

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

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

Written Agreement by and among

WACCAMAW BANKSHARES, INC.  
Whiteville, North Carolina

WACCAMAW BANK  
Whiteville, North Carolina

FEDERAL RESERVE BANK  
OF RICHMOND  
Richmond, Virginia

and

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

Docket No. 10-105-WA/RB-HC  
10-105-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Waccamaw Bankshares, Inc., Whiteville, North Carolina, (“Bankshares”), a registered bank holding company, and its subsidiary bank, Waccamaw Bank, Whiteville, North Carolina (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, Bankshares, the Bank, the Federal Reserve Bank of Richmond (the “Reserve Bank”), and the State of North Carolina, Office of the Commissioner of Banks (the “Commissioner”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on June 10, 2010, the boards of directors of Bankshares and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Alan W. Thompson to enter into this Agreement on behalf of Bankshares and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by Bankshares, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”)(12 U.S.C. §§ 1813(u) and 1818(b)(3)).

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

**Source of Strength**

1. The board of directors of Bankshares shall take appropriate steps to fully utilize Bankshares’ financial and managerial resources, pursuant to Section 225.4 (a) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with this Agreement and any other supervisory action taken by the Reserve Bank or the Commissioner.

**Corporate Governance and Management Review**

2. (a) Within 30 days of this Agreement, the board of directors of the Bank shall retain an independent consultant acceptable to the Reserve Bank and the Commissioner to conduct a review of the effectiveness of Bank’s corporate governance, board and management structure (the “Review”), to assess staffing needs, and to prepare a written report of findings and recommendations (the “Report”). The Review shall, at a minimum, address, consider, and include:

- (i) the qualifications and performance of each of the Bank's senior executive officers to determine whether the individual possesses the ability, experience, and other qualifications to competently perform present and anticipated duties, including their ability to: adhere to applicable laws and regulations and 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;
- (ii) the identification of present and future management and staffing needs for each area of the Bank, particularly in the areas of credit risk management and loan review; and
- (iii) an assessment of the current structure, qualifications, and composition of the board of directors and their committees, and a determination of the structure and composition needed to adequately supervise the affairs of the Bank.

(b) Within 20 days of the Reserve Bank's and the Commissioner's approval of the independent consultant selection, the Bank shall submit an engagement letter to the Reserve Bank and the Commissioner for approval. The engagement letter shall require the independent consultant to submit the Report within 30 days of regulatory approval of the engagement letter and to provide a copy of the Report to the Reserve Bank and the Commissioner at the same time that it is provided to the Bank's board of directors.

3. Within 30 days of receipt of the Report required by paragraph 2(b), the Bank's board of directors shall submit a written corporate governance and management plan to the Reserve Bank and the Commissioner that fully addresses the findings and recommendations in the Report and describes the specific actions that the board of directors will take in order to strengthen the Bank's management and corporate governance, and to hire, as necessary, additional or replacement directors, officers or staff to properly oversee, manage and operate the Bank.

### **Board Oversight**

4. 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, credit risk management, loan review, capital, liquidity, and earnings;

(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; and

(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 adversely classified assets, allowance for loan and lease losses ("ALLL"), capital, earnings, and liquidity.

## Credit Risk Management

5. 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) The responsibility of the board of directors to establish appropriate risk tolerance guidelines and risk limits;
- (b) periodic review and revision of risk exposure limits to address changes in market conditions;
- (c) timely and accurate identification and quantification of credit risk within the loan portfolio and for individual loans;
- (d) enhanced stress testing of loan and portfolio segments;
- (e) procedures to identify, limit, and manage commercial real estate (“CRE”) concentrations that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, December 12, 2006 (SR 07-1).
- (f) a schedule for reducing, and the means by which the Bank will reduce, CRE concentrations;
- (g) strategies to minimize credit losses and reduce the level of problem assets;
- (h) management’s monitoring and controlling of problem assets; and
- (i) standards for the periodic assessment of commercial real estate and acquisition, development and construction loans.

## **Loan Review Program**

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the ongoing review and grading of the Bank's loan portfolio by a qualified independent party or by qualified 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) standards and criteria for assessing the credit quality of loans;
- (c) application of loan grading standards and criteria to the loan portfolio;
- (d) controls to ensure adherence to the revised loan review and grading standards; and
- (e) written reports to the board of directors, at least quarterly, that identify the status of nonperforming or adversely graded loans, and the prospects for full collection or strengthening of the quality of any such loans.

## **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 31, 2009 ("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 (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 \$1 million, including other real estate owned ("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. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and

alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the date that the Bank acquires OREO or that any additional loan, relationship, or other asset in excess of \$1 million 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, relationship, 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) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter 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 and the Commissioner. 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 collectability.

(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. 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 60 days of this Agreement, Bankshares shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at Bankshares, on a consolidated basis, and Bankshares and the Bank shall jointly submit to the Reserve Bank and the Commissioner an acceptable written plan to maintain sufficient capital at the Bank, as a separate legal entity on a stand-alone basis. These plans shall, at a minimum, address, consider, and include:

(a) Bankshares' current and future capital needs, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D);

(b) the Bank's current and future capital needs, including 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);

(c) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(d) the source and timing of additional funds to fulfill the consolidated organization's and the Bank's future capital requirements; and

(e) the requirements of Section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Bankshares serve as a source of strength to the Bank.

11. Bankshares and 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 Bankshares'

consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, Bankshares and the Bank shall submit an acceptable written plan that details the steps Bankshares or the Bank, as appropriate, will take to increase Bankshares' or the Bank's capital ratios to or above the approved capital plan's minimums.

### **Liquidity and Funds Management**

12. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity to the board of directors.

13. 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.

### **Brokered Deposits**

14. (a) At all times during the term of this Agreement that the Bank is well capitalized, the Bank shall not accept any new brokered deposits. For purposes of this subparagraph, the term "brokered deposits" is defined as set forth in Section 337.6(a) of the regulations of the Federal Deposit Insurance Corporation ("FDIC") (12 C.F.R. § 337.6(a)) and includes deposits funded by third party agents or nominees for depositors; and the term "new brokered deposits" is defined not to include contractual renewals or rollovers of brokered deposits.

(b) Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan for reducing its reliance on brokered deposits. The plan shall detail the current composition of the Bank's brokered deposits by maturity and explain the means by which such deposits will be paid at maturity.

15. The Bank shall comply with the provisions of Section 29 of the FDI Act (12 U.S.C. § 1831f) and the FDIC's accompanying regulations at 12 C.F.R. § 337 that are applicable to the Bank. The Bank shall notify the Reserve Bank and the Commissioner, in writing, if the Bank requests any waiver of the restrictions imposed by Section 29 from the FDIC and shall notify the Reserve Bank of the FDIC's disposition of any request for such a waiver.

#### **Strategic Plan and Budget**

16. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a strategic plan to improve the Bank's earnings, and a budget for the remainder of 2010. The written plan and budget shall include, but not be limited to:

(i) identification of the major areas where, and means by which, the board of directors will seek to improve the Bank's operating performance;

(ii) a realistic and comprehensive budget for the remainder of calendar year 2010, including income statement and balance sheet projections; and

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

(b) A strategic 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.

## **Dividends**

17. (a) Bankshares and 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 (“Director”), and, as to the Bank, also the Commissioner.

(b) Bankshares shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Bankshares and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on the parent’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings and loan loss reserve needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bankshares and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is 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).

### **Debt and Stock Redemption**

18. (a) Bankshares and its nonbank subsidiaries shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bankshares shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

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

19. 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, Bankshares and 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.*).

20. Bankshares and 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**

21. (a) Within 10 days of this Agreement, the boards of directors of Bankshares and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of

Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the board of directors of the Bank.

(b) 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 and Programs**

22. (a) The Bank, and as applicable, Bankshares, shall submit written plans, programs, and an engagement letter that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraphs 2(b), 5, 6, 8(a), 8(b), 9(c), 10, 11, 12, 13, and 14(b) of this Agreement. An independent consultant acceptable to the Reserve Bank and the Commissioner shall be retained within the time period set forth in paragraph 2(a).

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

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

## **Communications**

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

- (a) A. Linwood Gill, III  
Vice President  
Federal Reserve Bank of Richmond  
P.O. Box 27622  
Richmond, VA 23261-7622
- (b) Joseph A. Smith, Jr.  
Commissioner  
North Carolina Office of the Commissioners of Banks  
4309 Mail Service Center  
Raleigh, NC 27699-4309
- (c) James G. Graham  
President and Chief Executive Officer  
Waccamaw Bankshares, Inc.  
Waccamaw Bank  
110 North J.K. Powell Boulevard  
Whiteville, NC 28472

## **Miscellaneous**

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

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

26. 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.

27. 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 Bankshares, the Bank or any of their current or former institution-affiliated parties and their successors and assigns.

28. 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. Gen. Stat. 53-107.1 (2005).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 14<sup>th</sup> day of June, 2010.

WACCAMAW BANKSHARES, INC.  
WACCAMAW BANK

FEDERAL RESERVE BANK OF  
RICHMOND

By: /s/ Alan W. Thompson  
Alan W. Thompson  
Chairman of the Board

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

COMMISSIONER OF BANKS  
STATE OF NORTH CAROLINA

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