

#2001-89

**FORMAL AGREEMENT BY AND BETWEEN
FIRST NATIONAL BANK OF NORTHERN KENTUCKY
FORT MITCHELL, KENTUCKY
AND
THE OFFICE OF THE COMPTROLLER OF THE CURRENCY**

OPENING

First National Bank of Northern Kentucky, Fort Mitchell, 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 December 31, 2000.

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

JURISDICTION

(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).

ARTICLE I (Continued)

(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 "written agreement" within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(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 the:

Assistant Deputy Comptroller
Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, Kentucky 40222

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than one 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. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly and maintain written minutes of its meetings for review by the Board.

(3) Within sixty (60) days of the appointment of the Committee and every calendar quarter-end thereafter, the Compliance Committee shall submit a written



ARTICLE II (Continued)

progress report to the Board setting forth in detail:

- (a) the actions taken to comply with each Article of this Agreement;
- (b) the results of those actions, and
- (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(4) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the Report of Examination or in any future Report of Examination.

(5) On a quarterly basis, beginning with the September 30, 2001 report, the board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller. The progress reports will be due within fifteen (15) days after the end of the quarter.

ARTICLE III

BUSINESS AND STAFFING PLAN

(1) Within sixty (60) days, the Board should revise the existing business plan to determine if it is consistent with the risks identified in the Bank. Specifically, the plan shall describe the Bank's objectives for improving Bank earnings, contemplated strategies, and major capital expenditures required to achieve those objectives. Such strategies shall include specific market segments that the Bank intends to promote or develop. Procedures shall also be established to monitor the Bank's actual results against these projections and to provide for appropriate adjustments to the budget and profit plan. The plan shall set forth specific time frames for the accomplishment of these



ARTICLE III (Continued)

objectives.

(2) Within sixty (60) days, the Board shall develop a staffing plan that is consistent with the goals and objectives established in the Bank's business plan and that compliments the overall risk profile established for the Bank. At a minimum, the plan will consist of the following:

- (a) identification of the skills and expertise needed to develop, market, and administer the products identified in the business plan;
- (b) identification of the skills and expertise of the Bank's current staff; and
- (c) comparison of the current staff's skills and expertise identified in (2)(b) of this Article to the skills and expertise identified in (2)(a) of this Article as necessary to develop, market, and administer the products that will be utilized in accomplishing the Bank's goals and objectives.

(3) Within thirty (30) days of the development of the staffing plan, the Board will implement the plan and direct any changes necessary to provide the Bank with a staff that possesses the skills and expertise identified in (2)(a) of this Article. Thereafter, the Board will ensure that the Bank adheres to the staffing plan.

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



ARTICLE IV

CREDIT RISK REDUCTION PLAN

(1) Within thirty (30) days, the Board shall adopt, implement, and thereafter adhere to a written plan to reduce the Bank's high level of credit risk. The plan, at a minimum, shall be designed to improve the credit risk function's personnel, processes, and controls, including written policies and procedures, and to reduce the volume of criticized assets.

(2) Upon completion of the plan, the Bank shall submit the plan to the Assistant Deputy Comptroller. The Board shall establish appropriate procedures and time frames for the implementation of the plan.

(3) The plan shall be implemented pursuant to the time frames set forth within the plan unless events dictate modifications to the plan. Where the Board considers modifications appropriate, those modifications shall be submitted to the Assistant Deputy Comptroller within thirty (30) days.

(4) In the event the Assistant Deputy Comptroller recommends changes to the action plan or its modifications, the Board shall immediately incorporate those changes into the plan.

ARTICLE V

CREDIT RISK PERSONNEL

(1) Within one hundred and twenty (120) days, the Board shall ensure that the Bank has competent personnel in place on a full-time basis in its credit risk function to carry out the Board's policies; ensure compliance with this Agreement and applicable laws, rules, and regulations; and manage day-to-day operations of the Bank's credit risk



ARTICLE V (Continued)

function in a safe and sound manner.

(2) Within sixty (60) days, the Board shall assess each credit officer's experience, other qualifications and performance compared to the position's description, duties and performance.

(3) If the Board determines that a credit officer will continue in his/her position but that the officer's depth of skills needs improvement, the Board will, within ninety (90) days, develop and implement a written program, with specific time frames, to improve the officer's skills. At a minimum, the written program shall include:

- (a) an education program designed to ensure that the officer has the skills necessary to supervise effectively;
- (b) a program to improve the effectiveness of the officer;
- (c) objectives by which the officer's effectiveness will be measured;
- and
- (d) a performance appraisal program for evaluating performance according to the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

ARTICLE VI

CREDIT RISK PROCESSES AND CONTROLS

(1) Within ninety (90) days, the Board shall develop, implement, and ensure Bank adherence to a written program to improve the Bank's credit risk processes and controls. The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral



ARTICLE VI (Continued)

- 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) 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 portfolios;
- (h) early problem loan identification to assure the timely identification and rating of loans based on lending officer submissions;
- (i) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;
- (k) adequacy of credit and collateral documentation;
- (j) the identification, type, rating, and amount of problem loans;
- (l) the identification and amount of delinquent loans;
- (m) credit and collateral documentation exceptions;



ARTICLE VI (Continued)

- (n) the identification and status of credit related violations of law, rule or regulation;
- (o) the identity of the loan officer who originated each loan;
- (p) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan portfolio;
- (q) the identification and amount of loans to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (r) the identification of loans not in conformance with the Bank's lending policies, and exceptions to the Bank's lending policies.

ARTICLE VII

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the Report of Examination, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the Report of Examination, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful,"



ARTICLE VII (Continued)

"substandard," or "special mention." This program shall include, at a minimum:

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

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding two hundred and fifty thousand dollars (\$250,000) shall be forwarded to the Assistant Deputy Comptroller.

(4) 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.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds two hundred and fifty thousand dollars (\$250,000);
- (b) management's adherence to the program adopted pursuant to this Article;



ARTICLE VII (Continued)

- (c) the status and effectiveness of the written program; and
 - (d) the need to revise the program or take alternative action.
- (6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis (in a format similar to Appendix A, attached hereto).
- (7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the Report of Examination, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed two hundred and fifty thousand dollars (\$250,000) only if each of the following conditions are met:
- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
 - (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.
- (8) A copy of the approval of the Board or of the designated committee shall



ARTICLE VII (Continued)

be maintained in the file of the affected borrower.

ARTICLE VIII

LENDING POLICY

(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. Revisions to the policy shall incorporate, but not necessarily be limited to, the following:

- (a) a provision that current and satisfactory credit information will be obtained on each borrower;
- (b) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (c) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (d) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;
- (e) a pricing policy that takes into consideration costs, general overhead, and probable loan losses, while providing for a reasonable margin of profit;
- (f) a prohibition regarding the use of brokered deposits to fund loan growth or support criticized loans;
- (g) guidelines for loans to insiders, including a statement that such loans will not be granted on terms more favorable than those



ARTICLE VIII (Continued)

offered to similar outside borrowers;

- (h) guidelines and limitations on concentrations of credit;
- (i) measures to correct the deficiencies in the Bank's lending procedures noted in any Report of Examination;
- (j) guidelines designed to improve Board oversight of the loan approval process, specifically with regard to credits exhibiting significant risk. At a minimum, the revised policy shall:
 - (i) establish dollar limits on aggregate extensions of credit to any one borrower, above which any new extensions of credit to that borrower, regardless of amount, would require the prior approval of the Board, or a committee thereof; and
 - (ii) require that all credits which deviate from the Bank's normal course of business, including all credits which deviate from the Bank's written business plan, receive the prior approval of the Board, or a committee thereof.
- (k) 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;



ARTICLE VIII (Continued)

- (l) charge-off guidelines, by type of loan or other asset, including Other Real Estate Owned, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery; and
- (m) 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.

(3) 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.

ARTICLE IX

OVERDRAFT POLICY

(1) Within thirty (30) 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 allowed, taking into consideration the requirements of 12 U.S.C. § 375b;
- (b) charges that will be levied against depositors using overdrafts;
- (c) conditions and circumstances under which overdrafts will be



ARTICLE IX (Continued)

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; and

(d) conditions and circumstances under which overdrafts will be charged off.

(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.

ARTICLE X

NONACCRUAL LOANS

(1) The Bank shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the Instructions for Preparation of Consolidated Reports of Condition and Income (Call Report Instructions) governing nonaccrual loans. Further, the Bank shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(2) Within thirty (30) days, the Board shall adopt and implement written policies and procedures governing the supervision and control of non-accrual loans.

Such policies and procedures shall:

- (a) be consistent with the accounting requirements contained in the Call Report Instructions;
- (b) address the circumstances under which accrued interest due on a



ARTICLE X (Continued)

loan may be added to the outstanding principal amount when the loan is renewed or restructured; and

- (c) require the monthly presentation to the Board of all loans meeting any of the non-accrual criteria.

(3) Within thirty (30) days, the Board shall develop and implement a written policy governing the identification of and accounting treatment for non-accrual loans.

(4) 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 XI

ALLOWANCE FOR LOAN LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following additional factors:

- (a) an estimate of inherent loss exposure on each significant credit;
- (b) loan loss experience;
- (c) trends of delinquent and nonaccrual loans;
- (d) concentrations of credit in the Bank; and
- (e) present and prospective economic conditions.



ARTICLE XI (Continued)

(2) The 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 Consolidated Reports of Condition and Income, 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.

(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 XII

APPRAISALS OF REAL PROPERTY

(1) Within thirty (30) days, the Bank shall implement an appraisal review process that specifically addresses the processes to be followed in reviewing and evaluating an appraisal. At a minimum, this process requires:

- (a) that appraisals are performed in accordance with 12 C.F.R. Part 34
- (b) are consistent with the Bank's written loan policy, and
- (c) documentation supporting the review is retained in the file.

(2) In cases where an appraisal is deficient, the Bank shall request a new appraisal and specifically instruct the appraiser(s) to comply with the requirements of 12 C.F.R. Part 34.



ARTICLE XIII

INTERNAL AUDIT

(1) As part of the Bank's internal audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(2) The Board shall ensure that the internal audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, that shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

(3) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(4) The audit staff shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

ARTICLE XIV

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects any violations of law, rule, or regulation cited in the Report of Examination, any subsequent Report of Examination, or brought to their attention by management, regulators, auditors, loan review, or other compliance efforts.

(2) Within 30 days of notice of any violations of law, rule, or regulation, the



ARTICLE XIV (Continued)

Board shall adopt, implement, and, thereafter, ensure Bank adherence to specific procedures to prevent future violations and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

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

ARTICLE XV

INTERNET BANKING AND NEW PRODUCTS/SERVICES

(1) Within thirty (30) days, the Board shall prepare a written analysis of the Internet Banking program which fully assesses the risks and benefits of this line of business. This analysis shall include an assessment of the Bank's controls, procedures, MIS and management of Internet Banking operations, and shall tie directly to the Bank's business plan.

(2) Prior to the Bank's involvement in all new products or services the Board shall ensure the appropriate risk management systems are in place. The Analysis shall, at a minimum, include the following:

- (a) an assessment of the risks and benefits of the product or service to the Bank;
- (b) an explanation of how the product or service is consistent with the



ARTICLE XV (Continued)

Bank's business plan; and

- (c) an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS, internal controls and written policies and procedures to identify, measure, monitor, and control the risks associated with the product or service.

(3) Prior to the Bank's involvement in the new product or service, a copy of the analysis shall be submitted to the Assistant Deputy Comptroller.

ARTICLE XVI

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



ARTICLE XVI (Continued)

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.

(5) This Agreement is intended, and shall be construed to be a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC’s exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.



IN TESTIMONY WHEREOF, the Assistant Deputy Comptroller, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

- SIGNED -

7/13/2001

Curtis D. Schuman
Assistant Deputy Comptroller,
Louisville Field Office

Date



IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of First National Bank of Northern Kentucky, Fort Mitchell, Kentucky have hereunto set their hands on behalf of the bank.

- SIGNED -

July 13, 2001

John G. Cobey

- SIGNED -

Date

7/17/01

Robert L. Conners

- SIGNED -

Date

7/13/01

Ralph E. Jump

- SIGNED -

Date

7/13/01

James R. Kruer

- SIGNED -

Date

9/5/01

Raymond A. Mueller

- SIGNED -

Date

7/13/01

Joel D. Newman

- SIGNED -

Date

7/13/01

Cranton M. Noyes

- SIGNED -

Date

7/13/01

Peggy A. Rankin-Tishbein

- SIGNED -

Date

7/17/01

James A. Schiff

- SIGNED -

Date

7/13/01

Michael A. Schleper

- SIGNED -

Date

7/13/01

Thomas G. Schleper

- SIGNED -

Date

7/13/01

Patricia M. Summe

- SIGNED -

Date

7/13/01

Richard M. Thomas

- SIGNED -

Date

7/17/01

Richard J. Toerner

Date



- SIGNED -

John S. Weber

- SIGNED -

Larry C. West

7/13/01

Date

7/13/01

Date

