

**UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

**In the Matter of:** )  
First National Bank of Northern Kentucky )  
Fort Mitchell, Kentucky )

**PROMPT CORRECTIVE ACTION DIRECTIVE**

First National Bank of Northern Kentucky, Fort Mitchell, Kentucky (Bank) is a critically undercapitalized bank pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6.

The Office of the Comptroller of the Currency (Comptroller) is authorized, pursuant to 12 U.S.C. § 1831o, to take certain supervisory actions against critically undercapitalized banks; and

The Comptroller finds it necessary in order to carry out the purposes of 12 U.S.C. § 1831o to issue this immediately effective Prompt Corrective Action Directive (Directive) pursuant to 12 C.F.R. Part 6.

**ARTICLE I**

**JURISDICTION**

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1, *et seq.*

(2) The Comptroller is “the appropriate Federal banking agency” regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1831o.

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1831o.

(4) This Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).

## ARTICLE II

### CAPITAL RESTORATION PLAN

(1) Within ten (10) days, the Bank shall provide to the OCC's Director for Special Supervision/Fraud ("Director") an acceptable Capital Restoration Plan pursuant to 12 U.S.C. § 1831o.

(2) At a minimum, an acceptable Capital Restoration Plan shall include:

- (a) Specific plans for achieving by September 30, 2002, and thereafter maintaining, the following minimum capital levels (as defined in 12 C.F.R. Part 3):
  - (i) Tier 1 capital at least equal to twelve percent (12%) of risk-weighted assets; and
  - (ii) Tier 1 capital at least equal to nine percent (9%) of actual adjusted total assets;
- (b) Projections of the sources and timing of additional capital and/or projections of the methods and timing of reducing assets to meet the requirements of subparagraph (2)(a) of this Article;
- (c) The primary source(s) from which the Bank will strengthen its capital structure to meet the requirements of subparagraph (2)(a) of this Article;
- (d) Alternative source(s) from which the Bank will strengthen its capital structure should the primary source(s) under (d) above not be available;
- (e) A commitment to sell, to merge, or liquidate the Bank under 12 U.S.C. § 181 should the Bank not be able to achieve and maintain the capital levels in the

amounts and time frame set forth in paragraphs (1) and (2) of this Article and appropriate plans to execute this commitment;

- (f) Projections for future capital needs based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet assets and activities;
- (g) A dividend policy that permits the declaration of a dividend only:
  - (i) When the dividend would not cause the Bank, after making the distribution, to be undercapitalized;
  - (ii) When the Bank is in compliance with its approved Capital Restoration Plan;
  - (iii) When the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
  - (iv) With the prior written determination of no supervisory objection by the Director;
- (h) Specific plans detailing how the Bank will comply with the restrictions or requirements set forth in this Directive and 12 U.S.C. § 1831o, including:
  - (i) The restrictions against asset growth until the OCC has accepted the capital restoration plan submitted by the Bank and has determined that the growth will not impair the Bank's ability to become adequately capitalized.
  - (ii) The restrictions against brokered deposits in 12 C.F.R. § 337.6; and
  - (iii) The restrictions against the payment of management fees to any person having control of the Bank if, after making the payment, the Bank would be undercapitalized, as set forth in 12 U.S.C. § 1831o(d)(2);

- (i) Maintenance of adequate liquidity while complying with the restrictions or requirements set forth in this Directive and 12 U.S.C. § 1831o; and
  - (j) The types and levels of activities in which the Bank will prospectively engage.
- (3) Pursuant to 12 U.S.C. § 1831o(e)(2)(B)(ii), the Capital Restoration Plan will not be deemed acceptable unless it also satisfactorily addresses the following additional criteria:
- (a) Identification of a proposed management team capable of addressing the Bank's problems, complying with all requirements contained in any outstanding enforcement action, implementing and adhering to a sound business plan, and otherwise operating the Bank in a safe and sound manner;
  - (b) Plans to reduce the Bank's high level of credit risk, ensure that competent credit risk personnel are in place on a full-time basis, protect the Bank's interest in criticized assets, and to improve the Bank's credit risk processes and controls;
  - (c) Ensuring that the Bank has safe and sound written policies in place that are adhered to which address lending, overdrafts and non-accrual loans;
  - (d) Ensuring achievement and maintenance of an adequate Allowance for Loan and Lease Losses;
  - (e) Ensuring the implementation of and adherence to a safe and sound real estate appraisal review process;
  - (f) Processes whereby the Board evaluates internal audit reports and takes immediate action to remedy deficiencies cited in internal audit reports; and
  - (g) Processes whereby the Board takes all necessary steps to ensure that Bank management corrects any violations of law, rule, or regulation cited in any

Report of Examination or brought to their attention by management, regulators, auditors, loan review, or other compliance efforts.

(4) Pursuant to 12 U.S.C. § 1831o(e)(2)(C), the capital restoration plan will not be acceptable unless the plan:

- (a) Complies with paragraphs (1), (2), and (3) of this Article;
- (b) Is based on realistic assumptions, and is likely to succeed in restoring the Bank's capital;
- (c) Would not appreciably increase the risk to which the Bank is exposed; and
- (d) Includes a written guaranty from FNB Bancorp, Inc. Fort Mitchell, Kentucky (the Bank's holding company) that the Bank will comply with the Plan until the Bank has been, at a minimum, adequately capitalized on average during each of four (4) consecutive calendar quarters. To be acceptable, the guaranty shall provide adequate assurance of the holding company's performance through the transfer or pledge to the Bank of sufficient assets. This guarantee is limited to the lesser of 5 percent of the Bank's total assets at the time it became undercapitalized or the amount which is necessary to bring the Bank into capital compliance.

(5) Upon being found acceptable by the Director, the Bank shall implement and shall adhere to the provisions of the Capital Restoration Plan. The Board shall review and shall update the Bank's Capital Restoration Plan on a monthly basis, or more frequently if necessary, and forward such updates to the Director. The Bank shall adhere to the Capital Restoration Plan until it receives written notice from the Director that adherence is no longer required.

(6) The Bank may not make any acquisition of any bank or company, establish or acquire a branch or engage in any new line of business unless the Bank is implementing a capital restoration plan accepted by the OCC and the OCC determines the proposed action will further the achievement of the plan, or the Board of Directors of the Federal Deposit Insurance Corporation determines that the proposed action will further the purposes of 12 U.S.C. § 1831o.

(7) Until such time as the OCC has accepted the Bank's capital restoration plan, the Bank shall not make any loan, loan extension, loan renewal, or other extension of credit where the aggregate exposure to the borrower or related companies exceeds \$50,000 (fifty thousand dollars).

### ARTICLE III

#### LIQUIDITY

(1) The Board shall immediately increase the liquidity of the Bank to a level that is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base. Such actions may include, but are not necessarily limited to:

- (a) selling assets;
- (b) obtaining lines of credit from correspondent banks;
- (c) recovering charged-off assets; and
- (d) injecting additional equity capital.

(2) The Board shall review the Bank's liquidity on a daily basis. Such reviews shall consider:

- (a) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (b) the volatility of demand deposits including escrow deposits;
- (c) the amount and type of loan commitments and standby letters of credit;

- (d) an analysis of the continuing availability and volatility of present funding sources;
- (e) an analysis of the impact of decreased cash flow from the Bank's loan portfolio resulting from delinquent and non-performing loans;
- (f) an analysis of the impact of decreased cash flow from the sale of loans or loan participations; and
- (g) the restrictions against asset growth under 12 U.S.C. § 1831o and against brokered deposits under 12 C.F.R. § 337.6.

(3) The Board shall take appropriate action to ensure adequate sources of liquidity in relation to the Bank's needs. Daily reports shall set forth liquidity requirements and the sources to meet those requirements. Copies of these reports shall be forwarded to the Director daily.

#### ARTICLE IV

##### EXECUTIVE MANAGEMENT

(1) The Board shall immediately remove all executive decision making authority from President Richard M. Thomas.

(2) The Board shall within one (1) day designate a Bank director or committee of the board to exercise the decision making authority at the Bank President level until the management team required under Article II, paragraph 3(a) has been approved and is in place.

#### ARTICLE V

##### COMPLIANCE COMMITTEE

(1) Within five (5) days, the Board shall appoint a Compliance Committee of at least five (5) directors, of which none 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 Director. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Directive.

(2) The Compliance Committee shall meet at least monthly.

(3) Within fifteen (15) 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 to comply with each Article of this Directive; and

(b) the results of those actions.

(4) The Board shall immediately forward a copy of the Compliance Committee's reports, with any additional comments by the Board, to the Director.

## ARTICLE VI

### CLOSING

(1) This Directive is enforceable under 12 U.S.C. § 1818(i). Each provision of this Directive shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other persons participating in the affairs 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, or any institution-affiliated party of the Bank, nothing in this Directive shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) If the Bank determines that: (i) it is unable to comply with any provision of this Directive; (ii) compliance with any provision of this Directive will cause undue hardship to the Bank;



or (iii) the Bank requires an extension of any timeframe within this Directive, the Bank shall submit a written request to the Director asking for relief. Any written request submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that supports the Bank's request. All such requests shall be accompanied by relevant supporting documentation, together with a copy of a Board Resolution authorizing the request. Such application shall be delivered to the Director for Special Supervision/Fraud. The Director's decision pertaining to the request is final.

(4) The provisions of this Directive are effective upon issuance of this Directive by the Comptroller, through the Director whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Directive shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(5) The Bank may submit a written appeal of this Directive to the Director. Such an appeal must be received by the Director within 14 calendar days of the issuance of this Directive. If an appeal is filed in a timely manner, the OCC shall consider the appeal within 60 days of receiving the appeal. During such period of review, this Directive shall remain in effect.

IT IS SO ORDERED, this Fourth day of September, 2002.

/s/ Ronald G. Schneck  
Ronald G. Schneck  
Director for Special Supervision/Fraud