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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 17th day of January, 1992, by and between Essex Savings Bank, Inc., Elizabeth City, North Carolina, OTS No. 8201, for itself and its wholly owned service corporations and subsidiaries ("ESB-NC" or "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

This Agreement supersedes and replaces the Supervisory Agreement of March 26, 1991 between ESB-NC and the OTS.

WHEREAS, the OTS is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b) (1988 and Supp. I 1989); and

WHEREAS, the Institution, without admitting or denying that such grounds exist, and 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 forebear from the initiation of such administrative proceedings against the Institution to require the actions specifically covered by this Agreement for so long as the Institution is in compliance with the provisions of the Agreement; 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 on matters not specifically covered by this Agreement that the OTS considers appropriate under the circumstances.

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

MANAGEMENT

1. The Board of Directors of ESB-NC ("the Board") shall continue to meet at least monthly to provide effective and independent oversight over all operations and activities of the Institution.

2. (a) Within 30 days of the effective date of this Agreement, the Board shall resolve in writing that, as soon as practicable, a majority of its members shall be individuals who reside in the market area served by the Institution and who are not officers or employees of the Institution or directors, officers or employees of Essex Financial Group, Inc., Virginia Beach, Virginia, OTS No. H-0883, Essex Financial Partners, Limited Partnership, Virginia Beach, Virginia, OTS No. H-1473, or Essex Bancorp, Inc., Virginia Beach, Virginia, OTS No. H-1339 ("the Holding Company Group"). It is understood that this resolution shall not disqualify current directors. Essex shall exert its best efforts to secure such outside directors and shall document these efforts.

(b) The Board shall document in the minutes of its monthly meetings its efforts to fully comply with the provisions of the resolution required by this Paragraph 2.

3. (a) The Institution shall maintain safe and sound management in accordance with the provisions of 12 C.F.R. § 563.161.

(b) The Institution shall retain at all times a qualified, full time Managing Officer to live in the market area served by the Institution and to oversee the daily operations of the Institution. Within 30 days of the effective date of this Agreement, the Board shall furnish the Regional Director a written description of the duties and responsibilities of said Managing Officer.

(c) Pursuant to OTS Regulatory Bulletin No. 27, dated November 8, 1991, the Institution shall submit employment contracts for senior executive officers and directors to the Regional Director for prior review.

4. The Institution shall make no capital distribution, as that term is def ed at 12 C.F.R. § 563.134(a)(1), to any entity in the Holding Company Group without the prior written approval of the Regional Director.

5. (a) The Institution shall comply with the provisions of 12 C.F.R. § 563.42 (Additional standards applicable to transactions with affiliates and subsidiaries).

(b) By February 28, 1992, for calendar year 1992, and by each December 31 thereafter, the Institution shall furnish the Regional Director written notice of any plans to pay any entity in the Holding Company Group management fees and/or other administrative fees during the next calendar year. Said notice shall include the information required by 12 C.F.R. § 563.41(e)(1) and a statement of whether the fees comply with the projections concerning such fees in the Business Plan required by Paragraph 6 of this Agreement.

(c) Without the prior written approval of the Regional Director, the Institution shall not pay any entity in the Holding Company Group management fees and/or other administrative fees other than those disclosed in the notice required by this Paragraph 5.

6. (a) By February 28, 1992, the Institution shall prepare, adopt, and submit to the Regional Director for his approval a Business Plan ("Plan") for calendar year 1992.

The Plan shall set forth the Institution's overall goals and objectives and shall accurately describe its current operations as well as operations projected for the term of the Plan. In addition, the Plan shall:

i. discuss the types and levels of lending activities contemplated and indicate how and when the Institution will reduce the concentration in its loan portfolio of second mortgage loans on properties outside of its market area,

ii. indicate how and when the Institution will restructure its balance sheet to reduce its currently excessive interest rate risk,

iii. support the level and types of operating expenses proposed in the Plan,

iv. identify the amount of any and all management fees and/or other administrative fees that the Institution plans to pay any entity in the Holding Company Group and describe in detail the services to be received in exchange for said fees,

v. discuss the measures to be implemented to improve the Institution's net operating margin, and

vi. demonstrate compliance with the provisions of this Agreement, and with applicable statutory and regulatory requirements and restrictions.

The Plan also shall include quarterly pro forma financial statements and a statement of the significant assumptions on which the pro forma financial statements are based.

(b) No later than 30 calendar days prior to the expiration of the Plan then in effect, the Institution shall submit to the Regional Director for his approval a Plan in the form described in this Paragraph 6 for calendar year 1993 and, following that, calendar year 1994.

(c) The Institution shall not deviate substantially from the Plan approved and in effect, including the pro forma financial projections contained therein, without the prior written approval of the Regional Director for such deviations. The Regional Director shall determine whether the Institution has deviated substantially from the Plan.

(d) Within 45 days of the end of each calendar quarter, the Institution shall submit to the Regional Director a variance report comparing actual and budgeted operations, and explaining any significant variations.

7. Within 60 days of the effective date of this Agreement, the Board shall, to the extent not already accomplished, revise ESB-NC's Asset Valuation Allowance Policies, Conflict of Interest Policies, Internal Audit Policies, Investment Policies, and Interest Rate Risk Policies so as to address the concerns noted in the Institution's March 25, 1991 OTS Report of Examination ("1991 Exam"), and shall direct management to implement the revised policies.

8. Within 60 days of the effective date of this Agreement, the Board shall, to the extent not already accomplished, revise ESB-NC's Loan Underwriting Policies so as to address the concerns noted in the 1991 Exam. Such Policies shall apply to the underwriting, appraisal, approval, and disbursement of all loan types either originated or purchased by the Institution, shall incorporate the loan documentation requirements of 12 C.F.R. § 563.170(c), and shall facilitate and document

safe and prudent lending decisions.

9. (a) Within 60 days of the effective date of this Agreement, the Board shall develop, adopt, and direct management to implement an independent internal audit program appropriate to the needs of the Institution, consistent with the guidance in Section 120 of the Thrift Activities Handbook and the comments on Internal Audit in the 1991 Exam, and which provides that the internal auditor shall report directly to the audit committee of the Board.

(b) The Board shall ensure that the internal auditor obtains adequate training and resources to perform his or her duties in a satisfactory manner.

ASSET QUALITY

10. Between the effective date of this Agreement and December 31, 1991, ESB-NC may purchase directly or indirectly loans and/or loan participations from Mortgage Centers, Inc., Virginia Beach, Virginia ("MCI") provided that the Institution charges to expense, in the period actually paid, any premium paid directly or indirectly to MCI in connection with the purchase that exceeds the premium expense incurred by MCI in obtaining the loans and/or participations.

11. Between the effective date of this Agreement and December 31, 1991, the Institution shall obtain the prior written approval of the Regional Director for any activity or transaction between itself and MCI, other than the direct or indirect purchase from MCI of loans and/or loan participations.

12. By December 31, 1991, the Institution shall cease the direct or indirect purchase of loans and/or loan participations from, and any and all other transactions with, MCI.

13. Prior to the purchase of loans and/or loan participations from any entity, and prior to the payment of any referral fee to any entity in connection with the purchase or sale of loans and/or loan participations, the Institution shall document in writing that the amount of the purchase price, including any premium, and the existence and amount of any referral fee, are supported by data from comparable markets and are justified and reasonable under the circumstances.

14. (a) The Institution shall establish prudent general and specific valuation allowances in accordance with the provisions of 12 C.F.R. § 563.160.

(b) The Institution shall immediately establish and shall maintain general valuation allowances totaling at least $2,400,000. In addition, with respect to assets adversely classified in the 1991 Exam, ESB-NC shall immediately establish and shall maintain specific valuation allowances of at least $3,583,108, or shall immediately reduce the book value of those assets by at least $3,583,108.

15. (a) Within 60 days of the effective date of this Agreement, the Board shall, to the extent not already accomplished, develop, adopt, and direct management to implement a written plan for the resolution of each classified asset if the Institution's total exposure to the borrower exceeds $500,000. Within 30 days of classifying an asset pursuant to 12 C.F.R. § 563,160(c) and the Institution's Asset Classification Policies, and if the Institution's total exposure to the borrower exceeds $500,000, the Board shall develop, adopt, and direct management to implement a written plan for the resolution of said asset. The plans shall set reasonable targets and time frames for resolution, assign specific responsibilities, and require monthly report to the Board on compliance with the targets and time frames.

(b) The Board shall review on a monthly basis each written plan for the resolution of classified assets to determine:

i. the status of the asset and its underlying collateral,

ii. compliance with the written plan and with all loan agreements, and

iii. action taken by the Institution to eliminate the basis for classification.

(c) The Board shall update the written plans required by Paragraph 15.(a) of this Agreement at least once each calendar quarter.

16. The Institution shall account for each parcel of real estate owned and in-substance foreclosure in accordance with Generally Accepted Accounting Principles in Statements of Financial Accounting Standards Numbers 5 and 15, and in accordance with the provision of 12 C.F.R. §§ 563.172 and 571.18.

RISK MANAGEMENT

17. Within 60 days of the effective date of this Agreement, the Board shall develop, adopt, and direct management to implement a written plan to reduce the Institution's exposure to interest rate risk. The plan shall comply with the provision of 12 C.F.R. § 563.176 and the guidance contained in 12 C.F.R. § 571.3 and OTS Thrift Bulletin Nos. 13, 13-1, and 13-2. The plan also shall include specific targets and time frames for the reduction of interest rate risk. At least quarterly, the Board shall review the Institution's progress in meeting the targets of the plan.

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.

This Agreement has been duly authorized, executed and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. It is understood and agreed that this Agreement is a "written agreement entered into with the agency" as that phrase is used in Section 8(b)(1) of the FDIA, 12 U.S.C. § 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, acting through the Regional Director. The Regional Director may suspend, in his sole discretion, any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS, acting through the Regional Director, and the Institution, by its duly elected directors, have executed this Agreement.

Essex Savings Bank, Inc.
Elizabeth City, North Carolina
OTS No. 8201

By: /S/
Director

By: /S/
Director

By: /S/
Director

By: /S/
Director

By: /S/
Director

OFFICE OF THRIFT SUPERVISION

By: /S/
John E. Ryan
Regional Director

MINUTES OF ACTION
WITHOUT FORMAL MEETING
OF
BOARD OF DIRECTORS
OF
ESSEX SAVINGS BANK, INC.

These Minutes of Board of Directors Action Without Formal Meeting are entered into the Minute Book of Essex Savings Bank, Inc. pursuant to Chapter 54B and Chapter 55 of the North Carolina General Statutes as amended, all Directors of said Corporation having consented to the action herein recorded by subscribing their names to these minutes.

These minutes and the action recorded herein reflect Director activity as of the 10th day of January, 1992 1991.

WHEREAS, the officers and directors of ESB-NC have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8 (b) of the Federal Deposit Insurance Act, 12 U.S.C. § 1818 (b) (1988 & Supp. I 1989); 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 the Institution and if its terms are thereafter complied with by the Institution; and

WHEREAS, the directors of the Institution have read and considered the attached Agreement and after due consideration, without admitting or denying that such grounds exist, and in the interest of regulatory compliance and cooperation, have determined to enter into the Agreement:

ESSEX SAVINGS BANK, INC.
CONSENT MINUTES, conti.
12/30/91

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

CONSENTED TO AND APPROVED:

/S/
Robert D. Aldridge, Director

/S/
John J. Brennan, Director

/S/
James T. Davis, Jr., Director

/S/
Roscoe D. Lacy, Jr., Director

/S/
Lawrence N. Smith, Director