

DK 6459
95107

SUPERVISORY AGREEMENT

This Agreement ("Agreement") is made and is effective this 31st day of December 1992 ("Effective Date"), by and between Peoples Federal Savings Bank (OTS No. 6459) Aurora, Indiana ("Peoples" or "Institution") for itself and the Office of Thrift Supervision ("OTS"). This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. 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)(Supp. I 1989).

WHEREAS, the OTS is of the opinion that Peoples has not complied with certain statutes and regulations to which the Institution is subject in conducting the business of the Institution, specifically 12 U.S.C. §375b (Supp. I 1989) and 12 C.F.R. §563.43 (in effect on September 14, 1992,) and has engaged in unsafe or unsound practices in conducting the business of the Institution, thereby providing grounds for the initiation of cease and desist proceedings against Peoples by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the institution of cease and desist proceedings against Peoples for its failure to comply with 12 U.S.C. §375b and 12 C.F.R. §563.43, as set forth in the institution's Report of Examination dated September 14, 1992 for so long as the institution is in compliance with this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, Peoples, by its board of directors ("Board"), is willing to enter into this Agreement to avoid the initiation of such cease and desist proceedings;

NOW, THEREFORE, in consideration of the above-stated forbearance by OTS from the initiation of cease and desist proceedings against Peoples, it

is agreed between the parties hereto as follows:

1. Peoples shall correct existing violations of federal statutes and OTS regulations cited in this section and the Report of Examination dated September 14, 1992, and shall not knowingly initiate any action which would result in a violation of, or the aiding and abetting of any violation of 12 U.S.C. §375b and 12 C.F.R. §§563.43(c)(1), 563.170(c)(2), 545.75(b), 564.4 and 571.7(b).

2. Within 30 days from the Effective Date of this Agreement, the Board shall appoint a committee of outside directors who shall perform a detailed analysis of the organizational structure, senior management and management's ability to effectively operate Peoples in a safe and sound manner. Such analysis shall be performed for each officer and management level employee and shall clearly delineate each officer's/manager's abilities and areas of expertise. Based upon the conclusions of the committee, the Board shall adopt and implement a formal written management succession plan and organizational chart, which must be approved in writing by the OTS Regional Deputy Director, prior to its implementation. The plan must provide sufficient detail to explain the duties, responsibilities, and authority of each officer and management level employee.

3. Within 60 days from the Effective Date of this Agreement, Peoples shall adopt policies and implement procedures governing the conflicts of interest, which the Board shall review annually and update as necessary. The policies and procedures shall be submitted to OTS for approval and shall, at a minimum, address all requirements of applicable conflict of interest regulations and statutes, including, but not limited to Section 22(h) of the Federal Reserve Act, 12 U.S.C. 375b (Supp. I 1989), 12 C.F.R. §563.43 and Regulation O, 12 C.F.R. §§215.1-215.13.

No new loans, renewals of, or extensions of credit shall be made to any officer, director, or related interests of such persons until these policies and procedures are approved by the OTS Regional Deputy Director.

4. Within 60 days from the Effective Date of this Agreement, Peoples shall adopt policies and implement procedures governing commercial loans, which the Board shall review annually and update as necessary. These policies and procedures shall be submitted to OTS Regional Deputy Director for approval.

No new commercial loans or extensions of credit shall be made until the policies and procedures are approved by OTS and the Board confirms that the deficiencies cited in the September 14, 1992 Report of Examination have been corrected.

5. Within 180 days from the Effective Date of this Agreement, Peoples shall dispose of the loan to James and Marlene Meyer without recourse to the Institution.

6. Peoples shall refrain from purchasing any securities which do not conform to federal statutes and regulations. All investments must be addressed in the Investment policy and authorized by the Board. The Board shall review the Investment Policy annually and revise as necessary.

IT IS FURTHER AGREED AS FOLLOWS:

(a) Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the OTS, the Board has the ultimate responsibility for proper and sound management of the institution. In exercising and fulfilling its fiduciary duties, the Board may consider the reports of management, counsel, and other agents and consultants of the Board. Nothing contained herein shall require the Board or any member or agent thereof to take any action or omit to take any action inconsistent with his or her fiduciary duties.

(b) It is expressly and clearly understood that if, at any time, the OTS deems it appropriate in fulfilling the lawful responsibilities placed upon it by the several laws of the United States of America to undertake any lawful action affecting the institution, nothing in this Agreement shall in any way inhibit, stop, bar, or otherwise prevent the OTS from doing so.

(c) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time limitations may be extended by the Regional Deputy Director for good cause upon written application by the Board.

(d) All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provision of this Agreement, shall, insofar as applicable, have meanings as defined in the rules and regulations adopted by the OTS (including, without limitation, Chapter V of Title 12 Code of Federal Regulation). Any such technical words or terms used in this Agreement and undefined in said rules and regulations shall have meanings that accord with the best custom and usage in the thrift industry.

(e) 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.

(f) It is understood that the execution of this Agreement shall not be construed as an approval of any application or notices that are contemplated by the Institution.

(g) Any report or other document required by this Agreement to be submitted to the OTS shall be filed with the Office of Thrift Supervision, 525 Vine Street, Suite 700, Cincinnati, Ohio 45202, Attn: Assistant Director: Kurt A. Kreinbring. All reports and other documents shall be deemed filed when received by the OTS.

(h) In the event any provision of this Agreement shall be declared invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(i) This Agreement shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Director or his designee.

IN WITNESS WHEREOF, the OTS, acting through its Regional Director, and Peoples, by its board of directors, have executed this Agreement on the date first above written.

THE OFFICE OF THRIFT SUPERVISION
Cincinnati, Ohio

Peoples Federal Savings Bank
Aurora, Indiana

By: 15/
Ronald N. Karr
Regional Director

15/
Director