

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 19th day of August, 2008 (Effective Date), by and between Kentucky Federal Savings and Loan Association, Covington, Kentucky, OTS Docket No. 00458 (Kentucky Federal or Association), a federal mutual savings association, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Southeast Regional Director or his designee (Regional Director).

WHEREAS, the Association is a "savings association" within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4); and

WHEREAS, the OTS is the "appropriate Federal banking agency" with jurisdiction to maintain an administrative enforcement proceeding against the Association pursuant to 12 U.S.C. § 1813(q);

WHEREAS, based upon the Association's April 1, 2008 Report of Examination (2008 Examination), the OTS is of the opinion that Kentucky Federal has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject; and/or (ii) are considered to be unsafe and unsound;

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

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

WHEREAS, the Association, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, 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 and Regulations

1. The Association, its directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions and steps to ensure compliance with the following laws and regulations:
 - a. 12 C.F.R. § 560.101 (Real Estate Lending Standards);
 - b. 12 C.F.R. § 560.160 (Asset Classification);
 - c. 12 C.F.R. § 563.170(c) (Establishment and Maintenance of Records; and

- d. 12 C.F.R. Part 570 Safety and Soundness Guidelines).

Growth

2. Effective immediately, the Association is subject to and shall comply with the requirements and provisions of OTS Regulatory Bulletin (RB) 3b. Without the prior written approval of the Regional Director, the Association shall not increase its total assets during any quarter, beginning with the quarter ending September 30, 2008, in excess of an amount equal to net interest credited on deposit liabilities during the quarter. The growth restrictions imposed by this Paragraph 2 shall remain in effect until the OTS review and approval of the Association's Business Plan pursuant to Paragraph 6 of this Agreement. Following the OTS's approval of the Business Plan, any future growth in assets must strictly comply with the projections set forth in the approved Business Plan.

Lending

3. Effective immediately, the Association shall not originate any non-owner occupied mortgage loans or acquisition, development and construction loans for the purpose of constructing non-owner occupied residences (Restricted Loans). This restriction shall apply to new loans to existing borrowers and additional advances of funds on existing loans. Such restriction shall not apply to new Restricted Loans and additional advances made pursuant to a legally binding commitment in writing entered into on or before April 28, 2008. The limits set forth in this Paragraph 3 shall remain in effect until the OTS's approval of the Association's Business Plan pursuant to Paragraph 6 of this Agreement. Following the OTS's approval of the Business Plan, any future growth in Restricted Loans must strictly comply with the projections set forth in the approved Business Plan. The Board shall require the Association's Senior Executive Officers¹ (Management) to prepare and submit for Board review, written quarterly reports demonstrating the Association's compliance with this requirement.
4. Within sixty (60) days after the Effective Date of this Agreement, the Board shall prepare new policies, procedures and guidelines and/or modify and amend existing policies, procedures, and guidelines regarding residential loans originated or purchased by the Association, including the Restricted Loans identified in Paragraph 3 above, that address all deficiencies and weaknesses described in the Association's 2008 Examination and comply with the requirements set forth in this Agreement (collectively, Revised Loan Policies). At a minimum, the Revised Loan Policies shall:
- a. establish reasonable loan concentration limits by loan type, and loan types should be segregated by owner-occupied and non-owner occupied loans;

¹ The term Senior Executive Officers is defined at 12 C.F.R. § 563.555.

- b. require a comprehensive analysis and documentation of a borrower's creditworthiness, financial resources, and repayment ability, including but not limited to , calculation of debt to income and debt serviced ratios;
- c. require and ensure a comprehensive analysis and appropriate discounted valuation of all real property collateral;
- d. contain detailed credit administration and loan monitoring procedures and requirements that will ensure identification and periodic monitoring of large, complex and/or higher risk loans and loan relationships; and
- e. comply with applicable laws, regulations and OTS guidance.

The Board shall ensure that the Revised Loan Policies are implemented and adhered to by the Association's Management and staff and shall require Management to provide the Board with quarterly updates regarding the Association's compliance.

Office Facilities

5. Effective immediately, the Association shall not make any new real estate related investments in fixed assets of any kind, including home, branch or agency offices, without the prior written approval of the Regional Director.

Business Plan

6. Within sixty (60) days after the Effective Date of this Agreement, the Board shall submit to the Regional Director a new business plan (Business Plan) covering the remainder of calendar year 2008 and all of calendar years 2009 and 2010. In preparing the Business Plan, the Board shall (i) conduct an individual profitability analysis for each of the Association's branch offices; (ii) analyze the Association's operating expenses; (iii) prepare a plan for reducing operating expenses; and (iv) prepare a pro-forma budget. The Business Plan shall address and incorporate the results of the branch profitability analyses and operating results plan and set forth the Board's plans, including specific actions and completion timeframes, for improving earnings and profitability. The Board will make any changes to the proposed Business Plan required by the Regional Director within thirty (30) days after receipt. Thereafter, the Board shall adopt the Business Plan and direct Management to follow and implement the Business Plan. The Board will require Management to provide the Board with quarterly reports on the Association's compliance with the Business Plan and such other information as the Board may request to assist the Board in monitoring the Association's compliance with the Business Plan. The Board's review of Management's reports and any other provided information shall be fully documented in the appropriate Board meeting minutes.
7. The Board shall periodically, but not less than once each calendar quarter, beginning with

the calendar quarter ending December 31, 2008, conduct a thorough and diligent review and assessment of Management's implementation of and the Association's compliance with the approved Business Plan, including requiring Management to submit reports or other information as the Board deems necessary to its review and assessment. Any material modifications to the approved Business Plan shall be submitted to the Regional Director forty-five (45) days prior to implementation.

8. The Board shall require Management to prepare and submit for Board review quarterly variance reports on the Association's compliance with the approved Business Plan within thirty (30) days after the close of each calendar quarter (Quarterly Business Plan Variance Report), beginning with the calendar quarter ending December 31, 2008. The Quarterly Business Plan Variance Reports shall detail actual operating results versus projected results and shall include detailed explanations of any material deviations from the approved Business Plan and a specific description of the corrective actions or measures that have been implemented, proposed, or are under consideration to correct any material deviation. A deviation shall be considered material under this Paragraph 8 when: (i) the Association engages in any material activity that is inconsistent with the approved Business Plan; or (ii) the Association exceeds the level of any activity contemplated in the approved Business Plan or fails to meet target amounts established in the approved Business Plan by more than 10%, unless the activity involves assets risk weighted 50% or less, in which case a variance of more than 25% shall be deemed to be a material deviation. A copy of the Quarterly Business Plan Variance Report shall be provided to the Regional Director within forty-five (45) days after the end of each calendar quarter.

Interest Rate Risk

9. Within sixty (60) days after the Effective Date of this Agreement, the Board shall review and amend the Association's policies and procedures governing the Association's interest rate risk (IRR) exposure to: (i) implement the requirements discussed in the Association's 2008 Examination; (ii) ensure that the Association's policies and procedures comply with applicable laws, regulations and regulatory guidance, including but not limited to 12 C.F.R. § 563.176(b), OTS TB 13a, and OTS Examination Handbook Sections 500 and 600; (iii) establish a quarterly review process and appropriate reporting requirements; and (iv) require that quarterly reports be provided to and reviewed by the Board to monitor the Association's IRR exposure and compliance with these policies and procedures (IRR Policy). The Board shall take all steps necessary to ensure that the IRR Policy required by this Paragraph 9 is implemented and thereafter fully adhered to by Management and staff of the Association. The Board shall submit a copy of the IRR Policy required by this Paragraph 9 to the Regional Director within ten (10) days after adoption.
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Financial Recordkeeping and Reporting

10. Within sixty (60) days after the Effective Date of this Agreement, the Board shall ensure that all reporting errors on Schedule CMR of the Association's Thrift Financial Reports relating to Federal Home Loan Bank investments and advances are corrected (Corrected CMR). The Board shall submit a copy of the Corrected CMR required by this Paragraph 10 to the Regional Director within ten (10) days after filing.

Asset Review and Classification

11. Within sixty (60) days after the Effective Date of this Agreement, the Board shall prepare and adopt, and Management shall implement, a written internal asset review program to identify and properly classify problem assets and ensure that adequate and appropriate levels of Allowance for Loan and Lease Losses (ALLL) are established and maintained (Asset Review Program). The Asset Review Program shall, at a minimum, satisfy the requirements and standards set forth in: (i) 12 C.F.R. § 560.160; (ii) Section 11.G. the Safety and Soundness Standards set forth in 12 C.F.R. Part 570 – Appendix A; (iii) the December 13, 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses and Questions and Answers on Accounting for Loan and Lease Losses (OTS Chief Executive Officer Letter No. 250); and (iv) Sections 260 and 261 of the OTS Examination Handbook.

Management Changes.

12. Effective immediately, the Association shall comply with the prior notification requirements set forth in 12 C.F.R. Part 563, Subpart H. Notices provided in compliance with this Paragraph 12 shall include a copy of the written employment contract or agreement to be entered into with a covered officer or director or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Severance and Indemnification Payments.

13. Effective immediately, the Association shall not make any golden parachute payment or prohibited indemnification payment unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Employment Contracts and Compensation Arrangements.

14. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the OTS with not less than thirty (30) days prior written notice of the proposed arrangement. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Third Party Contracts.

15. Effective immediately, the Association shall provide the OTS with written notice of all arrangements or contracts with third party service providers consistent with the requirements of 12 U.S.C. § 1464(d)(7)(D)(ii). Such notice shall be provided to the Regional Director not later than thirty (30) days after the earlier of (i) the date on which the Association enters into the contract; or (ii) the date on which the performance of the service is initiated. The Board shall review all arrangements or contracts with third party service providers covered by this Paragraph 15 to ensure compliance with the standards and guidelines set forth in Thrift Bulletin 82a.

Violations of Law

16. Within sixty (60) days after the Effective Date of this Agreement, the Board shall require and ensure that Management corrects all deficiencies identified in the Association's 2008 Examination as directed therein, except where modified by this Agreement. Further, the Board and Management of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.
 17. Within thirty (30) days of receipt of any subsequent Report of Examination, internal audit report, independent external audit report, or other report prepared by the Association employees, agents, or independent contractors, which cites or discusses any weakness, deficiency, or violation of law, rule, or regulation, the Board shall prepare, adopt, and thereafter ensure Management and the Association adheres to specific procedures to correct such weaknesses, deficiencies, and violations and prevent future weaknesses, deficiencies, and violations.
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Director Responsibility

18. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Agreement.

Compliance with Agreement

19. All policies, procedures, corrective actions, plans, programs, reviews, and systems required by this Agreement (collectively, Policies and Procedures) shall conform to all applicable statutes, regulations, OTS policy, and guidance. The Board shall submit copies of all Policies and Procedures required by this Agreement to the Regional Director within the timeframes specified or, in the event a timeframe is not specified, within thirty (30) days after adoption by the Board. The Board shall revise such Policies and Procedures as required by the Regional Director within thirty (30) days of receipt of written direction from the Regional Director. The Policies and Procedures, as modified consistent with the written direction of the Regional Director, shall be incorporated into this Agreement and any deviation from such Policies and Procedures shall be a violation of this Agreement.
 20. The Board shall, on a quarterly basis beginning with the calendar quarter ending September 30, 2008, adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including a report from Management regarding the Association's compliance with each numbered paragraph of this Agreement), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall:
 - a. specify in detail how, if at all, full compliance was found not to exist; and
 - b. identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.
 21. The minutes of each meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution:
 - a. the identity of each director voting in favor of its adoption; and
 - b. 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.
 22. Within thirty (30) calendar days after the end of each calendar quarter, beginning with the
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calendar quarter ending September 30, 2008, the Board shall provide to the Regional Director a certified true copy of the Compliance Resolution adopted at the Board meeting pursuant to Paragraph 20 of this Agreement. The Board, by virtue of the Association's submission of a certified true copy of such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except that in the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Board meeting minutes.

23. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement, including making the Association records and documents available for OTS examiner review upon request.

Definitions

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

Successor Statutes, Regulations, Guidance, Amendments

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

26. 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 Association, 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 Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, N.E., Atlanta, Georgia, 30309, or telecopied to (404) 897-1861 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

- b. The Association 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 Association at 11 and Scott Blvd., Covington, Kentucky 41012 or telecopied to (859) 261.9444 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

Duration, Termination or Suspension of Agreement

27. This Agreement shall:
 - a. become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and
 - b. remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).
28. The Regional Director in his sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

Time Limits

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

Effect of Headings

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

Separability Clause

31. 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

32. Nothing in this Agreement shall be construed as:
 - a. allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject; or

- b. restricting the OTS from taking such action(s) as are 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

33. 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.

Signature of Directors

34. 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 Association.

Integration Clause

35. 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 such subject matter. However, as noted herein, all Policies and Procedures required by this Agreement shall, upon modification consistent with the direction of the Regional Director, become part of this Agreement and any deviation from these policies shall be deemed a violation of this Agreement.

Enforceability of Agreement

36. The Association 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 Association. The Association 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.

Counterparts

37. 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 the Association, in accordance with a duly adopted resolution of its Board, hereby execute this Agreement as of the Effective Date.

KENTUCKY FEDERAL SAVINGS AND
LOAN ASSOCIATION

OFFICE OF THRIFT SUPERVISION

_____/s/_____
Paul F. Hugenburg
Chairman

_____/s/_____
John E. Ryan
Regional Director

_____/s/_____
Mark F. Anthe
Director

_____/s/_____
Steve A. Berling
Director

_____/s/_____
C. Patrick Cummings
Director

_____/s/_____
Deborah A. Pastura
Director

_____/s/_____
J. P. Thelen
Director

_____/s/_____
Philip E. Wehrman
Director