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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 3rd day of February, 1999 (the "Effective Date"), by and between United Fidelity Bank, fsb (the "Bank"), a federally chartered stock association, having its main office located at 18 N.W. Fourth Street, Evansville, Indiana and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., acting through its Central Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is the primary federal regulator of the Bank; and

WHEREAS, based on the Report of Examination dated May 11, 1998, ("ROE"), the OTS is of the opinion that the Bank has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Bank is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Bank; and

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

WHEREAS, the Bank, acting through its Board of Directors (the "Board") without admitting or denying any violations of laws or regulations and/or unsafe and unsound practices, wishes to cooperate with the OTS and to evidence their 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, the mutual undertakings set forth herein, the parties hereto agree as follows:

CORRECTIVE PROVISIONS

I. Credit Quality

- A. The Board shall require management to develop a written plan, with quantified goals and a timetable, for the reduction of classified and criticized assets to a reasonable level. The plan shall set a target level of classified assets to core capital plus Allowance for Loan and Lease Loss ("ALLLs") of 50% or less by December 31, 1999. Within 30 days of the Effective Date, this plan shall be submitted to the Regional Director or his designee for review and approval. After the plan has been approved by the OTS, the Board shall immediately implement and adhere to the plan.
- B. The Board shall submit a written report to the Regional Director or his designee regarding classified assets within 30 days of the end of each quarter, beginning with the quarter ended March 31, 1999. The report shall provide a narrative description of workout efforts for each classified and criticized asset with a book balance of \$200,000 or greater. The report shall itemize classified assets below \$200,000. At a minimum, the report shall note gross and net book value, appraised value, delinquency status, and workout plans.
- C. On a quarterly basis, the Board shall require management to classify assets and submit to the Board a report of these classifications. The report shall include, at a minimum, the asset classified, exposure, classification assigned, security (if a loan), appraised value, the reason for classification and workout efforts. The report shall also provide a total for all classified assets and the ratio of classifications to capital and ALLLs.
- D. The Board shall require management to establish and maintain a level of ALLLs adequate to buffer the risk in the loan portfolio. Additionally, adequate general reserves must also be maintained at a level sufficient to buffer the risk in the remaining asset portfolios. The Board must certify in its minutes that a review was made of the ALLLs and

attest to the adequacy of its level. Such review shall be performed on at least a quarterly basis.

II. Lending

- A. As of the Effective Date, the Bank shall not make, invest in, purchase, or commit to make or purchase any additional commercial loans or commercial real estate loans, including commercial nonmortgage loans, multifamily mortgage loans, nonresidential mortgage loans, land development loans, and letters of credit ("Commercial Loans"). Classified or criticized Commercial Loans may be refinanced or extended only with the prior written approval of the Regional Director or his designee. The Bank may refinance at market terms non-classified and non-delinquent existing Commercial Loans where no additional funds are extended or no additional exposure is granted to the borrower.
- B. Before the Bank makes a request to resume commercial and commercial real estate lending activities, the Board must establish the ability of management to prudently manage, underwrite, monitor, administer and account for this activity. The following items must also be completed:
- i) The Bank's high risk loan portfolios must be below targeted concentration limits established by the Board in the revised strategic plan as required in Section IV of this Agreement.
 - ii) The Bank must assemble an appropriately experienced staff to prudently and effectively monitor the current loan and investment portfolios, and must ensure staffing is appropriate to conduct future activities.
 - iii) At a minimum, in addition to current staffing, the Bank must add an experienced credit analyst for both commercial and commercial real estate lending and assemble an experienced administration and monitoring staff. Also, the Board must maintain an appropriately experienced staff of commercial and commercial real estate lending officers.
- C. The Bank shall not increase its consumer loan portfolio above 25% of its total assets, without the prior written approval of the Regional Director or his designee. The

Bank shall immediately cease all "sub prime" consumer lending activities until a management and staffing plan for this activity has been approved by the Regional Director or his designee.

III. Capital

The Bank may not make a capital distribution to Fidelity Federal Bancorp ("FFB") without the prior written approval of the Regional Director or his designee. The term "capital distribution" is defined at 12 C.F.R. Section 563.134(a).

IV. Strategic Plan

Within 60 days of the Effective Date, the Board shall prepare and submit, for review and approval by the Regional Director or his designee, a written strategic plan. Once approved by the Regional Director or his designee, the Bank shall not deviate from the approved plan without prior approval from the Regional Director or his designee. The plan shall, at a minimum, include the following:

- A. Establish minimum tangible, core, and risk-based capital targets consistent with the Bank's risk profile. These targets shall be sufficient to buffer the risk from the high level of classifications, significant concentration in high risk assets, and other risks posed by the balance sheet and management.
- B. Project a quarterly balance sheet and a quarterly income statement for a three year time period.
- C. Establish specific strategies for the Bank, giving due consideration to current portfolio risks, staff expertise, and capital adequacy.
- D. Establish concentration limits for all assets. In particular, the Board shall establish concentration limits for commercial, multifamily mortgage, nonresidential mortgage, land and development loans, and letters of credit. Limits on equity investments, real estate held for development, and "sub prime" consumer lending shall also be established.

- E. Establish a plan for reducing the concentration in high risk assets. The plan shall include specific targets and time frames.
- F. Address each area of the Bank's operations and determine the adequacy of infrastructure, staffing and expertise to carry out specific strategies.
- G. Address capital planning, establish formal cash flow planning and identify methods to build and maintain adequate liquidity.

V. Equity Investments and Real Estate Held for Investment

- A. The Bank or its subordinate organizations shall not enter into any additional equity investments.
- B. The Bank or its subordinate organizations shall not develop any real estate without the specific approval of the Regional Director or his designee. Further, the Bank or its subordinate organizations shall not acquire any real estate for purposes of future development.
- C. The Board shall develop a written plan to divest of all real estate held for development. The plan must include time frames for implementing specific actions to liquidate the parcels. The Board shall submit the plan to the Regional Director or his designee within 30 days of the Effective Date along with listing agreements for parcels held. An update on the status of parcels sold under contract, but not yet closed shall also be provided. After the plan has been reviewed by the Regional Director or his designee, the Board shall immediately implement and adhere to the plan.
- D. The Bank shall obtain prior written approval of the Regional Director or his designee before selling any asset to an affiliated party. In its request for approval, the Bank shall disclose its efforts to sell the asset to unaffiliated parties.

VI. Staffing

- A. The Board shall develop a plan to reduce employee turnover and build experienced staff. This plan shall include a detailed management succession plan and shall be submitted

to the Regional Director or his designee for review within 60 days of the Effective Date. After the plan has been approved by the OTS, the Board shall immediately implement and adhere to the plan.

- B. The Board shall obtain prior written approval from the Regional Director or his designee for additions or replacements of directors or senior executive officers. Prior approval is also required for a change in the responsibilities of any senior executive officer.

VII. Conflicts of Interest/Transactions with Affiliates

- A. Within 60 days of the Effective Date, the Board shall develop, adopt, and implement policies and procedures to ensure that situations involving conflicts of interest are avoided. The policy shall establish disclosure requirements for directors, officers and employees. All business and other relationships posing potential conflicts with customers, clients, vendors and other service providers, must be formally disclosed and monitored.
- B. The Bank and its subordinate organizations shall not engage in any transactions with or distribute any funds to (including, but not limited to covered transactions, as defined in 12 CFR 563.41 (b)(7)) FFB or its subsidiaries, without the prior written approval of the Regional Director or his designee.

VIII. Cash Flow and Liquidity

Within 60 days of the Effective Date, the Board shall develop, adopt, and implement a written plan to increase liquidity and establish policies and procedures for the prudent management of cash flow and liquidity. This plan shall be included in the strategic plan as set forth in Section IV(G) of this Agreement.

IX. Compensation

- A. The Bank, its subordinate organizations or FFB are prohibited from paying or entering into a contract to pay any golden parachute payment to any institution-affiliated party, as defined in 12 CFR Section 359.1(f).

- B. Within 30 days from the Effective Date, the Board shall provide to the Regional Director or his designee, a list of all senior executive officers and directors and their respective duties. Copies of existing employment agreements for any officers or directors shall be submitted within 30 days of the Effective Date. The Board shall obtain prior approval of the Regional Director or his designee before entering into any new employment contracts with senior executive officers and directors.
- C. Without the prior approval of the Regional Director or his designee, the Bank shall not provide any increases to executive benefit packages (including, but not limited to, salary, bonus, stock options, retirement plans, insurance plans or other remuneration) in excess of the annual cost of living (as determined by the annual increase in the CPI) or \$5,000, whichever is less.

X. Growth

The Bank shall not increase its total assets, except for an amount equal to net interest credited on deposit liabilities, above the level existing at the Effective Date, without prior written approval from the Regional Director or his designee. Within 10 days of the Effective Date, the Bank shall report to the Regional Director or his designee, in writing, the dollar amount of its total assets at the Effective Date.

XI. Board Oversight

- A. The Bank shall not engage in any new activities, not set forth in the Bank's strategic plan required pursuant to Section IV of the Agreement, without the prior approval of the Regional Director or his designee.
- B. The Board shall ensure the Bank maintains a fully staffed and functioning internal audit department and independent loan review process. These functions shall report directly to a committee formed solely of outside directors. The Board shall also ensure that recommendations of the internal audit function are implemented according to the direction of the Board and or outside committee.
- C. Within 60 days of the Effective Date, the Board shall develop and adopt a policy to administer the general

partnerships held by its subordinate organization, Village Housing Corporation. The policy shall, at a minimum, establish limits on the funding of cash flow shortfalls of the partnerships, set requirements for the repayment of loans to the partnerships, and establish procedures for requesting funding from the limited partners. After it has been adopted, the Board shall immediately implement and adhere to the policy.

- D. Within 60 days of the Effective Date, the Board shall develop and implement policies and procedures for the mortgage brokerage activity conducted out of the Bank's subordinate organizations. The policy shall address operations and risk management, including the establishment of nonrecourse provisions and loan funding requirements. The policy shall require that participation agreements and formal written take-out commitments be executed prior to loan closings. After they have been adopted, the Board shall immediately implement and adhere to the policies and procedures.

MISCELLANEOUS

XII. Director Responsibility

Notwithstanding the requirements of this Agreement that the Board of Directors submit various matters to the Regional Director or his designee for the purpose of receiving approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Bank at all times, including compliance with the determinations of the Regional Director or his designee as required by this Agreement.

XIII. Compliance with Agreement

- A. The Board and officers of the Bank shall take immediate action to cause the Bank to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Bank to continue to carry out the provisions of this Agreement.

- B. The Board, on a quarterly basis, shall adopt a board resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Bank has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption or non-objection issued by the Regional Director or his designee that were outstanding as of the date of its adoption.
- C. The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) 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.
- D. No later than the 25th Calendar Day of the month following the end of a calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the Bank shall provide to the Regional Director or his designee a certified true copy of the Compliance Resolution adopted at the Board meeting in each such calendar quarter. The Board, by virtue of the Bank's submission of a certified true copy of each such Compliance Resolution to the Regional Director or his designee, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. 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 minutes of the Bank.

XIV. Definitions

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, FDIA, or OTS Memoranda. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda

shall have the meanings that are in accordance with the best custom and usage in the savings and loan industry.

XV. Successor Statutes, Regulations, Guidance, Amendments

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.

XVI. Notices

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 the OTS or the Bank, shall be in writing and mailed, first class or overnight courier, or means of electronic transmission, or physically delivered, and addressed as follows:

Office of Thrift Supervision	United Fidelity Bank, fsb
200 West Madison Street	18 N.W. Fourth Street
Suite 1300	P.O. Box 1347
Chicago, Illinois 60606	Evansville, Indiana 47706

XVII. Duration, Termination or Suspension of Agreement

- A. This Agreement shall become effective upon its execution by the OTS, through its authorized representative whose signature appears below. The Agreement shall 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).
- B. The Regional Director in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

XVIII. Time Limits

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

XIX. Effect of Headings

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

XX. Separability Clause

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/her sole discretion determines otherwise.

XXI. No Violations of Law, Rule, Regulation or Policy Statement Authorized/OTS Not Restricted

Nothing in this Agreement shall be construed as:
(i) allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting the OTS from taking such action(s) that 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.

XXII. Successors in Interest/Benefit

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.

XXIII. Integration Clause

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.

XXIV. Enforceability of Agreement

The Bank 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 Bank. The Bank acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 6 of the FDIA, 12 U.S.C. §1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Bank hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

THE BANK

By:

By:

Ronald N. Karr
Central Regional Director

M. Brian Davis
Chief Executive Officer

DIRECTORS OF THE BANK

Director *15/*

Director *15/*