

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

THE STATE OF NORTH CAROLINA  
OFFICE OF THE COMMISSIONER OF BANKS  
RALEIGH, NORTH CAROLINA

Written Agreement by and among

THE BANK OF CURRITUCK  
Moyock, North Carolina

FEDERAL RESERVE BANK OF  
RICHMOND  
Richmond, Virginia

and

NORTH CAROLINA OFFICE OF  
THE COMMISSIONER OF BANKS  
Raleigh, North Carolina

Docket No. 10-046-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of The Bank of Currituck, Moyock, North Carolina (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Richmond (the “Reserve Bank”), and the North Carolina Office of the Commissioner of Banks (the “Commissioner) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on April 15, 2010, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Stanley D. Griggs to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every applicable provision of this Agreement by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”)(12 U.S.C. §§ 1813(u)).

NOW, THEREFORE, the Bank, the Reserve Bank, and the Commissioner agree as follows:

**Board Oversight**

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Commissioner a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including but not limited to, lending, credit risk management, credit administration, internal audit, capital, earnings, and funds management;

(b) the responsibility of the board of directors to monitor management’s adherence to approved Bank policies and procedures, and to require management to document exceptions thereto;

(c) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of

the Bank, including information on the Bank's problem assets, credit administration, allowance for loan and lease losses ("ALLL"), capital, earnings, and liquidity; and

(d) establishment of an other real estate owned ("OREO") and loan workout function with staffing levels commensurate with the level of problem assets.

### **Management Review**

2. Within 60 days of this Agreement, the board of directors shall complete an assessment of the Bank's management and staffing needs and the qualifications and performance of each senior officer (the "Management Review"). The primary purpose of the review shall be to aid in the development of a suitable management structure commensurate with the size and complexity of the Bank that is adequately staffed by qualified personnel. The Management Review shall, at a minimum, address, consider, and include:

(a) The identification of the type and number of officers needed to manage and supervise properly the affairs of the Bank;

(b) an evaluation of each senior officer to determine whether the individual possesses the ability, experience, and other qualifications necessary to perform competently present and anticipated duties, including the ability to comply with applicable laws and regulations, adhere to the Bank's established policies and procedures, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Agreement; and

(c) the identification of present and future management and staffing needs for each area of the Bank, particularly in the areas of credit risk management, loan underwriting, appraisal review, credit administration, and problem asset resolution.

3. Within 30 days of completion of the Management Review, the board of directors shall submit a written management plan to the Reserve Bank and the Commissioner that includes the findings and conclusions of the Management Review and describes the specific actions that the board of directors will take to strengthen the Bank's management and to hire, as necessary, additional or replacement personnel.

### **Credit Risk Management**

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Policies and procedures that delineate the responsibilities and authority of the chief credit risk officer to manage the credit department and the credit risk management function;
- (b) policies and procedures to review and revise individual and portfolio risk exposure limits to address changes in market conditions;
- (c) strategies to minimize credit losses;
- (d) procedures and controls to identify, quantify, monitor, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1); and
- (e) enhanced reporting of past due, troubled debt restructuring, and nonaccrual loans to the board of directors.

## **Lending and Credit Administration**

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written lending and credit administration program that shall, at a minimum, address, consider, and include:

(a) Underwriting standards that require documented analyses of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;

(b) standards for renewing, extending, or modifying existing loans, including, but not limited to, approval and documentation requirements;

(c) procedures for the periodic analysis, during the term of the loan, of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;

(d) standards for interest-only loans;

(e) policies, procedures, and controls for the timely movement of loans to non-accrual status and the reversal of accrued but uncollected interest;

(f) procedures to ensure that loan exception reports are reviewed and approved by senior management and deviations from policy are reported to the board of directors in a timely manner; and

(g) enhancements to appraisal and valuation procedures that include, but are not limited to:

(i) policies and procedures for when reappraisals and reevaluations must be conducted;

- (ii) review procedures to ensure the quality of appraisals; and
- (iii) OREO valuations in compliance with regulatory guidance.

### **Loan Review Program**

6. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for strengthening internal review and grading of the Bank's loan portfolio by a qualified independent party or by staff that is independent of the Bank's lending function. The program shall, at a minimum, address, consider, and include:

- (a) The scope and frequency of loan review;
- (b) application of loan grading standards and criteria to the loan portfolio, including procedures to re-evaluate loans in the event of material changes in the borrower's performance or value of the collateral; and
- (c) controls to ensure the consistent adherence to the loan grading standards and criteria and the revised review program.

### **Asset Improvement**

7. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination of the Bank conducted by the Reserve Bank that commenced on August 10, 2009 (the "Report of Examination") or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of

credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. § 215.2(n)).

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$350,000, including OREO, that (i)

is past due as to principal or interest more than 90 days as of the date of this Agreement;  
(ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$350,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Commissioner to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report.

#### **Allowance for Loan and Lease Losses**

9. (a) The Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the Commissioner.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated



July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL.

(d) During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL

and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

### **Capital Plan**

10. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank.

11. The Bank shall notify the Reserve Bank and the Commissioner, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the Bank shall submit an acceptable written plan that details the steps the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

### **Earnings Plan and Budget**

12. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written business plan for 2010 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(i) a realistic and comprehensive budget for calendar year 2010, including income statement and balance sheet projections; and

(ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business plan and budget for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank and the Commissioner at least 30 days prior to the beginning of that calendar year.

### **Interest Rate Risk Management**

13. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to improve interest rate risk management practices that are appropriate for the size and complexity of the Bank. The plan shall, at a minimum, provide for a periodic independent review and assessment of the Bank's interest rate risk model and processes, including but not limited to, the accuracy and completeness of the data inputs into the Bank's risk measurement system.

## **Funds Management**

14. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

## **AML Compliance**

15. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to enhance the Bank's system of internal controls related to anti-money laundering ("AML") that, at a minimum, includes procedures to identify and mitigate the AML compliance risks associated with new products and services offered or provided by the Bank.

## **Information Technology Compliance**

16. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to correct the criticisms detailed in the Report of Examination of the Bank's compliance with all applicable federal laws, rules, and regulations relating to effective controls over the information technology function and standards for safeguarding customer information.

## **Audit**

17. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written enhanced internal audit program that shall, at a minimum, provide for:

(a) Improved oversight of all aspects of the audit program by the Bank's audit committee, including, but not limited to:

- (i) establishment and implementation of an effective audit plan;
  - (ii) periodic evaluations of external auditors;
  - (iii) review of all audit reports, independent consultant reports, and examination and inspection findings; and
  - (v) establishment and implementation of a tracking report that identifies outstanding items, staff responsible for resolving each outstanding item, and the auditor's verification that the item was corrected.
- (b) timely resolution of audit and examination findings and follow-up reviews to ensure completion of the corrective measures;
- (c) measures to ensure the independence of the internal auditor; and
  - (d) adequate staffing of the audit function by independent qualified staff.

### **Regulatory Reports**

18. The Bank shall immediately take steps to ensure that all required regulatory reports and notices filed with the Federal Reserve, the Commissioner, and the FFIEC accurately reflect the Bank's financial condition and are filed in accordance with the applicable instructions for preparation.

### **Dividends**

19. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the Commissioner.

(b) Any request to declare or pay dividends must be consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). All requests for prior approval shall be received by the Reserve Bank and the Commissioner at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and loan loss reserve needs of the Bank.

### **Compliance with Laws and Regulations**

20. In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

21. The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

### **Compliance with the Agreement**

22. Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

## **Approval and Implementation of Plans, Policies, Procedures, and Programs**

23. (a) The Bank shall submit written plans, policies, procedures, and programs that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraph 4, 5, 6, 8(a), 8(b), 9(c), 10, 11, 13, 14, 15, 16, and 17 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Commissioner, the Bank shall adopt the approved plans, policies, procedures, and programs. Upon adoption, the Bank shall promptly implement the approved plans, policies, procedures, and programs and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Commissioner.

## **Communications**

24. All communications regarding this Agreement shall be sent to:

- (a) Mr. A. Linwood Gill, III  
Vice President  
Federal Reserve Bank of Richmond  
P.O. Box 27622  
Richmond, VA 23261
- (b) Mr. Joseph A. Smith, Jr.  
Commissioner  
North Carolina Office of Commissioner of Banks  
4309 Mail Service Center  
Raleigh, North Carolina 27699-4309
- (c) Mr. Stanley D. Griggs  
Chairman of the Board  
The Bank of Currituck  
250 Caratoke Highway  
Moyock, North Carolina 27958

## **Miscellaneous**

25. Notwithstanding any provision of this Agreement, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

26. The provisions of this Agreement shall be binding upon the Bank, and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

27. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Commissioner.

28. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Commissioner, or any other federal or state agency from taking any other action affecting the Bank, or any of its current or former institution-affiliated parties and their successors and assigns.



29. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818) and by the Commissioner pursuant to the provisions of N.C. Stat 53-107.1 (2005).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 19<sup>th</sup> day of April, 2010.

NORTH CAROLINA OFFICE OF THE  
COMMISSIONER OF BANKS

FEDERAL RESERVE BANK  
OF RICHMOND

By: /s/ Joseph A. Smith, Jr.  
Joseph A. Smith, Jr.  
Commissioner

By: /s/ A. Linwood Gill, III  
A. Linwood Gill, III  
Vice President

THE BANK OF CURRITUCK

By: /s/ Stanley D. Griggs  
Stanley D. Griggs  
Chairman of the Board