

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 9th day of November, 2010, by and through the Board of Directors (Board) of Southeastern Financial, Inc., Tuscaloosa, Alabama, OTS Docket No. H-1259 (Holding Company) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director);

WHEREAS, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

WHEREAS, the Holding Company is subject to examination, regulation and supervision by the OTS; and

WHEREAS, based on its May 17, 2010 examination of the Holding Company (2010 Examination), the OTS finds that the Holding Company has engaged in unsafe or unsound practices and/or violations of law or regulation; and

WHEREAS, in furtherance of their common goal to ensure that the Holding Company addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS in the 2010 Examination, the Holding Company and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on November 8, 2010, 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 and every provision of this Agreement.

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

Business Plan.

1. By January 31, 2011, the Holding Company shall submit a comprehensive business plan for calendar years 2011, 2012 and 2013 (Business Plan) that addresses all corrective actions in the 2010 Examination relating to the Holding Company's business operations to the Regional Director for review and non-objection. Thereafter, the Holding Company shall submit an updated three year Business Plan at least ninety (90) days prior to the end of each calendar year. At a minimum, the Business Plan shall conform to applicable laws, regulations and regulatory guidance and include:

- (a) consideration of the corrective actions and requirements related to the business operations of the Holding Company's wholly owned savings association subsidiary, First Federal Bank, a FSB, Tuscaloosa, Alabama, OTS Docket No. 06432 (Association);
- (b) the Holding Company's plans to improve the core earnings of and achieve profitability on a consistent basis for the Holding Company and the Association throughout the term of the Business Plan;
- (b) detailed strategies to diversify the Association's risk profile by increasing banking related operations and reducing the reliance on mortgage banking for profitability;
- (c) detailed strategies and actions to reduce the Association's level of brokered deposits and borrowings to a prudent level;
- (d) detailed strategies for monitoring and maintaining the Association's compliance with applicable regulatory capital requirements, satisfying the Association's liquidity needs and ensuring the adequacy of the Association's financial and human capital resources to implement its Business Plan;

- (g) consideration of the requirements of this Agreement.
2. Within thirty (30) days after receipt of written notification of non-objection from the Regional Director, the Holding Company shall implement and adhere to the Business Plan. A copy of the Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within twenty (20) days after the Board meeting.
3. Any material modifications¹ to the Business Plan must receive the prior written non-objection of the Regional Director. The Holding Company shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.
4. Within thirty (30) days after the end of each quarter, beginning with the Quarter ending March 31, 2011, the Board shall review quarterly variance reports on the Holding Company's compliance with the Business Plan (Variance Reports). The Variance Reports shall:
- (a) identify variances in the Holding Company's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
 - (b) contain an analysis and explanation of identified variances; and
 - (c) discuss the specific measures taken or to be taken to address identified variances.
5. A copy of the Variance Reports and Board meeting minutes shall be provided to the Regional Director within ten (10) days after the Board meeting.

Association Oversight.

6. Effective immediately, the Holding Company shall ensure the Association's compliance with the terms of Supervisory Agreement issued by the OTS to the Association effective November 9, 2010.

¹ A modification shall be considered material under this Section of the Order if the Holding Company plans to: (a) engage in any activity that is inconsistent with the Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material modification.

Risk Reduction Plan.

7. By January 31, 2011, the Holding Company shall develop a risk reduction plan that addresses all deficiencies and weaknesses and incorporates all corrective actions in the 2010 Examination (Risk Reduction Plan). The Risk Reduction Plan shall contain detailed strategies to lower the level of risk associated with the Association's classified assets, poor underwriting practices, and mortgage banking operation.

Transactions with Affiliates.

8. Effective immediately, the Holding Company shall not engage in any transactions with the Association unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Holding Company shall ensure that any transaction with the Association complies with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

9. By January 31, 2011, the Holding Company shall conduct a review of all outstanding arrangements or contracts with affiliates regarding the provision of services or products, including all transactions discussed in the 2010 Examination, and ensure that such transactions comply with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223 (TWA Review). The TWA Review shall identify all transactions reviewed and any required corrective actions. Within fifteen (15) days after completion of the TWA Review, the Holding Company shall submit a copy of the TWA Review to the Regional Director.

Dividends.

10. 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. § 563.141, or commit to make or pay dividends or any other capital distributions, without receiving the prior written non-objection of the Regional Director. The Holding Company's written request for non-objection 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.

11. Effective immediately, the Holding Company shall not declare or pay any dividends or other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without the prior written non-objection of the Regional Director. The Holding Company's written request for non-objection 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.

12. By January 31, 2011, the Holding Company shall develop a dividend and capital distribution policy (Dividend Policy) that identifies alternative means of paying shareholder tax liability.

Debt Limitations.

13. Effective immediately, the Holding Company shall not: (a) 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 non-objection 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 non-objection 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; the proposed increase in any current lines of credit; the proposed guarantee of the debt of any entity; or any other incurrence of additional debt.

14. Effective immediately, the Holding Company shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written non-objection of the Regional Director. The Holding Company's written request for such non-objection 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.

Severance and Indemnification Payments.

15. Effective immediately, the Holding Company shall not make any golden parachute payment² or prohibited indemnification payment³ unless, with respect to each such payment, the Holding Company has complied with the requirements of 12 C.F.R. Part 359.

Directorate and Management Changes.

16. Effective immediately, the Holding Company shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁴ set forth in 12 C.F.R. Part 563, Subpart H.

Employment Contracts and Compensation Arrangements.

17. 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 Regional Director with

² The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

³ The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

⁴ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

not less than forty-five (45) days prior written notice of the proposed transaction. The notice to the Regional Director 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 Regional Director 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, and the Interagency Guidance on Sound Incentive Compensation Policies contained in OTS Chief Executive Officer Memorandum No. 354.

Effective Date.

18. This Agreement is effective as of the date contained on the first page of the Agreement (Effective Date).

Duration.

19. 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.

Time Calculations.

20. 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.

Submissions and Notices.

21. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

22. 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:
Regional Director
Office of Thrift Supervision
1475 Peachtree St., NE
Atlanta, Georgia 30309

- (b) To the Holding Company
Southeastern Financial, Inc.
c/o Robert W. Poellnitz, Jr., Chairman
1300 McFarland Boulevard, NE
Tuscaloosa, Alabama 35403

No Violations Authorized.

23. 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.

24. 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.

25. The Holding Company acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 24 above, 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.

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

27. 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.

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

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

30. 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 subject matters.

Enforceability of Agreement.

31. This Agreement is a "written agreement" entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

32. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Holding Company to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution

authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Holding Company, hereby execute this Agreement.

SOUTHEASTERN FINANCIAL, INC.
Tuscaloosa, Alabama

OFFICE OF THRIFT SUPERVISION

By: _____
/s/
Robert W. Poellnitz, Jr.
Chairman

By: _____
/s/
James G. Price
Regional Director, Southeast Region

Directors Signatures

/s/
Beckham Palmer, III, Director

/s/
Charles G. Wolbach, Jr., Director

/s/
H. Chester Boston, Jr., Director

/s/
Lehman Pendley, Director

/s/
Robert E. Stewart, Director

/s/
James H. Walburn, Director