

#2004-73

AGREEMENT BY AND BETWEEN
First National Bank and Trust
London, Kentucky
and
The Office of the Comptroller of the Currency

First National Bank and Trust, London, 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 has found violations of law, rule, or regulation and banking practices regarding strategic planning; lending; credit administration; consumer compliance management and overall direction of the Bank’s affairs, which must be changed for the lawful, safe and sound operation of the Bank.

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) All reports or plans which the Bank or the 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 (1) 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. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller.

(2) The Compliance Committee shall be responsible for monitoring, coordinating, and testing the Bank's adherence to the provisions of this Agreement.

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

(4) Within thirty (30) days of the appointment of the Compliance 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) the results of those actions;
 - (c) the actions they have taken to test for compliance with the articles of this Agreement; and
 - (d) the results of those actions.
- (5) Within ten (10) days of receipt, 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

STRATEGIC PLAN

(1) Within one hundred twenty (120) days, the Board shall adopt, implement, and thereafter ensure adherence to a written strategic plan for the Bank covering at least a five-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, product line development, and market segments the Bank intends to promote or develop, together with strategies to achieve those objectives. The plan and the strategies to achieve the plan, at a minimum, shall include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;

- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems, and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments the Bank intends to promote or develop;
- (h) an action plan to accomplish identified strategic goals and objectives, including individual responsibilities, accountability, and specific time frames;
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
and
- (k) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Within fifteen (15) business days of its adoption, a copy of the strategic plan shall be forwarded to the Assistant Deputy Comptroller for review.

ARTICLE IV

MANAGEMENT

(1) Within one hundred twenty (120) days, the Board shall ensure the Bank has a management team with the experience, ability, and depth to administer the Bank's affairs and address the concerns noted in the Report of Examination for the examination that commenced on January 5, 2004 ("ROE") and in any subsequent Report of Examination. At a minimum, the Board shall consider:

- (a) each officer's qualifications and abilities, and whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of his or her position;
- (b) the need for additions to or deletions from the current management team;
- (c) objectives by which management's effectiveness will be measured;
- (d) identified weaknesses in the skills and abilities of the Bank's staff and management team and the training needed to address these weaknesses;
- (e) current lines of authority, reporting responsibilities, and delegation of duties for all officers, including identification of any overlapping duties or responsibilities; and
- (f) the Board's strengths and weaknesses, and the training needed to address these weaknesses.

(2) Within one hundred twenty (120) days, the Board will adopt, implement, and thereafter ensure adherence to an 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 and regulations;
 - (c) Periodic comparison of employee performance to these standards and objectives to identify and communicate to the employee their strengths and weaknesses; and
 - (d) Ongoing training of all employees.
- (3) Within fifteen (15) business days of its adoption, the Board will provide a copy of the employee development program to the Assistant Deputy Comptroller.

ARTICLE V

SENIOR LENDING OFFICER

(1) Within ninety (90) days, the Board shall appoint a capable senior lending officer who shall be vested with sufficient executive authority to fulfill the duties and responsibilities of the position and ensure the safe and sound administration of the loan portfolio.

(2) Prior to the appointment of any individual to the senior lending officer position, the Board shall provide the Assistant Deputy Comptroller with written notice as required by 12 C.F.R. § 5.51 using notice forms and following the instructions in the "Changes in Directors and Senior Executive Officers Booklet" of the *Comptroller's Licensing Manual*.

(3) In addition to the information required to be provided pursuant to paragraph (2) of this Article, the Board shall submit to the Assistant Deputy Comptroller:

- (a) a written statement of the Board's reasons for selecting the proposed senior lending officer; and
- (b) a written description of the proposed senior lending officer's duties and responsibilities.

(4) The Assistant Deputy Comptroller shall have the power to disapprove the employment of the proposed senior lending officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed officer.

ARTICLE VI

VIOLATIONS OF LAW, RULE, OR REGULATION

(1) The Board shall immediately take all necessary steps to ensure the correction of each violation of law, rule, or regulation cited in the ROE and 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.

(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 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 adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the Report of Examination 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.

ARTICLE VII

LENDING POLICIES, PROCESSES, AND CONTROLS

(1) Within one hundred twenty (120) days, the Board shall ensure the Bank's lending, loan portfolio management information system, loan policy exception reporting, and outsourced loan review policies, processes, and controls conform to the safety and soundness standards set forth in 12 C.F.R. §30, Appendix A. At a minimum, these policies, processes, and controls shall address:

- (a) Obtaining and evaluating current and complete borrower financial information;
- (b) Analyzing borrower cash flow or debt service capacity, changes in financial condition, and liquidity;
- (c) Obtaining collateral evaluations and appraisals that conform to 12 C.F.R. §34;
- (d) Compliance with the Interagency Appraisal and Evaluation Guidelines dated October 27, 1994 contained in Appendix E, of the Commercial Real Estate and Construction Lending of the Comptroller's Handbook dated November 1995;
- (e) Compliance with the allowance for loan and lease losses methodologies and documentation requirements outlined in OCC Bulletin 2001-37 dated July 20, 2001;

- (f) Overdraft policies and procedures that detail the rationale for paying overdrafts, charging-off overdrafts, and analyzing the repayment capacity of the borrower creating the overdraft;
- (g) Reporting to the Board large overdrafts, the duration of the overdrafts, overdraft charge-offs, and compliance with overdraft policies and procedures;
- (h) Cash management account policies and processes that establish customer qualifications, require the submission of satisfactory customer information, and provide for periodic testing of compliance with the terms and conditions of these accounts;
- (i) Reporting to the Board large cash management account activity, delinquent accounts, and exceptions to cash management account policies and procedures;
- (j) Single payment secured and unsecured loan policies and maturity guidelines;
- (k) Timely and accurate identification and assessment of problem loans;
- (l) Accounting for the non-accrual of interest on loans consistent with the call report instructions;
- (m) Monitoring of loan policy exceptions and compliance with the supervisory loan-to-value (LTV) limits consistent with the guidance contained in 12 C.F.R. §34, Subpart D, Appendix A; and
- (n) Integration of external loan review findings into the Bank's credit risk management systems.

(2) Upon completion of the actions required by paragraph (1) of this Article, the Board shall implement and ensure adherence to the revised policies, processes, and controls.

(3) Within one hundred twenty (120) days of receipt of any subsequent Report of Examination the Board shall take action to strengthen the Bank's policies, processes, and controls as specified in the MRA section.

(4) The quarterly progress reports required by Article II of this Agreement shall include a copy of each policy implemented, the date of the implementation, and a description of the manner in which each action to strengthen the Bank's policies, processes, and controls has been implemented during the reporting period.

ARTICLE VIII

CONSUMER COMPLIANCE PROGRAM

(1) Within one hundred twenty (120) days, the Board shall implement and ensure adherence to a consumer compliance program designed to ensure that the Bank is operating in compliance with all applicable consumer protection laws, rules, and regulations. This program shall include, but not be limited to:

- (a) policies, processes, and controls to ensure compliance with consumer protection laws, rules, and regulations;
- (b) the education and training of all appropriate Bank personnel in the requirements of all federal and state consumer protection laws, rules, and regulations;
- (c) prior and post closing reviews for compliance with consumer protection laws, rules, and regulations;

- (d) audit and review programs to test for compliance with consumer protection laws, rules and regulations;
- (e) periodic reporting of the results of the consumer compliance audits and reviews to the Board or a committee thereof;
- (f) reports of consumer compliance audits and reviews that include:
 - (i) the root cause of the deficiency;
 - (ii) recommendations to correct the deficiency; and
 - (iii) management's response to the deficiency; and
- (g) procedures to ensure that exceptions noted in the consumer compliance audit and review reports are corrected and verified by the appropriate Bank personnel.

(2) Any policy created or revised by the Bank to comply with paragraph (1) of this Article shall be forwarded to the Assistant Deputy Comptroller for review within fifteen (15) business days.

ARTICLE IX

CRITICIZED ASSETS

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

(2) Within one hundred twenty (120) 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 ROE, in any subsequent Report of Examination, by any internal or external loan review, or in any list of "doubtful," "substandard," or "special mention"

assets provided to management by the National Bank Examiners during any examination. This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) an assessment of 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) A copy of the program for all criticized assets equal to or exceeding one hundred thousand dollars (\$100,000) shall be forwarded to the Assistant Deputy Comptroller within fifteen (15) business days of adoption.

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

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds one hundred thousand dollars (\$100,000);
- (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) A copy of each review shall be forwarded to the Assistant Deputy Comptroller within fifteen (15) business days of completion.

(6) 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 ROE, 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, and whose aggregate loans or other extensions exceed one hundred thousand dollars (\$100,000), only if each of the following conditions is met:

- (a) the Board or designated committee finds 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 the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(7) A copy of the approval of the Board or of the designated committee referenced in paragraph (6)(a) of this Article shall be maintained in the file of the affected borrower. The approval shall at all times be available for review by the OCC.

ARTICLE X

CAPITAL MINIMUM

(1) The Bank shall maintain “Tier 1 capital” at least equal to eight percent (8%) of “adjusted total assets” (as those terms are defined in 12 C.F.R. Part 3).

(2) The requirement of 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv) shall prevent the Bank from being “well capitalized” for purposes of 12 U.S.C. § 1831o.

(3) The Bank, as a result of being deemed less than “well capitalized,” is subject to certain restrictions outlined in 12 C.F.R. § 337.6. “Adequately capitalized” banks must apply for and receive a waiver from the FDIC before they can “accept, renew, or rollover any brokered deposit.” Moreover, the effective yield on these brokered deposits cannot be more than 75 basis points greater than the yield on a comparable deposit offered in the normal market area. A national rate cannot be used unless a waiver is received.

ARTICLE XI

BOARD OVERSIGHT

(1) The Board shall ensure the Bank has processes, personnel, and control systems sufficient to ensure implementation of and adherence to the articles of this Agreement.

(2) The quarterly progress reports required by Article II of this Agreement shall include a description of the actions the Board has taken to ensure the Bank has the processes, personnel, and control systems to ensure implementation and adherence to the articles of this Agreement during the reporting period.

ARTICLE XII

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/her 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.

(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 arrangements, or negotiations between the parties, whether oral or written.

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

/S/

Curtis D. Schuman
Assistant Deputy Comptroller
Louisville Field Office

6/11/04

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/ _____ Mark Adams	6/11/04 _____ Date
/S/ _____ Charlie Benge	6-11-04 _____ Date
/S/ _____ Randall Brewer	6-11-04 _____ Date
/S/ _____ George Humfleet	6-11-04 _____ Date
/S/ _____ Kenneth James	6/11/04 _____ Date
/S/ _____ C.R. Luker	6/11/04 _____ Date
/S/ _____ John Madon	6/11/04 _____ Date
/S/ _____ Denver McCowen	6-11-04 _____ Date