

## **SUPERVISORY AGREEMENT**

This Supervisory Agreement (Agreement) is made this 13th day of August, 2010, by and through the Board of Directors (Board) of Pedcor Financial Bancorp, Carmel, Indiana, OTS Docket No. H4257 (Mid-Tier Holding Company) 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 Mid-Tier Holding Company is subject to examination, regulation and supervision by the OTS;

**WHEREAS**, based on its November 9, 2009 examination of the enterprise consisting of Pedcor Financial, LLC, Carmel, Indiana, OTS Docket No. H3598 (Holding Company) and the Holding Company's direct and indirect subsidiaries, Mid-Tier Holding Company and Fidelity Federal Bancorp, Evansville, Indiana, OTS Docket No. H2204, the OTS finds that the Mid-Tier Holding Company has engaged in unsafe or unsound practices in conducting its consolidated operations; and

**WHEREAS**, in furtherance of their common goal to ensure that the Mid-Tier Holding Company addresses the unsafe or unsound practices identified by the OTS in the November 9, 2009 Report of Examination, the Mid-Tier Holding Company and the OTS have mutually agreed to enter into this Agreement.

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

## **Capital Plan.**

1. By October 31, 2010, the Mid-Tier Holding Company shall submit to the Regional Director a written plan for enhancing the consolidated capital of the Mid-Tier Holding Company (Capital Plan). The Capital Plan shall cover the period beginning with the quarter starting January 1, 2011 through the quarter ending December 31, 2012. At a minimum, the Capital Plan shall include:

- (a) establishment of a minimum tangible capital ratio of tangible equity capital to total tangible assets commensurate with the Mid-Tier Holding Company's consolidated risk profile;
- (b) capital preservation and enhancement strategies with specific time frames to achieve and maintain the Board-established minimum tangible equity capital ratios;
- (c) operating strategies to achieve net income levels that will result in adequate debt service throughout the term of the Capital Plan;
- (d) quarterly cash flow projections for the Mid-Tier Holding Company on a stand alone basis for the period covered by the Capital Plan that identify both the sources of funds and the expected uses of funds;
- (e) detailed scenarios to stress-test the consolidated minimum capital targets and debt service coverage based on continuing operating results, economic conditions and risk profile of consolidated assets; and
- (f) identification of all relevant assumptions made in formulating the Capital Plan and a requirement that documentation supporting such assumptions be retained by the Mid-Tier Holding Company.

2. Upon receipt of written notification from the Regional Director that the Capital Plan is acceptable, the Mid-Tier Holding Company shall implement and adhere to the Capital Plan. A copy of the Capital Plan shall be provided to the Regional Director within five (5) days after Board approval.

3. Any material modifications<sup>1</sup> to the Capital Plan shall receive the prior written non-objection of the Regional Director. The Mid-Tier Holding Company shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.

**Capital Plan Variance Reports.**

4. Within forty-five (45) days after the end of each quarter, after implementation of the Capital Plan, the Board shall review quarterly variance reports on the Mid-Tier Holding Company's compliance with the Capital Plan (Variance Reports). The Variance Report shall:

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

5. 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 Mid-Tier Holding Company: (a) plans to engage in any activity that is inconsistent with the Capital Plan; (b) plans to exceed the level of any activity contemplated in the Capital Plan by more than ten percent (10%); or (c) fails to meet target amounts established in the Capital Plan by more than ten percent (10%).

### **Dividends and Capital Distributions.**

6. Effective immediately, the Mid-Tier Holding Company shall not declare or pay any cash dividends or other capital distributions or purchase, repurchase or redeem or commit to purchase, repurchase, or redeem any Mid-Tier Holding Company equity stock without the prior written non-objection of the Regional Director. The Mid-Tier Holding Company shall submit its written request for non-objection to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed dividend, capital distribution, or stock transaction. The written request for such notice of non-objection shall: (a) contain current and pro forma projections regarding the Mid-Tier Holding Company's capital, asset quality, and earnings; and (b) address compliance with the Capital Plan required by Paragraph 1 of this Agreement.

### **Debt Limitations.**

7. Effective immediately, the Mid-Tier Holding Company shall not: incur, issue, renew, redeem, or rollover any debt,<sup>2</sup> increase any current lines of credit, or otherwise incur any additional debt without receiving the prior written non-objection of the Regional Director. All written requests to the Regional Director shall include, at a minimum: a statement regarding the purpose of the debt; a copy of the debt agreement; the planned source(s) for debt repayment; and an analysis of the cash flow resources available to meet such debt repayment. The Mid-Tier Holding Company's written request for non-objection shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed debt issuance, renewal, redemption, or rollover; the proposed increase in any current lines of credit; or any other incurrence of additional debt.

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<sup>2</sup> For purposes of this Paragraph, the term "debt" includes, but is not limited to: loans, bonds, cumulative preferred stock, hybrid capital instruments such as subordinated debt or trust preferred securities, and guarantees of debt; and does not include: liabilities that are incurred in the ordinary course of business to acquire goods and services and that are normally recorded as accounts payable or accruals under generally accepted accounting principles.

**Golden Parachute Payments.**

8. Effective immediately, the Mid-Tier Holding Company shall not make any golden parachute payment<sup>3</sup> unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

**Directorate and Management Changes.**

9. Effective immediately, the Mid-Tier Holding Company shall comply with the prior notification requirements for changes in directors and Senior Executive Officers<sup>4</sup> set forth in 12 C.F.R. Part 563, Subpart H.

**Effective Date.**

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

**Duration.**

11. 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 representatives.

**Time Calculations.**

12. 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.**

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

14. 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

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<sup>3</sup> The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

<sup>4</sup> The term “Senior Executive Officer” is defined at 12 C.F.R. § 563.555.

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 Mid Tier Holding Company:**

Chairman of the Board  
Pecor Financial Bancorp  
770 3<sup>rd</sup> Avenue, SW  
Carmel, Indiana 46032  
Facsimile: (317) 218-2665

**No Violations Authorized.**

15. Nothing in this Agreement shall be construed as allowing the Mid-Tier Holding Company, its Board, officers or employees to violate any law, rule, or regulation.

**OTS Authority Not Affected.**

16. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Mid-Tier Holding Company 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.**

17. The Mid-Tier Holding Company acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 16 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Mid-Tier Holding Company 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.**

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

19. 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.

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

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

22. 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.**

23. 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.**

24. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Mid-Tier Holding Company 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 Regional Director along with the executed original(s) of this Agreement.

**WHEREFORE**, the OTS, acting by and through its Regional Director, and the Board of the Mid-Tier Holding Company, hereby execute this Agreement.

**PEDCOR FINANCIAL BANCORP**  
Carmel, Indiana

**Accepted by:**  
**Office of Thrift Supervision**

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

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

\_\_\_\_\_/s/  
Gerald K. Pedigo, Director

\_\_\_\_\_/s/  
Phillip J. Stoffregen, Director