

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 29th day of December, 2005 (Effective Date), by and between Carolina Federal Savings Bank, Charleston, South Carolina, OTS Docket No. 15721 (Carolina Federal or Bank), a federally chartered mutual savings bank, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Southeast Regional Director or his designee (Regional Director).

WHEREAS, the OTS is the primary federal regulator of the Bank;

WHEREAS, based upon the Bank's May 2, 2005 Report of Examination (2005 Examination), the OTS is of the opinion that the Bank has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Bank is subject; and/or (ii) are considered to be unsafe and unsound;

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against the Bank;

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Bank will: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices; and

WHEREAS, the Bank, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

Compliance With Laws and Regulations

1. The Bank, its directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions to comply with the following laws and regulations:
 - a. the OTS regulations regarding management and financial policies, including maintenance of liquidity, set forth in 12 C.F.R. § 563.161(a);
 - b. the OTS regulations regarding real estate lending standards set forth in 12 C.F.R. § 560.101;
 - c. the OTS regulations regarding appraisal policies and practices of savings associations and subsidiaries set forth in 12 C.F.R. § 564.8; and
 - d. the National Flood Insurance Act and the Flood Disaster Protection Act, 42 U.S.C. § 4001 et seq. (collectively, the FDPA) and the FDPA regulations issued

by the OTS at 12 C.F.R. § 572.

Liquidity

2. Within sixty (60) days after the Effective Date of this Agreement, the Board shall develop and adopt a formal written liquidity policy for the Bank that complies with the requirements of OTS Thrift Bulletin (TB) 77 (Liquidity Policy). The Liquidity Policy shall include comprehensive calculation and reporting requirements involving both short-term and long-term analysis of liquidity and cash flow, both into and out of the Bank. The Liquidity Policy shall, at a minimum, include:
 - a. a process for regularly measuring and monitoring liquidity that includes forecasting cash inflows and outflows over varying time periods to identify potential cash imbalances;
 - b. quantitative guidelines and limits to ensure adequate liquidity; and
 - c. a schedule for the periodic review of the Bank's Liquidity Policy by both Management and the Board to ensure that it remains current and adequately addresses changes in liquidity risk limits, liquidity strategy, information systems and internal controls.
3. The Board shall take all steps necessary to ensure that the Liquidity Policy required by Paragraph 2 above is implemented and thereafter fully adhered to by Management of Carolina Federal. The Board shall require Management to prepare such reports as are necessary to enable the Board to adequately and effectively monitor and ensure the Bank's compliance with the Liquidity Policy. The Board shall submit a copy of the Liquidity Policy required by Paragraph 2, including a copy of the Board meeting minutes reflecting the Board's review and adoption of the Liquidity Policy, to the Regional Director within ten (10) days after adoption.

Loan Underwriting and Administration

4. Effectively immediately and until such time as the Board has demonstrated to the Regional Director's satisfaction that the weaknesses and deficiencies discussed in the Bank's 2005 Examination have been fully addressed and the corrective actions set forth in this Agreement have been completed, the Bank shall restrict its lending activities to the making, granting and renewal of owner occupied residential property loans, including home equity loans, where the total loan to value (LTV) ratio of the Bank's loan(s) does not exceed 80 percent, unless private mortgage insurance coverage is obtained for the portion of the loan above 80 percent. In determining compliance with this provision, the Bank shall include in its LTV calculations all outstanding loans with greater priority than Carolina Federal's loan. Carolina Federal may also make secured, fully amortizing consumer loans, and may make unsecured loans up

to an aggregate maximum of \$5,000.00 to one borrower with the prior approval of the Directors Loan Committee.¹ Any loan permitted under this Paragraph 4 shall be graded in one of the four highest quality grades² prior to a commitment being issued to the borrower. The Bank shall not renew, extend or modify any loan in the amount of \$250,000 or greater, or where the total loans outstanding to one borrower, as defined in 12 C.F.R. § 560.93, equal or exceed \$250,000, except following receipt of the prior written approval of the Regional Director.

5. Notwithstanding Paragraph 4 above, the Bank may grant loans to businesses secured by automotive vehicles, provided that (i) the aggregate amount of loans to any one borrower³ under this Paragraph 5 does not exceed \$50,000; (ii) all loans made pursuant to this Paragraph 5 are graded in one of the four highest quality grades⁴ prior to a commitment being issued to the borrower; (iii) there are no delinquencies by the borrower or, to the extent applicable, or any guarantor within the preceding 12 months on any loan with the Bank; and (iv) the aggregate outstanding balance of all loans to the borrower and/or guarantor does not exceed \$250,000 at the time a loan under this Paragraph 5 is granted.
6. Within sixty (60) days after the Effective Date of this Agreement, the Board will adopt new policies and procedures or modify and amend existing loan underwriting and credit administration policies and procedures to (i) strengthen the Bank's loan underwriting and credit administration policies, practices and procedures; (ii) address all deficiencies and weaknesses described in the Bank's 2005 Examination; and (iii) ensure the Bank's compliance with applicable law, regulation and agency guidance, including the requirements set forth in 12 C.F.R. § 560.101 (Loan Policy). At a minimum, the Board shall ensure that:
 - a. policies and procedures establishing reasonable investment limits (expressed as a percentage of total capital) and adequate documentation and monthly Board reporting requirements (which shall include the reporting of aggregate balances and total number of loans outstanding both in numerical form and as a percentage of total loans) are drafted, adopted and implemented for large or complex loans, single payment loans, interest only loans and all loans granted as exceptions to the Bank's Loan Policy, including but not limited to high loan to value loans and stated income loans;
 - b. the Bank's Loan Policy is revised to (i) include specific loan underwriting criteria

¹ The Directors Loan Committee shall be composed of at least three (3) outside directors, none of whom may have any loans from the Bank graded worse than one of the four highest quality grades.

² The term "quality grades" shall refer to the loan grading system approved by the Board on September 28, 2005, as a part of the Bank's Loan Policy Manual. A copy of the loan grading system was provided to the OTS. By letter dated December 19, 2005, the Bank has advised that it is now using the new Loan Policy Manual.

³ The term "one borrower" shall have the same meaning as defined in 12 C.F.R. § 560.93.

⁴ The term "quality grades" shall refer to the loan grading system approved by the Board on September 28, 2005, as a part of the Bank's Loan Policy Manual. A copy of the loan grading system was provided to the OTS. By letter dated December 19, 2005, the Bank has advised that it is now using the new Loan Policy Manual.

- and requirements for consumer and commercial loans, including renewals and extensions, (ii) require all loans for which income information is available to be supported by a fully documented financial analysis using current and complete financial information, (iii) establish reasonable concentration limits for borrowers based upon credit scores, geographic location, loan type (e.g., lot loans, construction, speculative construction, etc.), subdivision or development, industry, and builder, and (iv) establish appropriate documentation and recordkeeping requirements, including obtaining current and updated financial information, for all loans by loan type and size;
- c. the Bank's compliance with its Loan Policy, including the revisions made pursuant to this Paragraph 6, is reviewed on a monthly basis, which review shall include a comparison of current rate sheets to loan pricing as stated in the Loan Policy, and that Management is required to implement any corrective actions required by the Board;
 - d. all loans in excess of \$250,000, except for loans secured by an owner occupied home, are submitted to the Board for review and approval prior to commitment or origination; and
 - e. all appraisers used by the Bank are reviewed and approved on an annual basis consistent with the requirements of 12 C.F.R. § 564.8(c)(3).
7. Within thirty (30) days after the Effective Date of this Agreement, the Board shall engage a qualified, independent third party (Consultant) to prepare for Board adoption and implementation an internal asset review program (IAR Program) that is consistent with the requirements of OTS Chief Executive Officer Memorandum No. 140 (CEO 140). The IAR Program shall be prepared and presented to the Board for consideration no later than sixty (60) days after the Effective Date of this Agreement. The IAR Program shall fully address the concerns noted by the OTS in the Bank's 2005 Examination and shall establish timeframes and procedures for reporting the results of all independent asset reviews to the Board for consideration. The IAR Program shall require Management to conduct quarterly reviews of all classified assets and to prepare quarterly reports to the Board, to be submitted in writing within thirty (30) days following the end of each calendar quarter, regarding the status and resolution of each such classified asset and whether such asset is appropriately classified in accordance with 12 C.F.R. § 560.160 and applicable OTS guidance. The Board shall conduct its review of the quarterly reports required by this Paragraph 7 within thirty (30) days of receipt of the quarterly reports from Management. The Board shall fully document its review of the IAR Program results in the appropriate Board meeting minutes. The Board shall provide a copy of the Bank's IAR Program and the Board meeting minutes regarding the adoption of the IAR Program to the Regional Director for approval within ten (10) days after adoption by the Board.
8. Within sixty (60) days after the Effective Date of this Agreement, the Consultant shall conduct a review of all loans modified, renewed and/or extended by the Bank on or after

January 21, 2003 (Covered Loans) consistent with the IAR Program and the requirements of this Paragraph 8. The Consultant's review shall include an evaluation of the underwriting of each Covered Loan and identify all underwriting deficiencies, exceptions to the Bank's Loan Policy, any outstanding accrued interest, the handling of any outstanding accrued interest (paid by the borrower as a condition of a renewal/extension, capitalized into the renewed loan, etc.), whether additional funds were extended and the purpose of such extensions, whether the loans would qualify as subprime under applicable OTS guidance, and whether the loans are properly classified in accordance with 12 C.F.R. § 560.160 and applicable OTS guidance. Within ninety (90) days after the Effective Date of this Agreement, the results of the Consultant's findings shall be reported to the Board in writing for review and adoption of appropriate corrective action. The Board shall assess the impact of the results of the Consultant's review, including any changes in the classification of an asset, on the Bank's Allowance for Loan and Lease Losses and the Bank's compliance with applicable capital requirements, including its capital status. The Consultant's findings and a copy of the Board meeting minutes detailing the Board's review and the adoption of any corrective actions shall be provided to the Regional Director within ten (10) days after the Board's review.

Flood Disaster Protection Act

9. Within sixty (60) days after the Effective Date of this Agreement, the Board shall review and amend the Bank's FDPA policies and procedures (FDPA Policy) to strengthen and ensure the Bank's compliance with the FDPA and the OTS regulations at 12 C.F.R. Part 572 (collectively, the FDPA Laws and Regulations). The FDPA Policy as amended and adopted by the Board shall establish a system to ensure that appropriate flood insurance is obtained and maintained on all property securing a loan from the Bank. The Board shall ensure that Bank personnel receive appropriate training and that the Bank's compliance with the FDPA Policy is reviewed periodically. The Board shall take all steps necessary to ensure that the FDPA Policy required by this Paragraph 9 is implemented and thereafter fully adhered to by Management and staff of the Bank.
10. The Board shall engage an independent firm to conduct a review of all loans made or renewed by the Bank on or after February 23, 2004, to ensure that those loans subject to the FDPA Laws and Regulations fully comply with the requirements of such laws and regulations. The independent firm may be the Consultant identified above at Paragraph 7 or another firm. The independent firm shall be required to prepare and provide to the Board a written report detailing the results of the loan review required by this Paragraph 10 (FDPA Report). The review required by this Paragraph 10 shall be completed no later than sixty (60) days after the Effective Date of this Agreement. The FDPA Report shall list all loans subject to the FDPA Laws and Regulations and identify those loans with deficiencies or otherwise found to be in non-compliance with the FDPA Laws and Regulations. The Board shall review the FDPA Report at the next regularly scheduled Board meeting and require Management to promptly take such corrective action as is necessary to remedy such deficiencies and non-compliance. A copy of the FDPA Report and the Board minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the date of the Board meeting.

Board Oversight and Recordkeeping

11. Effective immediately, the Board shall ensure that Management provides complete and accurate reports and other information to the Board and to each Board Committee in a timely manner. The Board shall ensure that accurate, complete and detailed minutes of all Board and Board Committee meetings are prepared and maintained. Such minutes shall clearly and specifically reflect all matters presented to and discussed by the Board or any Board Committee. Copies of any reports to the Board or Board Committees shall be retained with the appropriate minutes reflecting the review and discussion of such reports. The Board shall appoint one member to be responsible for reviewing and approving the minutes of the Board meetings. Each Board Committee shall appoint one member who shall be responsible for reviewing and approving the minutes of each Board Committee meeting.

Director Responsibility

12. Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual Director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Bank at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

Compliance with Agreement

13. All policies, procedures, corrective actions, plans, programs, reviews and systems required by this Agreement (collectively, Policies and Procedures) shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall submit copies of all Policies and Procedures required by this Agreement to the Regional Director within the timeframes specified or, in the event a timeframe is not specified, within thirty (30) days after adoption by the Board. The Board shall revise such Policies and Procedures as required by the Regional Director within thirty (30) days of receipt of written direction from the Regional Director. The Policies and Procedures, as modified consistent with the written direction of the Regional Director, shall be incorporated into this Agreement and any deviation from such Policies and Procedures shall be a violation of this Agreement.
14. The Board shall require Management to correct all deficiencies identified in the Bank's 2005 Examination, as directed therein, except where such direction is modified or changed by the terms of this Agreement. Further, the Board and Management of the Bank shall take immediate action to cause the Bank to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Bank to continue to carry out the provisions of this Agreement.
15. Within thirty (30) days after the end of each calendar quarter, beginning with the calendar quarter ending September 30, 2005, the Board shall adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information

(including a report from Management regarding the Bank's compliance with each numbered paragraph of this Agreement), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Bank has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall:

- a. specify in detail how, if at all, full compliance was found not to exist; and
- b. identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.

16. The minutes of each meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution:

- a. the identity of each Director voting in favor of its adoption; and
- b. the identity of each Director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.

17. Within forty-five (45) calendar days after the end of each calendar quarter, beginning with the calendar quarter ending September 30, 2005, the Board shall provide to the Regional Director a certified true copy of the Compliance Resolution[s] adopted at the Board meeting pursuant to Paragraph 15 of this Agreement. The Board, by virtue of the Bank's submission of a certified true copy of such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except that in the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Board meeting minutes.

18. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement, including making Bank records and documents available for OTS examiner review upon request.

Definitions

19. All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, Federal Deposit Insurance Act (FDIA) or OTS Memoranda. Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

Successor Statutes, Regulations, Guidance, Amendments

20. Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

Notices

21. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

- a. the OTS by the Bank, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, N.E., Atlanta, Georgia, 30309, or telecopied to 404.897.1861 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address; or
- b. the Bank by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Bank at 1106 St. Andrews Blvd., Charleston, SC 29407 or telecopied to 843.556.0449 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

Duration, Termination or Suspension of Agreement

22. This Agreement shall:

- a. become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and
- b. remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

23. The Regional Director in his sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

Time Limits

24. Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

Effect of Headings

25. The Section headings herein are for convenience only and shall not affect the construction hereof.

Separability Clause

26. In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

27. Nothing in this Agreement shall be construed as:

- a. allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject; or
- b. restricting the OTS from taking such action(s) as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

Successors in Interest/Benefit

28. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Signature of Directors

29. Each Director signing the Agreement attests, by such act, that she or he voted in favor of a Board resolution authorizing the execution of this Agreement by the Bank.

Integration Clause

30. This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter. However, as noted herein, all Policies and Procedures required by this Agreement shall, upon modification consistent with the direction of the Regional Director, become part of this Agreement and any deviation from these

policies shall be deemed a violation of this Agreement.

Enforceability of Agreement

31. The Bank represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Bank. The Bank acknowledges that this Agreement, is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

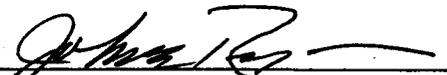
Counterparts

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

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Bank, in accordance with a duly adopted resolution of its Board, hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

By:



John E. Ryan
Regional Director

CAROLINA FEDERAL

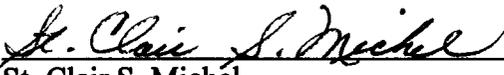
By:



Name: Thomas Lawrence Young
Title: Chairman of the Board



R. Patrick Welch
Vice Chairman of the Board



St. Clair S. Michel
Director



Daniel L. Croghan
Director



Archie D. Willis, III
Director