

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 16th day of May, 2003 (the Effective Date), by and between Sobieski Bank (Sobieski or the Institution) OTS Docket No. 03889, a federally chartered stock institution, having its main office located at 2930 Cleveland Road, South Bend, Indiana 46628-6090 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. 20552, acting through its Southeast Regional Director or his designee (Regional Director). 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. §§ 1818(b)(1) and (i)(2).¹

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

WHEREAS, based on the Report of Examination dated September 9, 2002 (ROE), the OTS is of the opinion that Sobieski has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which Sobieski 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 Sobieski; and

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

WHEREAS, Sobieski, acting through its Board of Directors (the Board), wishes to cooperate with the OTS and to evidence the 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 and the mutual undertakings set forth herein, the parties hereto agree as follows:

OPERATIONS

1. Business Plan.

A. Within sixty (60) days of the Effective Date, the Board shall develop, approve, and submit to the Regional Director for review and non-objection a two year business plan (Business Plan) that, at a minimum:

- i. details the Institution's overall operating strategy (including relevant assumptions for the period covered in the Business Plan);
- ii. specifies what major business lines the Institution will engage in;

¹ All references to the United States Code (U.S.C.) are as amended, unless otherwise indicated.

- iii. provides specific details about the strategies to improve the Institution's operating performance and core earnings;
- iv. provides for the maintenance of acceptable capital levels at the Institution; and
- v. provides quarterly projections of earnings and balance sheet items for two years.

B. After review and non-objection by the Regional Director, the Board shall immediately adopt and adhere to the Business Plan in all material respects.

C. The Board shall review and document the Institution's compliance with the Business Plan at least once each calendar quarter. Included in the Board's review of the Business Plan shall be an explanation of any significant variances from the quarterly projections.

D. By June 1st of each year hereafter, the Business Plan shall be revised for the following year ending June 30th, and extended for the next following year ending June 30th.

2. Internal Controls.

Within 30 days of the Effective Date, the Board shall adopt, adhere to, and submit to the Regional Director a plan to improve its internal controls, consistent with the recommendations of the Plante Moran, PLLC report dated October 24, 2002 (Internal Control Plan).

3. Internal Audit Program.

A. Within sixty (60) days of the Effective Date, the Board shall develop, approve, and submit to the Regional Director for review and non-objection a comprehensive internal audit program appropriate to the needs of the Institution (Internal Audit Program). The Internal Audit Program shall, at a minimum, provide for:

- i. the establishment of the scope and frequency of internal audits; and
- ii. the submission of periodic internal audit reports to the Board.

B. After review and non-objection by the Regional Director, the Board shall immediately adopt and adhere to the Internal Audit Program in all material respects.

4. Commercial Lending Restrictions.

A. As of the Effective Date, the Institution shall not grant any new commercial loans without the prior written non-objection of the Regional Director. The Institution may fund legally binding commitments subject to obtaining, at a minimum, the documentation required under its loan policies and procedures. Further, the Institution shall not renew existing commercial loans unless the loans have been prudently underwritten and the existing loans are in compliance with any loan agreement provisions. In addition, the Institution shall not disburse any funds on existing commercial loans unless the disbursement is determined to be within the approved loan limits and the loan is in compliance with any loan agreement provisions. For purposes of this paragraph, commercial loans are defined as secured or unsecured loans for commercial, corporate, business or agricultural purposes and include all loans secured by multi-family or commercial real estate.

B. This restriction shall remain in effect until the Institution receives written notification from the Regional Director that the restriction has been modified or rescinded.

5. Criticized Asset Reduction Plan.

A. Within sixty (60) calendar days of the Effective Date, the Board shall develop, adopt, adhere to, and submit to the Regional Director a plan for reducing the level of nonperforming, classified and special mention (criticized) assets. The plan shall include, at a minimum, quarterly targets for the ratio of criticized assets to risk-based capital plus excess allowances for loan and lease losses.

B. Within ninety (90) days of the Effective Date, the Board shall ensure adoption of and adherence to a written program designed to eliminate the basis of criticism of assets or aggregate loan relationships exceeding \$250,000 criticized in the ROE as "doubtful", "substandard" or "special mention". This program shall include, at a minimum:

- i. an identification of the expected sources of repayment;
- ii. the appraised value of supporting collateral and the position of the Institution's lien on such collateral where applicable;
- iii. an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- iv. the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

A similar program shall be adopted for all additional assets which are criticized by the Institution's internal loan review system. Once adopted, a copy of the program for all criticized assets or aggregate loan relationships equal to or exceeding \$250,000 shall be forwarded to the Assistant Regional Director.

C. The Board, or a delegated Committee thereof, shall conduct a review, on at least a quarterly basis, to determine:

- i. the status of each criticized asset or aggregate loan relationship which is equal to or exceeds \$250,000;
- ii. management's adherence to the program adopted pursuant to this Article;
- iii. the status and effectiveness of the written program;
- iv. the need to revise the program or take alternative action; and
- v. the basis for eliminating any assets removed from the criticized asset listing.

6. Classification Policy.

A. Within sixty (60) days of the Effective Date, the Board shall develop, approve, and submit to the Regional Director for review and non-objection policies and procedures governing the reporting of classified assets. The policies and procedures shall follow the February 10, 1999 Uniform Retail Credit Classification and Account Management Policy, as well as the OTS Regulatory Handbook, Thrift Activities, Section 260, and shall include, at a minimum, provisions regarding the classification of retail credit.

B. After review and non-objection by the Regional Director, the Board shall immediately adopt and adhere to these policies and procedures in all material respects.

7. Loans to One Borrower.

A. Acknowledging that there are outstanding loan relationships that exceed the loans to one borrower limitations set forth in 12 C.F.R. Section 560.93, as of the Effective Date, the Institution shall comply with the requirements of 12 C.F.R. Section 560.93.

B. Within thirty (30) days of the Effective Date, the Board shall develop, approve, and submit to the Regional Director for review and non-objection policies and procedures that will ensure the Institution's compliance with the loans to one borrower limitations set forth in 12 C.F.R. Section 560.93. The policies and procedures shall contain, at a minimum, the requirement for the Board to review the Institution's compliance with its loans to one borrower limitation at least once each calendar quarter, with documentation of that review.

C. After review and non-objection by the Regional Director, the Board shall immediately adopt and adhere to these policies and procedures in all material respects.

D. Within sixty (60) days of the Effective Date, the Board shall develop, approve, and submit to the Regional Director for review and non-objection a program to bring the loan relationships that exceed the loans to one borrower limits into compliance (LTOB Program).

E. After review and non-objection by the Regional Director, the Board shall immediately adopt and adhere to the LTOB Program in all material respects.

8. Nonaccrual Loans.

A. The Institution shall immediately reverse or charge-off all interest which has been accrued contrary to the requirements contained in the Thrift Financial Report Instruction Manual governing nonaccrual loans. Further, the Institution shall immediately reverse or charge-off that portion of the remaining accrued interest on such loans which, when combined with principal, is not protected by sound collateral values.

B. Within sixty (60) days of the Effective Date, the Board shall develop, adopt, adhere to, and submit to the Regional Director a policy governing the identification of and accounting treatment for nonaccrual loans (Nonaccrual Loan Policy). The Nonaccrual Loan Policy shall address paragraph A above, as well as the comments on page 13 of the ROE and shall be consistent with the accounting requirements contained in the Thrift Financial Report Instruction Manual. In addition, the Nonaccrual Loan Policy shall require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

9. Past Due Loans and Loans with Balances Exceeding the Note Amount.

A. Within thirty (30) days of the Effective Date, the Board shall develop, adopt, and adhere to policies and procedures governing the identification and reporting of loans and/or lines of credit that are more than 30 days past the maturity date. The policies and procedures shall contain, at a minimum, the requirement for correctly reporting these loans to the Board and on the Thrift Financial Report.

B. Within thirty (30) days of the Effective Date, the Board shall develop, adopt, and adhere to policies and procedures to prevent the disbursement of loan funds in amounts that exceed the note amount.

C. Within sixty (60) days of the Effective Date, the Board shall develop, adopt, and adhere to a program to reduce the level of loans and/or lines of credit that are more than 30 days past the maturity date (Past Due Loan Program) and the level of loans with balances exceeding the note amount (Excess Balance Program).

10. Loan Documentation.

A. The Institution shall comply with 12 C.F.R. Section 560.170, Records for lending transactions.

B. Within ninety (90) days of the Effective Date, the Board shall develop, approve, and submit to the Regional Director for review and non-objection a written plan (Loan Documentation and Administration Plan) to correct the Institution's loan documentation and administration deficiencies detailed in the ROE and all other known loan documentation and administration deficiencies. The Loan Documentation and Administration Plan shall include, but not be limited to:

- i. establishment of and compliance with policies and procedures for each type of loan product;
- ii. policies and procedures for the timely collection and maintenance of loan documents; and
- iii. quarterly management submissions to the Board containing a detailed report showing the status of, and actions taken regarding, missing loan documents.

C. After review and non-objection by the Regional Director, the Board shall immediately adopt and adhere to the Loan Documentation and Administration Plan in all material respects.

11. Internal Asset Review Program.

A. Within ninety (90) days of the Effective Date, the Board shall develop, approve, and submit to the Regional Director for review and non-objection an internal asset review program (Internal Asset Review Program). The Internal Asset Review Program shall, at a minimum, provide for:

- i. accurate loan classification ratings;

- ii. qualified and independent loan review personnel;
- iii. frequent reviews;
- iv. acceptable methods of loan selection;
- v. adequate scope and depth of the review;
- vi. appropriate work paper and report distribution;
- vii. adequate follow-up; and
- viii. Board review and documentation of the results of the Internal Asset Review Program at least semiannually.

B. After review and non-objection by the Regional Director, the Board shall immediately adopt and adhere to the Internal Asset Review Program in all material respects.

12. Allowance for Loan and Lease Losses.

A. Within ninety (90) days of the Effective Date, the Board shall develop, approve, and submit to the Regional Director for review and non-objection a program for the maintenance of an adequate Allowance for Loan and Lease Losses (Allowance Program). This program shall be designed in light of the guidelines set forth in the OTS Regulatory Handbook, Thrift Activities, Section 261, the December 21, 1993 and July 2, 2001 Interagency Policy Statements on Allowance for Loan and Lease Losses and page 14 of the ROE and shall focus particular attention on the following factors:

- i. loans criticized by OTS examiners or identified by the Institution's internal loan review system;
- ii. loan loss experience (and /or trends of delinquent and nonaccrual loans);
- iii. an estimate of potential loss exposure on each significant credit over \$250,000;
- iv. concentration of risk in the Institution; and
- v. present and prospective economic conditions.

B. The Allowance Program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Thrift Financial Report, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

C. After review and non-objection by the Regional Director, the Board shall immediately adopt and adhere to the Allowance Program in all material respects.

13. Interest Rate Risk.

Within ninety (90) days of the Effective Date, the Board shall develop, adopt, adhere to, and submit to the Regional Director policies and procedures for the Institution's management of interest rate risk consistent with the requirements set forth in Thrift Bulletin 13a. The policies and procedures shall include, at a minimum:

- i. realistic limits on net portfolio value (NPV) levels under different interest rate scenarios;

- ii. requirements for management and the Board to review the OTS Interest Rate Risk Exposure Report on a quarterly basis and document that review; and
- iii. requirements to discuss strategies in the event the Institution is not in compliance with the established NPV limits and to document those discussions.

14. Thrift Financial Reports.

Within thirty (30) days of the Effective Date, the Board shall develop, adopt, adhere to, and submit to the Regional Director policies and procedures in accordance with the Thrift Financial Report Instruction Manual, to ensure that all official and regulatory reports filed by the Institution accurately reflect the Institution's condition on the date for which such reports are submitted.

15. Brokered Deposits.

The Institution shall not accept, renew or roll over any brokered deposit (as defined by 12 C.F.R. § 337.6) without the prior written approval of the Regional Director.

16. Periodic Reports.

Within thirty (30) days following the quarter end after adoption of the relevant Plan/Program, the Institution shall provide the OTS the following reports: progress reports, status updates of implementation, and copies of the reviews covering the Plans/Programs outlined in Paragraphs 1(C), 2, 5(A), 5(C), 7(E), 9(C), 10(C), 11(B), and 12(C).

17. Operating Restrictions.

A. The Institution shall comply with the requirements and provisions of Regulatory Bulletin 3b. The Institution may not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the quarter until the Business Plan has received the written non-objection of the Regional Director, pursuant to Paragraph 1.

B. The Institution shall not enter into any employment contract with any director or senior executive officer without prior written approval of the Regional Director (OTS Regulatory Handbook, Thrift Activities, Section 310).

C. The Institution must file a notice with the Regional Director prior to adding or replacing a director or hiring a senior executive officer or changing the responsibilities of any senior executive officer so that the person would assume a different senior executive position (12 C.F.R. § 563.560(a)(1)(ii)).

D. The Regional Director must approve all of the Institution's third party contracts for services that occur outside the normal course of business (OTS Regulatory Handbook, Thrift Activities, Section 310 and Thrift Bulletin 82).

E. The Institution is prohibited from making any golden parachute payments to any institution-affiliated party, unless the payment is otherwise permitted by regulation (12 C.F.R. Part 359).

F. The Institution shall not declare or make any capital distributions as defined in 12 C.F.R. § 563.141 without the prior written approval of the Regional Director.

GENERAL

18. Violations of Law.

The Board shall immediately take all steps necessary to correct each violation of law, rule or regulation cited in the Federal Regular ROE. As each violation is corrected, the Board shall provide written notice to the OTS of the date and manner in which each correction has been effected.

19. Director Responsibility.

Notwithstanding the requirements of this Agreement that the Board submit various matters to the OTS for consideration, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of Sobieski at all times, including compliance with the determinations of the OTS as required by this Agreement.

20. Compliance with Agreement.

A. The Board and officers of Sobieski shall take immediate action to cause the Institution to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause Sobieski 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, Sobieski 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 that were outstanding as of the date of its adoption.

C. The minutes of the meetings 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. The Board shall promptly respond to any request from the OTS for documents that the OTS reasonably requests to demonstrate compliance with this Agreement.

MISCELLANEOUS

21. 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, Home Owners' Loan Act (HOLA), Federal Deposit Insurance Act (FDIA) or OTS Publications. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Publications shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

22. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Agreement to provisions of statutes, regulations, OTS Publications and Interagency Statements 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.

23. Notices.

A. 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:

- i. the OTS, by Sobieski, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to Mr. Daniel T. McKee, Assistant Regional Director, Office of Thrift Supervision, Department of the Treasury, One South Wacker Drive, Suite 2000, Chicago, Illinois 60606, or telecopied to (312) 917-5001 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- ii. the Institution, by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to Mr. Steven Watts, CEO, Sobieski Bank, 2930 Cleveland Road, South Bend, Indiana 46628-6090 or telecopied to (574) 271-3269, and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

B. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

24. 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, Regional Director or other authorized representative.

B. The Regional Director, in his sole discretion, may, by written notice, suspend any or all of the provisions of this Agreement.

25. Time Limits.

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

26. Effect of Headings.

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

27. 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 sole discretion determines otherwise.

28. No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted.

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

29. 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, the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

30. Integration Clause.

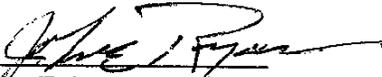
This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to the subject matter.

31. Enforceability of Agreement.

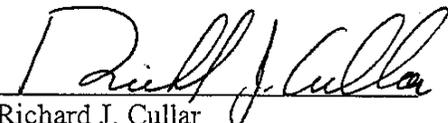
Sobieski represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. Sobieski acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

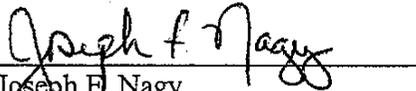
IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and Sobieski hereby execute this Agreement as of the Effective Date.

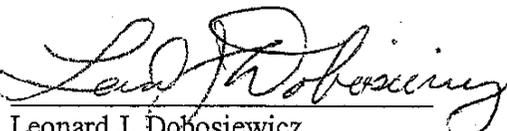
OFFICE OF THRIFT SUPERVISION

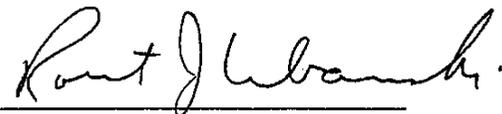
By: 
John E. Ryan
Southeast Regional Director

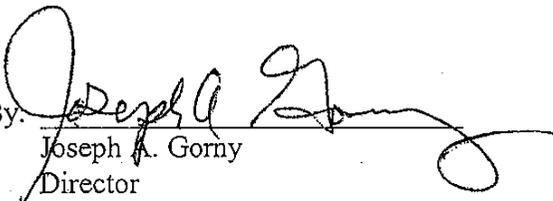
SOBIESKI BANK

By: 
Richard J. Cullar
Director

By: 
Joseph F. Nagy
Director

By: 
Leonard J. Dobosiewicz
Director

By: 
Robert J. Urbanski
Director

By: 
Joseph A. Gorny
Director