

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this eighteenth day of October, 1996 ("the Effective Date"), by and between Citizens Federal Savings Bank, Birmingham, Alabama, OTS Docket No. 6125 ("Citizens Federal" or "the Association"), a Federally chartered, stock Association, and the Office of Thrift Supervision ("OTS"), a bureau of the United States Department of the Treasury, acting through its Southeast Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is the primary federal regulator of the Association; and

WHEREAS, based on the Report of Examination dated July 8, 1996 ("the ROE"), the OTS is of the opinion that the Association has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against the Association; and

~~WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices; and~~

WHEREAS, the Association, acting through its Board of Directors ("the Board"), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises, the mutual undertakings set forth herein, the Parties hereto agree as follows:

Termination of Prior Supervisory Agreement

1. As of the Effective Date of this Agreement, the April 30, 1992 Supervisory Agreement between the Association and the OTS is terminated.

Asset Quality

2. Beginning with the first calendar quarter following the date of this Agreement, and at least quarterly thereafter, the Board shall review the level, trend and causes of the Association's delinquent/non-performing assets and shall cause Management to report to it with the same frequency, the principal reasons for loan non-performance, together with recommendations for policy and procedure changes designed to improve loan performance going forward.

Management

3. Citizens Federal shall hereafter make accurate reports of condition and operation to the OTS in accordance with the provisions of Section 301(v) of the Home Owners' Loan Act ("HOLA"), 12 U.S.C., § 1464(v).

4. By December 31, 1996, the Board and Management shall take all steps necessary to ensure that the designated Thrift Financial Report ("TFR") preparer strictly adheres to all OTS instructions in his or her preparation of all future TFRs filed on behalf of the Association. The Board and Management also shall assign ~~specific responsibility for oversight and supervision of the TFR~~ preparation function to a senior officer. The Regional Director shall be notified in writing of the identity of the senior officer within 30 days of the Effective Date of this Agreement. The senior officer shall develop and implement reconciling procedures that ensure that general ledger accounts are properly segregated/aggregated into the correct TFR line items. Documentation of such reconcilements shall be retained for review by the examiners, and Management shall document to the Board the accuracy of its financial statements at least quarterly.

5. The Board and Management shall formally include among the duties specifically assigned to a senior officer of Citizens Federal, the responsibility to ensure that all correspondent and investment accounts are properly and promptly reconciled to the general ledger with the same frequency as statements on each such account is received.

6. By December 31, 1996, all accounts referenced in Paragraph 5 above shall be reconciled to the general ledger and, within 30 days of any determination that imbalances existed as of the date of this Agreement, appropriate general ledger adjustments shall be

recorded on the Association's books and the OTS shall be notified in writing of the aggregate net adjustment(s).

7. By December 31, 1996, the Board shall take all steps necessary to ensure that stockholder records are properly maintained and safeguarded and shall assign oversight responsibility for this function to a specific senior officer. The Regional Director shall be notified in writing of the identity of the senior officer within 30 days of the Effective Date of this Agreement.

8. By December 31, 1996, the Board shall take all steps necessary to ensure that all members of senior management have received written job descriptions and have been assigned responsibility for, or oversight of, all key areas of Citizens Federal's operations. Further, copies of these written job descriptions shall be provided to the Regional Director on or before December 31, 1996.

9. By December 31, 1996, the Board shall have established and Management shall have implemented written internal controls consistent with industry standards and Section 340 of the Thrift Activities Handbook and the Board shall have delivered a copy of ~~said internal controls to the Regional Director. This internal control program shall address all aspects of Citizens Federal's operations and shall include procedures for:~~

- a) Reconciliation of cash and investment accounts;
- b) Controlling employee access to general ledger accounts;
- c) Regular review of employee accounts;
- d) Wire transfers;
- e) Controls over teller transactions; and
- f) Adequate segregation of employee and officer duties.

10. In connection with the next external audit of Citizens Federal, the Board shall require the Association's Certified Public Accounting ("CPA") firm to review and opine on the adequacy of Citizens Federal's internal control program. The OTS shall be provided a copy of the CPA's comments and opinion within five days of its delivery to the Association.

Earnings

11. By March 31, 1997, the Board shall have prepared a three year

business plan for the period beginning Oct. 1, 1997, 1997. The plan shall incorporate detailed provisions regarding the steps to be taken to achieve the goals specified in the plan. These provisions shall include, at a minimum:

- a. A cost/benefit analysis of the impact of institutional deposits and the Board's plans with respect to such deposits;
- b. Methods by which the Association will achieve the loan volume goals the Board has established;
- c. The Board's analysis and conclusions on the benefits of tying merit/bonus pay to achievement of business plan goals and objectives;
- d. The assignment of specific responsibilities for Citizens Federal's operating functions to specifically identified members of its senior management, a process that should incorporate the assignment of business plan goals and objectives to specific management positions; and
- e. A complete evaluation of operating expenses, including additional expenses associated with the new facility, with an analysis of specific efforts to be implemented in an attempt to reduce the ratio of operating expenses as a percentage of average assets.

Liquidity/Interest Rate Risk

12. By December 31, 1996, the Board and Management shall take all steps necessary to ensure that the individual designated the responsibility for calculating compliance with regulatory liquidity requirements accurately calculates such requirements. The Board and Management also shall assign specific responsibility for oversight and supervision of the individual calculating compliance with regulatory liquidity requirements to a senior officer. The Regional Director shall be notified in writing of the identity of the senior officer within 30 days of the Effective Date of this Agreement.

13. The Board shall monitor the Association's exposure to interest rate risk in accordance with Thrift Bulletin 13 and shall give particular attention to the impact of rising interest rates

on Citizens Federal's ability to meet its operating expenses while consistently generating profits. The Board shall conduct a full review at least once every calendar quarter and this review shall be documented in its minutes and shall reflect Management's recommendations to control exposure to interest rate risk and the Board's decisions on such recommendations.

Bank Secrecy Act

14. The Board shall take all steps necessary to ensure full compliance with the currency transaction reporting requirements of 31 C.F.R. §§ 103.27(a), and 103.27(d).

15. The Board shall take all steps necessary to ensure compliance with the monetary instrument transaction log requirements of 31 C.F.R. § 103.29.

Home Mortgage Disclosure Act

16. The Board shall take all steps necessary to ensure compliance with the data compilation provisions of 12 C.F.R. § 203.4.

Director Responsibility

17. Notwithstanding the requirements of this Agreement that the Board of Directors submit information to the Regional Director, such submissions do not derogate or supplant each individual member's continuing fiduciary duty. The Board of Directors shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director following review of the information submitted.

Compliance with Agreement

18. The Board and officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.

19. The Board, on a quarterly basis, shall adopt a board resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief,

during the immediately preceding calendar quarter, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.

20. The minutes of each meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasoning for opposing or abstaining.

21. No later than the 25th Calendar Day of the month following the end of a calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolution[s] adopted at the Board meeting. The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Association meeting.

Definitions

22. 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, HOLA, FDIA or OTS Memoranda. Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

Citizens Federal Savings Bank
Birmingham, Alabama (#6125)
Supervisory Agreement (10/18/96)
Page 7 of 9

Successor Statutes, Regulations, Guidance, Amendments

23. Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

Notices

24. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Directive to be made upon, given or furnished to, delivered to, or filed with the OTS or the Association shall be in writing and mailed, first class or overnight courier, or means of electronic transmission, or physically delivered, and addressed as follows:

OTS:

Mr. John Gilbert, Review Examiner
Office of Thrift Supervision - Southeast Region
1475 Peachtree Street, N.E.
Atlanta, Georgia 30309

Association:

Mr. Bunny Stokes, Jr., President and CEO
Citizens Federal Savings Bank
300 North 18th Street
Birmingham, Alabama 35203

Duration, Termination or Suspension of Agreement

25. This Agreement shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below and (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

26. The Regional Director in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

Time Limits.

27. Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

Effect of Headings

28. The Section headings herein are for convenience only and shall not affect the construction hereof.

Separability Clause

29. In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted; [Relation To State Law.]

30. Nothing in this Agreement shall be construed as: (i) allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting the OTS from taking such action(s) that are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

Successors in Interest/Benefit

31. 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. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Signature of Directors

32. Each Director signing the Agreement attests, by such act, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Association.

Integration Clause [; Impact On Other Enforcement Documents.]

33. This Agreement represents the final written agreement of the

parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter.

Enforceability of Agreement

34. The Association represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Association. The Association acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Association, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

THE ASSOCIATION

By:

By:

151
Name: _____
Title: _____

151
Name: U V
Chief Executive Officer and
Chairman of the Board

DIRECTORS OF THE ASSOCIATION

151
Director _____

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Director _____