

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

---

In the Matter of	)	CONSENT ORDER
	)	
BANK OF THE CAROLINAS	)	
MOCKSVILLE, NORTH CAROLINA	)	FDIC-11-064b
	)	
(Insured State Nonmember Bank)	)	

---

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Bank of the Carolinas, Mocksville, North Carolina, (“Bank”), under section 3(q) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation to the Issuance of a Consent Order” (“Stipulation”), dated April 20, 2011, that is accepted by the FDIC and the North Carolina Commissioner of Banks (the “Commissioner”). The Commissioner may issue an order pursuant to the provisions of N.C. Gen. Stat. § 53-107.1 (2005).

With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to weaknesses in capital, asset quality, management, earnings, interest rate risk, liquidity, and information technology to the issuance of this Consent Order (“ORDER”) by the FDIC and the Commissioner.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b) and section 53-107.1 of the North Carolina General Statutes have been satisfied, the FDIC and the Commissioner hereby order that:

## **BOARD OF DIRECTORS**

1. (a) As of the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; reconciliation of general ledger accounts; and compliance with this ORDER. Board meeting minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Board shall establish a Board committee ("Directors' Committee"), consisting of at least 5 members, to oversee the Bank's compliance with this ORDER. At least 3 of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. The Directors' Committee shall formulate and review monthly reports detailing the Bank's actions with respect to compliance with this ORDER. The Directors' Committee shall present a report to the Board at each regularly scheduled Board meeting, and such report shall detail the Bank's adherence to this ORDER. Such report shall be recorded in the appropriate minutes and shall be retained in the Bank's records. Establishment of this committee does not in any way diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

(c) Within 90 days from the effective date of this ORDER, the Board shall develop, adopt, and submit to the Regional Director of the FDIC's Atlanta Regional Office ("Regional Director") and the Commissioner (collectively, "Supervisory Authorities") an educational program for periodic training for each member of the Board. The educational program shall include, at a minimum:

(i) Specific training in the areas of lending, operations, and compliance with laws, rules, and regulations applicable to banks of comparable size and complexity chartered in the state of North Carolina; and

(ii) Specific training in the duties and responsibilities of the Board in connection with the safe and sound operation of the Bank.

(d) Upon adoption of the educational program, the Board shall document the training activities in the minutes of the next Board meeting following completion of any such training. The Board's actions as required by this paragraph shall be satisfactory to the Supervisory Authorities as determined at the initial review and at subsequent examinations or visitations.

### **MANAGEMENT**

2. (a) Within 60 days from the effective date of this ORDER, the Bank shall have and retain qualified management with the qualifications and experience commensurate with assigned duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this ORDER. At a minimum, management shall include the following:

(i) A chief executive officer with proven ability in managing a bank of comparable size and in effectively implementing lending, investment and operating policies in accordance with safe and sound banking practices;

(ii) A senior lending officer with a significant amount of appropriate lending, collection, and loan supervision experience, and experience in upgrading a low quality loan portfolio; and

(iii) A chief operating officer with a significant amount of appropriate experience in managing the operations of a bank of similar size and complexity in accordance with sound banking practices.

(b) The qualifications of management shall be assessed on its ability to:

(i) Comply with the requirements of this ORDER;

(ii) Operate the Bank in a safe and sound manner;

(iii) Comply with applicable laws and regulations; and

(iv) Restore all aspects of the Bank to a safe and sound condition, including, but not limited to, asset quality, capital adequacy, earnings, management effectiveness, risk management, liquidity, and sensitivity to market risk.

(c) Within 30 days from the effective date of this ORDER, the Board shall retain a bank consultant who will develop a written analysis and assessment of the Bank's management needs ("Management Report") for the purpose of providing qualified management for the Bank.

(d) The Management Report shall be developed within 90 days from the effective date of this ORDER and shall include, at a minimum:

(i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;

(ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

(iii) Written evaluation of all senior executive officers to determine whether such individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including, but not limited to, adherence to the Bank's established policies and practices, restoration of the Bank to a safe and sound condition, and maintenance of the Bank in a safe and sound condition thereafter;

(iv) Evaluation of all Bank officers' compensation, including salaries, director fees, and other benefits;

(v) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions consistent with the needs identified in the Management Plan; and

(vi) An organizational chart.

(e) Within 30 days from the effective date of this ORDER, the Bank Shall provide the Regional Director with a copy of the proposed engagement letter or third party contract for review before it is executed.

(f) The contract or engagement letter, at a minimum, shall include:

(i) A description of the work to be performed under the contract or engagement letter, the fees for each significant element of the engagement, and the aggregate fee;

(ii) The responsibilities of the firm or individual;

(iii) An identification of the professional standards covering the work to be performed;

(iv) Identification of the specific procedures to be used when carrying out the work to be performed;

- (v) The qualifications of the employee(s) who will perform the work;
- (vi) The time frame for completion of the work;
- (vii) Any restrictions on the use of the reported findings;
- (viii) A provision for unrestricted examiner access to work papers; and
- (ix) A certification that neither the firm, nor any individual involved in the

work to be perform is affiliated in any matter with the Bank.

(g) Within 60 days from receipt of the Management Report, the Bank shall formulate a written plan (“Management Plan”) that incorporates the findings of the Management Report, a plan of action in response to each recommendation contained in the Management Report, and a time frame for completing each action. At a minimum, the Management Plan shall:

- (i) Contain a recitation of the recommendations included in the Management Report;
- (ii) Incorporate a plan to provide necessary training and development for all employees;
- (iii) Establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each officer and staff member; and

- (iv) Contain a current management succession plan.

(h) Such Management Plan and its implementation shall be satisfactory to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(i) During the life of this ORDER, the Bank shall notify the Supervisory Authorities, in writing, of the resignation of any of the Bank’s directors or senior executive officers. Prior to the addition of any individual to the Board or the employment of any individual as a senior

executive officer, the Bank shall comply with the requirements of section 32 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831i, 12 C.F.R. §§ 303.100-303.104, and any State requirement for prior notification and approval. If the Supervisory Authorities issue a notice of disapproval pursuant to 12 U.S.C. § 1831i, with respect to the proposed individual, then such individual may not be added to the Board or employed by the Bank.

### **CAPITAL**

3. (a) During the life of this ORDER, the Bank shall maintain a Leverage Ratio of at least 8 percent and a Total Risk-Based Capital Ratio of at least 10 percent as those capital ratios are defined in 12 C.F.R. § 325.

(b) The level of Tier 1 Capital to be maintained pursuant to this paragraph shall be in addition to a fully funded allowance for loan and lease losses ("ALLL"), the adequacy of which shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(c) If such capital ratios are less than the percentages required by the ORDER, as determined as of the date of any Consolidated Report of Condition and Income or at an examination by the FDIC or the State, the Bank shall, within thirty (30) days from receipt of a written notice of the capital deficiency from the Supervisory Authorities, present to the Supervisory Authorities a plan to increase the Bank's Tier 1 Capital or to take other measures to bring all the capital ratios to the percentages required by this ORDER. After the Regional Director responds to the plan, the Board shall implement the plan, including any modification and/or amendments requested by the Supervisory Authorities.

(d) Any increase in Tier 1 Capital necessary to meet the requirements of this ORDER may be accomplished by the following:

(i) Sale of common stock;

(ii) Sale of noncumulative perpetual preferred stock;

(iii) Direct contribution of cash by the Board, shareholders, and/or parent holding company;

(iv) Any combination of the above means; or

(v) Any other means acceptable to the Supervisory Authorities.

(e) No increase in Tier 1 Capital that is necessary to meet the requirements of this ORDER may be accomplished through a deduction from the Bank's ALLL.

(f) If all or part of any necessary increase in Tier 1 Capital required by this ORDER is accomplished by the sale of new securities, the Board shall take all necessary steps to implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with applicable federal securities laws. Prior to the implementation of the plan and, in any event, not less than 15 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room MB-5073, Washington, D.C. 20429 and to the North Carolina Office of the Commissioner of Banks, 4309 Mail Service Center, Raleigh, North Carolina 27699 for review. Any changes requested to be made in the plan or materials by the FDIC shall be made prior to the dissemination of the plan

and materials. If the increase in Tier 1 Capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Supervisory Authorities for prior approval.

(g) In complying with the provisions of the Capital paragraph of this ORDER, the Bank shall provide written notice of any planned or existing development, or other changes that are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities, to any subscriber and/or purchaser of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

#### **LIQUIDITY AND FUNDS MANAGEMENT POLICY**

4. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a written plan to improve liquidity, contingency funding, interest rate risk, and asset liability management.

(b) The plan shall incorporate the guidance contained in *Liquidity Risk Management*, FIL-84-2008 (Aug. 26, 2008). The plan shall provide restrictions on the use of brokered and internet deposits consistent with safe and sound banking practices.

(c) A copy of the plan shall be acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations. The Bank shall adopt, implement, and follow the plan, and its implementation shall be in a form and manner acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(d) Beginning with the effective date of this ORDER, the Bank's management shall review its liquidity position to ensure that the Bank has sufficient liquid assets or sources of liquidity to meet current and anticipated liquidity needs. This review shall include an analysis of the Bank's sources and uses of funds (cash flow analysis). The results of this review shall be presented to the Board for review each month, with the review noted in the Board meeting minutes.

### **CLASSIFIED ASSET REDUCTION**

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall submit a written plan to the Supervisory Authorities to reduce the remaining assets classified "Doubtful" and "Substandard" in the Report of Examination dated as of September 30, 2010 ("Report") or any future regulatory examination report. The plan shall address each asset so classified with a balance of \$500,000 or greater and provide the following:

- (i) The name under which the asset is carried on the books of the Bank;
- (ii) Type of asset;
- (iii) Actions to be taken in order to reduce the classified asset; and
- (iv) Timeframes for accomplishing the proposed actions.

(b) The plan shall also include, at a minimum:

(i) A review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and

(ii) An evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(c) In addition, the Bank's plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall require the submission of monthly progress reports to the Board and mandate a review by the Board.

(d) The Bank shall present the plan to the Supervisory Authorities for review. Within 30 days from the Supervisory Authorities' response, the plan, including any requested modifications or amendments, shall be adopted by the Board and the approval shall be recorded in the Board minutes. The Bank shall then immediately implement the plan.

(e) For purposes of the plan, the reduction of adversely classified assets as of September 30, 2010 shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's ALLL and may be accomplished by:

(i) Charge-off;

(ii) Collection;

(iii) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the Commissioner; and/or

(iv) Increase in the Bank's Tier 1 Capital.

#### **ALLOWANCE FOR LOAN AND LEASE LOSSES AND CALL REPORT**

6. (a) Immediately upon the issuance of this ORDER, the Board shall make a provision to replenish the Allowance for Loan and Lease Losses ("ALLL"), which as of the date of the examination was underfunded as set forth in the Report.

(b) Within 30 days from the effective date of this ORDER, the Bank shall review Consolidated Reports of Condition and Income filed with the Supervisory Authorities on or after December 31, 2010, and shall amend said reports if necessary to accurately reflect the financial

condition of the Bank as of the date of each such report. In particular, such reports shall contain an adequate ALLL. Reports filed after the effective date of this ORDER shall accurately reflect the financial condition of the Bank as of the reporting date.

(c) Within 60 days from the effective date of this ORDER, the Board shall establish and submit to the Supervisory Authorities a comprehensive policy for determining the adequacy of the ALLL. For the purpose of this determination, the adequacy of the ALLL shall be determined after the charge-off of all loans or other items classified "Loss". The policy shall provide for a review of the ALLL at least once each calendar quarter. Said review shall be completed in time to properly report the ALLL in the quarterly Consolidated Reports of Condition and Income. The review shall focus on the results of the Bank's internal loan review, loan and lease loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. The review should include a review of compliance with ASC 450 (Topic 450, "Contingencies") and ASC 310-10-35 (Section 35, "Subsequent Measurement General," of Subtopic 310-10). The policy shall adhere to the guidance set forth in the *Interagency Policy Statement on the Allowance for Loan and Lease Losses*, FIL-105-2006 (Dec. 13, 2006). A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the next Consolidated Report of Condition and Income, by a charge to current operating earnings. The Board meeting minutes for the meeting at which such review is undertaken shall indicate the results of the review. The Bank's policy for determining the adequacy of the ALLL and its implementation shall be satisfactory to the Supervisory Authorities as determined at the initial review and at subsequent examinations and/or visitations.

## CONCENTRATIONS OF CREDIT

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall perform a risk segmentation analysis with respect to the concentrations of credit listed on the Concentrations page(s) of the Report. The analysis should incorporate applicable guidance set forth in *Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*, FIL-104-2006 (Dec. 12, 2006). Concentrations should be identified by product type, geographic distribution, underlying collateral, or other asset groups which are considered economically related, and in the aggregate represent a large portion of the Bank's Tier 1 Capital and reserve for ALLL. A copy of this analysis shall be provided to the Supervisory Authorities. The plan and its implementation shall be in a form and manner acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(b) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit to the Supervisory Authorities a written plan for systematically reducing and monitoring the Bank's Commercial Real Estate ("CRE") and Acquisition, Construction, and Development ("ACD") Loans concentration of credit identified in the Report to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location ("Concentration Reduction Plan").

(c) The Concentration Reduction Plan shall comply with applicable guidance referenced in *Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*, FIL-104-2006 (Dec. 12, 2006), and *Managing Commercial Real Estate Concentrations in a Challenging Environment*, FIL-22-2008 (Mar. 17, 2008). The Concentration Reduction Plan shall include, but not be limited to:

(i) Dollar levels and percent of total capital to which the Bank shall reduce the concentration;

(ii) Timeframes for achieving the reduction in dollar levels in response to subparagraph (i), above;

(iii) Provisions for controlling and monitoring of CRE and ACD, including plans to address the rationale for CRE and ACD levels as they relate to growth and capital targets, segmentation, and testing of the CRE and ACD portfolios to detect and limit concentrations with similar risk characteristics; and

(iv) Provisions for the submission of monthly written progress reports to the Board for review and notation in minutes of the Board meetings.

(d) The Concentration Reduction Plan shall be acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations. The Board shall approve the Concentration Reduction Plan, which approval shall be recorded in the Board meeting minutes. Thereafter, the Bank shall implement and fully comply with the Concentration Reduction Plan.

#### **CHARGE-OFF LOSS AND DOUBTFUL**

8. (a) Within 10 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" and 50 percent of those assets or portions of assets classified "Doubtful" in the Report, that have not been previously collected or charged-off. If an asset is classified "Doubtful", the Bank may, in the alternative, charge-off the amount that is considered uncollectible in accordance with the Bank's written analysis of loan or lease impairment. Such analysis shall be accomplished in accordance with generally accepted accounting principles, the Federal Financial Institutions

Examination Council's ("FFIEC") *Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)*, <http://www.ffiec.gov/>, Interagency Statements of Policy on the ALLL, and other applicable regulatory guidance that addresses the adequacy of the Bank's ALLL. Elimination of any of these assets through proceeds of other loans made by the Bank is not considered collection for purposes of this paragraph.

(b) Additionally, while this ORDER remains in effect, the Bank shall, within 30 days from the receipt of any official Report of Examination of the Bank from the FDIC or the Commissioner, eliminate from its books, by collection, charge-off, or other proper entry, the remaining balance of any asset classified "Loss" and 50 percent of those assets classified "Doubtful" unless otherwise approved in writing by the Supervisory Authorities.

**NO ADDITIONAL CREDIT**

9. (a) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" or "Doubtful" and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

(b) Additionally, during the life of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been classified, in whole or part, "Substandard."

(c) The preceding limitations on additional credit shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to the extension of any additional credit pursuant to this paragraph, either in the form

of an extension or further advance of funds, such additional credit shall be approved by a majority of the Board or a designated committee thereof, who shall certify in writing that:

(i) The failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, including an explanatory statement of why it would be detrimental to the Bank's best interests;

(ii) The Bank's position would be improved thereby, including an explanatory statement of how the Bank's position would be improved; and

(iii) An appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

(d) The signed certification shall be made a part of the meeting minutes of the Board or its designated committee and a copy of the signed certification shall be retained in the borrower's credit file.

### **LENDING**

10. Within 60 days from the effective date of this ORDER, the Board shall review, revise, adopt, implement, and submit to the Supervisory Authorities its written lending and collection policy to provide effective guidance and control over the Bank's lending and credit administration functions, which implementation shall include the resolution of those exceptions enumerated in the Report. The written policy shall include specific guidelines for concentrations of credit, placing loans on nonaccrual status, limitations on interest reserves and deferred payment plans, procedures to ensure that the Bank performs appropriate underwriting prior to purchasing loan participations, and provisions which establish a written policy governing the Bank's Other Assets portfolio. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policy and its implementation

shall be in a form and manner acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

### **LOAN REVIEW**

11. Within 90 days from the effective date of this ORDER, the Bank shall review, revise, adopt, and submit to the Supervisory Authorities an effective internal loan review and grading system to provide for the periodic review of the Bank's loan portfolio in order to identify and categorize the Bank's loans, and other extensions of credit which are carried on the Bank's books as loans, on the basis of credit quality. Such system and its implementation shall be satisfactory to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

### **OTHER REAL ESTATE**

12. (a) Within 60 days from the effective date of this ORDER, the Board shall develop a written policy for managing the Other Real Estate ("ORE") of the Bank. At a minimum, the policy shall provide for:

- (i) Establishment of a workout plan for each parcel of ORE in excess of \$100,000;
- (ii) Documentation that taxes and insurance premiums are paid in a timely manner;
- (iii) Resolution of documentation exceptions;
- (iv) A realistic and comprehensive budget for each parcel with a book value in excess of \$200,000, including projections of the Bank's carrying costs (e.g., upkeep, repairs, and insurance costs) and projections of the marketing costs;

(v) An independent appraisal of each parcel at the time of foreclosure and periodically thereafter (but no more than 12 months from the date of the prior appraisal report);

(vi) Each parcel of ORE to be listed with a real estate broker or otherwise made widely available for sale within an appropriate timeframe and at a realistic selling price;

(vii) Periodic progress reports from each real estate broker marketing Bank ORE, including projected sales timeframes;

(viii) Detailed monthly reports to the Board on the status of each ORE parcel in excess of \$100,000, with such reports made part of the Board meeting minutes; and

(ix) Requirements for accounting, documentation, resale terms, and action plans for the orderly liquidation of ORE from the Bank's books.

(b) The Bank shall submit an acceptable ORE policy to the Supervisory Authorities for review. The Bank shall approve the policy, which approval shall be recorded in the Board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policy.

### **STRATEGIC PLAN**

13. (a) Within 90 days from the effective date of this ORDER, the Bank shall prepare and submit to the Supervisory Authorities an acceptable written business/strategic plan covering the overall operation of the Bank. At a minimum the plan shall establish objectives for the Bank's earnings performance, growth, balance sheet mix, liability structure, capital adequacy, and reduction of nonperforming and underperforming assets, together with strategies for achieving those objectives. The plan shall also identify capital, funding, managerial, and other resources needed to accomplish its objectives. Such plan shall specifically provide for the following:

- (i) Goals for the composition of the loan portfolio by loan type including strategies to diversify the type and improve the quality of loans held;
  - (ii) Goals for the composition of the deposit base including strategies to reduce reliance on volatile and costly deposits; and
  - (iii) Plans for effective risk management and collection practices.
- (b) The Board shall approve the business/strategic plan, which approval shall be recorded in the Board meeting minutes for the meeting at which the business/strategic plan was approved.

### **BUDGET**

14. (a) Within 90 days from the effective date of this ORDER, the Bank shall implement a written plan and a comprehensive budget for all categories of income and expense for the calendar year ending 2011. The plan and budget required by this paragraph shall include formal goals and strategies, consistent with sound banking practices, and take into account the Bank's other written policies in order to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, control overhead, and improve and sustain earnings of the Bank. The plan shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components. Thereafter, the Bank shall formulate such a plan and budget by November 30 of each subsequent year and submit the plan and budget to the Supervisory Authorities for review and comment by December 15 of each subsequent year. The plan and budget required by this ORDER shall be acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(b) On a monthly basis, the Board shall evaluate the Bank's actual performance in relation to the plan and budget required by this ORDER and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken. The actual performance compared to the budget shall be submitted to the Supervisory Authorities with the quarterly progress reports required by this ORDER.

### **ASSET GROWTH**

15. While this ORDER is in effect, the Bank shall notify the Supervisory Authorities at least 60 days prior to undertaking asset growth that exceeds 10 percent or more per annum or initiating material changes in asset or liability composition. In no event shall asset growth result in noncompliance with the capital maintenance provisions of this ORDER unless the Bank receives prior written approval from the Supervisory Authorities.

### **ASSET/LIABILITY POLICY**

16. Within 60 days from the effective date of this ORDER, the Board shall review and revise, as necessary, the Bank's written policy and procedures for managing interest rate risk, taking into consideration examination findings. The policy shall comply with the *Joint Agency Policy Statement on Interest Rate Risk*, FIL-52-1996 (June 26, 1996), shall be consistent with the comments and recommendations detailed in the Report, and shall include, at a minimum, the means by which the interest rate risk position will be monitored, the establishment of risk parameters, and provisions for periodic reporting to management and the Board regarding interest rate risk. Such policy and its implementation shall be satisfactory to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

## **RESTRICTIONS OF CERTAIN PAYMENTS**

17. (a) While this ORDER is in effect, the Bank shall not declare or pay dividends, pay bonuses, or pay any form of payment outside the ordinary course of business resulting in a reduction of capital, without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received at least 30 days prior to the proposed dividend or bonus payment declaration date (or at least 5 days with respect to any request filed within the first 30 days from the date of this ORDER) and shall contain, but not be limited to, an analysis of the impact such dividend or bonus payment would have on the Bank's capital, income, and/or liquidity positions.

(b) During the term of this ORDER, the Bank shall not make any distributions of interest, principal or other sums on subordinated debentures, if any, without the prior written approval of the Supervisory Authorities.

## **BROKERED DEPOSITS**

18. Throughout the effective life of this ORDER, the Bank shall not accept, renew, or rollover any brokered deposit, as defined in 12 C.F.R. § 337.6(a)(2), unless it is in compliance with the requirements of 12 C.F.R. § 337.6(b) which governs the solicitation and acceptance of brokered deposits by insured depository institutions. The Bank shall comply with the restrictions on the effective yields on deposits as described in 12 C.F.R. § 337.6.

## **INFORMATION TECHNOLOGY**

19. (a) Within ninety (90) days from the effective date of this Order, the Bank shall prepare a written assessment of the Information Technology function. This assessment shall address the following areas: adequate updated risk assessment, audit scope to include electronic funds transfer activities, adequate vendor management program, adequate business continuity

plan based on a business impact analysis with annual testing, as well as other findings of the Technology Assessment contained in the Report. The assessment shall include the Bank's proposed corrective measures.

(b) Within 10 days after the completion of the written assessment referenced above, the Bank's Board shall review, approve, and submit the written assessment to the Supervisory Authorities. The written assessment shall be acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

### **PROGRESS REPORTS**

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

### **VIOLATIONS OF LAW, REGULATION, AND CONTRAVENTION OF POLICY**

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

## **SHAREHOLDER DISCLOSURE**

22. The Bank shall provide to its shareholders or otherwise furnish a description of this ORDER, in conjunction with the Bank's next shareholder communication and in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room MB-5073, Washington, D.C. 20429 and to the North Carolina Office of the Commissioner of Banks, 4309 Mail Service Center, Raleigh, North Carolina 27699-4309 for non-objection or comment at least 15 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

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

This ORDER shall be effective on the date of issuance.

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

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

Issued Pursuant to Delegated Authority

Dated this 27th day of April, 2011.

By:

/s/

---

Thomas J. Dujenski  
Regional Director  
Division of Risk Management  
Atlanta Region  
Federal Deposit Insurance Corporation

The North Carolina Commissioner of Banks having duly approved the foregoing ORDER, and the Bank, through its Board, agree that the issuance of the said ORDER by the Federal Deposit Insurance Corporation shall be binding as between the Bank and the Commissioner to the same degree and legal effect that such ORDER would be binding on the Bank if the Commissioner had issued a separate order that included and incorporated all of the provisions of the foregoing ORDER pursuant to the provisions of N.C. Stat. § 53-107.1 (2005).

Dated this 27th day of April, 2011.

By:

/s/

---

Joseph A. Smith, Jr.  
Commissioner of Banks  
State of North Carolina