

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 21st day of May, 2009 (Effective Date), by and between Commonwealth Savingsshares Corporation, Huntsville, Alabama, OTS Docket No. H-1838 (Holding Company), a savings and loan holding company of its wholly-owned savings association subsidiaries SOUTHBANK, a Federal Savings Bank, Huntsville, Alabama, OTS Docket No. 08854 (Alabama Association) and SOUTHBANK, a Federal Savings Bank, Palm Beach Gardens, Florida, OTS Docket No. 11351 (Florida Association), acting by and through the Holding Company's Board of Directors (Board), and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting by and through its Regional Director for the Southeast Region or his designee (Regional Director).

WHEREAS, the OTS is the primary Federal regulator of the Holding Company pursuant to the Home Owners' Loan Act (HOLA), 12 U.S.C. §§ 1461 *et seq.*, and is the Holding Company's appropriate Federal banking agency for purposes of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. §§ 1811 *et seq.*; and

WHEREAS, based on its September 22, 2008 examination of the Holding Company (2008 Examination), the OTS finds that the Holding Company has engaged in unsafe and unsound practices and has other weaknesses and deficiencies that have resulted in the Alabama Association and the Florida Association being in an unsafe and unsound condition primarily due to credit concentrations in higher risk loans, rising loan delinquencies, loan underwriting and administration deficiencies, increases in the level of problem assets, violations of law and regulations, and inadequate levels of capital and allowance for loan and lease losses; and

WHEREAS, the Holding Company, which is subject to examination, regulation, and supervision by the OTS, is taking steps to address the unsafe and unsound practices and other weaknesses and deficiencies identified by the OTS; and

WHEREAS, in furtherance of their common goal to ensure that the Holding Company continues to address the unsafe and unsound practices and weaknesses and deficiencies identified by the OTS, the Holding Company and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on May 8, 2009, the Holding Company's Board, at a duly constituted meeting adopted a resolution (Board Resolution) that authorizes the Holding Company to enter into this Agreement and directs compliance by the Holding Company and its directors, officers, employees, and other institution-affiliated parties with each provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Budget.

1. Within sixty (60) days, the Holding Company shall prepare a three year budget with quarterly benchmarks. Not less than forty-five (45) days prior to the beginning of each calendar quarter, beginning with the quarter starting July 1, 2008, the Board shall prepare quarterly cash flow projections to identify the Holding Company's cash needs and ensure that there is sufficient cash flow to service the Holding Company's debt and maintain sufficient reserves to support the Alabama Association and the Florida Association (collectively, the Associations). In preparing quarterly cash flow projections, the Board shall compare actual cash flows for the immediately prior quarter to projected cash flows for that quarter. The Board's review and discussions shall be fully documented in the Board meeting minutes. A copy of the Board meeting minutes, including cash flow projections for the next quarter and the comparison of prior quarter results to

prior quarter projections, shall be provided to the Regional Director within ten (10) days after the Board meeting date.

Affiliate Transactions.

2. Effective immediately, the Holding Company shall not engage in any transaction with any Affiliate¹ without receiving the prior written approval of the Regional Director. The Holding Company's written request for such approval shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed transaction.

3. Within ninety (90) days, the Board shall draft policies, procedures, and processes that establish specific limits on loans to Affiliates and Insiders² and ensure that all loans to Affiliates and Insiders are fully underwritten, comply with applicable laws and regulations, and that adequate documentation of the credit analysis establishing the Affiliate or Insider's ability to repay is maintained in the Holding Company's records.

New Board Members.

4. Within thirty (30) days, the Holding Company shall actively seek new, qualified members for the Board of Directors (Board) who are independent with respect to the Associations. The new Board members shall be local residents of the Holding Company's market area. The Holding Company shall ensure that all of the Board's committees include representation of the new Board members. The minutes of the meetings of the Board shall fully document these efforts.

5. For purposes of this Agreement, an individual who is "independent with respect to the Associations" shall be any individual who:

¹ 12 C.F.R. § 223.2.

² 12 C.F.R. § 215.2(h).

a. is not employed in any capacity by the Associations, any of their subsidiaries, or affiliated organizations, other than as a director;

b. does not own or control more than 10 percent of the outstanding shares of the Associations or the Holding Company;

c. is not related by blood or marriage to any officer or director of the Associations or their affiliates, or to any shareholder owning more than 10 percent of the outstanding shares of the Associations or the Holding Company, and who does not otherwise share a common financial interest with any such officer, director or shareholder;

d. is not indebted, directly or indirectly, to the Associations or any of their affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent of the Association's total Tier 1 capital and allowance for loan and lease losses;

e. is a resident of, or engaged in business in, the Association's trade area; or

f. is otherwise deemed to be an independent director for purposes of this Order.

Risk Management.

6. Within sixty (60) days, the Holding Company shall prepare and submit to the Regional Director an acceptable written plan to strengthen and improve management of the overall risk exposures of the Holding Company (Risk Management Plan). The Risk Management Plan shall, at a minimum, include:

a. enhanced policies and procedures designed to identify, assess, manage, and monitor risk exposures, including but not limited to the areas of credit, operational, legal, reputational and opportunity risks;

- b. measures to strengthen board and senior management oversight of risk management policies and procedures; and
- c. Management information systems and reporting procedures designed to ensure that managers, directors, and committees receive timely and accurate reports necessary to effectively manage risks, monitor compliance with laws, rules, regulations, and the Holding Company's policies and procedures, and correct any weaknesses.

Accounting Adjustments.

7. Within fifteen (15) days, the Board shall provide the Regional Director with documentation evidencing that the Holding Company's \$69,000.00 interest in a pool of trust preferred securities has been written off or fully reserved.

Dividends.

8. Effective immediately, the Holding Company shall neither accept nor request that the Association make or pay any dividends or other capital distributions, as that term is defined in 12 C.F.R. § 563.134, or commit to make or pay dividends or any other capital distributions, without receiving the prior written approval of the Regional Director. The Holding Company's written request for such approval shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

9. Effective immediately, the Holding Company shall not declare or pay any dividends or other capital distributions without the prior written approval of the Regional Director. The Holding Company's written request for such approval shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

Debt Limitations.

10. Effective immediately, the Holding Company shall not incur, issue, renew, or rollover any debt or debt securities, increase any current lines of credit, guarantee the debt of any entity, or otherwise incur any additional debt without receiving the prior written approval of the Regional Director. All written requests to the Regional Director shall include, at a minimum, a statement regarding the purpose of the debt, the terms of the debt, the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment. The Holding Company's written request for such approval shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed debt issuance, renewal, or rollover.

11. Effective immediately, the Holding Company shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Regional Director. The Holding Company's written request for such approval shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed stock purchase or redemption.

Thrift Oversight.

12. Effective immediately, the Holding Company shall ensure the Association's compliance with applicable laws, rules, regulations, and agency guidance and all the terms of the Supervisory Agreement between the OTS and the Association dated May ____, 2009.

Management Changes.

13. Effective immediately, the Holding Company shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H, 12 C.F.R. §§ 563.550 through 563.590.

Employment Contracts and Compensation Arrangements.

14. Effective immediately, the Holding Company shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Holding Company, unless it first provides the OTS with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement, or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Severance and Indemnification Payments.

15. Effective immediately, the Holding Company shall not make any golden parachute payment³ or prohibited indemnification payment⁴ unless, with respect to each such payment, the Holding Company has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Effective Date.

16. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

17. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

³ The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

⁴ The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

Time Calculations.

18. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

19. The Regional Director may extend any of the deadlines set forth in the provisions of this Agreement upon written request by the Holding Company that includes reasons in support for any extension. Any OTS extension shall be made in writing.

Submissions and Notices.

20. All submissions, including progress reports, to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

21. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- a. To the OTS:
Arthur W. Goodhand, Acting Regional Director
Office of Thrift Supervision
1475 Peachtree St., NE
Atlanta, Georgia 30309
404.897.1861 (Fax)

- b. To the Holding Company:
Danny Wiginton, Chairman
Commonwealth Savingsshares Corporation
118 Jefferson Street
Huntsville, AL 35801
256.519.3249 (Fax)

No Violations Authorized.

22. Nothing in this Agreement shall be construed as allowing the Holding Company, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

23. Nothing in this Agreement shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Holding Company if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

24. The Holding Company acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Holding Company that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

25. The laws of the United States of America shall govern the construction and validity of this Agreement.

26. If any provision of 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 or her sole discretion determines otherwise.

27. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

28. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

29. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such

