

SUPERVISORY AGREEMENT

95006 DK 1039

This Supervisory Agreement ("Agreement") is made and is effective this 14th day of April, 1992, by and between Eastern Savings and Loan Association, Norwich, Connecticut (OTS No. 01039) ("Eastern" or the "Institution") for itself and any wholly-owned or partly-owned subsidiary, the Office of Thrift Supervision ("OTS") through the Regional Deputy Director for the Boston Area Office ("Regional Deputy Director") and the Banking Commissioner of the State of Connecticut ("Commissioner"). 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).

WHEREAS, as evidenced by the Report of Examination dated December 2, 1991 by the OTS ("OTSROE") and the Report of Examination dated December 2, 1991 by representatives of the Connecticut Department of Banking ("DOBROE"), the OTS and the Commissioner are of the opinion that the Institution has not complied with certain laws, rules and regulations to which the Institution is subject, thereby providing grounds for the initiation of a cease and desist proceeding against the Institution; and

WHEREAS, the OTS and the Commissioner are willing to forbear at this time from the initiation of a cease and

desist proceeding against the Institution on the subjects covered by this Agreement for so long as the Institution is in compliance with the provisions of this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, the Institution 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 the OTS and the Commissioner from the initiation of a cease and desist proceeding against the Institution, it is agreed among the parties hereto as follows:

1. The Institution shall charge-off or establish specific reserves for all assets classified Loss in the OTSROE and DOBROE. In addition, the Institution shall immediately increase general reserves to an amount not less than \$330,000.

2. Within ninety (90) days from the effective date of this Agreement, the Institution shall update its loan policies and procedures in the following areas to provide, at a minimum, as follows:

(a) Asset classification policies and procedures shall be updated and refined to assure that internal loan classifications are based on the total risk associated with the loan under review, and not solely or primarily on the delinquency status of the loan.

(b) Classification procedures shall be amended to

include a documented evaluation of loss exposure, and procedures implemented to ensure the prompt recognition of losses.

(c) Policies and procedures shall be established to strictly govern troubled debt restructuring (TDRs), and, in particular, to ensure that loans are not rewritten to avoid taking losses. Policies and procedures for accounting for TDRs must comply with generally accepted accounting procedures ("GAAP"). Moreover, the loan files must properly document the borrower's ability to service the restructured debt.

(d) Lending policies and procedures shall be revised to assure the submission of updated personal financial and operating statements on at least an annual basis for loans where the borrower's primary source of repayment is cash flow from income producing property.

(e) Adequate policies and procedures shall be developed to identify assets that meet the criteria for in-substance foreclosures, as defined by 12 C.F.R. 571.18(h)(1). Such policies and procedures must assure that in-substance foreclosures are properly accounted for and that adequate valuation allowances are provided.

(f) Adequate policies and procedures shall be developed to assure that a fully documented appraisal be obtained for any property the Institution acquires through foreclosure, deed-in-lieu of foreclosure, or in-substance foreclosure, as required by 12 C.F.R. 563.172(a).

A copy of all updated policies and procedures shall be forwarded to the Regional Deputy Director and the Commissioner for review upon approval by the Board. Such approval shall be entered into the Board's minutes and shall contain an affirmative statement that the Board has reviewed the revised policies and procedures and finds that they are consistent with the requirements of paragraph 2 (a) through (f) of this Agreement.

(g) Within sixty (60) days from the effective date of this Memorandum, the Board of Directors shall develop a written plan of action to lessen the Association's risk position with respect to each borrower who or which had outstanding principal debt owing to the Association in excess of \$100,000 which was classified "Substandard" or "Doubtful", in whole or in part, as of December 2, 1991. In developing such plan, the Association shall, at a minimum:

(i) review the financial position of each such borrower, including source repayment, repayment ability, and alternative repayment sources; and

(ii) evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

Based upon such review and evaluation, the written plan of action shall: (A) establish target dollar levels to which the Bank shall reduce the aggregate dollar volume of "Substandard" and "Doubtful" classifications to 40% of total equity capital and reserves within 360 days from the

effective date of this Supervisory Agreement with one half of the reduction to be accomplished within 180 days of the effective date of this Supervisory Agreement; and (B) provide for the submission of written quarterly progress reports to the Association's Board of Directors for review and notation in the Board minutes. [Exhibit A provides the form for the progress report.] As used in this paragraph 6, "reduce" means to (1) collect, (2) charge off, or (3) improve the quality of such assets so as to warrant removal of any adverse classification by the OTS and the Connecticut Department of Banking. Payment of loans with the proceeds of the other loans made by the Association will not constitute "reduction" or "collection" for purposes of this Memorandum. The written plan of action described by this provision will be submitted to the Regional Deputy Director and the Commissioner for review and comment.

3. Within one hundred and twenty (120) days from the effective date of this Agreement, management and the Board shall conduct and complete a study of the adequacy of staffing levels in the Institution's loan workout and collection areas (the "staffing study"). The Staffing Study shall focus on the adequacy of staff in the quality and quantity of personnel, and the lines of authority in each area. In addition, segregation of duties and internal controls shall be reviewed, with particular emphasis on measures taken to assure the accounting system cannot be circumvented as has happened in the past. The Staffing Study

shall also list the definitive remedial steps to be taken in these areas.

The findings of the Staffing Study shall be provided to the Regional Deputy Director and the Commissioner for review upon approval by the Board. Such approval shall be incorporated in the minutes of the Board and shall include a summary of the definitive findings in the areas required in this Paragraph 3.

4. Within thirty (30) days after each Board meeting immediately following the end of each calendar quarter, the Board of Directors shall submit to the Regional Deputy Director and the Commissioner a resolution signed by each director, certifying that to the best of his or her knowledge and belief, the Institution and its subsidiaries are complying in all material respects with each condition of this Agreement. This resolution shall set forth any exceptions to any conditions of this Agreement that were approved by the Regional Deputy Director and the Commissioner.

5. (a) The Board shall establish periodic written profit plans consisting of goals and strategies for improving the earnings of the Association, and shall include, at a minimum:

(i) identification of the major areas in, and means by which, the Board of Directors will seek to improve the Association's operating performance;

(ii) realistic and comprehensive budgets

with consideration given to alternate or unforeseen economic scenarios;

(iii) a budget review process to monitor the income and expenses of the Association to compare actual figures with budgetary projections; and

(iv) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(b) The Board further agrees to review the written profit plan within thirty (30) days from the end of any fiscal quarter in which the Association's net income is greater than 10% below the projected amount. Subsequent to such review, the Board shall revise the written profit plan as deemed necessary.

(c) All written profit plans and reviews thereof shall be submitted to the Regional Deputy Director and the Commissioner for review and comment. No sooner than thirty (30) days, but under no circumstances more than forth-five (45) days after such submission, the Board of Directors shall approve the written profit plan, taking into consideration any regulatory comments, and such approval shall be recorded in the minutes of the Board of Directors. Subsequent modifications to the written profit plan may be made only after giving the Regional Deputy Director and the Commissioner written notice of the proposed modification, and after consideration of any responsive comments submitted by the Regional Deputy Director and the Commissioner within

thirty (30) days from their receipt of the notice of proposed modification. No such modification shall become effective until approved by the Board of Directors, and such approval shall be recorded in the minutes of the Board of Directors. The Association, its directors, officers, and employees shall follow the written profit plan and any subsequent modification thereto.

6. References in this Agreement to provisions of statutes and regulations shall be deemed to include references to all successor provisions of such statutes and regulations as they become applicable.

7. (a) All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of the Agreement, shall, insofar as applicable, have meanings as defined in the Home Owners' Loan Act, 12 U.S.C. 1461 et seq. ("HOLA"), the Federal Deposit Insurance Act, 12 U.S.C. 1811 et seq. ("FDIA"), Chapter V of Title 12 of the Code of Federal Regulations ("CFR"), and/or OTS Regulatory or Thrift Bulletins. Any such technical words or terms used in this Agreement and undefined in the HOLA, FDIA, CFR or OTS Bulletins shall have meanings that are in accordance with the best custom and usage in the savings and loans industry.

(b) 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.

(c) This Agreement shall remain in effect until

terminated, modified or suspended by the OTS, acting through the Regional Deputy Director of the OTS and the Commissioner.

8. A copy of all documentation or reports required under the terms of this Agreement to be submitted to the Regional Deputy Director and the Commissioner shall also be provided to the Regional Director of the Federal Deposit Insurance Corporation.

IN WITNESS WHEREOF, the parties have executed this Agreement.

EASTERN SAVINGS AND LOAN ASSOCIATION
Norwich, Connecticut
By: Its Board of Directors

[Handwritten signatures and initials, including "151" and "15/"]

DEPARTMENT OF THE TREASURY
OFFICE OF PRUDENT SUPERVISION

By: *[Handwritten signature]*
~~Ralph W. Giffey~~

[Handwritten signature]
COMMISSIONER OF BANKS
STATE OF CONNECTICUT

By: *[Handwritten signature]*
Ralph M. Shulansky *[Handwritten mark]*