capitalization of accrued interest on any loan renewal or extension;
  - (h) procedures that prohibit, on any loan renewal, extension or modification, the establishment of an interest reserve using the proceeds of any Bank loan to the same borrower or guarantor;
  - (i) procedures to ensure that all exceptions to the credit policy shall be clearly documented on the loan offering sheet, problem loan report, and other MIS; and approved by the Board or a committee thereof before the loan is funded or renewed;
  - (j) credit risk rating definitions consistent with applicable regulatory guidance;
  - (k) procedures for early problem loan identification, including requiring that loan officers obtain updated financial information for significant borrower credits and relationships, to ensure that credits are accurately risk rated at least monthly; and

(1) prudent lending and approval limits for lending officers that are commensurate with their experience and qualifications, and that prohibit combining individual lending officers' lending authority to increase limits.

(2) The Board shall ensure that Bank personnel performing credit analyses are adequately trained in cash flow analysis, particularly analysis using information from tax returns, and that processes are in place to ensure that additional training is provided as needed.

(3) Within sixty (60) days the Board shall establish a written performance appraisal and salary administration process for loan officers that adequately considers performance relative to job descriptions, policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters.

## ARTICLE XII

### LOAN PORTFOLIO - MANAGEMENT INFORMATION SYSTEMS (MIS)

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program establishing an effective management information system (MIS) which facilitates risk identification, establishes controls, and delivers accurate information for timely review. In so doing, the Board shall identify the Bank's specific information requirements, particularly regarding the loan portfolio, and establish effective reporting mechanisms to guide decisions. The program shall include procedures for:

- (a) expediting the timely delivery of current information;
- (b) establishing controls to ensure the accuracy and confidentiality of information;
- (c) ensuring that data are processed and compiled uniformly to facilitate meaningful trend analysis, and provide for future systems changes;

- (d) producing complete and relevant information in a summarized form, for Board and management reports, to permit effective decision making.

(2) Beginning November 2009, and on a monthly basis thereafter, management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) exceptions to the bank's lending policies;
- (d) the identification of missing, incomplete, or imperfect loan and collateral documentation exceptions including lacking and outdated appraisals;
- (e) the identification and status of credit related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph;
- (g) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios;
- (h) the identification and amount of loans and leases to executive officers, directors , principal shareholders (and their related interests) of the Bank.

(3) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

## ARTICLE XIII

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses (“ALLL”) in accordance with generally accepted accounting principles. The ALLL policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council’s “Interagency Policy Statement on the Allowance for Loan and Lease Losses” dated December 13, 2006 (OCC Bulletin 2006-47) and with "Allowance for Loan and Lease Losses," booklet A-ALLL of the *Comptroller's Handbook*, and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan;
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies;
- (c) procedures for validating the ALLL methodology;
- (d) process for summarizing and documenting, for the Board’s review and approval, the amount to be reported in the Consolidated Reports of Condition and Income (“Call Reports”) for the ALLL. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Call Reports, through additional provision expense.

(2) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the program.

#### ARTICLE XIV

##### OTHER REAL ESTATE OWNED

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a policy to ensure that Other Real Estate Owned (“OREO”) is managed in accordance with 12 U.S.C. § 29 and 12 C.F.R. Part 34. The policy shall address:

- (a) responsibility and authority for OREO properties;
- (b) proper accounting procedures for OREO properties from transfer to the Bank and until and upon sale to a third party;
- (c) valuation analysis for OREO properties, including procedures to require periodic market valuations of each property, and the methodology to be used as well as timely appraisals pursuant to 12 C.F.R. § 34.85 and 12 C.F.R. Part 34, Subpart C;
- (d) diligent sales efforts, including marketing strategy and targeted time frames for disposing of OREO properties and analyses of OREO properties which provides for comparison of the cost to carry against the financial benefits of near term sale; and
- (e) systems to provide for reporting to the Board on the status of OREO properties as well as disposition of OREO properties.

(2) Upon adoption, the Board shall submit a copy of the policy to the Assistant Deputy Comptroller for review.

## ARTICLE XV

### CONSUMER COMPLIANCE PROGRAM

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure adherence to a written consumer compliance program to ensure that the Bank is operating in compliance with all applicable consumer protection laws, rules and regulations. This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer;
- (b) adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations;
- (c) the preparation of a policies and procedures manual covering all consumer protection laws, rules and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities;
- (d) semiannual updates of the written policies and procedures manual to ensure it remains current;
- (e) an audit program to test for compliance with consumer protection laws, rules and regulations;
- (f) procedures to ensure that exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;

- (g) the education and training of all appropriate Bank personnel in the requirements of all federal and state consumer protection laws, rules and regulations; and
- (h) periodic reporting of the results of the consumer compliance audit to the Board or a committee thereof.

(2) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review.

## ARTICLE XVI

### ADMINISTRATIVE APPEALS AND EXTENSIONS OF TIME

(1) If the Bank requires an extension of any timeframe within this Agreement, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that require an extension of a timeframe within this Agreement.

(2) All such requests shall be accompanied by relevant supporting documentation, and any other facts upon which the Bank relies. The Assistant Deputy Comptroller's decision concerning a request is final and not subject to further review.

## ARTICLE XVII

### CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.



(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

(7) IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

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Kent D. Stone  
Assistant Deputy Comptroller  
Carolinas Field Office

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Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

|                                   |                   |
|-----------------------------------|-------------------|
| /s/                               | 10-22-09          |
| _____<br>W. Carroll Burrows       | _____<br>Date     |
| /s/                               | 10/14/09          |
| _____<br>Alan K. Chandler         | _____<br>Date     |
| /s/                               | 10/14/09          |
| _____<br>Jim Cherry, Jr.          | _____<br>Date     |
| /s/                               | 10/14/09          |
| _____<br>Ronald K. Hammond        | _____<br>Date     |
| /s/                               | 10/14/09 12:45 pm |
| _____<br>William N. Kellahan, Jr. | _____<br>Date     |
| /s/                               | 10/14/09          |
| _____<br>Marion B. Lee, Jr.       | _____<br>Date     |
| /s/                               | 10/14/09          |
| _____<br>Dickey N. Preacher       | _____<br>Date     |
| /s/                               | 10/14/09          |
| _____<br>Harold E. Watford        | _____<br>Date     |
| /s/                               | 10/14/09          |
| _____<br>Stanley A. Williamson    | _____<br>Date     |