

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 4th day of March, 2010, by and through the Board of Directors (Board) of SouthFirst Bank, Sylacauga, Alabama, OTS Docket No. 05329 (Association) 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 Association is subject to examination, regulation and supervision by the OTS; and

WHEREAS, based on its DATE examination of the Association (2010 Examination), the OTS finds that the Association 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 Association addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS in the 2010 Examination, the Association and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on March 3, 2011, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association 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. Within sixty (60) days , the Association shall submit a comprehensive business plan for the fiscal year ending September 30, 2011 (Business Plan) that addresses all corrective actions in the 2010 Examination relating to the Association's business operations to the Regional Director for review and non-objection. Thereafter, the Association shall submit an updated one year Business Plan at least sixty (60) days prior to the end of each fiscal year. At a minimum, the Business Plan shall conform to applicable laws, regulations and regulatory guidance and include:

- (a) plans to improve the Association's core earnings and achieve profitability on a consistent basis throughout the term of the Business Plan;
- (b) detailed strategies and actions, including descriptions of the lines of business the institution plans to engage in, along with departmental budgets;
- (c) specific timeframes and targets for reduction of classified assets, and other plans to reduce the overall risk profile of the institution;
- (d) quarterly pro forma financial projections (balance sheet, regulatory capital ratios, and income statement) for each quarter covered by the Business Plan; and
- (e) consideration of other requirements of this Agreement.

2. Upon receipt of written notification of non-objection from the Regional Director, the Association 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 Association 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 June 30, 2011, the Board shall review quarterly variance reports on the Association's compliance with the Business Plan (Variance Reports). The Variance Reports shall:

- (a) identify variances in the Association's actual performance during the 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.

6. A copy of the Variance Reports and Board meeting minutes shall be provided to the Regional Director within forty-five (45) days after the end of each quarter, beginning with the quarter ending June 30, 2011.

Problem Assets.

7. Within sixty (60) days, the Association shall submit a detailed, written plan with specific strategies, targets and timeframes to reduce² the Association's level of problem assets³ (Problem Asset Reduction Plan) to the Regional Director for review and non-objection. Upon notice of non-objection, the Association shall implement and adhere to the Problem Asset Reduction Plan. The Problem Asset Reduction Plan, at a minimum, shall include:

¹ A modification shall be considered material under this Section of the Agreement if the Association 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.

² For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

³ The term "problem assets" shall include all classified assets, and assets designated special mention, and all nonperforming assets, and all delinquent loans.

- (a) quarterly targets for the level of problem assets as a percentage of Tier 1 (Core) capital plus allowance for loan and lease losses (ALLL);
- (b) a description of the methods for reducing the Association's level of problem assets to the established targets; and
- (c) all relevant assumptions and projections.

8. Within sixty (60) days, the Association shall prepare, implement and adhere to Individual Workout Plans for each problem asset, group of loans to any one borrower or lending relationship of Two Hundred Fifty Thousand Dollars (\$250,000.00) or greater. At a minimum, each Individual Workout Plan shall:

- (a) contain detailed strategies and actions that are designed to eliminate the basis of criticism or classification for each asset;
- (b) include specific timeframes for the completion of all detailed strategies and actions, including an exit strategy for each problem asset;
- (c) include a list of any credit and collateral documentation that is needed to comply with the Associations lending and appraisal policies; and
- (d) detail the actions and steps the Association will take to obtain any needed credit and collateral documentation.

9. Within thirty (30) days after receipt of written notification from the Regional Director that the Problem Asset Reduction Plan is acceptable, the Association shall adopt, implement and adhere to the Problem Asset Reduction Plan. A copy of the Problem Asset Reduction Plan and the Board meeting minutes reflecting the Board's adoption of the Problem Asset Reduction Plan shall be provided to the Regional Director within ten (10) days after the Board meeting.

10. Within thirty (30) days after the end of each quarter, beginning with the quarter ending

June 30, 2011, the Association shall submit a quarterly written asset status report (Quarterly Asset Report) to the Board. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. The Quarterly Asset Report shall include, at a minimum:

- (a) the current status of all Individual Workout Plans;
- (b) a comparison of problem assets to Tier 1 (Core) capital plus ALLL;
- (c) a comparison of problem assets at the current quarter end with the preceding quarter;
- (d) a breakdown of problem assets by type and risk factor;
- (e) an assessment of the Association's compliance with the Problem Asset Reduction Plan; and
- (f) a discussion of the actions taken during the preceding quarter to reduce the Association's level of problem assets.

16. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. A copy of the Quarterly Asset Report and the Board meeting minutes at which it was reviewed shall be provided to the Regional Director within forty-five (45) days of each quarter end, beginning with the quarter ending June 30, 2011.

Loan Underwriting and Credit Administration.

17. Within sixty (60) days, the Association shall revise its loan underwriting and credit administration policies, procedures, practices, and controls (Loan Policy) to address all corrective actions in the 2010 Examination relating to loan underwriting and credit administration. The Loan Policy shall comply with applicable laws, regulations and regulatory guidance and shall, at a minimum:

- (a) establish specific debt service to income ratios for each loan type;
- (b) establish income documentation requirements for all borrowers exclusive of loans secured by cash that demonstrate the borrower's ability to meet all contractual debt service obligations from current, verified net income and cash flow prior to loan approval;
- (c) establish financial information documentation and review requirements for all nonhomogeneous loans renewals and modifications that are consistent with prudent lending practices and the Association's Loan Policy;
- (d) require current financial statements to be regularly obtained and reviewed on nonhomogeneous loans to evaluate borrowers' continued ability to repay;
- (e) require the identification and tracking of nonhomogeneous loans without current financial information, or other loan policy exceptions, including quarterly reporting to the Board and documentation of corrective actions by the Board and management.

Concentrations of Credit.

18. Within sixty (60) days, the Association shall revise its written program for identifying, monitoring, and controlling risks associated with concentrations of credit (Concentration Program) to ensure that it addresses all corrective actions set forth in the 2010 Examination relating to concentrations of credit. The Concentration Program shall comply with all applicable laws, regulations and regulatory guidance and shall:

- (a) establish prudent concentration limits expressed as a percentage of Tier 1 (Core) Capital plus ALLL, and document the appropriateness of such limits based on the Association's risk profile;

- (b) establish stratification categories of the Association's concentrations of credit (e.g., land loans, construction loans, income property loans, nonresidential real estate loans, commercial loans) and establish enhanced risk analysis, monitoring, and management for each stratification category;
- (c) contain specific review procedures and reporting requirements, including written reports to the Board, designed to identify, monitor, and control the risks associated with concentrations of credit and periodic market analysis for the various property types and geographic markets represented in its portfolio; and
- (d) contain a written action plan, including specific time frames, for bringing the Association into compliance with its concentration of credit limits.

19. Beginning with the quarter ending June 30, 2011, the Board shall review the appropriateness of the Association's concentration limits given current conditions and the Association's compliance with its Concentration Program. The Board's review of the Association's Concentration Program shall be documented in the Board meeting minutes. A copy of the Board meeting minutes shall be provided to the Regional Director within forty-five (45) days after the end of each quarter, beginning with the quarter ending June 30, 2011.

Allowance for Loan and Lease Losses.

20. Within sixty (60) days, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of adequate ALLL (ALLL Policy) to address all corrective actions set forth in the 2010 Examination relating to ALLL. The ALLL Policy shall comply with applicable laws, regulations, and regulatory guidance and shall:

- (a) incorporate the results of all loan reviews and classifications;

- (b) address the historical loan loss rates of the Association in compliance with regulatory guidance;
- (c) require an expanded segmentation of the Association's loan portfolio for loan review analysis;
- (d) include an estimate of the potential loss exposure on each significant⁴ credit;
- (e) require the stress testing of loss rates and delinquency rates to: (i) determine the sensitivity of the ALLL methodology to changes from primary inputs; (ii) provide information regarding the risk of miscalculation if the credit environment changes; and (iii) evaluate the appropriateness of the ALLL in a range of credit environments;
- (f) address the level and impact of the Association's current concentrations of credit, including geographic concentrations; and
- (g) take into consideration current and prospective market and economic conditions.

21. Within thirty (30) days after the end of each quarter, beginning with the quarter ending March 31, 2011, the Association shall analyze the adequacy of the ALLL consistent with its ALLL Policy (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report, including, but not limited to, all qualitative factors considered in determining the adequacy of the Association's ALLL, shall be fully documented in the Board meeting minutes. Any deficiency in the ALLL shall be remedied by the Association in the quarter in which it is discovered and before the Association files its Thrift Financial Report (TFR) with the OTS.

Brokered Deposits.

22. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b).

⁴ A credit shall be considered significant for the purposes of assessing, establishing, and maintaining an appropriate level of ALLL if it is/was FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00) or greater at origination.

23. Effective immediately, the Association is prohibited from increasing the dollar amount of brokered deposits⁵ at the Association in excess of net interest credited to such deposits without receiving the prior written non-objection of the Regional Director. The Association'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 acceptance of additional brokered deposits.

Violations of Law.

24. Within sixty (60) days, the Association shall ensure that all violations of law and/or regulation discussed in the 2010 Examination are corrected and that adequate policies, procedures and systems are established or revised and thereafter implemented to prevent future violations.

Directorate and Management Changes.

25. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁶ set forth in 12 C.F.R. Part 563, Subpart H.

Dividends and Other Capital Distributions.

26. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Association's written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

⁵ The term "brokered deposit" is defined at 12 C.F.R. § 337.6(a)(2).

⁶ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

Employment Contracts and Compensation Arrangements.

27. Effective immediately, the Association 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 Association, unless it first provides the Regional Director with not less than thirty (30) 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.

Golden Parachute and Indemnification Payments.

28. Effective immediately, the Association shall not make any golden parachute payment⁷ or prohibited indemnification payment⁸ unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Third Party Contracts.

29. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association⁹ or outside the Association’s normal course of business unless, with

⁷ The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

⁸ The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

⁹ A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association’s total capital, where there is a

respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (b) received written notice of non-objection from the Regional Director.

Transactions with Affiliates.

30. Effective immediately, the Association shall not engage in any new transaction with an affiliate 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).

31. Within sixty days, the Association shall revise its TWA policies to ensure that all transactions with an affiliate comply with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

Home Mortgage Disclosure Act (HMDA).

32. Within sixty (60) days, the Association must revise its HMDA data integrity review procedures to provide for an expansion of the review sample when errors are identified. The expansion of the review sample shall conform to applicable regulatory guidance.

Board Oversight of Compliance with Agreement.

33. Within thirty (30) days, the Board shall designate a committee to monitor and coordinate the Association's compliance with the provisions of this Order and the completion of all corrective actions required in the 2010 Examination (Oversight Committee). The Oversight

foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

Committee shall be comprised of four (4) or more directors, the majority of whom shall be independent¹⁰ directors.

34. Within thirty (30) days after the end of each quarter, beginning with the quarter ending March 31, 2011, the Oversight Committee shall submit a written compliance progress report to the Board (Compliance Tracking Report). The Compliance Tracking Report shall, at a minimum:

- (a) separately list each corrective action required by this and the 2010 Examination;
- (b) identify the required or anticipated completion date for each corrective action; and
- (c) discuss the current status of each corrective action, including the action(s) taken or to be taken to comply with each corrective action.

35. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending March 31, 2011, the Board shall review the Compliance Tracking Report and all reports required to be prepared by this Order. Following its review, the Board shall adopt a resolution: (a) certifying that each director has reviewed the Compliance Tracking Report and all required reports; and (b) documenting any corrective actions adopted by the Board. A copy of the

¹⁰ For purposes of this Order, an individual who is “independent” with respect to the Association shall be any individual who:

- (a) is not employed in any capacity by the Association, its subsidiaries, or its affiliates, other than as a director;
- (b) does not own or control more than ten percent (10%) of the outstanding shares of the Association or any of its affiliates;
- (c) is not related by blood or marriage to any officer or director of the Association or any of its affiliates, or to any shareholder owning more than ten percent (10%) of the outstanding shares of the Association or any of its affiliates, 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 Association or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent (10%) of the Association’s total Tier 1 (Core) capital; and
- (e) has not served as a consultant, advisor, underwriter, or legal counsel to the Association or any of its affiliates.

Compliance Tracking Report and the Board resolution shall be provided to the Regional Director within fifteen (15) days after the Board meeting.

36. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Order. The Board shall review and adopt all policies and procedures required by this Order prior to submission to the OTS.

Effective Date.

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

Duration.

38. 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.

39. 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.

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

41. 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 Association:
SouthFirst Bank
Board of Directors
c/o Chairman
126 N. Norton Ave.
Sylacauga, AL 35150

No Violations Authorized.

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

OTS Authority Not Affected.

43. Nothing in this Agreement shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association 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.

44. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 43 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association 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.

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

46. 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.

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

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

49. 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.

50. 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.

51. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association 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 Association, hereby execute this Agreement.

SOUTHFIRST BANK
Sylacauga, Alabama

OFFICE OF THRIFT SUPERVISION

By: _____ /s/_____
Allen G. McMillan, III, Chairman

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

Directors Signatures

_____/s/_____
H. David Foote, Jr., Director

_____/s/_____
L. Neal Bice, Director

_____/s/_____
Kenneth E. Easterling, Director

_____/s/_____
Donald R. Hardy, Director

_____/s/_____
Robert C. Hayes, Director