

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 5th day of October, 1997 (the "Effective Date"), by and between Family Bank FSB, ("Family" or the "Institution") OTS Docket No. 03951, a federally chartered savings bank, having its main office located at 232 Main Street, Paintsville, Kentucky, 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., acting through its Central 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. Section 1818(b)1 and (i)(2)¹.

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

WHEREAS, based on the Report of Safety and Soundness Examination dated February 24, 1997 ("Report of Examination"), the OTS is of the opinion that Family has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which Family 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 Family; and

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

WHEREAS, Family, acting through its Board of Directors (the "Board"), without admitting or denying any violations of laws or regulations and/or unsafe and unsound practices, 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:

LENDING

(1) Loan Administration

The Board shall ensure that prior to granting, renewing, or otherwise modifying any loan, that: (i) satisfactory and perfected collateral documentation exists; (ii) the borrower's current and satisfactory credit information has been obtained and analyzed; and (iii) the internal management information systems are accurate.

(2) Loan Underwriting

The Board shall ensure that the current loan underwriting policies and procedures are being followed with respect to granting, renewing, or otherwise modifying any loan.

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

(3) Appraisals of Real Property

The Institution and its subsidiaries shall not make, purchase or refinance (or commit to make, purchase or refinance), all or any part of any loan, other extension of credit or investment secured by real property or invest in any real estate by any means other than as a result of or in lieu of foreclosure until an appraisal report for such real property has been obtained and such appraisal report complies with 12 C.F.R. Part 564 and 12 C.F.R. Section 560.170.

At a minimum, the following appraisal practices must be maintained:

(a) All appraisal reports must be prepared for the Institution by an independent and qualified appraiser approved by the Board of the Institution and be prepared in accordance with generally accepted professional appraisal standards of real estate valuation.

(b) All appraisal reports must reflect market value and shall contain sufficient data to support the market value ascribed to the security property in the report.

(4) Collateral Exceptions

Within sixty (60) days of the Effective Date, the Institution shall correct all collateral exceptions listed in the Report of Examination. In addition, the Institution shall not extend secured credit without first ensuring that proper procedures are followed in obtaining, analyzing, and perfecting collateral documentation on loans supported by collateral. In addition, the Institution shall not extend secured credit without first documenting the value of the collateral and properly perfecting the Institution's lien on it where applicable.

CONFLICTS OF INTEREST

(5) Conflict of Interest Policy

A. Within sixty (60) days of the Effective Date, the Board shall review and amend its conflict of interest policy. At a minimum, the conflict of interest policy shall address:

(a) avoidance of conflicts of interest, the appearance of conflicts and breaches of fiduciary duty;

(b) requirements for arms-length dealing and documentation of any transactions involving payment of fees by the Institution for services or goods from an Institution insider or insider "related interest" as defined by 12 C.F.R. Section 215.2(h) and (n); and

(c) the disclosure of potential conflicts of interest to the Board, as well as periodic disclosure of insider "related interests" as defined by 12 C.F.R. Section 215.2(n).

B. Upon adoption, a copy of this conflict of interest policy shall be forwarded to the OTS for review, and the Board shall cause any existing relationships, transactions or contracts between the Institution and its directors, officers and principal shareholders to be brought into conformance with the policy.

C. The Board shall ensure implementation of its written, comprehensive conflict of interest policy so that it is applicable to the Institution's directors and officers and the sole shareholder of the Institution's holding company.

D. The Institution's directors and officers and the sole shareholder of the Institution's holding company shall abstain from entering into transactions which would create a conflict of interest, and shall comply with all conflict of interest regulations, including 12 C.F.R. Sections 563.41, 563.42, 563.43, and 563.200, and Sections 23A, 23B, and 22(h) of the Federal Reserve Act, 12 U.S.C. Sections 371c, 371c-1, and 375b.

MANAGEMENT

(6) Board of Directors

A. The authorized number of directors shall be increased to a minimum of seven, and shall be filled by persons that are demonstratively independent of Chairman of the Board Short. In addition, for continuity and stability of the Board, all directors shall be elected for three-year staggered terms.

B. The Board shall meet on a regular basis, as specified in the Institution's bylaws, to review the prior period's operations, consider loan applications as required, consider the need for policy changes, evaluate management's compliance with existing Board policies and procedures, and take other actions normal for an effective, active, and independent Board. Such actions must also include a review of the quality and credit risk associated with the various types of loans originated, with particular emphasis towards the extensions of commercial and consumer credit.

Minutes of the Board and committee meetings shall fully document all significant deliberations, actions and decisions. No later than the 25th Calendar Day of the month following the end of a calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the board will submit a copy of such minutes to the OTS.

(7) Officers

A. Within ninety (90) days of the Effective Date, the Board shall hire an experienced loan officer who shall be responsible for assisting in the overall supervision and administration of Family's lending function. In addition, within 12 months of the Effective Date, the Board shall appoint a senior lending officer who shall be responsible for the oversight of Family's lending function. If the Board believes it can not appoint a senior lending officer within the specified timeframe, then within nine months of the Effective Date, the Board shall submit a plan for hiring said senior lending officer to the OTS for approval.

B. A qualified chief executive officer and a chief financial officer are essential to the Institution. In the event of a vacancy in either of these positions, the Board must expeditiously fill the vacated position.

C. The Board shall submit the names of potential candidates to fill vacancies in the positions of chief executive officer, chief financial officer and senior lending officer to the OTS for approval, in accordance with 12 C.F.R. Section 574.9, prior to any final hiring commitment. As part of the submission, the Board shall also include a copy of the individual's application, resume, any proposed employment contract, and any other information requested by the OTS.

(8) Staffing Study

A. Within sixty (60) days of the Effective Date, the Board and senior officers shall analyze the Institution's overall staffing needs. This analysis shall be in writing and shall include:

(a) job descriptions of the general duties and responsibilities for each staffing position;

(b) a supervisor's evaluation of all employees to determine whether these individuals possess the experience and other qualifications necessary to perform the duties and responsibilities for their written job descriptions; and

(c) conclusions as to the staffing requirements and need for additional employees.

B. Upon completion of the staffing study by the Board, a copy of the written analysis shall be forwarded to the OTS. Such analysis shall include: the conclusions reached; supporting documentation; and specific timeframes for implementation of staffing requirements.

C. The staffing study shall be adopted and implemented by the Institution upon completion of review by the OTS.

OPERATIONS

(9) Plan to Improve Earnings

A. Within sixty (60) days of the Effective Date, the Board shall amend the Institution's business plan. The business plan shall incorporate the recommendations set forth in the Report of Examination. The business plan shall address the sustained improvement of earnings. This plan shall include, at a minimum, the following elements:

(a) identification of the major areas in and means by which the Board will seek to improve the Institution's operating performance;

(b) realistic and comprehensive budgets, including projected balance sheets and year-end income statements; and

(c) a description of the operating assumptions that form the basis for major projected income and expense components.

B. Within seventy-five (75) days of the Effective Date, the Board must complete a one year budget for the Institution which addresses all aspects of the revised business plan. This budget shall be reviewed by the Board on a quarterly basis. The budget review process shall monitor the income and expenses of the Institution and compare actual figures with budgetary projections.

GENERAL

(10) Violations of Law

The Board shall immediately take all steps necessary to correct each violation of law, rule or regulation cited in the Report of Examination. As each violation is corrected, the Board shall notify the OTS of the date and manner in which each correction has been effected.

BOARD OF DIRECTORS

(11) Director Responsibility

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 the Institution at all times, including compliance with the determinations of the OTS as required by this Agreement.

(12) Compliance with Agreement

A. The Board and officers of the Institution 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 the Institution 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 Institution 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 issued by the Regional Director that were outstanding as of the date of its adoption.

C. 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.

D. 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

(13) 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, 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.

(14) Successor Statutes, Regulations, Guidance, Amendments

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

(15) Notices

A. 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 Institution, 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 Deputy Director, Office of Thrift Supervision, Department of the Treasury, 200 West Madison, Suite 1300, Chicago, Illinois 60606 or telecopied to (312) 917-5002 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(b) 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 the Institution at 232 Main Street, Paintsville, Kentucky 41240 or telecopied to (606) 789-6840 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

B. 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.

(16) Effective Date

A. 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.

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

(17) Time Limits

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

(18) Effect of Headings

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

(19) 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/her sole discretion determines otherwise.

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

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 any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

(21) 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.

(22) 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 the subject matter.

(23) Enforceability of Agreement

Family 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 Family. Family 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. Section 1818.

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

OFFICE OF THRIFT SUPERVISION

THE INSTITUTION

By: 151

Ronald N. Karr
Regional Director
Central Region

By: 151

Homer Short
Chairman of the Board

DIRECTORS OF THE INSTITUTION

151
John H. Blackburn

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Wallace O. Ewers

151
La Vaughn T. Goggans

151
Stephen Matthew Short