

#2003-21

AGREEMENT BY AND BETWEEN
Farmers National Bank
Walton, Kentucky
and
The Office of the Comptroller of the Currency

Farmers National Bank, Walton, 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 her findings are contained in the Report of Examination, dated August 13, 2002, as of June 30, 2002 (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

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).

(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) Where any article of this Agreement refers to the Matters Requiring Attention section of the ROE (MRAs) the terms “need to” and “should,” as used in those MRAs, mean “shall” for purposes of this Agreement.

(6) 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:

Curtis D. Schuman
Assistant Deputy Comptroller
Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, Kentucky 40222

ARTICLE II

COMPLIANCE COMMITTEE

(1) **Within fifteen (15) days**, the Board shall appoint a **Compliance Committee** of at least three (3) directors, of which no more than one shall be an employee 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 without the prior determination of no supervisory objection by the Assistant Deputy Comptroller. 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 and the actions initiated by the Board to address criticisms and comments in the ROE or in any subsequent Report of Examination.

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

(3) **Within sixty (60) days** of the appointment of the Committee and every calendar quarter-end 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 Agreement;
- (b) Results of those actions; and
- (c) Description of the remaining actions needed, including expected completion dates, to achieve full compliance with each Article of this Agreement.

(4) The progress report shall also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the ROE or in any subsequent Report of Examination.

(5) The Compliance Committee's meeting minutes and progress reports, along with any additional comments made by the Board, shall be retained in the Bank's records for review by the National Bank Examiners.

ARTICLE III

PLANNING

(1) **Within sixty (60) days**, the Board shall revise the Bank's **strategic plan** as recommended in the Planning section of the MRAs. The Board shall establish a plan to address existing and newly identified deficiencies consistent with the Bank's mission, operating environment, risk appetite, and current condition. The revised strategic plan shall focus, at a minimum, on obtaining adequate management and capital; establishing governing policies, procedures, and controls; and implementing processes to independently verify, audit and monitor results to enable the Board to fully implement the Bank's mission and business objectives.

(2) Upon adoption, a copy of the revised strategic plan shall be forwarded to the Assistant Deputy Comptroller for review and prior determination of no supervisory objection. After the Assistant Deputy Comptroller has advised the Bank that it does not take supervisory objection to the strategic plan, the Board shall immediately implement, and shall thereafter ensure adherence to, the terms of the revised strategic plan.

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

ARTICLE IV

MANAGEMENT

(1) **Within ninety (90) days**, the Board shall ensure the Bank has a **management team** with the experience, ability and depth to administer its affairs in a safe or sound manner as recommended in the Management section of the MRAs.

(2) **Within one hundred and eighty (180) days**, the Board shall develop, implement, and thereafter ensure Bank adherence to a written **employee development program** that ensures employees can acquire and retain the knowledge and skills necessary to perform their duties and responsibilities. The program shall, at a minimum, include:

- (a) Measurable standards and objectives for each employee;
- (b) Exception monitoring and verification systems that provide independent reports of employees' compliance with bank policy and banking laws, rules, and regulations;
- (c) Periodic comparison of employee performance to these standards and objectives to identify and communicate strengths and weaknesses;

- (d) Ongoing training of all employees; and
- (e) Succession plans.

(3) The Board shall provide a copy of the employee development program 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.

ARTICLE V

CLASSIFIED AND CRITICIZED ASSETS

(1) **Within sixty (60) days**, the Board shall adopt, implement, and thereafter ensure Bank adherence to **a written program with action plans designed to address your Bank's problem loans** as described in the Policies, Processes and Controls section of the MRAs. This program shall include specific information and action plans for each of your Bank's problem loan relationships over \$50,000. At a minimum, the program shall include:

- (a) Identification of the expected sources of repayment;
- (b) Appraised value of supporting collateral and the position of the Bank's lien on such collateral;
- (c) Analysis of current and satisfactory credit information, including cash flow analysis; and
- (d) Proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(2) The Board shall provide a copy of the program 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 program developed pursuant to this Article.

(4) **At least monthly thereafter**, the Board, or a designated committee, shall review the program to determine:

- (a) The status of each problem loan relationship over \$50,000;
- (b) Management's adherence to the program adopted pursuant to this Article;
- (c) The status and effectiveness of the written program; and
- (d) The need to revise the program or take alternative action.

(5) 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 any Report of Examination or by loan review and whose aggregate loans or other extensions exceed \$200,000 only if each of the following conditions are met:

- (a) The Board 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 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.

(6) A copy of the Board's approval shall be maintained in the file of the affected borrower.

ARTICLE VI

POLICIES, PROCESSES AND CONTROLS

(1) **Within sixty (60) days**, the Board shall develop, implement, and thereafter ensure Bank adherence to **policies, processes, and controls** as recommended in the Policies, Processes and Controls section of the MRAs, focusing on the following areas:

- (a) Insiders, Affiliates and Conflicts of Interest;
- (b) Lending; and
- (c) Funds Management.

(2) **Within sixty (60) days**, the Board shall develop, implement, and thereafter ensure Bank adherence to policies, processes, and controls to ensure **verification, auditing, and exception monitoring systems** provide the Board with adequate information to oversee management's performance, facilitate corrective actions and control the risks within the Bank.

(3) The Board shall provide copies of the policies, processes, and controls implemented pursuant to this Article 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 policies, processes, and controls developed pursuant to this Article.

ARTICLE VII

INDEPENDENT VERIFICATION, AUDITING AND EXCEPTION MONITORING SYSTEMS

(1) **Within one hundred and eighty (180) days**, the Board shall develop, implement, and thereafter ensure Bank adherence to **independent verification, auditing, and monitoring**

systems as recommended in the Independent Verification, Auditing and Exception Monitoring Systems section of the MRAs to test the newly implemented and enhanced policies, processes, and controls. At a minimum, these shall include:

- (a) Lending Exception Reporting;
- (b) Internal Audit; and
- (c) Loan Review.

(2) The Board shall provide copies of results of all lending exception reports, internal audit, and loan reviews 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 systems developed pursuant to this Article.

ARTICLE VIII

VIOLATIONS OF LAW, RULE OR REGULATION

(1) **Within sixty (60) days**, the Board shall take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE. The quarterly progress reports required by Article II of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) **Within sixty (60) days**, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and thereafter 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) **Within sixty (60) days** of receipt of any subsequent Report of Examination, which cites violations of law, rule or regulation, the Board shall ensure management corrects each violation cited in any subsequent Report of Examination. The quarterly progress reports required by Article II of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(4) **Within sixty (60) days** of receipt of any subsequent Report of Examination, which cites violations of law, rule or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in any subsequent Report of Examination and shall adopt, implement, and thereafter 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.

(5) Upon adoption, a copy of the procedures implemented pursuant to this Article shall be promptly forwarded to the Assistant Deputy Comptroller.

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

ARTICLE IX

AFFILIATE TRANSACTION CONCENTRATION

(1) **Within ninety (90) days**, and at least annually thereafter, the Board shall review the Bank's **existing concentration of credit in affiliate transactions** as described in the Insider,

Affiliates and Conflicts of Interest section of the ROE and the Policies, Processes and Controls section of the MRAs for the purpose of:

- (a) Quantifying any risks to the Bank;
- (b) Identifying relationships not in conformity with policy; and
- (c) Taking necessary steps to address any risks or nonconforming relationships.

(2) The Board shall provide copies of the initial analysis to the Assistant Deputy Comptroller.

ARTICLE X

TIER 1 CAPITAL LEVELS

(1) **By June 30, 2003**, the Bank shall achieve and thereafter maintain Tier 1 capital at least equal to eight percent (8%) of adjusted total assets.¹

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(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 XI

DIVIDENDS

(1) **Beginning immediately**, the Board shall declare or pay dividends only:

- (a) When the Bank is in compliance with 12 U.S.C. 56 and 60;
- (b) When the Bank is in compliance with its approved capital program;

¹ Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets.

- (c) When such dividend payment is consistent with Article (X) Tier 1 capital levels; and
- (d) With the prior written determination of no supervisory objection by the Assistant Deputy Comptroller.

ARTICLE XII

EXTENSIONS OF TIME

(1) If the Bank determines that an exception to any provision of this Agreement is in the best interests of the Bank, or requires an extension of any timeframe within this Agreement, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief.

(2) Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with any provision, that require the Assistant Deputy Comptroller to exempt the Bank from any provision, or that require an extension of any timeframe within this Agreement. All such requests shall be accompanied by relevant supporting documentation.

(3) The Assistant Deputy Comptroller's decision in granting the request is final and not subject to further review.

ARTICLE XIII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior determination of no supervisory objection, 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 pursuant to Article XII.

(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.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) Authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) Require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) Follow-up on any non-compliance with such actions in a timely and appropriate manner; and

(d) Require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, 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 prior arrangements between the parties, whether oral or written.

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

/s/

March 18, 2003

Curtis D. Schuman
Assistant Deputy Comptroller
Louisville 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.

/s/	3/18/03
_____ Mark Aulick	_____ Date
/s/	3/18/03
_____ J. C. Crowley	_____ Date
/s/	3-18-03
_____ Charles Deters	_____ Date
/s/	3-18-03
_____ Jed Deters	_____ Date
/s/	3-18-03
_____ George Hoffman	_____ Date
/s/	3-18-03
_____ Louis McClanahan	_____ Date
/s/	3-18-03
_____ Neil Stieglmeyer	_____ Date
/s/	3/18/03
_____ Donna Yeager	_____ Date