

#2001-106

**AGREEMENT BY AND BETWEEN
FIRST NATIONAL BANK OF CENTRAL CITY
CENTRAL CITY, KENTUCKY
AND
THE OFFICE OF THE COMPTROLLER OF THE CURRENCY**

First National Bank of Central City, Central City, Kentucky (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated April 23, 2001 (ROE).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

Article I

- (1) This Agreement shall be construed to be a "written agreement entered into with the agency" within the meaning of 12 U.S.C. § 1818(b)(1).
- (2) This Agreement shall be construed to be a "written agreement between such depository institution and such agency" within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).
- (3) This Agreement shall be construed to be a "formal written agreement" within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). *See* 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a "final order" within the meaning of 12 U.S.C. § 1818(u).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Assistant Deputy Comptroller
Carolyn G. DuChene
Evansville Field Office
P.O. Box 20130
Evansville, IN 47708

Article II - COMPLIANCE COMMITTEE

(1) Within ten (10) days, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than one (1) shall be employees of the Bank or any of its affiliates (as the term "affiliate" is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

The Compliance Committee shall meet at least monthly. Within thirty (30) days of the appointment of the Committee and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken (up to the reporting date) to comply with each Article of this Agreement;
 - (b) the results of those actions; and
 - (c) a description of the future actions still needed to achieve full compliance with each Article of this Agreement.
- (2) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

Article III - NEW SENIOR LENDING OFFICER

- (1) Within sixty (60) days, the Board shall appoint a capable senior lending officer who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of the Bank's lending function.
- (2) Prior to the appointment of any individual to the senior lending officer position, the Board shall submit to the Assistant Deputy Comptroller the following information, as required by 12 C.F.R. § 5.51(e):
 - (a) the information sought in the “Changes in Directors and Senior Executive Officers” booklet of the Comptroller’s Corporate Manual, together with a legible fingerprint card for the proposed individual;
 - (b) a written statement of the Board's reasons for selecting the proposed officer; and
 - (c) a written description of the proposed officer's duties and responsibilities.
- (3) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed senior lending officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.
- (4) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

Article IV - LOAN PORTFOLIO MANAGEMENT/ INTERNAL LOAN REVIEW

(1) The Board shall, within ninety (90) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (c) procedures to ensure conformance with loan approval requirements;
- (d) a system to track and analyze exceptions;
- (e) procedures to ensure conformance with Call Report instructions;
- (f) procedures to ensure the accuracy of internal management information systems;
- (g) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters; and
- (h) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their

impact on the credit quality of the Bank's loan and lease portfolios.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

(3) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of early problem loan identification to assure the timely identification and rating of loans and leases. The monitoring should be based on lending officer submissions, and include:

- (a) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, group, indirect dealer, and individual lending officer;
- (b) previously charged-off assets and their recovery potential;
- (c) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;
- (d) adequacy of credit and collateral documentation; and
- (e) concentrations of credit.

(4) Beginning January 1, 2002, on a quarterly basis, management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) credit and collateral documentation exceptions;
- (d) the identification and status of credit related violations of law, rule or regulation;
- (e) the identity of the loan officer who originated each loan in the report;

- (f) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios;
 - (g) the identification and amount of loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
 - (h) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.
- (5) Within ninety (90) days, the Board shall establish an effective, independent, and ongoing internal loan review system to review, at least annually, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in the Comptroller's Handbook - Rating Credit Risk - dated April 2001. Such reports shall, at a minimum, include conclusions regarding the items outlined in paragraph (4) above, and the overall quality of the loan and lease portfolios.
- (6) Upon completion, the Board shall forward copies of the written reports to the Assistant Deputy Comptroller.
- (7) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed pursuant to this Article.

Article V - LENDING AND OVERDRAFT POLICIES

- (1) Within sixty (60) days, the Board shall review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to the Loan Portfolio Management booklet, A-LPM,

of the Comptroller's Handbook. This policy shall incorporate, but not necessarily be limited to, the following:

- (a) measures to correct the deficiencies in the Bank's lending procedures noted in the ROE;
- (b) guidelines designed to improve Board oversight of the loan approval process. At a minimum, these guidelines shall:
 - (i) require that all credits which deviate from the Bank's normal course of business, including all credits which deviate from the Bank's written loan policy, receive the prior approval of the Board, or a committee thereof;
 - (ii) establish a standardized format for loan presentations, including information about the borrower, the terms of the loan including interest rates and minimum standards of documenting the borrower's ability to meet the proposed repayment program, including required analysis of the borrower's financial condition;
 - (iii) establish criteria for risk rating extensions of credit at inception and over the life of the loan. Ratings should provide an objective assessment of the risk inherent in the loan and be reviewed not less than annually in connection with the review of the borrower's financial statements; and
 - (iv) require that repayment terms be consistent with the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (c) guidelines consistent with Banking Circular 255, setting forth the criteria under which renewals of extensions of credit may be approved. At a minimum the policy shall:

- (i) ensure that renewals are not made for the sole purpose of reducing the volume of loan delinquencies; and
 - (ii) provide guidelines and limitations on the capitalization of interest; and
 - (d) guidelines for periodic review of the Bank's adherence to the revised lending policy.
- (2) Upon adoption, the policy shall be implemented, the Board shall thereafter ensure Bank adherence to the policy, and a copy of the policy shall be forwarded to the Assistant Deputy Comptroller for review.
- (3) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written policy concerning the extension of overdrafts that shall include, at a minimum:
 - (a) conditions and circumstances under which overdrafts will be permitted to principal shareholders or the related interests (as that term is defined in 12 C.F.R. Part 215) of executive officers, directors or principal shareholders;
 - (b) charges that will be levied against depositors using overdrafts; and
 - (c) conditions and circumstances under which overdrafts will be charged off.
- (4) Upon adoption, a copy of this policy shall be forwarded to the Assistant Deputy Comptroller.
- (5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies developed pursuant to this Article.

Article VI - RISK MANAGEMENT

(1) Within Ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written risk management program to include, at a minimum, the following:

- (a) identification of existing credit, interest rate, liquidity, transaction, compliance, strategic, and reputation risks, and a written analysis of those risks;
- (b) policies, procedures, or standards which limit the degree of risk the Board is willing to incur, consistent with the strategic plan and the Banks financial condition, including analyzing and limiting the risks associated with any new lines of business which the Board undertakes;
- (c) action plans and time frames to reduce risks where exposure is high, particularly with regard to credit risk, which impacts directly on liquidity, compliance, strategic, and reputation risks, as more fully discussed in the Report of Examination;
- (d) procedures to ensure that strategic direction and risk tolerances are effectively communicated and followed throughout the Bank, describing the actions to be taken where noncompliance with risk policies is identified;
- (e) systems to measure and control risks within the Bank. Measurement systems should provide timely and accurate risk

reports by customer, by department or division, and bank-wide as appropriate; and

- (f) procedures to ensure that Bank employees have the necessary skills to supervise effectively the current and the new business risks within the Bank, and procedures to describe the actions to be taken to address deficiencies in staff levels and skills.

(2) The risk management program shall be consistent with the Bank Supervision Process booklet, EP-SUP, of the Comptroller's Handbook.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

Article VII - INTEREST RATE RISK POLICY

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written interest rate risk policy. In formulating this policy, the Board shall refer to the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of adequate management reports on which to base sound interest rate risk management decisions;
- (b) establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk;
- (c) implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile;

- (d) designation of personnel responsible for managing interest rate risk; and
 - (e) periodic review of the Bank's adherence to the policy.
- (2) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.
- (3) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller.

**Article VIII - BANK INFORMATION SYSTEMS RESUMPTION
AND CONTINGENCY PLAN**

- (1) Within ninety (90) days, the Bank shall develop a formal Bank Information Systems Resumption and Corporate Contingency Plan which, at a minimum, complies with the requirements set forth in OCC Bulletin 97-23.
- (2) Within one hundred and twenty (120) days, and at least annually thereafter, the Board shall review its Bank Information Systems resumption and contingency planning and perform a test of all necessary programs and system applications using its backup location, or recovery operation center, to ensure the continuation of operations in the event of a disaster. The Board shall document the results of this review and test in its meeting minutes.
- (3) A copy of the plan and test results shall be forwarded to the Assistant Deputy Comptroller for review.

Article IX - CLOSING

- (1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

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

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set her hand on behalf of the Comptroller.

Signed _____

Sept. 13, 2001

Carolyn G. DuChene
Assistant Deputy Comptroller
Office of the Comptroller of the Currency
Evansville Field Office

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

_____ Ronald L. Beane	_____ Date
Signed	9-13-01
_____ Stuart J. Bohne	_____ Date
Signed	9-13-01
_____ Clarence R. Brewer, Jr.	_____ Date
Signed	9-13-01
_____ Thomas B. Eades	_____ Date
Signed	9-13-01
_____ Michael Goldston	_____ Date
Signed	9-13-01
_____ William B. Greenwood	_____ Date
Signed	9-13-01
_____ T. C. Lamb	_____ Date
Signed	9/13/2001
_____ Robert A. Lawton	_____ Date
Signed	9/13/01
_____ James D. Lowe	_____ Date
Signed	9-13-01
_____ Mark D. Young	_____ Date