

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

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In the Matter of)	Order No.: SE-09-053
)	
)	
KEY WEST BANCGROUP, INC.)	Effective Date: November 12, 2009
)	
Key West, Florida)	
OTS Docket No. H-2980)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Key West Bancgroup, Inc., Key West, Florida, OTS Docket No. H-2980 (Holding Company), by and through its Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Holding Company, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Southeast Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings and loan holding company has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Cease and Desist.

1. The Holding Company and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of:

- (a) operating its wholly owned savings association subsidiary, Key West Bank, Key West, Florida, OTS # 14929 (Association) with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (b) operating the Association with an excessive level of adversely classified and delinquent loans relative to the Association's capital, earnings and allowance for loan and lease losses (ALLL) levels; and
- (c) operating the Holding Company with insufficient earnings as a result of increasing level of classified assets at the Association.

Capital Augmentation Plan.

2. Within thirty (30) days, the Board shall prepare and submit for Regional Director review and comment a written plan to preserve and enhance the capital of the Holding Company and the Association and ensure that the Association complies with the capital requirements imposed by the Order to Cease and Desist issued by the OTS against the Association on November 12, 2009 (Capital Augmentation Plan). At a minimum, the Capital Augmentation Plan shall:

- (a) address the requirements and restrictions imposed by this Order and the Order to Cease and Desist issued by the OTS against the Association on November 12, 2009;
- (b) detail the Holding Company's capital preservation and enhancement strategies with specific narrative goals; and

(c) identify the specific sources of additional capital and the timeframes and methods by which additional capital will be raised, including specific target dates and capital levels.

(d) establish an alternative strategy, including but not limited to, seeking a merger or acquisition partner for the Holding Company and/or the Association, to be implemented immediately if the Board's primary strategy to raise additional capital is unsuccessful; and

(e) require the Senior Executive Officers (Management)¹ to prepare and submit for Board review at each regular monthly Board meeting, a written report on the Holding Company's compliance with the Capital Augmentation Plan and the Association's compliance with its Capital Plan (Capital Status Report).

3. Within fifteen (15) days after receipt of any comments from the Regional Director, the Board will revise the Capital Augmentation Plan to incorporate any recommended changes by the Regional Director and adopt the Capital Augmentation Plan as revised. The Board shall ensure that the Holding Company implements and adheres to the Capital Augmentation Plan. A copy of the Capital Augmentation Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

4. Within fifteen (15) days after (i) the Association fails to meet the with the capital requirements imposed by the Order to Cease and Desist issued by the OTS against the Association on November 12, 2009, (ii) the Holding Company fails to comply with the Capital Augmentation Plan prescribed in Paragraph 3, or (iii) request from the Regional Director, the

¹ The term Senior Executive Officer is defined at 12 C.F.R. § 563.555.

Board shall prepare and submit a written Contingency Plan that is acceptable to the Regional Director. The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (a) merger of the Holding Company or Association with, or acquisition of the Holding Company or Association by another federally insured depository institution or holding company thereof; or (b) voluntary liquidation of the Association by filing an appropriate application with OTS in conformity with federal laws and regulations.

5. Upon receipt of notification from the Regional Director, the Holding Company shall implement the Contingency Plan immediately. The Board shall provide the Regional Director with written status reports detailing the Holding Company's progress in implementing the Contingency Plan by no later than the 1st and 15th of each calendar month following implementation of the Contingency Plan (Contingency Status Reports).

Dividends.

6. Effective immediately, the Holding Company shall neither accept nor request that the Association make or pay any dividends or other capital distributions, as that term is defined in 12 C.F.R. § 563.141, or commit to make or pay dividends or any other capital distributions, without receiving the prior written approval of the Regional Director.

7. Effective immediately, the Holding Company shall not declare or pay any dividends or other capital distributions without the prior written approval of the Regional Director.

8. The Holding Company's written request for approval under Paragraphs 6 or 7 of this Order shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

Debt Limitations.

9. Effective immediately, the Holding Company shall not (a) incur, issue, renew, or rollover any debt or debt securities, increase any current lines of credit, guarantee the debt of any entity, or otherwise incur any additional debt without receiving the prior written approval of the Regional Director or (b) authorize or permit any subsidiary of the Holding Company from incurring, issuing, renewing, or rolling over any debt or debt securities, increasing any current lines of credit, guaranteeing the debt of any entity, or otherwise incurring any additional debt without receiving the prior written approval of the Regional Director. All written requests to the Regional Director shall include, at a minimum, a statement regarding the purpose of the debt, the terms of the debt, the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment. The Holding Company's written request for such approval shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed debt issuance, renewal, or rollover.

10. Effective immediately, the Holding Company shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Regional Director. The Holding Company's written request for such approval shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed stock purchase or redemption.

Severance Payments.

11. Effective immediately, the Holding Company shall not make any golden parachute payment² unless, with respect to each such payment, the Holding Company has complied with

² The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Directorate and Management Changes.

12. Effective immediately, the Holding Company shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H.

Effective Date, Incorporation of Stipulation.

13. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

14. This Order 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.

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

16. The Regional Director, or an OTS authorized representative, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Holding Company that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

17. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

18. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Order 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
1475 Peachtree St., NE
Atlanta, Georgia 30309
404.897.1861 (Fax)

- (b) To the Holding Company:
Board of Directors
Key West Bancgroup, Inc.
701 Whitehead Street
Key West, FL 33040

No Violations Authorized.

19. Nothing in this Order or the Stipulation shall be construed as allowing the Holding Company, its Board, officers, or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
James G. Price
Southeast Regional Director

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
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In the Matter of)	Order No.: SE-09-053
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KEY WEST BANCGROUP, INC.)	Effective Date: November 12, 2009
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Key West, Florida)	
OTS Docket No. H-2980)	
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STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Key West Bancgroup, Inc., Key West, Florida, OTS Docket No. H-2980 (Holding Company), that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Holding Company pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings and loan holding company has consented to the issuance of an order; and

WHEREAS, the Holding Company desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or

denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1 - 3 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. The Holding Company is a “savings and loan holding company” within the meaning of 12 U.S.C. § 1813(w)(3) and 12 U.S.C. § 1467a. Accordingly, the Holding Company is a “depository institution holding company” as that term is defined in 12 U.S.C. § 1813(w)(1).
2. Pursuant to 12 U.S.C. § 1818(b)(9), the “appropriate Federal banking agency” may initiate cease and desist proceedings against a savings and loan holding company in the same manner and to the same extent as a savings association for regulatory violations and unsafe or unsound acts or practices.
3. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings and loan holding company. Therefore, the Holding Company is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

OTS Findings of Fact.

4. Based on its June 15, 2009 Report of Examination of the Holding Company (2009 ROE), the OTS finds that the Holding Company has engaged in unsafe or unsound banking practices, including, but not limited to:
 - (a) operating its wholly owned savings association subsidiary, Key West Bank, Key West, Florida, OTS # 14929 (Association) with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;

- (b) operating the Association with an excessive level of adversely classified and delinquent loans relative to the Association's capital, earnings and allowance for loan and lease losses (ALLL) levels; and
- (c) operating the Holding Company with insufficient earnings as a result of increasing level of classified assets at the Association.

Consent.

5. The Holding Company consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Holding Company further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

Finality.

6. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

Waivers.

7. The Holding Company waives the following:
- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
 - (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
 - (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the

Order; and

(d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes, or otherwise.

OTS Authority Not Affected.

8. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the 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.

9. The Holding Company acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 8 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the 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.

10. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

11. If any provision of this Stipulation and/or the Order 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.

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

13. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

14. The terms of this Stipulation and of the Order 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.

15. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

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Signature of Directors/Board Resolution.

16. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Holding Company to the issuance of the Order and the execution of the Stipulation.

WHEREFORE, the Holding Company, by its directors, executes this Stipulation.

Accepted by:

KEY WEST BANCGROUP, INC.
Key West, Florida

OFFICE OF THRIFT SUPERVISION

By: /s/
Marva E. Green
Chairperson

By: /s/
James G. Price
Southeast Regional Director

Date: See Effective Date on page 1

 /s/
Philip B. Hogue, Director

 /s/
Clifford A. Botway, Director

 /s/
Mark Z. Finigan, Director

 /s/
Richard M. Klitenick, Director