

SUPERVISORY AGREEMENT

OTS-CINCINNATI

This Agreement ("Agreement") is made and is effective this 19th day of November 1991 ("Effective Date"), by and between Middlesboro Federal Bank, FSB, Middlesboro, Kentucky ("Middlesboro"), (OTS No. 2438), for itself and the Office of Thrift Supervision ("OTS"). 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. Sections 1818(b)(1) and (i)(2).

WHEREAS, the OTS is of the opinion that the institution has not complied with certain of the regulations to which the institution is subject in conducting the business of Middlesboro, and has engaged in unsafe or unsound practices in conducting the business of Middlesboro, thereby providing grounds for the initiation of cease and desist proceedings against First Federal by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the institution of cease and desist proceedings against Middlesboro for its failure to comply with regulations, and unsafe and/or unsound practices as set forth in the institution's Report of Examination dated August 14, 1991 for so long as the institution is in compliance with the provision of this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, Middlesboro by its Board of Directors ("Board"), 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 OTS from the initiation of cease and desist proceedings against Middlesboro, it is agreed between the parties hereto as follows:

1. Within 90 days of the date of this Agreement, the board of directors is to submit an enhanced business plan to the Assistant Director which includes quantified goals and timetables for improvement of the institution's net operating income, with an emphasis upon the origination of residential mortgage loans. The plan is to include a review of the composition and yield of the institution's assets with the objectives of increasing yield while maintaining prudent standards of safety and soundness. The plan is also to include quantified goals for the reduction of delinquent loans which should, at a minimum, be set for each quarter end.
2. Within 60 days of the date of this Agreement, the board of directors shall submit an updated investment policy to the Assistant Director which strictly prohibits speculative investment transactions. The policy shall require that any future transactions involving the purchase and/or sale of mortgage backed securities or other investment securities must be approved, in advance, by a committee of the board of directors, the majority of which should consist of outside directors who are not involved in the management of the institution. Furthermore, the board is to oversee the adequate training of back-up personnel for key officers and employees, including those involved in investment transactions.
3. Within 60 days of the date of this Agreement, the board of directors shall submit an enhanced interest rate risk management policy to the Assistant Director which complies with the guidelines set forth in Thrift Bulletin TB-13

and sets forth the authorized acceptable levels of interest rate risk. The policy should also address the methods to be utilized to manage interest rate risk.

4. The board of directors shall adopt enhanced policies and implement additional procedures for the collection of loan payments which will serve to reduce the amount of delinquent loans, including those which are less than 90 days delinquent. Such policies shall include written notice to the borrower within 30 days of a delinquency and verbal contact within 60 days. The revised policies should provide for monthly reports to the board of progress in the reduction of delinquent loans, which is to be reflected in the board minutes.

5. The board of directors shall adopt a revised construction loan policy which includes a requirement for documentation of the inspection of construction progress prior to the disbursement of loan proceeds. The policy should address the procedures for inspection documentation and review of inspection records in order to ensure that construction loans are administered in a safe and sound manner. Furthermore, the loan policies should be revised to ensure that each borrower's capacity to repay a loan is documented in the loan file along with evidence of review of the borrower's financial strength by the responsible loan officer and loan committee.

6. The board of directors shall implement the necessary measures to ensure that assets are being regularly classified by management in accordance with the institution's written policy and regulatory guidelines. These measures should include reports to the board on at least a quarterly basis regarding the process by which assets are being classified, and the periodic review of classified assets by the internal auditor.

extended by the Deputy Regional Director or his/her designee for good cause upon written application by the Board.

(d) All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provision of this Agreement, shall, insofar as applicable, have meanings as defined in the rules and regulations adopted by the OTS (including, without limitation, Chapter V of Title 12 Code of Federal Regulation). Any such technical words or terms used in this Agreement and undefined in said rules and regulations shall have meanings that accord with the best custom and usage in the thrift industry.

(e) 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.

(f) It is understood that the execution of this Agreement shall not be construed as an approval of any application or notices that are contemplated by the Institution.

(g) Any report or other document required by this Agreement to be submitted to the OTS shall be filed with the Office of Thrift Supervision, 525 Vine Street, Cincinnati, Ohio 45202, Attn: Assistant Director: All reports and other documents shall be deemed filed when received by the OTS.

(h) In the event any provision of this Agreement shall be declared invalid, illegal, or unenforceable; the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(i) This Agreement shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Director or his designee.

7. The board of directors shall implement the necessary measures to ensure that accurate Thrift Financial Reports are submitted to the OTS, and amended Thrift Financial Reports are to be submitted for the quarter ended June 30, 1991, and for the month of July 1991.

8. The business plan required in 1. above and the policies required by 2. through 5. are to be acceptable to the Assistant Director and are to be followed unless prior written approval for changes is received from the Assistant Director.

It is further agreed as follows:

(a) Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the Deputy Regional Director or his/her designee, the Board has the ultimate responsibility for proper and sound management of the institution. In exercising and fulfilling its fiduciary duties, the Board may consider the reports of management, counsel, and other agents and consultants of the Board. Nothing contained herein shall require the Board or any member or agent thereof to take any action or omit to take any action inconsistent with his or her fiduciary duties.

(b) It is expressly and clearly understood that if, at any time, the OTS deems it appropriate in fulfilling the lawful responsibilities placed upon it by the several laws of the United States of America to undertake any lawful action affecting the institution, nothing in this Agreement shall in any way inhibit, stop, bar, or otherwise prevent the OTS from doing so.

(c) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time limitations may be extended by the Deputy Regional Director or his/her designee for good cause upon written application by the Board.

(d) All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provision of this Agreement, shall, insofar as applicable, have meanings as defined in the rules and regulations adopted by the OTS (including, without limitation, Chapter V of Title 12 Code of Federal Regulation). Any such technical words or terms used in this Agreement and undefined in said rules and regulations shall have meanings that accord with the best custom and usage in the thrift industry.

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(i) This Agreement shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Director or his

IN WITNESS WHEREOF, the OTS, acting through its Deputy Regional Director,  
and First Federal,\*by its board of directors, have executed this Agreement on  
the date first above written.

THE OFFICE OF THRIFT SUPERVISION  
Cincinnati, Ohio

MIDDLESBORO FEDERAL BANK  
Middlesboro, Kentucky

By: 151  
Jerry M. Benham  
Deputy Regional Director

By: 151  
Director

By: 151  
Director

By: 151  
Director

By: 151  
Director

By: 151  
Director

By: 151  
Director

By: 151  
Director

By: 151  
Director

\*Middlesboro Federal Bank FSB