

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 3rd day of December, 1997 (the "Effective Date"), by and between The Cheviot Building and Loan Company, ("Cheviot" or the "Company") OTS Docket No. 00597, a state chartered savings association, having its main office located at 3723 Glenmore Avenue, Cheviot, Ohio 45211, and the State of Ohio, Division of Financial Institutions ("Division"), having its offices located at 77 South High Street, 21st Floor, Columbus, Ohio 43215, acting through the Superintendent or his designee ("Superintendent"), 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 Division within the meaning of Section 1155.021 of the Ohio Revised Code and with the OTS within the meaning of 12 U.S.C. Section 1818(b)1 and (i)(2)¹.

WHEREAS, the Division and the OTS are the regulator(s) of Cheviot; and

WHEREAS, based on the Report of Safety and Soundness Examination dated June 23, 1997 ("Report of Examination"), the Division and the OTS are of the opinion that Cheviot has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which Cheviot is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the Division and the OTS are of the opinion that grounds exist for the initiation of administrative proceedings against Cheviot; and

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

WHEREAS, Cheviot, 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 Division and 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) **Classified Assets**

Within sixty (60) days of the Effective Date, the Board shall develop and adopt a plan to systematically and prudently reduce the level of classified assets. Such a plan shall be submitted to the Division and the OTS for review and comment and include quarterly targets to reduce the number and volume of adversely classified assets. At a minimum, the plan must include the following:

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

A. A written workout strategy for each classified asset where the borrower(s) have an aggregate unpaid balance in excess of \$250,000. Such a workout strategy shall include a detailed proposal for resolving each asset and an anticipated resolution date. The workout strategy shall detail the status of the delinquency, the financial condition of the borrower, the status of the collateral property, and management's actions to improve the Company's position.

B. A written policy to preclude the origination of new loans where the proceeds will be used to pay delinquent amounts on existing loans, unless it is documented that allowing such use of the proceeds improves the Company's financial position.

C. A requirement that a written workout strategy be developed for any borrower whose loan(s) aggregate \$250,000 or more and becomes sixty (60) days or more delinquent. Such a strategy shall include the provisions in (1) A. above and shall be completed and approved by the Board within thirty (30) days after the loan becomes sixty (60) days or more delinquent.

After the plan has been reviewed by the Division and the OTS, the Board shall immediately implement the plan.

(2) Loans to One Borrower Records

Within thirty (30) days of the Effective Date, the Board shall ascertain and document all business relationships between and among all major borrowers to ensure compliance with internal lending limitations and regulatory loans to one borrower requirements pursuant to 12 C.F.R. Section 560.93.

(3) Loan Portfolio Administration

A. Within sixty (60) days of the Effective Date, the Board shall implement procedures to obtain, on an annual basis, collateral operating statements and borrower's financial statements for all loans or extensions of credit to one borrower in excess of \$250,000 that are secured by income-producing properties.

B. Within sixty (60) days of the Effective Date, the Board shall develop and adopt policies and procedures for reviewing, at least annually, all loans or extensions of credit to one borrower in excess of \$250,000 that are secured by income-producing properties. Such a review shall include at a minimum, an evaluation of the collateral operating statements and the borrower's financial statements. Such a review shall be documented, presented to the Board, and noted in the Board minutes.

The policies and procedures for administering the loan portfolio shall be submitted to the Division and the OTS for review and comment. After review by the Division and the OTS, the Board shall immediately implement the policies and procedures.

(4) Loan Underwriting

By execution of this Agreement the Board is confirming that all loan policies and procedures will be adhered to before a loan commitment is extended. At a minimum, no loan will be originated unless reliable and sufficient information, as required by Section 1151.292 (D) of the Ohio Revised Code and 12 C.F.R. Section 560.170, is available to document the ability of each borrower and the security property to repay the debt.

(5) Construction Loan Procedures

Within sixty (60) days of the Effective Date, the Board shall develop and adopt revised construction loan procedures which shall, at a minimum, include the following:

- A. Require detailed cost estimates for construction and/or improvement projects prior to commitments being made.
- B. Require that sufficient funds are controlled by Cheviot at loan origination to complete construction and/or improvements.
- C. Require that the qualifications of inspectors used are commensurate with the complexity of the construction and/or improvement projects.
- D. Require sufficient funds be maintained in the loans-in-process account throughout the construction period to ensure completion of the improvements.

The revised construction loan procedures shall be submitted to the Division and the OTS for review and comment. After review by the Division and the OTS, the Board shall immediately implement the procedures.

MANAGEMENT

(6) Staffing

Within ninety (90) days of the Effective Date, the Board shall prepare a written assessment of the Company's staffing needs. Such an assessment shall give consideration to the staffing requirements necessary to implement the provisions of this Agreement, the current job duties of the staff, and the impending retirement of Vice President Knapke.

In addition, the written assessment shall include recommendations for addressing the above considerations and provide for management succession.

The staffing assessment shall be submitted to the Division and the OTS for review and comment. After the assessment has been considered by the Division and the OTS, the Board shall implement the assessment's recommendations.

(7) Accounting and Recordkeeping

The Board shall ensure that fair value calculations as required by Statement of Financial Accounting Standard No. 114 will be performed for all troubled loans.

In addition, the Board shall ensure that adjustments to the Allowances for Loans and Lease Losses will be recorded and reported in the Thrift Financial Reports for the period in which the adjustments are applicable.

SENSITIVITY TO MARKET RISK

3) Interest-Rate-Risk Sensitivity

Within ninety (90) days of the Effective Date, the Board shall review its Interest-Rate-Risk Policy and establish Net Portfolio Value exposure limits. Then, the Board shall prepare and adopt a plan for reducing the level of interest-rate-risk sensitivity so that the Net Portfolio Value exposure is maintained within the Board established limits. Such a plan should be consistent with the Business Plan, and shall be submitted to the Division and the OTS for review and comment. After review by the Division and the OTS, the Board shall immediately adopt the plan.

GENERAL

(9) 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 Division and the OTS of the date and manner in which each correction has been effected.

BOARD OF DIRECTORS

(10) Director Responsibility

Notwithstanding the requirements of this Agreement that the Board submit various matters to the Division and 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 Company at all times, including compliance with the determinations of the Division and the OTS as required by this Agreement.

(11) Compliance with Agreement

A. The Board and officers of the Company shall take immediate action to cause the Company to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Company 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, Cheviot 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 Superintendent and 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 Division and/or the OTS for documents that the Division and/or the OTS reasonably requests to demonstrate compliance with this Agreement.

MISCELLANEOUS

(12) 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.

(13) Successor Statutes, Regulations, Guidance, Amendments

Reference in this Agreement to provisions of state and federal 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.

(14) 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 Division and the OTS, by the Company, 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 Superintendent, Division of Financial Institutions, 77 South High Street, 21st Floor, Columbus, Ohio 43266-1631 or telecopied to (614) 644-1631 and 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 Company, by the Division and/or 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 Cheviot at 3723 Glenmore Avenue, Cheviot, Ohio 45211 or telecopied to (513) 389-3312, 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.

(15) Effective Date

A. This Agreement shall become effective upon its execution by the Division and the OTS, through their authorized representatives whose signatures appear below. The Agreement shall remain in effect until terminated, modified, or suspended, in writing by the Division, acting through its Superintendent or authorized representative, and the OTS, acting through its Director, Regional Director or other authorized representative.

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

(16) Time Limits

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

(17) Effect of Headings

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

(18) 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 Superintendent and the Regional Director in their sole discretion determine otherwise.

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

Nothing in this Agreement shall be construed as: (i) allowing the Company to violate any law, rule, regulation, or policy statement to which it is subject, or (ii) restricting or estopping the Division and the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

(20) 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.

(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 the subject matter.

(22) Enforceability of Agreement

Cheviot 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 Company. Cheviot acknowledges that this Agreement is a "written agreement" entered into with the Division within the meaning of Section 1155.021 of the Ohio Revised Code and with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. Section 1818.

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

DIVISION OF FINANCIAL INSTITUTIONS

OFFICE OF THRIFT SUPERVISION

By: 15/
W. Curtis Stitt
Superintendent

By: 15/
Ronald N. Karr
Regional Director
Central Region

THE CHEVIOT BUILDING AND LOAN COMPANY

By: 15/
Charles A. Eckert II,
Director

By: 15/
John T. Smith,
Director

By: 15/
Gerhard H. Hillmann,
Director

By: 15/
Robert L. Thomas,
Director

By: 15/
Edward L. Kleemeier,
Director

By: 15/
James E. Williamson,
Director

By: 15/
John R. Knapke,
Director