

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 23rd day of May 2006 (the Effective Date), by and between Lafayette Savings Bank, FSB (Lafayette or the Institution) OTS Docket No. 08050, a federally chartered stock institution, and the Office of Thrift Supervision (OTS), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C. 20552, acting through its Southeast Regional Director or his designee (Regional Director). It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. §§ 1818(b)(1) and (i)(2).¹

WHEREAS, the OTS is the primary federal regulator of Lafayette; and

WHEREAS, based on the November 21, 2005 Report of Examination (2005 ROE), the OTS is of the opinion that Lafayette has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which Lafayette is subject, and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against Lafayette; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that Lafayette will: (i) comply with all applicable laws and regulations, and (ii) engage in safe and sound practices; and

WHEREAS, Lafayette, acting through its Board of Directors (the Board), 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:

Compliance With Laws, Regulations & Safe and Sound Practices

1. The Institution, its directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions to comply with the following laws, regulations, and safe and sound business practices:

a. 12 C.F.R. § 560.101 (Real Estate Lending Standards);

b. 12 C.F.R. §§ 563.177(c)(1) (Procedures for Monitoring Bank Secrecy Act (BSA) Compliance);

¹ All references to the United States Code (U.S.C.) are as amended, unless otherwise indicated.

- c. 12 CFR Section 563.180(d)(3)(iv)(B) (Suspicious Activity Reports);
- d. 12 CFR Section 564.3 (Appraisals required);
- e. 12 C.F.R. 202.9(a)(2)(i) (Equal Credit Opportunity Act (ECOA)—Regulation B);
- f. 12 C.F.R. 203.4(a)(12) (Home Mortgage Disclosure Act (HMDA)—Regulation C); and
- g. Thrift Bulletin (TB) 72a (Interagency Guidance on High Loan-to-Value (LTV) Residential Real Estate Lending);

ASSET QUALITY

High Loan-to-Value Lending

2. The Institution shall not make, invest in, purchase or commit to make any loans in excess of the supervisory loan-to-value capital limits set forth in 12 C.F.R. Section 560.101, Appendix A. until it is in compliance with those limits.

3. Within sixty (60) days of the Effective Date, the Board shall implement policies and procedures that will ensure the Institution's compliance with the supervisory loan-to-value capital limits set forth in 12 C.F.R. Section 560.101, Appendix A. The policies and procedures shall be submitted to the Regional Director and shall contain, at a minimum: 1) the requirement for the Board to review the Institution's compliance with supervisory loan-to-value capital limits at least once each calendar quarter, with documentation of that review; and 2) the requirement that loans granted in excess of the supervisory loan-to-value limits have sufficient credit support, as defined by regulation or regulatory guidance.

4. Within ninety (90) days of the Effective Date, the Board shall implement a program to bring the aggregate outstanding loans in excess of the supervisory loan-to-value capital limits into compliance (LTV Program) with the limits set forth in 12 C.F.R. Section 560.101, Appendix A. A copy of the LTV Program shall be submitted to the Regional Director.

5. The Board shall ensure that the Institution has processes, personnel, and control systems to ensure implementation of and adherence to the policies and procedures and the LTV Program developed pursuant to this Article.

Allowances for Loan and Lease Losses (ALLL)

6. Within sixty (60) days after the Effective Date of this Agreement, the Board shall revise the methodology used to assess the adequacy of the ALLL, including an allocation for "watch" loans and shall implement an ALLL Policy that reflects the revised methodology.

Classified Asset Reduction Plan

7. Within thirty (30) days of the Effective Date, the Board will submit an outline of planned actions to reduce the level of adversely classified assets.

8. Within ninety (90) days of the Effective Date, the Board will adopt written action plans for each asset or aggregate loan relationship exceeding \$500,000 criticized in the ROE (Action Plans). Action Plans shall also be adopted for all additional assets or aggregate loan relationships exceeding \$500,000 criticized by the Bank's internal loan review system as "doubtful", or "substandard". Once adopted, a copy of the Action Plans for all criticized assets or aggregate loan relationships exceeding \$500,000 shall be forwarded to the Regional Director. On a quarterly basis, the Board shall submit a report that details its criticized assets, notes additions and reductions to these assets, and contains a status update of the outstanding Action Plans. The Action Plans shall include, at a minimum:

- i. an identification of the expected sources of repayment;
- ii. the appraised value of supporting collateral and the position of the Lafayette's lien on such collateral where applicable;
- iii. an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- iv. the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

Loan Documentation

9. Within one hundred and twenty (120) days of the Effective Date, the Board shall implement and submit to the Regional Director a written plan (Loan Documentation and Administration Plan) to correct the Institution's loan documentation and administration deficiencies detailed in the ROE (pages 10 -13 and 17-18) and all other known loan documentation and administration deficiencies. The Loan Documentation and Administration Plan shall include, but not be limited to:

- i. establishment of and compliance with policies and procedures for each type of loan product;
- ii. policies and procedures for the timely collection and maintenance of loan documents; and
- iii. quarterly management submissions to the Board containing a detailed report showing the status of, and actions taken regarding, missing loan documents.

10. The Board shall ensure that the Institution has processes, personnel, and control systems to ensure implementation of and adherence to the Loan Documentation and Administration Plan developed pursuant to this Article.

COMPLIANCE

Bank Secrecy Act

11. Within sixty (60) days of the Effective Date, the Board shall fully implement an enhanced written program of policies and procedures, which incorporates a comprehensive system of internal controls, independent testing and audit to ensure ongoing compliance with the Bank Secrecy Act (BSA) and anti-money laundering (AML) safeguards. The program shall be risk-based and address all lines of business. In addition, the program shall be enhanced to include, at a minimum:

- i. a comprehensive, written assessment of institution-wide BSA/AML risks performed on at least an annual basis;
- ii. operating procedures for performing effective due diligence prior to opening new accounts, and to diligently monitor high risk accounts;
- iii. adequate controls and procedures to identify suspicious transactions and to report these transactions within required time frames; and
- iv. a comprehensive training program for all appropriate operational and supervisory personnel to ensure that they:
 - a. understand the requirements of the BSA, USA PATRIOT Act, and the Office of Foreign Assets Control (OFAC) regulations, including the reporting requirements for Suspicious Activity Reports pursuant to 12 C.F.R. 563.180; and
 - b. recognize and report suspicious activity in accounts.

OPERATING RESTRICTIONS

Directors and Senior Executive Officers

12. The Institution must file a notice with the Regional Director prior to adding or replacing a director or hiring a senior executive officer or changing the responsibilities of any senior executive officer so that the person would assume a different senior executive position (12 C.F.R. § 563.560(a)(1)(ii)).

Golden Parachute Payments

13. The Institution is prohibited from making any golden parachute payments to any institution-affiliated party, unless the payment is otherwise permitted by regulation (12 C.F.R. Part 359).

Dividend Payments

14. The Institution shall not declare or make any capital distributions as defined in 12 C.F.R. § 563.141 without the prior written approval of the Regional Director.

GENERAL

Director Responsibility

15. Notwithstanding the requirements of this Agreement that the Board submit various matters to the OTS for consideration, 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 Lafayette at all times, including compliance with the determinations of the OTS as required by this Agreement.

Compliance with Agreement

16. The Board and officers of Lafayette shall take immediate action to cause the Institution to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause Lafayette to continue to carry out the provisions of this Agreement.

17. The Board, on a quarterly basis beginning with the calendar quarter ending June 30, 2006, shall adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including a report from Management regarding the Institution's compliance with each numbered paragraph of this Agreement), to the best of its knowledge and belief, during the immediately preceding calendar quarter, Lafayette 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.

18. The minutes of the meetings 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.

19. The Board shall promptly respond to any request from the OTS for documents that the OTS reasonably requests to demonstrate compliance with this Agreement.

MISCELLANEOUS

Definitions

20. 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, Home Owners' Loan Act (HOLA), Federal Deposit Insurance Act (FDIA) or OTS Publications. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Publications shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

Successor Statutes, Regulations, Guidance, Amendments

21. Reference in this Agreement to provisions of statutes, regulations, OTS Publications and Interagency Statements 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.

Notices

22. 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:

- i. the OTS, by Lafayette, 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 Mr. Daniel T. McKee, Regional Deputy Director, Office of Thrift Supervision, Department of the Treasury, One South Wacker Drive, Suite 2000, Chicago, Illinois 60606, or telecopied to 312-917-5001 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- ii. the Institution, 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 Mr. Randolph Williams, CEO, Lafayette Savings Bank, FSB, 101 Main Street, Lafayette, Indiana 47901-1243 or telecopied to 765-742-7763, and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

23. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

Duration, Termination or Suspension of Agreement

24. This Agreement shall become effective upon its execution by the OTS, through its authorized representative whose signature appears below. The Agreement shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director, Regional Director or other authorized representative.

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

Time Limits

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

Effect of Headings

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

Separability Clause

28. 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.

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

29. Nothing in this Agreement shall be construed as: (i) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject, or (ii) restricting or estopping the OTS from taking such action(s) that it believes is 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.

Successors in Interest/Benefit

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

Integration Clause

31. 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 the subject matter.

Enforceability of Agreement

32. Lafayette 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 Institution. Lafayette 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.

Signature of Directors

33. 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 Institution.

Counterparts

34. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and each of which shall be deemed an original.

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IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and Lafayette hereby execute this Agreement as of the Effective Date.

LAFAYETTE SAVINGS BANK, FSB

By: /s/ Mariellen M. Neudeck
Mariellen M. Neudeck
Chairman

By: /s/ James A. Andrew
~~James A. Andrew~~
Director

By: /s/ Kenneth P. Burns
Kenneth P. Burns
Director

By: /s/ Mary Jo David
Mary Jo David
Director

By: /s/ Harry A. Dunwoody
Harry A. Dunwoody
Director

By: /s/ Philip W. Kemmer
Philip W. Kemmer
Director

By: /s/ Thomas R. McCully
Thomas R. McCully
Director

By: /s/ Peter Neisel
Peter Neisel
Director

By: /s/ Jeffrey Poxon
Jeffrey Poxon
Director

By: /s/ Randolph F. Williams
Randolph F. Williams
Director

OFFICE OF THRIFT SUPERVISION

By: /s/John E. Ryan

~~John E. Ryan~~
Southeast Regional Director