THE STILWELL GROUP
111 BROADWAY • 12TH FLOOR
NEW YORK, NY 10006
(212) 269-1551
INFO@STILWELLGROUP.COM

THE DIRECTORS OF HOPFED BANCORP, INC. ARE:

H. Joseph Dempsey, MD · John E. Peck · Michael L. Woolfolk
Steve Hunt · Ted S. Kinsey · Dr. Thomas I. Miller · Richard Perkins · Clay Smith

May 1, 2017

Dear Fellow HopFed Stockholder,

By now you know how we feel about HopFed. Management has done a poor job running the Company, and the Board of Directors has failed at its most crucial responsibility – overseeing management. Through a review of real property public records (not including his personal residences), long-standing CEO and board member, **John Peck, owns, or co-owns, twenty properties** with mortgages on these properties spread out among at least six local banking institutions. Twenty properties?! We presume that a public company CEO would have trouble finding the time to sustain more than one real estate holding outside of the business let alone 20. We aren't sure how nefarious Mr. Peck's situation is, but we're almost certain 20 properties would consume a considerable amount of his time during the work week. If the board is not aware of Mr. Peck's activities, that's a problem. If the board is aware, that's a bigger problem. Either way, we can't find any public disclosures by the Company regarding its CEO's 20 personally-owned properties, in addition to his home. All this time we thought John Peck was incompetent. Maybe it's more than incompetence – maybe he's had his attention focused elsewhere.

While he has been CEO of the Company, John Peck has owned, or co-owned, 20 commercial and residential properties, plus at least two personal residential properties. The bulk of these 20 commercial and residential properties are conveniently located close to Heritage Bank branches.

Here is a list of the properties:

4050 U.S. Highway 62, Calvert City, KY
1605 College Farm Road, Murray, KY
1308 Valley Road, Benton, KY
1310 Valley Road, Benton, KY
307 Elm Street, Benton, KY
210-16 Megan Drive, Murray, KY
1104 Main Street, Benton, KY
355 Birch Street, Benton, KY
375 Birch Street, Benton, KY
417 E. 1st Street, Hopkinsville, KY
213 Crest Drive, Hopkinsville, KY

306 Jessie Avenue, Hopkinsville, KY
3446 Hermitage Drive, Hopkinsville, KY
610 Foxfield Road, Hopkinsville, KY
2601 Buckner Drive, Hopkinsville, KY
554 Foxfield Road, Hopkinsville, KY
920 Rose Drive, Hopkinsville, KY
3460 South Fletcher Avenue, #106, Fernandina Beach, FL
1618 Baltimore Drive, Clarksville, TN
4029 U.S. Highway 62, Calvert City, KY

Although we could only determine some of the mortgages obtained by John Peck with respect to these properties, and the institutions where he obtained them, we put a list of those together in Addendum A at the end of this letter. Fourteen of the 20 properties were purchased since 2000 when John Peck became CEO of HopFed. We noticed that in some instances, the valuation that Peck received for these properties doesn't seem to make sense. In some cases, it looks like Peck got a mortgage at 95% – or more! – of the value of the property, based on the price we saw that he paid.

The purchase of property requires time and attention to detail, including, but certainly not limited to, multiple viewings, appraisals, property inspections, calls and/or meetings with real estate agents, loan officers, and lawyers, review of documents, and attendance at closings. In addition, these 20 properties require maintenance - both indoors and outdoors - and whether residential or commercial, most have to be rented out to tenants, which requires the energy, attention, and time of property management such as real estate listings, showings, paperwork, rent collection, and general landlord/tenant interactions.

John Peck purchased two of the 20 properties from Gilbert Lee, former Chairman of the Board of HopFed. On June 17, 2009, John Peck (and his wife), bought the property located at 213 Crest Drive in Hopkinsville from Gilbert Lee (and his wife) for $46,500. Mr. Lee purchased the property at 213 Crest Drive on June 5, 2009, just twelve days earlier, for $45,000. It appears that this property increased in value by $1,500 in those 12 days (that's $125 per day!). Oddly, when the deed for the sale between Mr. Lee and Mr. Peck was recorded in the Christian County Clerk's Office, someone wrote at the top of the deed: "Do Not Publish." According to someone at the Clerk's Office, this notation is intended for local reporters so that the sale doesn't get reported in the newspaper. It was further explained that this notation would have been written by someone involved in the transaction *(i.e.,* the buyer (Peck), seller (Lee), or the person who prepared the paperwork (attorney)). Out of all the deeds for the 20 properties owned or co-owned by Peck, only this deed has this "Do Not Publish" notation.

Less than one year later, Peck and Lee were at it again. On Feb. 9, 2010, John Peck (and his wife), bought another property from Gilbert Lee (and his wife), located at 306 Jessie Avenue in Hopkinsville - only this time Mr. Lee had purchased the property seven months earlier, in May of 2010. Mr. Lee bought the Jessie Avenue property for $45,000 and just seven months later sold it to Mr. Peck for $56,000. In other words, simply holding on to that property for those seven months, made Mr. Lee $11,000, which is more than a 20% profit.

At the time of these two property transactions, Gilbert Lee was a HopFed board member.[1] In fact, in 2009 when he was selling the Crest Avenue property to John Peck, Gilbert

Lee was promoted to Chairman of the Board. From 2000 until his retirement from the board at the end of 2015, Gilbert Lee was also Chair of the Compensation Committee of the Board of Directors. In other words, Mr. Lee led the group of three HopFed board members who were evaluating John Peck's performance and deciding his compensation package every year, including during those years when Mr. Lee conducted - and profited from - private real estate transactions with Mr. Peck. In 2008, as Chair of the Compensation Committee, Lee was the person who signed the extension of John Peck's Employment Agreement with the Company.

That Agreement, in Section 6 describing "Loyalty Full Time and Attention," partly states that John Peck "shall devote all his full business time, attention, skill, and efforts to the faithful performance of his duties hereunder to the Company and its subsidiaries." That section of the Agreement further states that "'[f]ull business time' is hereby defined as that amount of time usually devoted to like companies by similarly situated executive officers."

One wonders whether other "similarly situated executive officers" compensated similarly to John Peck also devote time outside of their "full business time" positions to attend to the maintenance (indoor and outdoor) and general property management of 20 residential and commercial properties. Each year as the board renewed John Peck's employment contract under the Employment Agreement, did Gilbert Lee, or any other members of the Compensation Committee, ever question whether Peck's outside real estate activities were interfering with his "loyalty," "full time," "attention," or devotion to his job as CEO of HopFed? Each year when giving John Peck increases of unwarranted compensation and bonuses, did the Compensation Committee Chair, who had first-hand knowledge of John Peck's outside real estate holdings, wonder whether Peck could be performing better for the Company or focusing more attention on his role? When counsel for the Company was required to file the Compensation Committee Certification with NASDAQ certifying that each member of the Compensation Committee of HopFed Bancorp, Inc. is "independent" under the NASDAQ rules, how were they able to do that? How could Gilbert Lee, the Chairman of the Compensation Committee, be "independent" when he had outside personal business dealings with Peck? If the Company filed a false certification in violation of NASDAQ rules, that could be cause for reprimand, delisting, or suspension – especially if it knowingly did so.

As the Company's largest stockholder, we know that stockholders would want to know about this blatant conflict – that the person in charge of the Compensation Committee, deciding the raises and bonuses of John Peck each year, was engaged in private, personal real estate transactions with Peck in both 2009 and 2010, and that in the 2009 transaction, Gilbert Lee, then Chairman of the Board and Chairman of the Compensation Committee made more than a 20% return on the property he sold to Peck, the CEO. And even though the Company's return on equity went down in fiscal year 2009, the Compensation Committee increased John Peck's salary.

It did not surprise us that in his previous role as CEO of United Commonwealth Bank ("United"), Peck had also engaged in a private real estate deal with a fellow "insider." In 1998, John Peck (and his wife) purchased the property located at 307 Elm Street in Benton, KY from another board member at United.

For this 1998 transaction (and at least 14 other times for Peck's private real estate deals), George Carter, Esq., now one of the lawyers for the HopFed board, prepared deeds or other legal documents to be signed by the buyer (and/or seller). In fact, Mr. Carter was preparing legal documents for Peck on personal real estate transactions going back to 1993 – and he kept doing it after John Peck was HopFed's CEO and George Carter was the board's attorney! For a list of John Peck's private real estate transactions in which we could determine George Carter's involvement, please see Addendum B.

In other words, even prior to Peck joining the Company, Mr. Carter had first-hand knowledge that John Peck (a) owned real estate holdings separate from his employment, which likely required time and attention outside of his CEO role, and (b) had engaged in private business transactions with an insider. We don't know whether Mr. Carter ever discussed this with other Company counsel, or with Mr. Peck, or made this information known to the Company's Board of Directors. Neither do we know whether Mr. Carter notified the board of the conflict he had in providing legal representation to the HopFed board while separately representing John Peck in private, personal real estate transactions outside of Peck's role as CEO.

We know that the board was aware of at least one of Peck's outside properties because the Company paid him to rent it! In its proxy statement dated April 17, 2017, HopFed disclosed a payment of $9,340 to John Peck for the Company's use of "a building he owns." In proxy statements from past years, HopFed noted similar payments to Peck. It appears that each year Peck receives a little more from the Company for "use" of his building. What is the Company's use? Where is the building? Neither item is disclosed.

This extraordinarily irregular behavior raises many questions. We may not even know all of the questions to ask, but here are some that come to mind:

- Why has this information been hidden from the stockholders? Are we wrong to assume that the Board of Directors knew about all of Peck's personal real estate holdings? Which is worse – that the board knew and did not inform the stockholders or that the board was not informed by Lee, Peck and/or Carter?
- Did the directors turn a blind eye to their Chairman and the Chairman of its Compensation Committee personally profiting from John Peck on the one hand and on the other hand leading the decision to award a generous compensation package to Peck?
- How could the Board of Directors consider its Compensation Committee "independent" under these circumstances?
- What did the Board of Directors consider when assessing and verifying the independence of the Compensation Committee members each year, as the board is required to do?

- Did the Board of Directors consider personal real estate transactions between board members and senior management to be disclosable conflicts? If not, why not?
- Were mortgages or promissory notes granted to John Peck by other local financial institutions other than the Company given at competitive rates or at favorable rates compared to other customers receiving mortgages or promissory notes at that time?
- Were mortgages or promissory notes granted to John Peck by other local financial institutions other than the Company given with an expectation that favors would be granted (e.g., a "quid pro quo")?
- How did George Carter, Esq. get the job as the Company's counsel? Was it because he had previously represented John Peck in personal real estate transactions prior to Mr. Peck becoming CEO? If so, how was his loyalty divided between two clients?
- Did George Carter, Esq. charge John Peck the same hourly rate for personal legal services that he charged the Company for legal work on five separate Peck real estate transactions rendered while Peck was CEO?
- Did George Carter, Esq. who had first-hand knowledge of John Peck's outside real estate transactions going back to at least 1993 (well before Peck was hired by the Company), disclose that knowledge to the Board of Directors or other Company counsel? If not, why not?
- Did George Carter, Esq. know about the real estate transactions between Peck and Lee?
- How much of John Peck's work day is spent focused on his outside, personal real estate holdings? Does the Board of Directors monitor how much time John Peck spends on the job? Does the board consider this question when (i) renewing Mr. Peck's Employment Agreement, and/or (ii) deciding on Mr. Peck's compensation each year? If not, why not?
- When the board hired and paid an outside compensation consultant in 2016 to assess and opine on the compensation package of its CEO, were Mr. Peck's outside, personal real estate holdings disclosed to the consultant and factored in to the decision?

- Have any of the landscapers, painters, contractors, or other maintenance workers hired by the Company to work on the premises or the property at any of the Company's bank branches also been hired to work at any of John Peck's 20 properties? If so, who pays a higher price for the work, the Company or Mr. Peck? Does anyone at the Company keep track of the use by insiders of vendors that are also used by the Company? Would this be considered a conflict by the Board of Directors? If not, why not?
- Do any employees of the Company know about Peck's outside, personal real estate holdings? Have they witnessed him work less than full time at his job; if so, what example does he set for HopFed employees? Do they think it is acceptable behavior to take time out of the work day to take care of personal business while on the Company clock?
- Why not hire an independent law firm to conduct an investigation of the issues raised in this letter and provide stockholders with unbiased answers to these questions?

Over the years we've seen malfeasance, incompetence, and arrogance – and often combinations of these characteristics – exhibited at various banks. But the incompetence and apparent malfeasance mixed with sanctimony and hubris we see at HopFed is truly outlandish. We think it's time for the board to provide answers to stockholders

Sincerely yours,

/s/ Megan Parisi
Megan Parisi

cc: George Carter, Esq.
Edward Crosland, Esq.

Further Information Regarding <u>20</u> John Peck Properties	
Property	**BANK(S0 WHERE INSTRUMENTS HELD**
4050 U.S. Highway 62, Calvert City, KY	Unknown at this time
1605 College Farm Road, Murray, KY	Hopkinsville Federal Bank
	United Commonwealth Bank
	U.S. Bank
1308 Valley Road, Benton, KY	Unknown at this time
1310 Valley Road, Benton, KY	Unknown at this time
307 Elm Street, Benton, KY	Unknown at this time
210-16 Megan Drive, Murray, KY	Hopkinsville Federal Bank
	United Commonwealth Bank
	U.S. Bank
1104 Main Street, Benton, KY	Unknown at this time
355 Birch Street, Benton, KY	Unknown at this time
375 Birch Street, Benton, KY	Unknown at this time
417 E. 1st Street, Hopkinsville, KY	F&M Bank
213 Crest Drive, Hopkinsville, KY	United Southern Bank
306 Jessie Avenue, Hopkinsville, KY	United Southern Bank
3446 Hermitage Drive, Hopkinsville, KY	United Southern Bank
610 Foxfield Road, Hopkinsville, KY	United Southern Bank
2601 Buckner Drive, Hopkinsville, KY	Independence Bank of KY
554 Foxfield Road, Hopkinsville, KY	Independence Bank of KY
920 Rose Drive, Hopkinsville, KY	Independence Bank of KY
3460 South Fletcher Avenue, #106 Fernandina Beach, FL	Unknown at this time
1618 Baltimore Drive, Clarksville, TN	F&M Bank
4029 U.S. Highway 62, Calvert City, KY	Unknown at this time

Documents for John Peck Real Estate Transactions Prepared by George Carter, Esq.		
DOCUMENT TITLE	**PROPERTY**	**DATE**
Mortgage	1605 College Farm Road, Murray, KY	4/22/1993
Mortgage Correction	1605 College Farm Road, Murray, KY	8/31/1993
Addendum to Mortgage	1605 College Farm Road, Murray, KY	3/24/1994
Deed	307 Elm Street, Benton, KY	5/6/1998
Deed	210-216 Megan Drive, Murray, KY	7/24/1998
Mortgage	1605 College Farm Road, Murray, KY 210-216 Megan Drive, Murray, KY	7/24/1998
Deed of Correction	210 Megan Drive, Murray, KY	1/14/1999
Correction of Mortgage	1605 College Farm Road, Murray, KY 210-216 Megan Drive, Murray, KY	1/15/1999
Mortgage	1605 College Farm Road, Murray, KY	9/28/2001
Deed	1104 Main Street, Benton, KY	4/30/2001
Mortgage	1605 College Farm Road, Murray, KY 210-216 Megan Drive, Murray, KY	9/28/2001
Mortgage	1605 College Farm Road, Murray, KY 210-216 Megan Drive, Murray, KY	12/9/2002
Modification to Mortgage	1605 College Farm Road, Murray, KY 210-216 Megan Drive, Murray, KY	12/20/2007
Modification to Mortgage	1605 College Farm Road, Murray, KY 210-216 Megan Drive, Murray, KY	2/20/2008
Deed	4029 US Highway 62, Calvert City, KY	1/29/2015

In Summary:

Total Number of Documents Prepared by George Carter, Esq.: 15

Number of Properties Involved: 5

Time Span: (1993-2015) = 22 YEARS