

OK #6517

95005

SUPERVISORY AGREEMENT

This Agreement ("Agreement") is made and is effective this 9th day of April 1992 ("Effective Date"), by and between First Federal Savings and Loan Association of Hazard, Hazard, Kentucky ("Hazard"), (OTS No. 6517), 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 (1)(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 Hazard, and has engaged in unsafe or unsound practices in conducting the business of Hazard, thereby providing grounds for the initiation of cease and desist proceedings against Hazard by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the institution of cease and desist proceedings against Hazard for its failure to comply with regulations, and unsafe and/or unsound practices as set forth in the institution's Report of Examination dated January 6, 1992, for so long as the institution is in compliance with the provisions of this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, Hazard, 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 Hazard, it is agreed between the parties hereto as follows:

1. Within 90 days of the date of this Agreement, the institution shall submit for the approval of the Deputy Regional Director or his designee an Investment Policy which complies with 12 C.F.R. Section 571.19, and which conforms with the guidelines contained in Thrift Bulletin 52 (TB-52). The policy shall strictly prohibit speculative transactions in the investment portfolio, and shall require that securities activities be accounted for in accordance with Generally Accepted Accounting Principles, as required by 12 C.F.R. Section 571.19(d)(2). The policy shall require that non-investment securities activities only be conducted in appropriately controlled and segregated trading or held-for-sale portfolios, in accordance with the guidelines set forth in TB-52.

Furthermore, the policy shall identify the officer responsible for investment transactions, and shall specify the authority delegated to this officer, clearly identifying the limitations upon such delegated authority. The policy shall require that any transactions involving the purchase or sale of mortgage backed securities or other investment securities must be reviewed and approved on at least a monthly basis by either the full board of directors, or by a committee of the board of directors, the majority of which should consist of outside directors who are not involved with the daily management of the institution. The policy shall include procedures designed to ensure that comparative quotes are obtained from brokerage firms prior to the execution of securities transactions.

2. The board of directors is to oversee the adequate training of backup personnel for key officers and employees involved in investment transactions.
3. The board of directors is to ensure proper implementation of and full compliance with the Investment Policy. Upon approval of the policy by the Assistant Director, there are to be no subsequent revisions without the prior written approval of the Assistant Director.
4. The board of directors shall direct management to properly account for all of Hazard's securities transactions in accordance with generally accepted accounting principles and 12 C.F.R. Section 563.233. The board of directors shall also direct the institution's independent auditor to thoroughly review the institution's accounting for securities transactions and report any deviations from generally accepted accounting principles or 12 C.F.R. Section 563.233 to the board in a timely manner.
5. The board of directors shall direct management to establish procedures to ensure the proper completion of Thrift Financial Reports, particularly with regard to the sections of the Reports which are related to securities which are held for sale and held for trading. The board of directors shall review and approve such procedures, and shall ensure that the Reports are prepared in conformance with these procedures.

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.

(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, Suite 700, 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) The section headings used in this Agreement are for convenience of reference only and are not to affect the construction of or be taken into consideration in the interpretation of this Agreement.

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

IN WITNESS WHEREOF, the OTS, acting through its Deputy Regional Director, and Hazard, by its board of directors, have executed this Agreement on the

date first above written.

THE OFFICE OF THRIFT SUPERVISION
Cincinnati, Ohio

First Federal Savings and Loan
Association of Hazard
Hazard, Kentucky

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~~Jerry M. Benham~~ *Ognet T. McKee*
Acting Deputy Regional Director

By: 151
Director

By: 151
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Director