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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 26 day of November 1990 by and between Citadel Federal Savings Bank, Charleston, South Carolina (OTS No. 08296), for itself and its wholly owned service corporations and subsidiaries (hereinafter called "Citadel" or "the Savings Bank") and the Office of Thrift Supervision ("OTS"), acting through its Atlanta Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is of the opinion that the grounds exist to initiate administrative proceedings against Citadel pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b); and

WHEREAS, Citadel, in the interest of regulatory compliance and cooperation, is willing to enter into this Agreement to avoid the initiation of such administrative proceedings on the matters covered by this Agreement; and

WHEREAS, the OTS is willing to forbear from the initiation of such administrative proceedings against Citadel to require the actions specifically covered by this Agreement for so long as Citadel is in compliance with the provisions of the Agreement that pertain to such actions; and

WHEREAS, it is understood by the parties that execution of this Agreement does not preclude the OTS from taking further supervisory or enforcement measures to require actions not specifically covered by this Agreement which the OTS considers appropriate under the circumstances.

NOW, THEREFORE, in consideration of the OTS' above-stated forbearance, it is agreed between the parties hereto as follows:

A. <u>Conflicts of Interest</u>

1. Citadel, its directors, officers, employees and affiliated persons shall comply in all respects with the requirements of 12 C.F.R. Sections 563.40, 563.41, 563.43, 571.7, and 571.9, and Sections 23A, 23B, and 22(h) of the Federal Reserve Act ("FRA") as implemented by Regulation O, and all other applicable laws, regulations and policies, as well as all successor laws, regulations and policies, concerning real and personal property transactions with affiliated person, and loans and other investments involving affiliated persons, respectively, and shall avoid all transactions which give the appearance of noncompliance with these regulations. The Board of Directors shall insure

that the Savings Bank adheres to the policy statement guidelines set forth in 12 C.F.R. Sections 571.7 and 571.9 concerning conflicts of interest and usurpation of corporate opportunity.

2. Citadel shall develop, adopt and adhere to a revised "Plan for Avoidance of Conflicts of Interest", and shall provide the Regional Director, within 30 days after the effective date of this Agreement, with a certified board resolution stating that such Plan has been adopted and implemented in accordance with this Paragraph A.2. Such Plan shall describe specific policies and procedures that will be implemented to comply with 12 C.F.R. Sections 563.40, 563.41, 563.43, 571.7, and 571.9, and Sections 23A, 23B, and 22(h) of the Federal Reserve Act ("FRA") as implemented by Regulation O, shall establish procedures for dealing with individuals or entities that violate the institution's policies in these areas, and shall set forth steps to eliminate any future conflicts of interest and usurpation of corporate opportunity or the appearance thereof. In addition to the foregoing requirements, such Plan shall require, at a minimum, that:

(a) The Board of Directors of Citadel shall review the Plan on at least a yearly basis. Such review shall include an analysis of all loans made to, and transactions with, directors, officers, affiliates and affiliated persons in the preceding period for compliance with the applicable regulations. The review shall also identify all regulatory changes pertaining to conflicts of interest which have occurred in the preceding year and shall incorporate these changes into the Plan. Documentation of such review shall be maintained in the minutes of the Board of Directors' meeting at which such review takes place.

(b) The Board of Directors shall prepare and update on at least an annual basis, a list of all directors, officers, affiliates and affiliated persons of Citadel and specifically identify all entities in which any such persons or entities are general partners or own an interest of 10% or more. Said list shall be distributed to all directors and other institution personnel as appropriate to ensure compliance with the Savings Bank's Plan, upon completion of each update or revision. The Board of Directors shall identify those areas where conflicts of interest could occur, and implement steps to preclude the occurrence of such conflicts of interest. Documentation of such update shall be maintained in the minutes of the Board of Directors' meeting at which such update takes place.

3. Citadel shall develop, adopt, and adhere to written policies and procedures governing the use of corporate credit cards and the preparation of employee expense reimbursements to ensure that employee expense allowances and claims for reimbursements are fully documented and are proper incidents to the Savings Bank's business activities. Such written policies and procedures shall be adopted and the Board of Directors shall provide the Regional Director, within 30 days after the effective date of this Agreement, with a certified board resolution stating that such written policies and procedures have been adopted and implemented in accordance with this Paragraph A.3.

4. Citadel shall not permit overdrafts of NOW accounts by directors, officers, employees, and affiliated persons of the Savings Bank, except in compliance with 12 C.F.R. Section 563.43 and Section 22(h) of the FRA as implemented by Regulation O.

5. Citadel shall collect an interest charge, which shall be no less than the Federal Home Loan Bank of Atlanta's overnight rate on deposits during the period that each of the overdrafts cited on page seven of the Savings Bank's July 5, 1989 Report of Examination ("Examination") was outstanding, and shall collect its normal overdraft fee for each overdraft incurred in which such interest charge or fee was waived. Citadel shall provide evidence of appropriate action, acceptable to the Regional Director, within 30 days after the effective date of this Agreement, and shall also provide evidence to the Regional Director that the appropriate interest charges and fees have been paid upon collection.

6. Citadel shall address and eliminate each conflict of interest situation cited in the Examination, and shall provide the Regional Director, within 30 days after the effective date of this Agreement, with a certified board resolution stating that such conflicts of interest have been eliminated in accordance with this Paragraph A.6.

B. <u>Loan and Investment Underwriting Policies and Procedures</u>

1. Except for loans approved by the Board to facilitate the sale of real estate owned or the workout of problem credits, Citadel shall not make, invest in,

purchase, refinance, or otherwise modify or commit to make, invest in, purchase, refinance, or otherwise modify any speculative construction loans, commercial loans, or any loans secured by acquisition and development projects, raw land, or multifamily or nonresidential property, until it can be demonstrated to the Regional Director's satisfaction that Citadel's total classified assets represent less than 50 percent of the sum of its tangible capital plus general reserves, and that the Savings Bank has fulfilled the requirements of Paragraphs B.2. through B.5. and C.1. through C.2. of this Agreement.

2. Citadel shall amend, adopt, and adhere to written policies and procedures for underwriting, appraisal, documentation, approval, and disbursement applicable to each area of its lending operations, including but not limited to, commercial loans, commercial real estate loans, land acquisition, development and construction loans, letters of credit, lines of credit, loans to facilitate the sale of real estate owned, affiliated person loans, single family loans, and consumer loans. Such written policies and procedures shall specifically address the deficiencies noted on pages nine through 18 of the Examination and shall require that Citadel performs appropriate and proper loan underwriting and maintains documentation necessary to facilitate safe and prudent lending decisions. Citadel shall provide the Regional Director, within 30 days after the effective date of this Agreement, with a certified board resolution stating that such written policies and procedures have been adopted and implemented in accordance with this Paragraph B.2.

3. Prior to the Savings Bank committing to make any loan or set of loans or investment, purchase any participation or set of participations, grant any letter of credit or line of credit or otherwise extend credit, Citadel shall document that each and every requirement of its loan underwriting standards applicable to a particular loan or investment has been complied with in a satisfactory manner. Such documentation shall include but not be limited to:

   a. A completed loan application, signed by the borrower, in accordance with the requirements of 12 C.F.R. Section 563.170(c)(1)(i);

   b. Signed, current financial statement from the borrower;

c. Current credit reports for each applicable borrower and/or guarantor together with a written report signed by the responsible Savings Bank employee explaining any derogatory items in such credit reports;

d. Written documentation, which shall become part of the loan file, that contains, but is not limited to the following items:

   (i) Evidence that the borrower's and/or guarantor's financial statements have been reviewed, analyzed, and verified;

   (ii) A memorandum, supported by financial analysis, that the borrower's financial statement and credit history and cash flow generated by the property and additional collateral, if any, securing the loan are sufficient to demonstrate the borrower's ability to repay the loan and make contractual interest and principal payments when due; and

   (iii) The signature of the person or persons performing the credit review and analysis;

   (iv) A loans to one borrower certificate as required by 12 C.F.R. Section 563.93(c).

e. Current appraisal reports prepared in accordance with the specific documentation requirements of 12 C.F.R. Section 563.170(c)(1)(iv) stating and supporting the fair market value of the security property shall be obtained, reviewed and analyzed prior to final loan approval for all loans or participations or set of loans or participations secured by real estate made or purchased by Citadel;

f. Written evidence that the borrower has invested cash and/or another form of equity, as appropriate, in the security property;

g. Detailed written cost estimates, as appropriate, prepared by an engineer, architect, or other person qualified to prepare such an estimate;

h. Other loan documentation requirements specified in Section 563.170(c)(1), as presently constituted or hereafter amended, for each loan secured by real estate.

4. The Board of Directors shall establish a Loan Audit Committee, which shall regularly review each loan file for completeness with respect to the above-listed requirements and compliance with regulatory requirements. A written report of such review shall be presented to the Board of Directors on at least a quarterly basis, with such report to be included in the board minutes.

5. Citadel shall enforce the terms of its loans or agreements and shall establish written procedures to ensure that all conditions, terms, restrictions, etc., are enforced in their entirety, unless the Board of Directors grants advance approval, having considered all pertinent information and determined that any waiver is in the best interest of the Savings Bank. Citadel shall provide the Regional Director, within 30 days after the effective date of this Agreement, with a certified board resolution stating that such written policies and procedures have been adopted and implemented in accordance with this Paragraph B.5.

C. <u>Construction Lending Policies and Procedures</u>

1. In any construction loan or other loan made or purchased by Citadel which includes the periodic disbursement of funds from a loans-in-process (LIP) account, the institution shall require at a minimum, that:

   a. Written, signed property inspection reports, which include a certification of the dollar amount and percentage of completion of existing improvements and a certification stating the cost in dollars to complete the proposed improvements, shall be obtained prior to any disbursement of funds from LIP for the purpose of funding work in progress. The inspections should be performed by qualified parties who have no business association with either the obligor or the contractor;

   b. The loan agreement must require and Citadel must ensure that at all times the LIP account contains sufficient funds to complete construction or development of the project.

D. <u>Criticized Assets and Classification of Assets</u>

1. Citadel shall develop, adopt, implement and adhere to written policies and procedures for the appropriate classification of its assets and the

establishment of a prudent level of general valuation allowances in accordance with 12 C.F.R. Sections 563.160 and 571.26 and generally accepted accounting principles, and providing for at least quarterly reviews of the adequacy of such general valuation allowances. Citadel shall provide the Regional Director, within 30 days after the effective date of this Agreement, with a certified board resolution stating that such written policies and procedures have been adopted and implemented in accordance with this Paragraph D.1.

2. Citadel shall establish and maintain general and specific valuation allowances pursuant to 12 C.F.R. Sections 563.160(c) and (d), and shall submit written evidence of the establishment of adequate general valuation allowances of not less than $500,000, along with documentation justifying the adequacy of such general valuation allowances, to the Regional Director for his acceptance, within 45 days after the effective date of this Agreement.

3. Citadel shall correctly report all classified assets and the aggregate general and specific valuation allowances established in Thrift Financial Reports filed with OTS pursuant to 12 C.F.R. Section 563.160(c)(3).

4. The Board of Directors shall develop, adopt, and adhere to a specific action plan to address its criticized assets, including classified assets and assets subject to special mention in the Examination, which plan would set reasonable targets, assign specific responsibilities, and require reports evidencing progress towards such targets. If such reports show that targets are not being met, the board should ensure that the reasons for such failures are addressed appropriately. If Citadel's total exposure to any one borrower or on any individual asset exceeds $350,000, the Savings Bank shall adopt and implement a written plan for the resolution of each such asset, which plan shall address but not be limited to:

   a. an identification of the expected source(s) of repayment or resolution.

   b. the appraised value of the collateral and the Savings Bank's lien position.

   c. an analysis of the borrower's financial condition, as applicable.

d. specific steps to be taken, including appropriate timeframes, for the resolution or disposal of each asset.

5. Citadel shall submit to the Regional Director, within 60 days after the effective date of this Agreement, the specific plans required by Paragraph D.4. above. The Board of Directors shall review, on at least a monthly basis, all assets for which a written plan has been implemented to determine the status of the asset and its underlying collateral, compliance with the written plan and with all loan agreements, and action taken by the Savings Bank to eliminate the basis for classification. Citadel shall maintain a written report of each of the board's monthly reviews, as well as documentation of actions taken as a result of the Board of Directors' review.

All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry. For purposes of this Agreement, references to regulations, bulletins, memoranda and publications shall include any successor regulations, bulletins, memoranda and publications which are promulgated or remain in effect under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub.L. No. 101-73, 103 Stat. 183.

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of Citadel. It is understood and agreed that this Agreement is a "written agreement entered into with the Board" as that phrase is used in Section 8(b)(1) of the Federal Deposit Insurance Act, as amended, 12 U.S.C. Section 1818(b)(1).

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

This Agreement shall remain in effect until terminated, modified or suspended by the OTS. The Regional Director or his designee may suspend, in his or her sole discretion, any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS, acting through the Regional Director or his designee, and Citadel, by its duly elected directors, have executed this Agreement. A certified copy of the resolution of the Board of Directors of Citadel authorizing the execution of this Agreement is attached hereto and made part hereof.

OFFICE OF THRIFT SUPERVISION

BY: /S/
John E. Ryan,
Regional Director

CITADEL FEDERAL SAVINGS BANK
CHARLESTON, SOUTH CAROLINA

By: /S/

And by a majority of its directors:

/S/

/S/

/S/

/S/

CERTIFIED COPY OF RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Citadel Federal Savings Bank, Charleston, South Carolina (hereinafter "Citadel") hereby certify that the following is a true copy of a resolution duly adopted by its board of directors at a meeting duly called and held on NOVEMBER 26 1990, and at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now in full force and effect:

RESOLUTION

WHEREAS, the officers and directors of Citadel have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the grounds exist to initiate administrative proceedings against Citadel pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(b), as amended; and

WHEREAS, said officers and directors have been informed that the OTS will forbear from the initiation of such administrative proceedings in connection with the matters referred to in the attached Supervisory Agreement ("Agreement") if the Agreement is executed by Citadel and if its terms are thereafter complied with by Citadel; and

WHEREAS, the directors of Citadel have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on NOVEMBER 26 1990, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement:

NOW, THEREFORE, BE IT RESOLVED, that this Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved and executed by the Board of Directors of the Citadel. The officers and employees of Citadel are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

IN WITNESS WHEREOF, I have hereto subscribed my name and affix the seal of Citadel, this 26th day of November 1990.

/S/

Secretary