

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 31st day of August, 2000 (Effective Date), by and between New Republic Savings Bank, Rocky Mount, North Carolina, OTS Docket #15223 (New Republic or the Association), a federally chartered stock savings association, 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 Association;

WHEREAS, based upon the Report of Examination dated December 23, 1999 (ROE), the OTS is of the opinion that the Association has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject; (ii) have resulted in material deviations from its original business plan incorporated into the 1998 approval of its de novo charter application (1998 Business Plan); and (iii) 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 Association;

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (i) comply with all applicable laws and regulations; (ii) comply with all conditions imposed in writing in connection with the granting of an application; and (iii) engage in safe and sound practices; and

WHEREAS, the Association, 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; (ii) comply with the terms of its 1998 Business Plan; and (iii) 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:

1. Compliance With Laws, Regulations & Safe and Sound Practices.

The Association, its directors, officers, employees, agents, service corporations and subsidiaries shall take all necessary and appropriate actions to achieve compliance with the following laws, regulations, and safe and sound business practices:

- A. 12 C.F.R. §563.161;
- B. 12 C.F.R. §564.3;
- C. 12 C.F.R. §560.93; and
- D. OTS Order No. 98-98, dated September 15, 1998.

2. Business Plan.

A. Within 90 days of the Effective Date of this Agreement, the Association shall prepare, adopt and submit to the Regional Director, for his prior written approval, a three-year business plan (New Plan) covering calendar years 2001, 2002 and 2003. Upon approval, the New Plan shall be incorporated into this Agreement and any deviation from the approved terms of the New Plan shall be a violation of this Agreement. The New Plan shall detail the Association's operating strategy, including pro forma financial statements and relevant assumptions, for the period covered in the New Plan. The New Plan shall, at a minimum: specify the lines of business the Association will pursue, identify target markets, specify how the target markets will be served profitably with the lines of business offered, control exposure to interest rate risk, and improve core earnings. The Board shall review and approve the New Plan and monitor compliance with its terms at least quarterly.

B. In addition to the foregoing requirements, the New Plan also shall provide for the following:

1. Funding. The New Plan will eliminate the Association's reliance on brokered and other high-cost, non-local deposits (wholesale deposits) and shall, as was indicated in its 1998 de novo charter application submitted to the OTS (Application), fund the Association's operations with local "core deposits." The elimination of reliance on wholesale deposits also will be accomplished by a reduction in the Association's assets to the levels contained in the 1998 Business Plan. Specific time frames for the implementation of this provision will be set forth in the New Plan, and will be accomplished as soon as practicable.

2. Interest Rate Risk. The New Plan shall reflect compliance with the requirements of TB 13a. The New Plan should include: a) appropriate interest rate risk exposure limits based upon net present value of equity; b) action to be taken to reduce the actual interest rate risk exposure to the limits established by the board; and c) designation of a knowledgeable senior officer as the interest rate risk officer. This person should have primary responsibility for ensuring prompt implementation of the aforementioned policies, procedures, and practices.

3. Capital Levels. In light of the increased risk resulting from management's

deviation from the 1998 Business Plan, the Association is in need of additional capital. The New Plan will include a discussion of strategies and steps to be taken to raise additional capital and/or sell New Republic to a buyer with the capacity to provide additional capital and management expertise. In no event, however, shall the Association's capital fall below the 8% leverage ratio as that term is defined in 12 C.F.R. § 565.2.

4. Other Steps. The Association may not, without the prior written approval of the Regional Director:

- a) Increase the compensation of any officer or director;
- b) Pay any dividends to the shareholders;
- c) Make any loans for portfolio other than "conforming" residential loans, those that are readily salable in the secondary mortgage market; except that, upon the written approval of the New Plan by the Regional Director, New Republic may make such loans as may be specifically approved by the Regional Director in the New Plan;
- d) Open any branch office;
- e) Take any steps or accept any business that would increase the Association's assets over current levels, or, once approved, the asset levels in the New Plan, unless such increase is temporary and in furtherance of the goals set forth in this Agreement.

C. The Association shall produce quarterly variance reports (Reports) within 30 days after the close of each calendar quarter. The Association shall retain a copy of the Reports in the Board minutes, and shall, within 5 days after preparation of each Report, forward a copy to the Regional Director. Said Reports shall detail actual operating results in comparison with projected results in the New Plan. The Report also shall include an explanation of any material deviation from the projection and a specific description of the measures that have been implemented or are proposed to correct any adverse deviation. A deviation shall be considered material when the Association:

1. Engages in any type of activity inconsistent with the New Plan;
2. Deviates more than 10% from the projected level of activity contemplated in the New Plan;
3. Does not meet the targets set for exposure to interest rate risk.

D. New Republic shall implement the New Plan within 14 calendar days of approval by the Regional Director. Modifications to the New Plan requested by the Regional Director must be incorporated into the New Plan. The Association shall not otherwise modify the New Plan without the prior written approval of the Regional Director.

E. No later than one year after the approval of the New Plan by the Regional Director pursuant to sub-paragraph D above, New Republic shall review, revise as appropriate, and submit to the Regional Director for his approval detailed information comprising the Association's assets, liabilities, income and expenses projected for the remainder of the New Plan. In the event of a material deviation from the approved financial projections prior to the first anniversary of the New Plan, such deviation shall immediately be reported to the Regional Director and New Republic shall review, revise, and submit to the Regional Director for his approval such detailed information as directed by the Regional Director.

3. Appraisals.

Prior to making or acquiring, or committing to make or acquire, any loan, participation or extension of credit in excess of \$250,000 to be secured by real property, the Association shall obtain a current appraisal report prepared in accordance with the requirements of 12 C.F.R. Part 564 stating and supporting the fair market value of the security property. Prior to final approval for all such loans, participations or extensions of credit made or acquired by New Republic, the appraisal shall be reviewed and analyzed by qualified Association staff. New Republic's Board shall, by resolution, designate one or more officers of New Republic to be responsible for the review of all such appraisal reports submitted to the Association. New Republic's Board shall authorize the necessary training for the designated officer to become proficient in review and analysis of these appraisals.

4. Director Responsibility.

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 Association at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

5. Compliance with Agreement.

A. The Board and officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.

B. The Board, on a quarterly basis, shall adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.

C. The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption, and (ii) 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.

D. Within 30 calendar days after the end of each calendar quarter, beginning with the end of the first calendar quarter following the Effective Date of this Agreement, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolution[s] adopted at the Board meeting. The Board, by virtue of the Association'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 as provided below. 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 minutes of the Association.

E. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement.

6. Definitions.

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, 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.

7. Successor Statutes, Regulations, Guidance, Amendments.

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.

8. Notices.

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 Association, 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.

B. The Association 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 Association at 173 South Winstead Avenue, Rocky Mount, North Carolina 27804 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

9. Duration, Termination or Suspension of Agreement.

A. This Agreement shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below, and (ii) 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).

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

10. Time Limits.

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

11. Effect of Headings.

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

12. Separability Clause.

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.

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

Nothing in this Agreement shall be construed as: (i) allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject, or (ii) 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.

14. Successors in Interest/Benefit.

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.

15. Signature of Directors.

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 Association.

16. Integration Clause.

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, upon approval by the Regional Director, the New Plan shall become part of this Agreement and any deviation from the New Plan, as well as any material deviation in the financial projections accompanying the New Plan, shall be deemed a violation of this Agreement.

17. Enforceability of Agreement.

The Association 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 Association. The Association acknowledges that this Agreement, including, upon approval by the Regional Director, the New Plan, is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the

RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of New Republic Bank, Rocky Mount, North Carolina (the Association) hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on August 23, 2000;
2. At said meeting a quorum was present and voting throughout;
3. The following is a true copy of resolutions duly adopted by the Association's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Association wishes to cooperate with the OTS and to demonstrate that said Board and the Association have the intent to: (1) comply with all applicable laws and regulations and (2) engage in safe and sound practices; and

WHEREAS the Directors of the Association have read and considered the proposed Supervisory Agreement (Agreement) which shall be attached to the minutes of this meeting; and

WHEREAS after due consideration, the Directors of the Association have determined to cause the Association to enter into the proposed Agreement which is in the best interest of the Association;

NOW THEREFORE, BE IT RESOLVED, that the Association be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

FURTHER RESOLVED, that the execution and delivery of, and performance of all of the provisions of the Agreement be, and they hereby are, authorized and approved,

FURTHER RESOLVED, that the Directors and Officers of the Association be, and they hereby are, authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the terms of the Agreement and to cause the Association to comply in all respects with the terms of the Agreement.

4. All members of the Board of Directors were present and voted at the meeting (except Robert M. Gowen) and all members of the Board of Directors (except Robert M. Gowen) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Association on this 29th day of August, 2000.

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Edna C. Dalton, Secretary