

#2010-027

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

The Farmers National Bank of Cynthiana, Cynthiana, 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 has found violations of laws and regulations and unsafe or unsound banking practices relating to credit administration, internal audit, and funds management at 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) Pursuant to 12 C.F.R. § 5.51(c)(6)(ii), the Bank shall be subject to the requirements of 12 C.F.R. § 5.51, unless otherwise informed in writing by the Comptroller. Pursuant to 12 C.F.R. § 5.3(g)(4), the Bank shall not be “eligible” unless otherwise informed in writing by the Comptroller.

(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 the:

Assistant Deputy Comptroller
Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, Kentucky 40222-5134

ARTICLE II

CAPITAL MINIMUMS

(1) Effective immediately, the Bank shall maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) Tier 1 Capital at least equal to eight and one half percent (8.5%) of adjusted total assets;¹ and
- (b) Total Risk Based Capital at least equal to twelve percent (12%) of risk-weighted assets.

¹ Pursuant to 12 C.F.R. § 3.2(a), the Bank is required to compute and maintain its leverage ratio on the basis of actual, rather than average, total assets.

(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).

ARTICLE III

ANNUAL CREDIT REVIEW

(1) Within forty five (45) days, the Board shall employ or designate a sufficiently experienced and qualified person or firm to review loans in accordance with the credit review program developed pursuant to paragraph (2) of this Article.

(2) Within ninety (90) days, the Board shall establish, implement, and thereafter ensure Bank adherence to an effective, independent, and on-going credit review program to review, at least annually, all loans to borrowers with aggregate commercial or agricultural loan balances that equal or exceed two hundred and fifty thousand dollars (\$250,000). The program shall require that a written annual report be submitted to the Board containing an analysis of the adequacy of the underwriting, administration, accounting, and risk grading of each credit relationship. The analysis shall take into consideration:

- (a) the specific reason or purpose of the credit;
- (b) the terms and pricing of the credit;
- (c) the expected source of repayment;
- (d) past repayment performance;
- (e) the borrower’s compliance with loan covenants and the completeness of those requirements;
- (f) the borrower’s current financial position, cash flow, and repayment ability;

- (g) collateral coverage and the Bank's lien position; and
- (h) events that could have a material adverse effect on the borrower's financial condition or repayment capacity.

(3) The report shall include an overall assessment of the Bank's lending practices, policies, and procedures to underwrite, administer, account, and risk grade the Bank's commercial and agricultural loan portfolios and detail any changes necessary to improve the Bank's lending practices, policies, and procedures.

(4) The Board shall evaluate each report developed pursuant to paragraph (2) of this Article and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings in the report.

(5) A copy of the report submitted to the Board pursuant to paragraph (2) of this Article as well as documentation of each action taken by the Bank pursuant to paragraph (4) of this Article shall be submitted to the Assistant Deputy Comptroller within ten (10) days of completion.

ARTICLE IV

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within ninety (90) days, the Board shall ensure that the Bank obtains current and satisfactory credit information on all loans lacking such information that equal or exceed two hundred and fifty thousand dollars (\$250,000), including those listed in the Report of Examination dated "as of" March 31, 2009 ("ROE"), in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) If the Bank is unable to obtain the credit information required by paragraph (1) of this Article within ninety (90) days, the Bank shall document its efforts to obtain such information and shall maintain the documentation of its efforts in the loan file and in a central file for review by the examiners.

(3) Effective immediately, the Bank may purchase, assume, or acquire in any manner, directly or indirectly, or as a fiduciary or nominee, any loan, loan participation, loan obligation or other asset, only if such purchase, assumption, or acquisition complies with safe and sound banking practices; the guidelines set forth in Banking Circular 181 (Revised), dated August 2, 1984; the requirements of 12 C.F.R. Part 34; and the Bank's policies and underwriting requirements.

(4) Effective immediately, the Bank may grant, extend, renew, alter, or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (4)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (4)(d) would be detrimental to the best interests of the Bank.

- (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s) and in a central file. The certification will be reviewed by this Office in subsequent examinations of the Bank;
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable; and
- (f) determining and documenting whether the loan terms comply with the Bank's lending policies and if it does not comply, providing identification of the exception.

(5) The certification exception granted by paragraph (4)(d)(i) of this Article shall not apply to any loan or other extension of credit to an Insider as defined by 12 C.F.R. § 215.2(h).

(6) The aggregate amount of loans certified under paragraph (4)(d)(i) of this Article shall not exceed three percent (3%) of the Bank's total loans at the end of the previous calendar quarter.

ARTICLE V

LOAN RISK RATING SYSTEM AND NONACCRUAL LOANS

(1) Within ninety (90) days, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of commercial credit relationships that equal or exceed \$250,000 (covered relationship), as assigned by responsible loan officers and loan review, are timely, accurate, and consistent with the regulatory credit classification criteria set forth in the Rating Credit Risk Booklet, A-RCR, of the Comptroller's Handbook. At a minimum, the Board must ensure, on an ongoing basis, that with respect to the assessment of credit risk of any covered relationship:

- (a) the primary consideration is the strength of the borrower's primary source of repayment (i.e., the probability of default rather than the risk of loss);
- (b) if the primary source of repayment is cash flow from the borrower's operations, the strength of the borrower's cash flow is determined through analysis of the borrower's historical and projected financial statements, past performance, and future prospects in light of conditions that have occurred;
- (c) collateral values reflect a current assessment of value based on actual market conditions and project status;
- (d) credit risk ratings are reviewed and updated whenever relevant new information is received, but no less frequently than annually; and
- (e) the credit risk rating analysis is documented and available for review by the Board and the OCC upon request.

(2) Within ninety (90) days, and on an ongoing basis thereafter, the Board must ensure that any covered relationship identified in accordance with paragraph (1) of this Article with a high probability of payment default or other well-defined weakness is rated no better than Substandard, unless the debt is secured by marketable securities or cash. Consistent with the guidance in the Rating Credit Risk Booklet, A-RCR, of the Comptroller's Handbook, the presence of illiquid collateral or existence of a plan for improvement does not, and a non-government guarantee generally will not, mitigate the probability of default or a well-defined weakness.

(3) Effective immediately, the Bank shall 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.

(4) Within sixty (60) days, the Board shall adopt, implement, and ensure Bank adherence to written policies and procedures governing nonaccrual loans. Such policies and procedures shall:

- (a) address the identification of and accounting treatment for nonaccrual loans consistent with the guidance contained in the Call Report Instructions;
- (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured; and
- (c) require monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

ARTICLE VI

APPRAISALS OF REAL PROPERTY

(1) Effective immediately, the Bank shall, in connection with all applicable future loans, order real estate appraisals and evaluations in compliance with the requirements of 12 C.F.R. §§ 34.43, 34.44, and 34.45, and 34.46.

(2) Within ninety (90) days, the Bank shall obtain a current written appraisal or evaluation for each existing real estate loan where it is needed to bring the Bank into conformity with the provisions of 12 C.F.R. Part 34.

(3) Within sixty (60) days, the Board shall adopt a written real estate valuation program designed to ensure that the Bank assesses and maintains current information on the adequacy of collateral securing its real estate loans. The program shall, at a minimum;

- (a) establish criteria and timeframes for obtaining new appraisals or collateral valuations which, at a minimum, address:
 - (i) changes in market conditions;
 - (ii) changes in project plans, specifications or assumptions;
 - (iii) the condition of the underlying property;
 - (iv) the loss of significant leases; and
 - (v) the loss of take-out commitments.
- (b) provide for the independence of the persons ordering, performing, and reviewing appraisals or valuations;
- (c) ensure that appraisals or valuations contain sufficient information to support the appraised value;
- (d) maintain criteria for content and appropriate use of real estate evaluations or collateral valuations; and
- (e) implement internal controls that promote compliance with the appraisal regulation, the Interagency Appraisal and Evaluation Guidelines, and industry appraisal standards.

(4) Within five (5) days of adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and ensure Bank adherence to the written real estate valuation program.

ARTICLE VII

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 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 ROE, 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,” “substandard,” or “special mention” as defined in the “Rating Credit Risk” booklet of the Comptroller’s Handbook. At a minimum, this program shall require management to:

- (a) develop, implement, and adhere to a written workout plan for each criticized asset that includes, at a minimum:
 - (i) a description of the basis of criticism for each asset;
 - (ii) an identification of the expected sources of repayment;
 - (iii) the current value of supporting collateral and the position of the Bank’s lien on such collateral where applicable;
 - (iv) an analysis of the sources of repayment using the most current financial information of the borrowers and guarantors;

- (v) a description of the proposed actions designed to eliminate the basis of criticism of and protect the Bank's interest in the asset; and
- (vi) the time frames for implementing and evaluating the effectiveness of those actions.

Any workout plan established pursuant to this paragraph shall be completed within one hundred and five (105) days of the effective date of this Agreement or within thirty (30) days of receipt of a subsequent Report of Examination, any internal or external loan review, or any list provided to management by the National Bank Examiners.

- (b) submit a quarterly status report to the Board or designated committee on each criticized asset that equals or exceeds two hundred and fifty thousand dollars (\$250,000) (containing similar information to the items in Appendix A, attached hereto). At a minimum, the report shall contain:
 - (i) a description of the action(s) management has taken to implement the workout plans adopted pursuant to paragraph 2(a) of this Article for these assets; and
 - (ii) a description of any changes in the workout plans since the last report and the reason(s) for those changes.

(3) Within thirty (30) days of receiving the quarterly status report prepared pursuant to paragraph 2(b) of this Article, the Board or designated committee shall evaluate in writing the information in the status report for adherence to the Bank's criticized asset program.

(4) Each quarter, the Bank shall submit to the Assistant Deputy Comptroller a copy of the workout plan for each criticized asset that equals or exceeds two hundred and fifty thousand dollars (\$250,000), the most recent quarterly status report prepared pursuant to paragraph (2)(b) of this Article, and the most recent written evaluation prepared pursuant to paragraph (3) of this Article.

(5) The Bank may extend credit, directly or indirectly, including renewals, modifications, or extensions, 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 during any examination and whose aggregate loans or other extensions equal or exceed two hundred thousand and fifty dollars (\$250,000) only if each of the following conditions is 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, modifying, or extending 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 workout plan adopted pursuant to this Article shows that the plan to eliminate the basis of criticism will not be compromised.

(6) A copy of the approval of the Board or of the designated committee and comparison under paragraph (5) of this Article shall be maintained in the file of the affected borrower and a central file for review by examiners, auditors, and other parties employed by or affiliated with the Bank.

ARTICLE VIII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses (“ALLL”) in accordance with generally accepted accounting principles. The ALLL policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council’s “Interagency Policy Statement on the Allowance for Loan and Lease Losses” dated December 13, 2006, (OCC Bulletin 2006-47) (“Interagency Statement”) and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB ASC 310-10, *Receivables - Overall - Subsequent Measurement – Impairment* (formerly FAS 114);
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans that are consistent with FASB ASC 450-20, *Loss Contingencies* (formerly FAS 5), and address the nine qualitative factors set forth in the Interagency Statement;
- (c) procedures for validating the ALLL methodology; and
- (d) a process for summarizing and documenting, for the Board’s review and approval, the amount to be reported in the Consolidated Reports of Condition and Income (“Call Reports”) for the ALLL. Any deficiency between the ALLL balance as determined by the analysis required by this Article and the Bank’s actual ALLL balance, regardless of the amount of such deficiency,

shall be remedied through additional provision expense in the quarter it is discovered, prior to the filing of the Call Reports.

ARTICLE IX

INTERNAL AUDIT

- (1) Within thirty (30) days, the Board shall adopt an independent, internal audit program sufficient to:
 - (a) detect irregularities and weak practices in the Bank's operations;
 - (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
 - (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
 - (d) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its loan policies concerning underwriting standards and problem loan identification and classification;
 - (e) adequately cover all areas; and
 - (f) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

- (2) As part of this 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.

(3) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(4) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board or a committee thereof, which 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.

(5) 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.

(6) 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.

(7) Within five (5) days of adoption, a copy of the internal audit program shall be submitted to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and ensure Bank adherence to the audit program.

ARTICLE X

ASSET/LIABILITY MANAGEMENT STRATEGY

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a coordinated asset/liability management strategy. In formulating this strategy, the Board shall refer to the “Liquidity” booklet of the Comptroller’s Handbook. The coordinated asset/liability management strategy shall, at a minimum, address:

- (a) adequate management reports that enable the Board and management to monitor the Bank’s liquidity position and maintain liquidity at an adequate level;
- (b) the liquidity, maturity, and pledging requirements of the investment portfolio;
- (c) development of a liquidity contingency plan;
- (d) guidelines concerning the nature, extent, and purpose of the Bank’s use of brokered deposits consistent with the Bank’s overall funds management strategies;
- (e) the nature, extent, and purpose of Bank borrowings;
- (f) limits on concentrations of funding sources;
- (g) periodic review of the Bank’s adherence to the strategy.

(2) Within five (5) days of adoption, a copy of the written strategy shall be forwarded to the Assistant Deputy Comptroller.

ARTICLE XI

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 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) employment of competent personnel to manage interest rate risk;
- (e) prudent limits on the nature and amount of interest rate risk that can be taken;
and
- (f) periodic review of the Bank’s adherence to the policy.

(2) Within five (5) days of adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller.

ARTICLE XII

PROGRESS REPORTING

(1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller. These reports shall set forth in detail:

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

(2) The progress reports 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.

(3) The first progress report shall be submitted for the period ending March 31, 2010 and will be due within thirty (30) days of that date. Thereafter, progress reports will be due within thirty (30) days after the quarter end.

ARTICLE XIII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written 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.

(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 Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of

consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his 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 Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his 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 hand on behalf of the Comptroller.

/s/

Curtis D. Schuman
Assistant Deputy Comptroller
Louisville Field Office

2/19/2010

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/	2-17-2010
Kay Brown	Date
/s/	2/17/2010
Charles S. Brunker	Date
/s/	2/17/10
Terry Emrick	Date
/s/	2/17/10
John M. Keith, Jr.	Date
/s/	02/17/2010
Robert S. Lake	Date
/s/	2/17/2010
Paul E. Patton	Date
/s/	2/17/2010
Jay Slaton	Date
/s/	2-17-2010
William Strohm	Date