

UNITED STATES OF AMERICA
BEFORE
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

ARKANSAS STATE BANK DEPARTMENT
LITTLE ROCK, ARKANSAS

Written Agreement by and among :

SOUTHERN BANK OF COMMERCE
Paragould, Arkansas

FEDERAL RESERVE BANK
OF ST. LOUIS
Saint Louis, Missouri

and

ARKANSAS STATE BANK
DEPARTMENT
Little Rock, Arkansas

Docket No. 07-023-WA/RB-SM

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Southern Bank of Commerce, Paragould, Arkansas (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of St. Louis (the “Reserve Bank”), and the Arkansas State Bank Department (the “Department”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on December 18, 2007, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Greg Miller, President, to enter into this Agreement on behalf of the Bank, and consenting to compliance by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as

amended (the “FDI Act”) (12 U.S.C. § 1813(u)(3)), with each and every provision of this Agreement.

NOW, THEREFORE, the Bank, the Reserve Bank, and the Department agree as follows:

Board Oversight

1. Within 90 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Department a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including, but not limited to, its credit risk management program;

(b) steps to implement an effective loan review function;

(c) steps to strengthen internal controls over accounting, official checks, and wire transfers; and

(d) a description of the detailed information to be included in periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s adversely classified assets, the loan loss reserve, and earnings.

Management Review

2. Within 90 days of this Agreement, the outside directors of the Bank shall complete an assessment of the Bank’s management and staffing needs and the qualifications and performance of all senior Bank management, including all department heads and executive

officers. The primary purpose of the review shall be to aid in the development of a suitable management structure that is adequately staffed by qualified and trained personnel (the “Management Review”). A copy of the Management Review shall be provided to the Reserve Bank and the Department at the same time that it is provided to the full board of directors. The Management Review shall, at a minimum, address, consider, and include:

(a) The identification of the type and number of officers needed to manage and supervise properly the affairs of the Bank; and

(b) an evaluation of each officer to determine whether the individual possesses the ability, experience, and other qualifications required to perform competently present and anticipated duties, including the ability to adhere to applicable laws and regulations and the Bank’s established policies and procedures, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Agreement.

3. Within 120 days of this Agreement, the board of directors shall take steps based on the Management Review to hire additional or replacement officers as are needed to properly manage the Bank and to return it to a safe and sound condition.

4. (a) The Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 225.71 *et seq.*) in the appointment of new directors and the hiring or promotion of senior executive officers.

(b) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation’s regulations (12 C.F.R. Part 359).

Lending and Credit Administration

5. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department acceptable written loan and credit administration policies and procedures that shall, at a minimum, address, consider and include:

(a) Underwriting standards that are appropriate for each type of loan product offered by the Bank, and include and provide for, at a minimum:

(i) documented analysis of the borrower's repayment source, creditworthiness, and debt service ability; and

(ii) clear loan-to-value limits;

(b) the loan approval process, including but not limited to, approval limits for each loan officer and the board's loan committee;

(c) a complete description of required loan documentation and collateral for each specific type of loan, and procedures to maintain required documentation in loan files and minimize documentation exceptions;

(d) establishing an independent, effective real estate appraisal and evaluation program;

(e) procedures for risk rating loans and to identify, monitor, and control credit risk;

(f) appropriate risk management policies and procedures for the identification, measurement, and monitoring of concentrations of credit; and

(g) the deficiencies related to loan policies, procedures, and credit administration noted in the report of examination conducted by the Reserve Bank and the Department that commenced on April 9, 2007 (the “Report of Examination”) regarding credit risk management.

Loan Review

6. (a) Within 20 days of this Agreement, the Bank shall select an independent consultant acceptable to the Reserve Bank and the Department to conduct a review of the Bank’s loan portfolio and to prepare a written report that includes findings and recommendations (the “Loan Portfolio Review”). Within 20 days of the Reserve Bank and Department’s approval of the Bank’s independent consultant selection and prior to commencing the Loan Portfolio Review, the Bank shall submit an engagement letter to the Reserve Bank and the Department for approval. The engagement letter shall require the independent consultant to submit its written report within 60 days of the date of the engagement letter and to provide a copy of its report to the Reserve Bank and the Department at the same time that it is provided to the Bank.

(b) Within 60 days after the Bank’s receipt of the Loan Portfolio Review report, the Bank shall submit an acceptable written plan to the Reserve Bank and the Department describing the specific actions that the board of directors will take to fully address the findings and recommendations of the Loan Portfolio Review report and to establish a written program for the effective, on-going review and grading of the Bank’s loan portfolio.

Asset Improvement

7. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to

the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” in the Report of Examination or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified, in whole or in part, “substandard” or “doubtful” in the Report of Examination or in any subsequent report of examination, and is uncollected, without the prior approval of the board of directors, who shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be signed by the Board Secretary and made a part of the minutes of the board of directors’ meeting, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower’s credit file for subsequent supervisory review.

(c) For purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan, approved by the Bank's loan committee, designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$35,000, including other real estate owned ("OREO"), that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$35,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan, approved by the Bank's loan committee, to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Department to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, extension report, and past due/non-accrual report.

Accounting Issues

9. (a) Within 30 days of this Agreement, the Bank shall select an independent public accounting firm acceptable to the Reserve Bank and the Department to prepare a Review Report on the compliance with generally accepted accounting principles ("GAAP") of the Bank's statements of condition and related statements of income, statements of cash flows, and

statements of changes in stockholder's equity (collectively, "Financial Statements") for the years ended December 31, 2006, and December 31, 2007. The Review Report shall be supplemented by specific testing of the Bank's fixed assets and prepaid expenses. The testing must determine (i) if each of the Bank's fixed assets is economically useful to the Bank and if the Bank's fixed asset depreciation practices comply with GAAP, and (ii) if each prepaid expense should be capitalized as an asset on the Bank's balance sheet or should be classified as a current expense in the period incurred. In addition, the Bank's independent public accounting firm must prepare a letter to Bank management assessing the adequacy of the Bank's internal controls over operations and financial reporting.

(b) Within 20 days of the Reserve Bank and Department's approval of the Bank's independent public accounting firm selection and prior to commencing the Financial Statement review and the internal controls assessment, the Bank shall submit an engagement letter to the Reserve Bank and the Department for approval. The engagement letter shall require the independent public accounting firm to submit its Review Report and internal control management letter within 60 days of the date of the engagement letter and to provide a copy of the Review Report and internal control management letter to the Reserve Bank and the Department at the same time that they are provided to the Bank.

10. (a) Within 45 days after the Bank's receipt of the Review Report and the internal control management letter, the Bank shall submit to the Reserve Bank and the Department acceptable written accounting policies and procedures designed to strengthen the Bank's internal controls over operations and financial reporting, maintain the accuracy of the Bank's books and records, and address deficiencies noted in the independent public accounting firm's Review Report and internal control management letter.

(b) The Reserve Bank and the Department may, in their sole discretion, require the Bank to engage an independent public accounting firm, acceptable to the Reserve Bank and the Department, to conduct an audit of the Bank's Financial Statements in accordance with generally accepted auditing standards for the year ended December 31, 2008.

Allowance for Loan and Lease Losses

11. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the Department.

(b) The Bank shall maintain, in accordance with GAAP, an adequate valuation reserve for loan and lease losses (the "ALLL"). The adequacy of the ALLL shall be determined in accordance with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 and December 13, 2006. The elements of supervisory guidance to be considered shall include, but are not limited to, the reliability of the Bank's loan grading system, the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, and examiners' criticisms noted in the Report of Examination.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a description of the methodology used to determine the Bank's ALLL.

Thereafter, the Bank shall conduct, at least on a quarterly calendar basis, an assessment of its ALLL and, within 30 days after the end of each calendar quarter, shall submit to the Reserve Bank and the Department the quarterly assessment, including the methodology used in determining the amount of ALLL for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Capital Plan

12. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to achieve and maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Ratio, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the concentration in subprime lending in accordance with supervisory guidance, including the Interagency Guidance on Subprime Lending dated January 31, 2001 (SR 01-04, January 31, 2001), and March 1, 1999 (SR 99-06, March 5, 1999);

(d) the adequacy of the loan loss reserve;

(e) anticipated and contingent liquidity needs; and

(f) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank.

13. The board of directors shall monitor and review the sufficiency of the Bank's capital position on a monthly basis and shall reflect such reviews in the minutes of the board of directors' meetings.

Earnings Plan and Budget

14. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a written business plan for 2008 for improving the earnings and overall condition of the Bank. The plan, at a minimum, shall provide for or describe:

(i) the responsibilities of the board of directors for the development, approval, implementation, and monitoring of the business plan;

(ii) the major areas in and means by which the Bank's board of directors will seek to improve the Bank's operating performance; and

(iii) realistic and comprehensive budgets.

(b) A business plan for each calendar year subsequent to 2008 shall be submitted to the Reserve Bank and the Department at least one month prior to the beginning of that calendar year.

Liquidity/Funds Management

15. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written liquidity/funds management policy designed to improve management of the Bank's liquidity position and funds management practices. The revised policy shall, at a minimum, address, consider, and include:

(i) Appropriate measures to monitor the Bank's liquidity position;

(ii) formal tools to estimate liquidity needs on an ongoing basis;

(iii) specific liquidity targets and parameters, and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands; and

(iv) the deficiencies related to liquidity and funds management noted in the Report of Examination.

(b) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

Compliance with Laws and Regulations

16. The Bank shall immediately take steps to correct all violations of laws and regulations noted in the Report of Examination. In addition, the board of directors shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

BSA/AML Compliance Program

17. The Bank shall immediately take steps to improve its compliance with all applicable anti-money laundering (“AML”) laws, rules, and regulations, including the Bank Secrecy Act (the “BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and sections 208.62 and 208.63 of Regulation H of the Board of Governors (12 C.F.R. §§ 208.62 and 208.63); and to address the deficiencies regarding the BSA/AML compliance program noted in the Report of Examination.

Dividends

18. The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the Department. All requests for prior approval shall be received by the

Reserve Bank and the Department at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, cash flow, capital, asset quality, and loan loss reserve needs of the Bank.

Approval and Implementation of Plans, Policies, and Procedures

19. (a) The Bank shall submit written plans, policies, procedures and engagement letters that are acceptable to the Reserve Bank and the Department within the applicable time periods set forth in paragraphs 5, 6(a), 6(b), 8(a), 8(b), 9(a), 9(b), 10(a), 12, 15(a) and 15(b) of this Agreement. Independent firms acceptable to the Reserve Bank and the Department shall be retained by the Bank within the periods set forth in paragraphs 6(a) and 9(a) of the Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Department, the Bank shall adopt the approved plans, policies, procedures, and engagement letters. Upon adoption, the Bank shall implement the approved plans, policies, and procedures, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, and engagement letters shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Department.

Communications

20. All communications regarding this Agreement shall be sent to:

(a) Mr. Timothy A. Bosch
Vice President
Federal Reserve Bank of St. Louis
Banking Supervision and Regulation Division
1421 Dr. Martin Luther King Drive
St. Louis, Missouri 63106

(b) Ms. Candace A. Franks
Bank Commissioner
Arkansas State Bank Department
400 Hardin Road, Suite 100
Little Rock, Arkansas 72211-3502

(c) Mr. Greg Miller
President and Chief Executive Officer
Southern Bank of Commerce
P.O. Box 1605
Paragould, Arkansas 72450

21. Notwithstanding any provision of this Agreement, the Reserve Bank and the Department may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

22. The provisions of this Agreement shall be binding upon the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

23. Each provision of this Agreement shall remain effective and enforceable until jointly stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Department.

24. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

25. This Agreement is a “written agreement” for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 21st day of December, 2007.

SOUTHERN BANK OF COMMERCE

By: /s/ Greg Miller
Mr. Greg Miller
President and Chief Executive Officer

FEDERAL RESERVE BANK OF
ST. LOUIS

By: /s/ Timothy A. Bosch
Mr. Timothy A. Bosch
Vice President

ARKANSAS STATE BANK
DEPARTMENT

By: /s/ Candace A. Franks
Ms. Candace A. Franks
Bank Commissioner