

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 7th day of August, 1997 (the "Effective Date"), by and between Dr. H. Chester Boston (Dr. Boston), a stockholder of Southeastern Financial Corporation ("Southeastern" or the "Holding Company"), OTS No. H-1259, the parent holding company of First Federal Bank, a Federal Savings Bank, Tuscaloosa, Alabama ("First Federal" or the "Institution"), OTS No. 6432, a federally chartered stock savings association, and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., acting through its Southeastern Regional Director or his designee ("Regional Director"). For purposes of this Agreement, all references to Dr. Boston's stock shall include any corporate or partnership entities that own shares of stock in Southeastern and that are themselves owned or controlled by Dr. Boston.

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

WHEREAS, based upon information available to the OTS in its capacity as the primary federal regulator of Southeastern and First Federal, the OTS is of the opinion that Dr. Boston has engaged in acts and practices that have resulted in violations of certain of the laws or regulations to which Dr. Boston and the Institution are subject; and

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

WHEREAS, the OTS is of the view that it is appropriate to take measures to ensure that Dr. Boston will comply with all applicable laws and regulations; and

WHEREAS, Dr. Boston, 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 his intent to comply with all applicable laws and regulations.

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

Compliance With Laws And Regulations

1. Dr. Boston shall comply with the provisions of 12 U.S.C. § 1817(j)¹ and 12 C.F.R. Part 574 (1996).

Increase in Ownership

2. Dr. Boston shall not, as of the Effective Date of this Agreement, increase his ownership in any class of voting securities of Southeastern, unless and until the OTS has issued its notice of intent not to disapprove his Notice of Change in Control (referred to hereinafter as the "Notice"). All shares of Southeastern's stock that are owned or controlled by Dr. Boston are hereafter referred to as the "Shares."

Transfer of Voting Control

3. Within seven (7) days after the Effective Date of this Agreement, Dr. Boston shall provide a proxy to management of Southeastern permitting management to vote all of the Shares held of record in Dr. Boston's name or by his designee on a pro-rata basis, in accordance with the votes of the other stockholders, at any duly called meeting of the shareholders of Southeastern. Said proxy shall continue in force until such time as Dr. Boston has received notice that the OTS has approved his Notice.

Filing of Notice; Divestiture

4. Within 30 days of the Effective Date of this Agreement, Dr. Boston shall file the Notice with OTS. Dr. Boston shall diligently pursue the Application and receive all necessary OTS approvals to permit Dr. Boston to own or control total aggregate shares of Southeastern in excess of 9.9 percent of the total outstanding shares of stock of Southeastern. If Dr. Boston receives notice that the OTS has disapproved the Application, or the OTS deems the Application withdrawn, the Excess Shares shall be transferred to a trust in accordance with Paragraph 7 below.

1. All references to the United States Code ("U.S.C.") are as amended, unless otherwise indicated.

5. If, within 30 days of the Effective Date of this Agreement, Dr. Boston has not filed an Application as required in Paragraph 4 above, Dr. Boston shall arrange for a sale and transfer of the Shares, or otherwise divest of the Shares to parties who are neither (i) deemed to be acting concert with Dr. Boston, pursuant to 12 C.F.R. §574.4(d), nor (ii) with whom Dr. Boston is "acting in concert" as that term is defined in 12 C.F.R. §574.2(c). Such sale or divestiture shall take place no later than 180 days after the Effective Date of this Agreement. This time may be extended by the Regional Director, in his sole discretion, upon application in writing by Dr. Boston and for good cause shown. If the Shares have not been divested within 180 days of the Effective Date of this Agreement, or such longer period as the Regional Director may, in his sole discretion, permit, then the Shares shall be transferred to a trust in accordance with Paragraph 7 below.

Control By Dr. Boston

6. For so long as any Shares are subject to the provisions of Paragraph 3 of this Agreement, Dr. Boston shall not, directly or indirectly:
- a. Seek or accept representation by more than one director on the Board of Directors of Southeastern;
 - b. Have or seek to have more than one representative serve on an executive or similar committee of the Board of Directors of Southeastern;
 - c. Engage in any transactions with Southeastern or First Federal, provided, however, that Dr. Boston may continue to engage in pre-existing deposit or lending arrangements on terms and conditions no more favorable than those provided to the general public, and that Dr. Boston may continue to accept previously established fees for serving as a director;
 - d. Influence or attempt to influence in any respect the lending or credit decisions or policies of the Institution, except that if Dr. Boston is serving as a director of Southeastern as of the Effective Date of this Agreement, he may continue to influence such decisions in a manner consistent with his fiduciary duty to the Institution;

- e. Influence or attempt to influence the dividend policies and practices of the Institution or any decision or policy of the Institution as to the offering or exchange of any shares of stock, except that if Dr. Boston is serving as a director of Southeastern as of the Effective Date of this Agreement, he may continue to influence such decisions in a manner consistent with his fiduciary duty to the Institution;
- f. Have or seek to have any person acting as his representative serve as an officer, agent, or employee of Southeastern or the Institution;
- g. Propose a director or slate of directors in opposition to a nominee or slate of nominees proposed by the management or Board of Directors of Southeastern;
- h. Solicit proxies or participate in any solicitation of proxies with respect to any matter presented to the stockholders of the Institution, except that if Dr. Boston is serving as a director of Southeastern as of the Effective Date of this Agreement, he may participate in any solicitations conducted by management of Southeastern; or
- i. Seek to amend, or otherwise take action to change, the bylaws, articles of incorporation, or charter of the Institution, except that if Dr. Boston is serving as a director of Southeastern as of the Effective Date of this Agreement, he may participate in any amendment or change sought by management of Southeastern, consistent with his or her fiduciary duty to Southeastern.

Transfer to Trust

- 7. If Dr. Boston elects to file a Notice with the OTS pursuant to Paragraph 4 of this Agreement, and (i) the OTS notifies Dr. Boston that it has disapproved said Notice, or (ii) if said Notice is withdrawn by the OTS, or if Dr. Boston fails to divest the Excess Shares in accordance with Paragraph 5 of this Agreement, then Dr. Boston shall, within 30 days after receipt of the OTS notice of disapproval or withdrawal, or at the end of the 180 day period provided for in Paragraph 5, transfer all of the Shares to a trust properly endorsed for transfer or accompanied by fully endorsed stock powers, after

revoking the proxy granted to management of Southeastern pursuant to Paragraph 3(a) of this Agreement. The trust terms and the trustee must be approved in advance by the Regional Director. Such approval shall be made in the sole discretion of the Regional Director. During the period the trustee has possession of the Shares, Dr. Boston shall not exercise any control, directly or indirectly, over the Shares and shall not exercise any control, directly or indirectly, over said trust or trustee, except that Dr. Boston may direct the trustee to sell all or a portion of the Shares. The trustee shall sell or otherwise dispose of the Shares no later than one year (365 days) after transfer of the Shares to the Trust.

Action of the Trustee

8. The trustee shall vote the Shares on a pro-rata basis in accordance with the votes of Southeastern's other common stockholders. To effect this requirement, the trustee shall provide written instructions to Southeastern's Secretary that the Shares shall be voted on this basis and shall furnish a copy of such instructions to the Regional Director. Dr. Boston shall promptly take all steps necessary to enable the trustee to take such actions.

Control by the Trustee

9. The trustee shall not exercise or attempt to exercise, directly or indirectly, control or a controlling influence over the management or policies of Southeastern. While the trustee has possession of the Shares, he or she shall not directly or indirectly engage in any of the prohibited activities listed in subparagraphs (a) through (i) of Paragraph 6 of this Agreement.

Dissolution of the Trust

10. If, for any reason, the stock ownership of Dr. Boston in Southeastern, or any other person or entity acting in concert with Dr. Boston, or deemed by the OTS to be acting in concert with Dr. Boston, with respect to Southeastern shall, in the aggregate, fall below ten (10) percent of the outstanding shares of Southeastern, or upon the approval by the OTS of an Application filed by Dr. Boston, the trust may be dissolved, the voting instruction to the Secretary of Southeastern may be rescinded and the Shares still held by the trust returned to Dr. Boston.

Definitions

11. 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.

Successor Statutes, Regulations, Guidance, Amendments

12. 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

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

OTS:

David G. Hughey, Review Examiner
Office of Thrift Supervision - Southeast Region
1475 Peachtree Street, N.E.
Atlanta, Georgia 30309

Dr. Boston:

Dr. H. Chester Boston
P.O. Box 2447
Tuscaloosa, Alabama 35403

with a copy provided to:

Alston and Bird, LLP.
One Atlantic Center
1201 Peachtree St.
Atlanta, Georgia 30309-3424
Fax 404-881-7777
Attention: Ralph F. McDonald, III

Duration, Termination or Suspension of Agreement

14. 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).
15. The Regional Director in his or her sole discretion, may, by written notice, terminate, modify or suspend any or all provisions of this Agreement.

Time Limits

16. Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted. Such time limitations may be extended by the Regional Director, in his sole discretion, upon written application by Dr. Boston.

Effect of Headings

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

Separability Clause

18. 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 sole discretion determines otherwise.

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

19. Nothing in this Agreement shall be construed as: (i) allowing Dr. Boston to violate any law, rule, regulation, or policy statement to which they are 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

20. 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.

Integration Clause

21. 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

22. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of Dr. Boston. Dr. Boston acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. §1818.

Dr. H. Chester Boston
Southeastern Financial, Inc. (OTS No. H-1259)
Tuscaloosa, Alabama
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IN WITNESS WHEREOF, the OTS, acting by and through the
Regional Director, and Dr. Boston hereby execute this Agreement as
of the Effective Date.

ISF
~~Dr. H. Chester Boston~~

OFFICE OF THRIFT SUPERVISION

By:

ISF
~~John E. Ryan~~
Regional Director