

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 31st day of December, 2001 (Effective Date), by and between Gulf Federal Savings Bank, Mobile, Alabama, OTS Docket No. 08464 (Gulf or the Association), a federally chartered stock savings 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;

WHEREAS, based upon the May 7, 2001 Report of Examination (2001 Exam), 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 (ii) are considered to be unsafe and unsound;

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

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 (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 and the mutual undertakings set forth herein, the parties hereto agree as follows:

1. Compliance With Laws, Regulations & Safe and Sound Practices.

The Association, its directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions to achieve compliance with the following laws, regulations, and safe and sound business practices:

- a. 12 U.S.C. §1468, 12 U.S.C. §371c and 12 U.S.C. §371c-1 (Transactions with Affiliates);
- b. 12 C.F.R. §563.41 and 12 C.F.R. §563.42 (Transactions with Affiliates);
- c. 12 U.S.C. §1464(u) (Loans to One Borrower);
- d. 12 C.F.R. §560.93 (Loans to One Borrower);

- e. 12 C.F.R. Part 215; (Loans to Executive Officers, Directors and Shareholders);
- f. 12 U.S.C. 1464(v) (Accuracy of Books and Records);
- g. 12 C.F.R. 563.170(c) (Accuracy of Books and Records);
- h. 12 C.F.R. §§ 563.550, 563.555, and 563.560 (Notice of Change of Director or Senior Executive Officer);
- i. 12 C.F.R. § 563.161 and Thrift Activities Handbook Section 310 (Director and Officer Contracts and Compensation);
- j. 12 C.F.R. § 502 and Thrift Bulletin 48-17 (Fees);
- k. Thrift Activities Handbook Section 310 (Third Party Contracts); and
- l. Regulatory Bulletin (RB) 3b (Asset growth), as its requirements may be modified by the Regional Director.

2. Capital Levels.

a. Within 45 days of the Effective Date, Gulf shall adopt the capital adjustments required at pp. 5 and 15 of the 2001 Exam; and

b. On or before April 30, 2002, the Board shall prepare and submit to the Regional Director for his prior written approval, a comprehensive plan detailing the strategies and specific steps to be taken by the Board to raise additional capital, sell Gulf or merge Gulf with another insured depository institution (Capital Enhancement Plan). Upon approval by the Regional Director, the Capital Enhancement Plan shall be incorporated into this Agreement and any deviation from the approved terms of the Capital Enhancement Plan shall be a violation of this Agreement.

3. Directives.

The Directive dated December 20, 2001, issued to Gulf by the OTS shall remain in force and is incorporated herein by reference.

4. Asset Quality.

Within 60 days of the Effective Date, the Board shall prepare, adopt and submit to the Regional Director for his prior written approval a comprehensive policy addressing the asset quality issues raised by the 2001 Exam (Asset Policy).

a. The Asset Policy must include, at a minimum:

i. provisions consistent with 12 C.F.R. §560.160(b) requiring the Association to maintain adequate valuation allowances, consistent with generally accepted accounting principles and the practices of the federal banking agencies, requiring the Board to review the adequacy of, and, if needed, adjust the amount of the Association's valuation allowances at least once each calendar quarter and to maintain, in the minutes of the Board, written documentation of its quarterly review and findings;

ii. provisions requiring the Association to adopt the asset classifications listed at pages 5, 6, 17, and 18 of the 2001 Exam, and which are incorporated herein by reference;

iii. provisions detailing how the Association will reduce its level of classified assets in accordance with the findings at pp. 6 and 18 of the 2001 Exam; and

iv. provisions requiring that the Board, beginning with the first calendar quarter following the Effective Date of this Agreement, and at least quarterly thereafter, shall review the level, trend and causes of the Association's delinquent/non-performing assets and shall cause Management to report to it, in writing, with the same frequency, the principal reasons for loan non-performance.

b. The Asset Policy shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall make all changes to the Asset Policy required by the Regional Director. Upon approval by the Regional Director, the Asset Policy shall be incorporated into this Agreement and any deviation from the approved terms of the Asset Policy shall be a violation of this Agreement. All reports required by the Asset Policy, together with applicable Board minutes relating to them, shall be transmitted to the Regional Director no later than 15 days after the Board meeting at which they are presented.

5. Management; Internal Controls.

Within 60 days of the Effective Date, the Board shall prepare, adopt and submit to the Regional Director for his prior written approval a comprehensive policy addressing the internal control issues raised by the 2001 Exam (Internal Control Policy).

a. The Internal Control Policy must include, at a minimum, provisions detailing how the Association will comply with the findings at pp. 10, 30 and 31 of the 2001 Exam, concerning account and ledger reconciliation.

b. The Internal Control Policy must further include, at a minimum, provisions detailing how the Association will comply with the corrective actions found at pp. 10, 11, 30, 31 and 53 of the 2001 Exam, concerning record keeping, training, Thrift Financial Report corrections, audits, loans to one borrower, and loans to executive officers, directors and principal shareholders.

c. The Internal Control Policy must contain provisions requiring that Management document in writing any variances to the foregoing practices and that such variances be reported to the Board on a quarterly basis.

d. The Internal Control Policy must conform to all applicable statutes, regulations, OTS policy and guidance, and must be acceptable to the Regional Director. Upon approval by the Regional Director, the Internal Control Policy shall be incorporated into this Agreement and any deviation from the approved terms of the Internal Control Policy shall be a violation of this Agreement. All reports required by the Internal Control Policy, together with applicable Board minutes relating to them, shall be transmitted to the Regional Director no later than 15 days after the Board meeting at which they are presented.

6. Management; Insider Transactions.

Within 90 days of the Effective Date, the Board shall prepare, adopt and submit to the Regional Director for his prior written approval a comprehensive policy addressing the insider transaction issues raised by the 2001 Exam (Insider Transaction Policy).

a. The Insider Transaction Policy must include the Overdraft Policy, to be finalized in accordance with the Regional Director's instructions contained in his letter to Gulf dated July 24, 2001, and incorporated in the Insider Transaction Policy by reference, and also include provisions addressing the corrective actions found at pp. 8, 9 and 30 of the 2001 Exam relating to overdraft lists and charge-offs.

b. The Insider Transaction Policy must include provisions requiring that Management take all reasonable precautions to ensure that no additional loans are made to any individual or entity whose intent is to transfer the funds, directly or indirectly, to any officer, director or principal shareholder of Gulf or any affiliate.

c. The Insider Transaction Policy must include, at a minimum, provisions detailing how the Association will comply with the corrective actions listed at pp. 8, 9, 29 and 30 of the 2001 Exam, relating to transactions with affiliates, and also include provisions relating to identification of potential affiliates, collateralization of unsecured credits currently in violation of 12 U.S.C. §1468, and obtaining the approval of the Regional Director prior to engaging in any additional transactions with affiliates.

d. The Insider Transaction Policy must include, at a minimum, provisions detailing how the Association will comply with the corrective actions listed at p. 30, and with 12 C.F.R. §563.200, relating to conflicts of interest.

e. The Insider Transaction Policy must include provisions requiring that the Board oversee compliance with 12 C.F.R. Part 215 and that all loans made to directors, officers and principal shareholders of Gulf and Gulf Financial Holdings, Inc. (GFH) strictly comply with Part 215.

f. The Insider Transaction Policy shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall make all changes to the Insider Transaction Policy required by the Regional Director. Upon approval by the Regional Director, the Insider Transaction Policy shall be incorporated into this Agreement and any deviation from the approved terms of the Insider Transaction Policy shall be a violation of this Agreement. All reports required by the Insider Transaction Policy, together with applicable Board minutes relating to them, shall be transmitted to the Regional Director no later than 15 days after the Board meeting at which they are presented.

7. Interest Rate Risk.

Within 120 days of the Effective Date of this Agreement, the Board shall prepare, adopt and submit to the Regional Director for his prior written approval an interest rate risk policy that takes into account the changes mandated by the 2001 Exam (Interest Rate Risk Policy).

a. The Interest Rate Risk Policy must include, at a minimum, provisions detailing how the Association will comply with the corrective actions listed at pp. 11, 12 and 45 of the 2001 Exam, relating to interest rate risk, and include provision requiring monthly review of collateralized mortgage obligations, board review of material changes, and compliance with Thrift Bulletin 13a.

b. The Interest Rate Risk Policy shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall make all changes to the Interest Rate Risk Policy required by the Regional Director. Upon approval by the Regional Director, the Interest Rate Risk Policy shall be incorporated into this Agreement and any deviation from the approved terms of the Interest Rate Risk Policy shall be a violation of this Agreement. All reports required by the Interest Rate Risk Policy, together with applicable Board minutes relating to them, shall be transmitted to the Regional Director no later than 15 days after the Board meeting at which they are presented.

8. Asset Transfers.

The Board shall take all steps necessary to ensure that no cash or other Association assets may be transferred from Gulf to GFH, or from Gulf to any third parties on behalf of GFH, without the prior written approval of the Regional Director.

9. Director Responsibility.

Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual director's continuing fiduciary duty. The Board 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 as required by this Agreement.

10. Compliance with Agreement.

a. 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.

b. 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.

c. The minutes of the 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.

d. Within 30 calendar days after the end of each calendar quarter, beginning with the end of the first calendar quarter following the Effective Date of this Agreement, 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 such Compliance Resolution to the Regional Director, shall be deemed to have certified (in accordance with subparagraph 10(b), above) to the accuracy of the statements set forth in each Compliance Resolution, except that 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.

e. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement.

11. Definitions.

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.

12. Successor Statutes, Regulations, Guidance, Amendments.

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.

13. Notices.

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:

a. The OTS by the Association, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, N.E., Atlanta, Georgia, 30309, or telecopied to (404) 897-1861 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

b. The Association by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 901 Springhill Ave., Mobile, Alabama 36604-2701, or telecopied to (251) 433-2361 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

14. Duration, Termination or Suspension of Agreement.

a. 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).

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

15. Time Limits.

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

16. Effect of Headings.

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

17. Separability Clause.

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.

18. No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted.

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) as 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.

19. Successors in Interest/Benefit.

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 and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

20. Signature of Directors.

Each Director signing the Agreement attests, by such act, that she or he voted in favor of a Board resolution authorizing the execution of this Agreement by the Association.

21. Integration Clause.

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. However, upon approval by the Regional Director, all

policies required by this Agreement shall become part of this Agreement and any deviation from these policies shall be deemed a violation of this Agreement. In addition, the Directive dated December 20, 2001, is incorporated herein by reference.

22. Enforceability of Agreement.

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.

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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, hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

By:

/S/

~~John E. Ryan~~
Regional Director

THE ASSOCIATION

By:

/S/

Name: Marvin Boyd
Chief Executive Officer

/S/

~~Director~~

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Director

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Director