FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of SECURITY SAVINGS BANK, SSB SOUTHPORT, NORTH CAROLINA (Insured State Nonmember Bank)	))))))))))	CONSENT ORDER FDIC-10-330b

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Security Savings Bank, Southport, North Carolina ("Bank"), under 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 July 8, 2010, that is accepted by the FDIC and with the North Carolina Commissioner of Banks ("Commissioner"). With the STIPULATION, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices and violations of law and/or regulation relating to asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk, to the issuance of this Consent Order ("ORDER") by the FDIC. The Commissioner may issue an order pursuant to N.C. Gen. Stat. § 54C-76(a) (2005).

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and N.C. Gen. Stat. § 54C-76(a) (2005) have been satisfied, the FDIC and the Commissioner hereby order that:

BOARD OF DIRECTORS

1. (a) Effective immediately, 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. The Board shall prepare in advance and follow a detailed written agenda for each meeting, including consideration of the actions of any committees. Nothing in the foregoing sentences shall preclude the Board from considering matters other than those contained in the agenda. 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; operating policies; and individual committee actions. Board 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 four members, to oversee the Bank's compliance with the ORDER. Three of the members of the Directors' Committee shall not be officers of the Bank. The Directors' Committee shall receive from Bank management monthly reports detailing the Bank's actions with respect to compliance with the ORDER. The Directors' Committee shall present a report detailing the Bank's adherence to the ORDER to the Board at each regularly scheduled Board meeting. Such report shall be recorded in the appropriate minutes of the Board's meeting 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.

MANAGEMENT

2. (a) Within 90 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 Bank's 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 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 financial 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) Within 60 days from the effective date of this ORDER, the Board shall engage an independent third party acceptable to the Regional Director of the FDIC's Atlanta Regional Office ("Regional Director") and the Commissioner (collectively, “Supervisory Authorities”) that possesses appropriate expertise and qualifications to analyze and assess the Bank's Board, management, staffing performance, and staffing needs. The engagement shall require that the analysis and assessment shall be summarized in a written report to the Board (“Management Report”). Within 30 days of receipt of the Management Report, the Board will conduct a full and complete review of the Management Report, which review shall be recorded in the minutes of the meeting of the Board. The analysis shall be developed by an outside consultant reporting to the Bank's Board.

(c) The Bank shall provide the Supervisory Authorities with a copy of the proposed engagement letter or contract with the third party for review before it is executed. 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 are to 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 workpapers; and

(ix) a certification that the firm or individual is not affiliated in any manner with the Bank.

(d) Within 60 days of receipt of the Management Report, the Board will develop a written Management Plan that incorporates the findings of the report, a plan of action in response to each recommendation contained in the Management Report, and a time frame for completing each action. A copy of the Management Report and Management Plan and any subsequent modification thereto shall be submitted to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment, and after consideration of such comment, the Board shall approve the Management Plan and the approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Plan and any modifications thereto. It shall remain the responsibility of the Board to fully implement the plan within the specified time frames. In the event the plan, or any portion thereof, is not implemented, the Board shall immediately advise the Supervisory Authorities, in writing, of specific reasons for deviating from the Management Plan. At a minimum, the Management Plan shall:

(i) contain a recitation of the recommendations included in the Management Report or otherwise communicated to the Bank, along with a copy of any report(s) prepared by the outside consultant(s);

(ii) identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank;

(iii) identify the type and number of staff positions needed to carry out the Bank’s strategic plan, detailing any vacancies or additional needs;

(iv) identify the authorities, responsibilities, and accountabilities attributable to each position, as well as the appropriateness of the authorities, responsibilities, and accountabilities, giving due consideration to the relevant knowledge, skills, abilities, and experience of the incumbent (if any) and the existing or proposed compensation;

(v) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;

(vi) identify the appropriate level of current and deferred compensation to each officer and staff position, including executive officer positions;

(vii) evaluate the current and past performance of all existing Bank officers, including directors, executive officers, and staff members, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established policies and practices, and operate the Bank in a safe and sound manner;

(viii) establish requirements and methodologies to periodically evaluate each individual's job performance;

(ix) identify and establish Bank committees needed to provide guidance and oversight to management;

(x) establish a plan to terminate, rotate, or reassign officers and staff as necessary, as well as recruit and retain qualified personnel consistent with the Board's analysis and assessment of the Bank's staffing needs;

(xi) identify training and development needs, and incorporate a plan to provide such training and development;

(xii) 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;

(xiii) contain a current organizational chart that identifies all existing and proposed staff and officer positions, delineates related lines of authority and accountability, and establishes a written plan for addressing any identified needs; and

(xiv) contain a current management succession plan.

(e) During the life of this ORDER, the Bank shall notify the Supervisory Authorities, in writing, of the resignation or termination 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, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104.

CAPITAL

3. (a) Within 90 days from the effective date of this ORDER, the Bank shall have Tier 1 Capital in such amount as to equal or exceed eight percent (8.0%) of its total assets and Total Risk Based Capital in such amount as to equal or exceed ten percent (10.0%) as that Risk Based Capital Ratio is described in the FDIC Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, Appendix A.

(b) Thereafter during the life of this ORDER, the Bank shall maintain a Tier 1 Capital ratio to equal or exceed eight percent (8.0%) of the Bank's total assets; and a Total Risk Based Capital ratio to equal or exceed ten percent (10.0%).

(c) Within 90 days of the effective date of this ORDER, the Board shall develop a capital plan that shall be submitted to the Supervisory Authorities for review and comment. Within 30 days of receipt of all such comments from the Supervisory Authorities, and after consideration of all such comments, the Bank shall approve the capital plan, which approval shall be recorded in the Board minutes. Thereafter, the Bank shall implement and fully comply with the capital plan. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Supervisory Authorities. At a minimum, the program shall include:

(i) specific plans to achieve the capital levels required under the plan and this ORDER;

(ii) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of the provisions of this paragraph;

(iii) projections for asset growth and capital requirements, and such projections shall be based upon a detailed analysis of the Bank's current and projected assets, liabilities, earnings, fixed assets, and off-balance sheet activities, each of which shall be consistent with the Bank's strategic business plan;

(iv) projections for the amount and timing of the capital necessary to meet the Bank's current and future needs;

(v) the primary source(s) from which the Bank will strengthen its capital to meet the Bank's needs; and

(vi) contingency plans that identify alternative sources of capital should the primary source(s) under (v) above not be available.

(d) The level of Tier 1 Capital to be maintained during the life of this ORDER pursuant to paragraph 3(b) 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.

(e) Any increase in Tier 1 Capital necessary to meet the requirements of paragraph 3(a) or 3(b) of this ORDER may be accomplished by the following:

(i) sale of common stock; or

(ii) sale of noncumulative perpetual preferred stock; or

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

(iv) any other means acceptable to the Supervisory Authorities; or

(v) any combination of the above means.

Any increase in Tier 1 Capital necessary to meet the requirements of paragraph 3(a) or 3(b) of this ORDER may not 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 paragraph 3(a) or 3(b) of this ORDER is accomplished by the sale of new securities, the Board shall forthwith take all necessary steps to adopt and 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 the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than fifteen (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, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 and to the North Carolina Commissioner of Banks, 316 Edenton Street, Raleigh, North Carolina 27603, for review. Any changes requested to be made in the plan or materials by the FDIC or the Commissioner shall be made prior to their dissemination. 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 paragraph 3(a) or 3(b) of this ORDER, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within ten (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.

(h) For the purposes of this ORDER, the terms "Tier 1 Capital" and "total assets" shall have the meanings ascribed to them in Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325.

CHARGE-OFF

4. (a) Within 30 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" in the Joint Report of Examination dated January 25, 2010 ("Report") that have not been previously

collected or charged-off. 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 entries, the remaining balance of any asset classified "Loss" and 50 percent of the those classified "Doubtful" unless otherwise approved in writing by the Supervisory Authorities.

REDUCTION OF CLASSIFIED ASSETS

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall submit to the Supervisory Authorities, for review and comment, a written plan to reduce the Bank's risk position in each asset (loans, other real estate owned, and contingent liabilities) or relationship in excess of $250,000, which is classified "Substandard" in the Report. Within 10 days from the receipt of any comment from the Supervisory Authorities, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement and follow this plan.

(b) The written plan mandated by provision 5(a) shall further require a reduction in the aggregate balance of assets classified "Substandard" in the Report in accordance with the following schedule. For purposes of this paragraph, "number of days" means number of days from the effective date of this ORDER.

(i) Within 180 days, a reduction of twenty-five percent (25%) in the balance of assets classified "Substandard."

(ii) Within 360 days, a reduction of forty-five percent (45%) in the balance of assets classified "Substandard."

(iii) Within 540 days, a reduction of sixty percent (60%) in the balance of assets classified “Substandard.”

(iv) Within 720 days, a reduction of seventy-five percent (75%) in the balance of assets classified "Substandard."

(c) The requirements of subparagraphs 5(a) and 5(b) of this ORDER are not to be construed as standards for future operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in subparagraphs 5(a) and 5(b) the word "reduce" means:

(i) to collect;

(ii) to charge-off; or

(iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the Supervisory Authorities.

NO ADDITIONAL CREDIT

6. (a) As of 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, “Doubtful” or "Loss" and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing (after collection in cash of interest due from the borrower) any credit already extended to any borrower.

(b) Additionally, as of 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 classified, in whole or part, "Substandard" or listed for “Special Mention” and is uncollected.

(c) Paragraph 6(b) 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 extending of any additional credit pursuant to this paragraph, either in the form of a renewal, 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 as follows:

(i) why the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank;

(ii) that the Bank’s position would be improved thereby including an explanatory statement of how the Bank’s position would be improved; and

(iii) that 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 minutes of the Board or its designated committee and a copy of the signed certification shall be retained in the borrower’s credit file.

SPECIAL MENTION

7. Within 60 days from the effective date of this ORDER, the Bank shall correct the cited deficiencies in the loans listed in the Report for “Special Mention.”

CONCENTRATIONS OF CREDIT

8. 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 pages of the Report. The Bank should refer to the Financial Institution Letter 104-2006 dated

December 12, 2006, entitled *Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*, for information regarding risk segmentation analysis. A copy of this analysis shall be provided to the Supervisory Authorities. The Bank agrees to develop a plan to reduce any segment of the portfolio which the Supervisory Authorities deem to be an undue concentration of credit in relation to the Bank's capital account. The plan and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

LENDING AND COLLECTION POLICIES

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank’s lending function.

(b) The initial revisions to the Bank's written lending and collection policies, required by this paragraph, at a minimum, shall include the following:

(i) provisions, consistent with FDIC instructions for the preparation of Reports of Condition and Income, under which the accrual of interest income is discontinued and previously accrued interest is reversed on delinquent loans;

(ii) provisions which require complete loan documentation, realistic repayment terms and current credit information adequate to support the outstanding indebtedness of the borrower. Such documentation shall include current financial information, profit and loss statements or copies of tax returns and cash flow projections;

(iii) provisions which incorporate limitations on the amount that can be loaned in relation to established collateral values;

(iv) provisions which specify the circumstances and conditions under which real estate appraisals must be conducted by an independent third party;

(v) provisions which require the preparation of a loan "watch list," which shall include relevant information on all loans in excess of $100,000 that are classified "Substandard" and "Doubtful" in the Report and by the Supervisory Authorities in subsequent Reports of Examination and all other loans in excess of $100,000 that warrant individual review and consideration by the Board as determined by the Loan Committee or active management of the Bank. The loan "watch list" shall be presented to the Board for review at least monthly with such review noted in the minutes;

(vi) provisions concerning commercial real estate lending which establish clear and measurable standards for production, underwriting, diversification, risk review, reporting and monitoring; and

(vii) provisions to ensure compliance with FASB Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*.

(c) The Bank shall also within 60 days from the effective date of this ORDER submit a copy of the revised written lending and collection policies to the Supervisory Authorities for review and comment. Within 30 days from the receipt of any comments from the Supervisory Authorities, the Bank shall incorporate those recommended changes. Thereafter, the Bank shall implement and follow the plan.

(d) The Board shall adopt procedures whereby loan officer compliance with the revised written lending and collection policies are monitored and responsibility for exceptions thereto assigned. The procedures adopted shall be reflected in the minutes of a Board meeting at which all members are present and the vote of each is noted.

INTERNAL LOAN REVIEW

10. Within 60 days from the effective date of this ORDER, the Bank shall adopt 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 as determined at their initial review and at subsequent examinations and/or visitations. At a minimum, the grading system shall provide for the following:

(a) specification of standards and criteria for assessing the credit quality of the Bank's loans;

(b) application of loan grading standards and criteria to the Bank's loan portfolio;

(c) categorization of the Bank's loans into groupings based on the varying degrees of credit and other risks that may be presented under the applicable grading standards and criteria, but in no case, will a loan be assigned a rating higher than that assigned by examiners as “Substandard,” “Doubtful,” or “Loss” at the last examination of the Bank without prior written notification to the Supervisory Authorities;

(d) assessment of the likelihood that each loan exhibiting credit and other risks will not be repaid according to its terms and conditions;

(e) identification of any loan that is not in conformance with the Bank's loan policy;

(f) identification of any loan which presents any unsafe or unsound banking practice or condition or is otherwise in violation of any applicable State or Federal law, regulation, or statement of policy;

(g) requirement of a written report to be made to the Board, not less than quarterly after the effective date of this ORDER. The report shall identify the status of those loans that exhibit credit and other risks under the applicable grading standards/criteria and the prospects for full collection and/or strengthening of the quality of any such loans; and

(h) specific policies governing Bank charge-offs of loans and underlying collateral taken to repay loans.

TECHNICAL EXCEPTIONS

11. (a) Within 60 days of the effective date of this ORDER, the Bank shall correct the exceptions identified during the January 25, 2010 Joint Examination of the Bank. All attempts to correct exceptions shall be documented in the borrowers' credit file.

(b) Progress reports detailing each outstanding exception and the Bank's plan for corrective action shall be submitted to the Board for review during each regularly scheduled meeting. The review shall be noted in the minutes of the Board.

(c) The Bank shall document each technical exception that cannot be eliminated or corrected, and why, for review by the Board at its next monthly meeting. The Board's review, discussion, and any action upon the uncorrected technical exceptions shall be recorded in the minutes of the Board.

ALLOWANCE FOR LOAN AND LEASE LOSSES

12. Within 60 days from the effective date of this ORDER, the Board shall review the adequacy of the ALLL and establish 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 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. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the Reports of Condition and Income, by a charge to current operating earnings. The minutes of the Board 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.

PLAN FOR EXPENSES/PROFITABILITY

13. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop a revised written profit plan and a realistic, comprehensive budget for all categories of income and expense for the Bank only. This plan shall address, at a minimum, the following:

(i) goals and strategies for improving and sustaining the earnings of the Bank;

(ii) the major areas in, and means by which the Bank will seek to improve the Bank's operating performance;

(iii) realistic and comprehensive budgets;

(iv) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;

(v) the operating assumptions that form the basis for, and adequately support, major projected income and expense components; and

(vi) coordination of the Bank's loan, investment, operating policies, budget, and profit planning with the funds management policy.

(b) The Bank shall submit to the plan to the Supervisory Authorities for review and comment. Within 30 days from the receipt of any comments from the Supervisory Authorities, and after due consideration of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of a Board meeting.

(c) Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan required by this paragraph 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.

WRITTEN STRATEGIC/BUSINESS PLAN

14. (a) Within 90 days from the effective date of this ORDER, the Bank shall prepare and submit to the Supervisory Authorities for review and comment a 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) Within 30 days from the receipt of any comments from the Supervisory Authorities, and after due consideration of any recommended changes, the Board shall approve the business/strategic plan, which approval shall be recorded in the minutes of the Board meeting at which such evaluation is undertaken.

LIQUIDITY AND FUNDS MANAGEMENT PLAN

15. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a written plan addressing liquidity, contingent funding, and asset liability management. A copy of the plan shall be submitted to the Supervisory Authorities upon its completion for review and comment. Within 30 days from the receipt of any comments from the Supervisory Authorities, the Bank shall incorporate those recommended changes. Thereafter, the Bank shall implement and follow the plan. Annually during the life of this ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs.

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

(i) a limitation on the ratio of the Bank's total loans to assets;

(ii) a limitation of the ratio of the Bank's total loans to funding liabilities;

(iii) identification of a desirable range and measurement of dependence on non-core funding;

(iv) establishment of lines of credit that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved inadequate;

(v) a requirement for retention of sufficient investments that can be promptly liquidated to ensure the maintenance of the Bank's liquidity posture at a level consistent with short-term and long-term objectives;

(vi) establishment of contingency plans to restore liquidity to that amount called for in the Bank's liquidity policy; and

(vii) establishment of limits for borrowing federal funds and other funds, including limits on dollar amounts, maturities, and specified sources/lenders.

SENSITIVITY TO MARKET RISK

16. From the effective date of this ORDER, the Bank shall review its sensitivity to market risk at least monthly. The results of each monthly analysis shall be made a part of the Board minutes. The management and review of market risk should be in compliance with the Joint Agency Policy Statement on Interest Rate Risk. The reviews and assessment of sensitivity to market risk will be made a part of the Board minutes.

VIOLATIONS OF LAW, REGULATION AND POLICY

17. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation, which are more fully set out in the Report. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

(b) Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all contraventions of policy, which are more fully set out in the Report. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable statements of policy.

BROKERED DEPOSITS

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

(b) Within 30 days of the effective date of this ORDER, the Bank shall submit a written plan for eliminating its reliance on brokered deposits to the Supervisory Authorities for review and comment. The plan shall detail the current composition of brokered deposits by maturity and explain the means by which such deposits will be paid. Within 30 days of receipt of all such comments from the Supervisory Authorities, and after consideration of all such comments, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the plan.

(c) The Bank shall comply with the restrictions on the effective yields on deposits described in 12 C.F.R. § 337.6.

ASSET GROWTH LIMITATIONS

19. During the life of this ORDER, the Bank shall limit asset growth to five percent (5.0%) per annum and in no event shall asset growth result in noncompliance with the capital maintenance provisions of this ORDER without receiving prior written approval of the Supervisory Authorities.

RESTRICTIONS ON CERTAIN PAYMENTS

20. (a) While this ORDER is in effect, the Bank shall not pay bonuses 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 bonus payment date (at least 5 days with respect to any request filed within the first 30 days after the date of this ORDER) and shall contain, but not be limited to, an analysis of the impact such 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.

PROGRESS REPORTS

21. Within 30 days from the end of the first quarter following the effective date of this ORDER, and within 30 days of 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 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 minutes of the appropriate Board meeting.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, the State Board, 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 in writing.

Issued Pursuant to Delegated Authority

Dated this 28th day of July, 2010.

/s/
Thomas J. Dujenski
Regional Director
Division of Supervision and Consumer Protection
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 effort 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. Gen. Stat. § 54C-76(a) (2005).

Dated this 28th day of July, 2010.

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