

AGREEMENT BY AND BETWEEN  
Farmers National Bank  
Walton, Kentucky  
and  
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 has found unsafe or unsound banking practices relating to credit underwriting and administration and liquidity risk 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

### CREDIT AND COLLATERAL EXCEPTIONS AND UNDERWRITING

(1) Within ninety (90) days, the Board shall ensure that the Bank obtains current and satisfactory credit information on all commercial and agricultural loans lacking such information that equal or exceed seventy-five thousand dollars (\$75,000), including those listed in the Report of Examination dated “as of” September 30, 2009 (“ROE”), in any subsequent Report of Examination, in any loan review report, or in any listings of loans provided to management by the National Bank Examiners or by any loan review.

(2) 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 and documenting the expected source of repayment;

- (c) structuring the repayment terms to coincide with the reason or purpose for the extension of credit, the borrower's expected source of repayment, and the collateral supporting the loan or extension of credit;
- (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 (2)(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 (2)(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 a central file for review by National Bank Examiners.
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable;
- (f) determining and documenting whether the loan terms comply with the Bank's lending policies and if it does not comply, identifying the exception and providing ample justification to support waiving the policy requirement; and
- (g) including covenants in loan agreements for commercial and agricultural loans or extensions of credit, which require the borrower to provide the Bank with sufficient financial information to determine the creditworthiness of the borrower or guarantor over the term of the loan or extension of credit.

(3) The certification exception granted by paragraph (2)(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).

(4) The aggregate amount of loans certified under paragraph (2)(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.

(5) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a program providing for periodic comprehensive financial analysis on commercial and agricultural borrowers with obligations over two hundred and fifty thousand (\$250,000). The program shall, at a minimum, require an annual analysis that includes comprehensive data on assets, liabilities, income, expenses, and contingent liabilities; and addresses the borrower's and guarantor's debt service capacity, including their global debt service requirements.

### ARTICLE III

#### LOAN RISK RATING SYSTEM

(1) Within ninety (90) days, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of credit relationships that equal or exceed seventy-five thousand (\$75,000) (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 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.

#### ARTICLE IV

##### CRITICIZED ASSETS

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

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<sup>1</sup> The term "criticized" as used in this article is meant to refer to assets rated the equivalent of "doubtful," "substandard" or "special mention," as defined in the "Rating Credit Risk" booklet of the Comptroller's Handbook

(2) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written plan (“Criticized Asset Plan”) designed to eliminate the basis of criticism for each asset that is criticized in the ROE, in any subsequent Report of Examination, in any loan review report, or in any list provided to management by the National Bank Examiners or by any loan review. Each Criticized Asset Plan shall, at a minimum, contain:

- (a) a description of the basis of criticism;
- (b) an identification of the expected sources of repayment;
- (c) the current value of supporting collateral and the position of the Bank’s lien on such collateral where applicable;
- (d) an analysis of the sources of repayment using the most current financial information of the borrowers and guarantors;
- (e) actions designed to eliminate the basis of criticism of and protect the Bank’s interest in the asset; and
- (f) the time frame(s) for implementing and evaluating the effectiveness of those actions.

(3) Within fifteen (15) days after each quarter end beginning June 30, 2010 a written status report shall be submitted to the Board or designated committee on each criticized asset that equals or exceeds seventy-five thousand dollars (\$75,000) containing, at a minimum:

- (a) similar information to the items in Appendix A, attached hereto;
- (b) a description of the action(s) management has taken to implement the Criticized Asset Plans adopted pursuant to paragraph 2 of this Article; and
- (c) a description of any changes in the Criticized Asset Plans since the last report and the reason(s) for those changes.

(4) Within fifteen (15) days of receiving the quarterly status report prepared pursuant to paragraph 3 of this Article, the Board or designated committee shall evaluate in writing:

- (a) management's adherence to the Criticized Asset Plan adopted pursuant to this Article;
- (b) the status and effectiveness of the Criticized Asset Plan; and
- (c) the need to revise the Criticized Asset Plan or take alternative action.

(5) The Board shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the evaluation prepared pursuant to paragraph (4) of this Article.

(6) Within fifteen (15) days after completing the written evaluation prepared pursuant to paragraph (4) of this Article, the Bank shall submit a copy of the written evaluation, a copy of any new or revised Criticized Asset Plan prepared pursuant to paragraph (2) of this Article and a copy of the status reports prepared pursuant to paragraph (3) of this Article to the Assistant Deputy Comptroller.

(7) 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, loan review report, or any subsequent list provided to management by the National Bank Examiners or by internal or external loan review and whose aggregate loans or other extensions equal or exceed seventy-five thousand dollars (\$75,000) 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 Criticized Asset Plan adopted pursuant to paragraph (2) of this Article shows that the plan to eliminate the basis of criticism will not be compromised.

(8) A copy of the approval of the Board or of the designated committee and comparison under paragraph (7) of this Article shall be maintained in the file of the affected borrower and a central file for review by National Bank Examiners.

## ARTICLE V

### CONTINGENCY FUNDING PLAN

(1) Within sixty (60) days, the Board shall adopt, implement, and ensure Bank adherence to a comprehensive Contingency Funding Plan consistent with the guidelines set forth in Liquidity, L-L, of the Comptroller's Handbook. The plan shall, at a minimum, address ways to improve the Bank's liquidity position and maintain adequate sources of stable funding given the Bank's anticipated liquidity and funding needs.

## ARTICLE VI

### 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 and verify compliance 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 Report of Examination or in any future Report of Examination.

(3) The first progress report shall be submitted for the period ending June 30, 2010 and will be due within forty-five (45) days of that date. Thereafter, progress reports will be due within forty-five (45) days after the quarter end.

## ARTICLE VII

### 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



