

## **SUPERVISORY AGREEMENT**

This Supervisory Agreement (Agreement) is made this 13th day of August, 2010 by and through the Board of Directors (Board) of United Fidelity Bank, F.S.B., Evansville, Indiana, OTS Docket No. 03676 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director);

**WHEREAS**, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

**WHEREAS**, the Association is subject to examination, regulation and supervision by the OTS; and

**WHEREAS**, based on its examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound practices and/or violations of law or regulation; and

**WHEREAS**, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS in the October 19, 2009 Report of Examination (2009 ROE), the Association and the OTS have mutually agreed to enter into this Agreement.

**WHEREAS**, on August 13th, 2010, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

**NOW THEREFORE**, in consideration of the above premises, it is agreed as follows:

### **Transactions with Affiliates.**

1. Effective immediately, the Association shall not engage in any new or amended transaction with an affiliate unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate for which notice is submitted pursuant to this Paragraph, complies with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.
2. Within sixty (60) days, the Association shall take specific steps to resolve the affiliate transaction violations identified in the 2009 ROE and to comply with the express terms and conditions of each written agreement covering a derivative transaction with an affiliate.
3. Within sixty (60) days, the Association shall adopt a written policy to comply with the requirements of 12 C.F.R. § 563.41 (Affiliate Transactions Policy). The Affiliate Transactions Policy shall include, at a minimum:
  - (a) a provision for training appropriate Association personnel and members of the Board at least annually regarding all aspects of Section 563.41 and Regulation W, 12 C.F.R. Part 223;
  - (b) a process to identify the Association's affiliates and continually update such information;
  - (c) a process to identify all of the Association's affiliate transactions as defined in 12 C.F.R. § 563.41 and non-affiliate transactions that benefit an affiliate as defined in 12 C.F.R. § 223.16(a);
  - (d) procedures for independent annual review of the Association's compliance with the contractual terms of each affiliate transaction and confirmation that each affiliate

transaction is accurately recorded on the books of the Association; and

(e) a requirement for adequate, centralized records of all transactions covered by the Affiliate Transactions Policy in a form and manner that will enable easy, independent review.

**Asset Quality.**

4. By September 30, 2010, the Association shall develop a written specific workout plan (Asset Workout Plan) for each adversely classified asset or group of such classified assets to any one borrower or loan relationship in the amount of five hundred thousand dollars (\$500,000) or greater.

5. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending September 30, 2010, the Association shall submit a quarterly written asset status report (Quarterly Asset Report) to the Board. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. The Quarterly Asset Report shall include, at a minimum:

- (a) the current status of all Asset Workout Plans;
- (b) the ratio of classified assets to Tier 1 (Core) capital plus allowance for loan and lease losses (ALLL);
- (c) a comparison of classified assets at the current quarter end with the preceding quarter; and
- (d) a discussion of the actions taken during the preceding quarter to reduce the Association's level of classified assets.

6. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending September 30, 2010, a copy of the Quarterly Asset Report shall be provided to the Regional Director.

**Restriction on Lending to Classified Borrowers.**

7. Effective immediately, the Association shall not extend, directly or indirectly, without prior written Regional Director non-objection any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Association that has been charged off or classified, in whole or in part, as a “Loss” and is uncollected. The Association’s expenses incurred in connection with its real estate owned (REO), including in-substance foreclosures, are not covered by this Paragraph.

8. Effective immediately, the Association shall not make any additional extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified as “Substandard” unless prior to extending additional credit pursuant to this Paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, or a designated committee thereof, who shall certify in writing:

- (a) why the extension of such credit is in the best interests of the Association;
- (b) that an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended; and
- (c) that the signed certification shall be made a part of the minutes of the meeting of the Board or designated committee with a copy retained in the borrower’s credit file.

**Concentrations of Assets.**

9. Within sixty (60) days, the Association shall revise its written program for identifying,

monitoring, and controlling risks associated with concentrations of assets (Asset Concentration Policy) to ensure that it addresses all corrective actions set forth in the 2009 ROE relating to concentrations of assets. The Asset Concentration Policy shall comply with all applicable laws, regulations and regulatory guidance and shall:

- (a) establish comprehensive credit concentration limits expressed as a percentage of Tier 1 (Core) Capital plus ALLL and document the appropriateness of such limits based on the Association's risk profile;
- (b) establish comprehensive non-credit asset concentration limits expressed as a percentage of Tier 1 (Core) Capital and document the appropriateness of such limits based on the Association's risk profile;
- (c) establish stratification categories of the Association's concentrations of assets, such as real estate investments, multifamily Government National Mortgage Association (GNMA) securities, counterparty risk, and transactions with affiliates, and establish enhanced risk analysis, monitoring, and management for each stratification category;
- (d) contain specific review procedures and reporting requirements, including written reports to the Board, designed to identify, monitor, and control the risks associated with concentrations of assets and periodic market analysis for the various property types and geographic markets represented in its portfolio; and
- (e) contain a written action plan, including specific time frames, for bringing the Association into compliance with its concentration of assets limits.

10. A copy of the Asset Concentration Policy shall be provided to the Regional Director within five (5) days of adoption by the Board.

**Interest Rate Risk Management.**

11. Within ninety (90) days, the Association shall address all corrective actions in the 2009 ROE related to the Association's interest rate risk (IRR) management, including measures to be taken to bring the Net Portfolio Value (NPV) ratios and sensitivity limits to within Board-approved policy limits without consideration of the affiliate derivative agreements.

**Real Estate Investments.**

12. Within sixty (60) days, the Association shall develop a real estate investment policy (REI Policy) to ensure that it addresses all corrective actions contained in the 2009 ROE concerning the Association's investment, directly or indirectly, in real estate. The REI Policy shall conform to all applicable laws, regulations and regulatory guidance and include procedures and guidelines covering:

- (a) pre-purchase analysis of REI;
- (b) return objectives;
- (c) contractual requirements and considerations;
- (d) valuation methodologies;
- (e) appraisal standards;
- (f) type and frequency of monitoring reports;
- (g) REI portfolio concentration limits;
- (h) permissible REI limits and types; and
- (i) REI performance measurement criteria.

13. A copy of the REI Policy shall be provided to the Regional Director within five (5) days of adoption by the Board.

**Business Plan.**

14. By October 31, 2010, the Association shall submit to the Regional Director an updated business plan for the period beginning January 1, 2011 through December 31, 2012 (Business Plan) that is acceptable to the Regional Director and addresses all corrective actions set forth in the 2009 ROE. At a minimum, the Business Plan shall conform to applicable laws, regulations, and regulatory guidance and include:

- (a) establishment of a minimum Tier 1 (Core) Capital Ratio and Total Risk-Based Capital Ratio commensurate with the Association's risk profile;
- (b) detailed capital preservation and enhancement strategies with date specific narrative goals;
- (c) plans to improve the Association's core earnings and increase core deposits throughout the term of the Business Plan;
- (d) quarterly pro forma financial projections (balance sheet, income statement, and statement of cash flows), including Tier 1 (Core) and Total Risk-Based Capital Ratios, for the period covered by the Business Plan; and
- (e) identification of all relevant assumptions made in formulating the Business Plan and a requirement that documentation supporting such assumptions be retained by the Association.

15. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Association shall implement and adhere to the Business Plan. A copy of the Business Plan shall be provided to the Regional Director within five (5) days after Board approval.

16. Any material modifications<sup>1</sup> to the Business Plan shall receive the prior, written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.

17. By December 31, 2011, and each December 31st thereafter, while this Agreement is effective, the Business Plan shall be updated and submitted to the Regional Director pursuant to Paragraphs 14 through 16 above incorporating the Association's budget plan and profit projections for the next two (2) fiscal years taking into account any revisions to the Association's loan, investment and operating policies.

**Business Plan Variance Reports.**

18. Within forty-five (45) days after the close of each quarter, after implementation of the Business Plan, the Board shall review written quarterly variance reports on the Association's compliance with the Business Plan (Variance Reports). The Variance Reports shall:

- (a) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken by the Association to address identified variances.

19. A copy of each Variance Report shall be provided to the Regional Director within five (5) days after review by the Board.

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<sup>1</sup> A modification shall be considered material under this Paragraph if the Association: (a) plans to engage in any activity that is inconsistent with the Business Plan; (b) plans to exceed the level of any activity contemplated in the Business Plan by more than ten percent (10%); or (c) fails to meet target amounts established in the Business Plan by more than ten percent (10%).

**Dividends and Other Capital Distributions.**

20. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Association’s written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

**Growth.**

21. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written non-objection of the Regional Director. The growth restriction imposed by this Paragraph shall remain in effect until the Regional Director reviews and approves the Association’s Business Plan as required under Paragraph 15 of this Agreement.

**Directorate and Management Changes.**

22. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers<sup>2</sup> set forth in 12 C.F.R. Part 563, Subpart H.

**Employment Contracts and Compensation Arrangements.**

23. Effective immediately, the Association shall not enter into any new contractual arrangement or 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 Regional Director with not less than thirty (30) days prior written notice of the proposed

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<sup>2</sup> The term “Senior Executive Officer” is defined at 12 C.F.R. § 563.555.

transaction. The notice to the Regional Director 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 Senior Executive Officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director 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.**

24. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association<sup>3</sup> or outside the Association’s normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that the arrangement or contract complies with the standards and guidelines set forth in OTS Thrift Bulletin 82a; and (b) received written notice of non-objection from the Regional Director.

**Golden Parachute Payments.**

25. Effective immediately, the Association shall not make any golden parachute payment<sup>4</sup> unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

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<sup>3</sup> A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association’s total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association’s daily operations without regard to the contract amount.

<sup>4</sup> The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

**Effective Date.**

26. This Agreement is effective on the Effective Date as shown on the first page.

**Duration.**

27. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representative.

**Time Calculations.**

28. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

**Submissions and Notices.**

29. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

30. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

(a) **To: the OTS**

Regional Director  
Office of Thrift Supervision  
One South Wacker Drive, Suite 2000  
Chicago, Illinois 60606  
Facsimile: (312) 917-5001

(b) **To: the Association**

Chairman of the Board  
United Fidelity Bank, F.S.B.  
18 NW 4th Street  
Evansville, Indiana 47708  
Facsimile: (812) 429-0542

**No Violations Authorized.**

31. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

**OTS Authority Not Affected.**

32. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

**Other Governmental Actions Not Affected.**

33. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 32 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

**Miscellaneous.**

34. The laws of the United States of America shall govern the construction and validity of this Agreement.

35. If any provision of 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 or her sole discretion determines otherwise.

36. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

37. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

38. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

**Enforceability of Agreement.**

39. This Agreement is a “written agreement” entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

**Signature of Directors/Board Resolution.**

40. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

[Remainder of Page Intentionally Left Blank]

**WHEREFORE**, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

**UNITED FIDELITYBANK, F.S.B.**  
Evansville, Indiana

**OFFICE OF THRIFT SUPERVISION**

\_\_\_\_\_/s/\_\_\_\_\_  
John R. Cunningham, Chairman

By:\_\_\_\_\_/s/\_\_\_\_\_  
Daniel T. McKee  
Regional Director, Central Region

\_\_\_\_\_/s/\_\_\_\_\_  
Paul E. Becker, Director

\_\_\_\_\_/s/\_\_\_\_\_  
Bruce A. Cordingley, Director

\_\_\_\_\_/s/\_\_\_\_\_  
Donald R. Neel, Director

\_\_\_\_\_/s/\_\_\_\_\_  
Barry A. Schnakenburg, Director