

AGREEMENT BY AND BETWEEN
The First National Bank of Shelby
Shelby, North Carolina
and
The Comptroller of the Currency

The First National Bank of Shelby, Shelby, North Carolina (“Bank”), and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank and his findings are contained in the Report of Examination (“ROE”) for the examination that commenced on November 15, 2010. The Comptroller has found unsafe and unsound banking practices relating to credit risk management, liquidity risk management, and earnings performance.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Kent D. Stone
Assistant Deputy Comptroller
Carolinas Field Office
212 South Tryon St.
Charlotte, NC 28281

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days of the date of this Agreement, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than two (2) shall be an employee or controlling shareholder of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within sixty (60) days of the date of this Agreement and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the action needed to achieve full compliance with each Article of this Agreement;
- (b) actions taken to comply with each Article of this Agreement; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

ARTICLE III

BOARD OVERSIGHT

(1) Within one hundred twenty (120) days, the Compliance Committee shall complete a review of Board supervision presently being provided to the Bank to ensure that the Bank has competent and effective Board and management to carry out the Board's policies, to operate the Bank in a safe and sound manner, and ensure compliance with this Agreement, applicable laws, rules and regulations. The findings and recommendations of the Compliance Committee shall be set forth in a written report to the Board. At a minimum, the report shall consider:

- (a) an assessment of the Board committees to ensure members are knowledgeable of areas delegated to the respective committees;
- (b) an assessment of whether Board members are receiving timely and adequate information on the condition, risks and operations of the Bank to

enable them to fulfill their fiduciary responsibilities and other responsibilities under law;

- (c) an assessment of Board processes in place to respond to the findings of control functions, such as internal audit, loan review and compliance, and to determine appropriate corrective actions, assignment of management responsibilities, tracking progress, and enforcing accountability; and
- (d) recommendations to correct or eliminate any other deficiencies in the supervision or organization structure of the Bank.

(2) Within sixty (60) days after completion of the review required by paragraph (1), the Board shall develop, adopt and thereafter ensure Bank implementation and adherence to a written plan, with specific time frames, that will correct any deficiencies identified above.

(3) Copies of the Board's written plan shall be forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement. In the event the written plan, or any portion thereof, is not implemented, the Board shall promptly advise the Assistant Deputy Comptroller, in writing, of specific reasons for deviating from the plan.

ARTICLE IV

STRATEGIC PLANNING

(1) Within ninety (90) days, the Board shall review and revise, as necessary, and thereafter ensure management adheres to its written strategic plan ("Strategic Plan") for the Bank covering at least a three-year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet

activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

- (a) an assessment of the Bank's present and future operating environment;
- (b) the development of strategic goals and objectives to be accomplished over the short and long term;
- (c) a management employment and succession program to promote the retention and continuity of capable management; and
- (d) an action plan to improve bank earnings as required in Article VI, Profit Plan, of this document.

(2) The Strategic Plan, and any subsequent amendments or revisions, shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and ensure adherence to the Strategic Plan.

(3) At least monthly, the Board shall continue to review financial reports and earnings analyses prepared by the Bank that evaluate the Bank's performance against the goals and objectives established in the Strategic Plan, as well as the Bank's written explanation of significant differences between actual and projected balance sheets, income statements, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. Copies of monthly analysis should be maintained and made available upon OCC request.

(4) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan, based on the Bank's monthly reports, analyses, and

written explanations of any differences between actual performance and the Bank's strategic goals and objectives, and shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Upon completion, the Board shall submit a copy of its evaluation, to the Assistant Deputy Comptroller.

ARTICLE V

CAPITAL PLAN

- (1) Within ninety (90) days, the Board shall review and revise, as necessary, and thereafter ensure Bank adherence to its three year capital program. The program shall include:
 - (a) specific plans for the maintenance of adequate capital levels in relation to the bank's risk profile;
 - (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
 - (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
 - (d) identification of the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
 - (e) contingency plans that identify alternative methods should the primary source(s) under subpart (d) above not be available; and
 - (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and

(iii) after obtaining a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(2) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. 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 Assistant Deputy Comptroller.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE VI

PROFIT PLAN

(1) Within ninety (90) days, the Board shall review and revise, as necessary, and thereafter ensure Bank adherence to its written profit plan to improve and sustain the earnings of the Bank. This plan shall include, at minimum, the following elements:

- (a) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;
- (b) realistic and comprehensive budgets, including projected balance sheets and year-end income statements; and
- (c) a budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections.

(2) The budgets and related documents required in paragraph (1) above for 2011 shall be submitted to the Assistant Deputy Comptroller upon completion. The Board shall submit to the Assistant Deputy Comptroller annual budgets as described in paragraph (1) above for each year this Formal Agreement remains in effect. The budget for each year shall be submitted on or before December 20, of the preceding year.

(3) The Board shall forward comparisons of its balance sheet and profit and loss statement to the profit plan projections to the Assistant Deputy Comptroller on a quarterly basis.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE VII

CONCENTRATIONS OF CREDIT

(1) Within ninety (90) days, the Board shall review and revise, as necessary, and thereafter ensure Bank adherence to its written asset diversification program. The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet to identify any concentrations of credit;
- (b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) limitations on concentrations commensurate with the risk analysis in subparagraph (b);
- (d) action plans approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis or falling outside the limitations established in subparagraph (c); and

(e) on a quarterly or more frequent basis, reports to the Board of Directors for monitoring concentrations and tracking compliance with the concentration limits.

(2) For purposes of this Article, a concentration of credit is as defined in the “Loan Portfolio Management” booklet of the Comptroller's Handbook.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (b) and that the analysis demonstrate that the concentration will not subject the Bank to undue credit or interest rate risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Assistant Deputy Comptroller immediately following the review.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE VIII

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in any bank reports, in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) The Board shall immediately adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or

in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding \$250 thousand shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds \$250 thousand;
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed \$250 thousand only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset would not be compromised.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE IX

CREDIT RISK IDENTIFICATION

(1) Within ninety (90) days, the Board shall review and revise, as necessary, and thereafter ensure Bank adherence to its written program to improve the Bank's credit risk identification process. The program shall include, but not be limited to:

- (a) credit risk rating definitions consistent with applicable regulatory guidance, including income accrual status;
- (b) implementation of an effective training program for all lending staff;
- (c) procedures for early problem loan identification;
- (d) procedures to ensure accurate and timely risk grades, including loss recognition and identification of nonaccrual loans; and
- (e) establish loan officer and credit administration staff accountability for failure to assign accurate and timely risk grades, including recognition of nonaccrual status, on loans under their respective supervision.

(2) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the programs developed pursuant to this Article.

(3) A written description of the programs required by paragraph (1) of this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation.

ARTICLE X

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days, The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (“Allowance”) and shall review and revise, as necessary, its program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in *OCC Bulletin 2006-47: Interagency Policy on the Allowance for Loan and Lease Losses* and shall focus particular attention on the following factors:

- (a) timely and accurate identification of “impaired” loans as that term is defined in *ASC 310-10 Accounting by Creditors for Impairment of a Loan* (formerly FAS 114);
- (b) accurate measurement of the amount of impairment at the time a loan is determined to be impaired;
- (c) for impaired collateral dependent loans secured by real estate, the use of reliable real estate appraisals or evaluations, adjusted for selling costs, to determine the fair value of the collateral;
- (d) timely recognition of losses, including the recognition of the impaired portion of collateral dependent loans as loss; and
- (e) analytical support for historic loss factors, including the qualitative adjustments to the historical loss factors

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE XI

APPRAISALS OF REAL PROPERTY

(1) The Board shall immediately require and the Bank shall obtain independent appraisals or conduct independent evaluations, in accordance with 12 C.F.R. Part 34, on any loan that is secured by real property:

- (a) where the loan was criticized in the most recent ROE or by the Bank's internal or external loan review and the most recent independent appraisal is more than twelve (12) months old; or
- (b) where the borrower has failed to comply with the contractual terms of the loan agreement and the Bank's analysis of current financial information does not support the ongoing ability of the borrower or guarantor(s) to perform in accordance with the contractual terms of the loan agreement and the most recent independent appraisal or evaluation is more than twelve (12) months old.

(2) Appraisals and evaluations required by this Article shall be ordered or completed within sixty (60) days of the date of the Agreement, and going forward, within thirty (30) days following the event triggering the appraisal requirement.

(3) Within thirty (30) days, the Board shall require and the Bank shall develop and implement an independent review and analysis process to ensure that appraisals and evaluations conform to appraisal standards and regulations. The appraisal review process shall ensure that appraisals or evaluations are:

- (a) performed in accordance with 12 C.F.R. Part 34; and

- (b) consistent with the guidance in *OCC Bulletin 2010-42: Interagency Appraisal and Evaluation Guidelines*; and
 - (c) adjusted as needed to reflect current market value when the appraiser or evaluator fails to support the final valuation or uses an erroneous methodology to arrive at the valuation.
- (4) Written documentation supporting each appraisal review and analysis shall be retained in the loan file, along with the appraisal or evaluation.
- (5) The Board shall ensure that the Bank has processes, well trained and qualified personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE XII

INVESTMENT PORTFOLIO ACTIVITY

- (1) Within ninety (90) days, the Board shall review and revise, as necessary, its written program to reduce credit risk in the investment portfolio. The program shall include at a minimum:
- (a) an analysis of the investment portfolio in order to identify and assess the inherent credit risk posed by various investment concentrations and types;
 - (b) limitations on investment concentrations commensurate with the Board's risk tolerance, the Bank's condition, and the Bank's risk profile;
 - (c) investment strategies to reduce risk in a manner consistent with the Board-approved investment concentration limitations; and
 - (d) a means for ongoing analysis of the investment portfolio and reassessment of investment strategies as necessary.

(2) The Board shall promptly forward a copy of this report to the Assistant Deputy Comptroller.

(3) The Board shall ensure that the Bank has processes, well-trained and qualified personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE XIII

LIQUIDITY

(1) The Board shall immediately ensure that the liquidity of the Bank is maintained at a level sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base. Such actions shall include, but are not limited to:

- (a) improving the volume of stable funding sources in relation to the Bank's anticipated liquidity and funding needs;
- (b) reducing wholesale or credit-sensitive liabilities;
- (c) maintaining sufficient levels of liquid assets; and
- (d) establishing prudent risk limits for wholesale funding.

(2) Reports developed for purposes of implementing paragraph (1) shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the requirements of this Article.

ARTICLE XIV

BROKERED DEPOSITS

(1) The Bank may accept, renew or rollover Brokered Deposits (as defined by 12 C.F.R. § 337.6(a)(2)) for deposit at the Bank only after obtaining a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(2) The limitation of paragraph one (1) shall include the acquisition of Brokered Deposits through any transfer, purchase, or sale of assets, including Federal funds transactions administered through a deposit broker.

(3) If the Bank seeks to acquire Brokered Deposits, the Board shall apply to the Assistant Deputy Comptroller for written permission. Such application shall contain, at a minimum, the following:

- (a) the dollar volume, maturities, and cost of the Brokered Deposits to be acquired;
- (b) the proposed use of the Brokered Deposits (i.e., short-term liquidity or restructuring of liabilities to reduce cost);
- (c) alternative funding sources available to the Bank;
- (d) the reasons why the Bank believes that the acceptance of the Brokered Deposits does not constitute an unsafe or unsound practice in its particular circumstances; and
- (e) any additional information as the Assistant Deputy Comptroller may require as necessary to make an informed decision.

Upon consideration of the Bank's application, the Assistant Deputy Comptroller will determine whether the proposed acquisition of Brokered Deposits may be accomplished in a safe and sound

manner and may condition the Bank's acquisition as the Assistant Deputy Comptroller shall deem appropriate.

ARTICLE XV

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to

amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/s/

Kent D. Stone
Assistant Deputy Comptroller
Carolinas Field Office

6-8-2011

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/

Glee E. Bridges

6/8/2011

Date

/s/

Adelaide A. Craver

6/8/2011

Date

/s/

Catherine B. Freedberg

June 8, 2011

Date

/s/

Edgar B. Hamilton

6/8/11

Date

/s/

E. Blanton Hamilton, Jr.

June 8, 2011

Date

/s/	6-8-11
Max J. Hamrick	Date
/s/	6-8-11
C. Rush Hamrick, Jr.	Date
/s/	6-8-11
John O. Harris, III	Date
/s/	6/8/11
Kevin T. James	Date
/s/	June 8, 2011
Helen A. Jeffords	Date
/s/	6-8-11
Martha R. Plaster	Date
/s/	6/8/2011
William E. Plowden, Jr.	Date
/s/	6/8/2011
David W. Royster, III	Date
/s/	6/8/2011
John E. Young	Date