

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

In the Matter of: ) AA-CE-12-54  
The First National Bank of Manchester )  
Manchester, Kentucky )

CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller”), through his National Bank Examiner, has supervisory authority over The First National Bank of Manchester, Manchester, Kentucky (“Bank”).

WHEREAS, the Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated June 25, 2012, that is accepted by the Comptroller.

WHEREAS, by this Stipulation and Consent to the Issuance of a Consent Order, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

NOW THEREFORE, pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

INTERNAL CONTROLS

(1) Effective immediately, the Board shall implement and ensure Bank adherence to internal controls to safe guard and manage Bank assets and ensure Bank resources are only used for legitimate business purposes. The controls developed shall include, but not be limited to, requiring the review and documented approval of all business expenses for travel, entertainment,

or with respect to any payment or reimbursement made to a director, officer, or affiliate of the Bank. Approval shall be made by two Bank officers, neither of whom incurred the expense submitted or is a family member of the director or employee that submitted the expense. For purposes of this Article, family members are defined as children, parents, spouses, siblings, aunts, uncles, or grandparents, whether related by blood, marriage, or adoption.

(2) The Board shall ensure that there are centralized records of all business expenses paid in a form and manner that will enable easy, independent review. These records shall:

- (a) specify the names of the parties to the transaction other than the Bank; and
- (b) detail the nature and the legitimate business purpose of the expense.

## ARTICLE II

### APPOINTMENT OF NEW DIRECTORS

(1) The Board shall immediately take action to identify and, subject to the provisions of this Article II, add, at a minimum, two (2) new independent directors. The term “independent director” means a person who is not an officer or employee of the Bank, and who is not:

- (a) a director, officer or employee of any affiliate of the Bank;
- (b) a director, officer or employee of any related interest (as that term is defined in 12 C.F.R. Part 215) of any current director, or
- (c) a relative of any current director, defined as any child, parent, spouse, sibling, aunt, uncle, or grandparent, whether related by blood, marriage, or adoption.

(2) Prior to appointing any new director, the Bank must provide the Assistant Deputy Comptroller with written notice as required by 12 C.F.R. § 5.51 (notice forms and instructions

are in the “Changes in Directors and Senior Executive Officers” booklet of the Comptroller’s Corporate Manual).

(3) The Assistant Deputy Comptroller shall have the power of veto over the appointment of the proposed new director. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed director.

(4) If the Board is unable to identify any qualified director candidates within ninety (90) days, the Board shall document its efforts to locate such candidates, and notify the Assistant Deputy Comptroller in writing. Thereafter, the Board shall describe its continuing efforts to locate such candidates in the progress reports required by Article IX.

### ARTICLE III

#### INTERNAL AUDIT

(1) Within ninety (90) days of the date of this Order, the Board shall adopt or revise, implement, and thereafter ensure Bank adherence to a written independent, internal audit program designed to:

- (a) detect irregularities and weak practices in the Bank’s operations;
- (b) determine the Bank’s compliance with all applicable laws, rules, and regulations;
- (c) evaluate the Bank’s adherence to established policies and procedures, with particular emphasis directed to the Bank’s adherence to its insider, affiliate, and expense payment policies;
- (d) ensure adequate audit coverage in all areas; and

(e) 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 internal department or outside firm, with respect to both the experience level and number of individuals.

(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 designated committee, 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, including any committee or individual who is a director.

(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 the Bank maintain a written record describing those actions.

#### ARTICLE IV

##### AFFILIATE TRANSACTIONS

(1) The Bank may, directly or indirectly, pay money or its equivalent to or for the benefit of, or extend credit in any form to or for the benefit of its affiliates, or transfer assets between the Bank and its affiliates, or enter into or engage in any transaction that obligates the Bank to do the same, only after:

- (a) the Board has conducted an independent review of the action, that is documented in writing; and
- (b) the Board has determined in writing that:
  - (i) it is advantageous for the Bank to engage in such action; and
  - (ii) the action complies with all applicable laws, rules, regulations, and Comptroller's issuances, including, but not limited to 12 U.S.C. § 221a and 12 C.F.R. Part 223. Approval of an affiliate transaction noted in Board minutes does not fulfill the written requirements of paragraph (1) of this Article.

(2) For purposes of this Article, "affiliate" shall have the meaning set forth in 12 U.S.C. § 221a and 12 C.F.R. Part 223.

## ARTICLE V

### COMPENSATION PROGRAM

(1) Within sixty (60) days of the date of this Order, the Board shall adopt or revise, implement, and thereafter ensure Bank adherence to a written compensation program consistent with OCC Bulletin 2010-24, *Interagency Guidance on Sound Incentive Compensation Policies*.

(2) The compensation program will require, at a minimum, annual approval by the Board of the pay ranges or bands for each position, bonus pool, and the salary and non-monetary benefits for each officer and director based upon the:

- (a) Bank's financial condition, risk profile, and resources;
- (b) practices at similarly situated institutions (e.g., asset size, number of branches, geographic location);
- (c) nature, scope, and complexity of Bank's activities;

- (d) job description and duties of the position;
- (e) experience and expertise; and
- (f) merits of performance.

(3) The annual approval of each officer's and director's entire compensation package shall be accomplished by a documented roll call vote of a majority of the entire Board, not merely a quorum thereof. Any interested director or employee shall abstain from voting and participating directly or indirectly in the deliberations affecting them or a member of their immediate family; provided a director shall not be required to abstain from voting on and participating in deliberations regarding fees payable to directors for service on the Board. The documented roll call vote shall detail each director's bases for any dissenting or abstaining votes.

(4) Any monetary or nonmonetary bonus for officers or directors shall be accomplished by a documented roll call vote of a majority of the entire Board, not merely a quorum thereof. Any interested officer or director shall abstain from voting and participating directly or indirectly in the deliberations affecting them or a member of their immediate family. The documented roll call vote shall detail each director's bases for any dissenting or abstaining votes.

## ARTICLE VI

### COLLATERAL EVALUATION PROGRAM

(1) Within sixty (60) days of the date of this Order, the Board shall adopt or revise, implement, and thereafter ensure Bank adherence to a written collateral evaluation program. The collateral evaluation program shall comply with the "Interagency Appraisal and Evaluation Guidelines," dated December 10, 2010 (OCC Bulletin 2010-42). The collateral evaluation program shall, at a minimum, ensure:

- (a) the Bank instructs all appraisers in writing to comply with the requirements of 12 C.F.R. Part 34;
- (b) appraisals and evaluations comply with 12 C.F.R. Part 34;
- (c) the independence of the persons ordering, performing, and reviewing appraisals or evaluations;
- (d) receipt and review of appraisal or evaluation reports in a timely manner;
- (e) establishment of selection criteria and procedures to evaluate and monitor the ongoing performance of firms and individuals performing appraisals and evaluations;
- (f) appraisals and evaluations contain sufficient information to support the credit decision; and
- (g) establishment of criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction.

## ARTICLE VII

### LATE FEE ADMINISTRATION

(1) Within one hundred and twenty (120) days from the date of this Order, the Board shall adopt or revise, implement, and thereafter ensure Bank adherence to a written late fee administration program. The late fee administration program, at a minimum, shall ensure:

- (a) compliance with applicable consumer and insider laws, rules, and regulations, including Regulation AA (12 C.F.R. Part 227), Regulation B (12 C.F.R. Part 1002), and 12 U.S.C. § 375b;

- (b) compliance with the Federal Financial Institutions Examination Counsel Instructions for Preparation of Consolidated Reports of Condition and Income;
- (c) consistent application or waiver of late fees based on documented criteria;
- (d) comprehensive monitoring and reporting of the late fee activity; and
- (e) accurate financial records and reports.

## ARTICLE VIII

### VIOLATIONS OF LAWS AND REGULATIONS

(1) The Board shall require and the Bank shall immediately take all necessary actions to correct each violation of law, rule or regulation cited in the most recent report of examination within sixty (60) days from the date of this Order.

(2) Within sixty (60) days of the date of this Order, the Board shall take all necessary actions to prevent future violations of the laws, rules, and regulations cited in the most recent report of examination. The quarterly progress reports required by Article IX of this Order shall include the date and manner in which each violation was corrected during the reporting period.

(3) If a violation is uncorrected, the quarterly progress reports required by Article IX of this Order shall include the actions already taken to correct each violation, the remaining actions planned to correct each violation, the party responsible for completing each action, and the due date for each action.



ARTICLE IX

PROGRESS REPORTING

(1) Within sixty (60) days from the date of this Order, and every calendar quarter-end thereafter, the Board shall submit a written progress report to the Assistant Deputy Comptroller setting forth in detail:

- (a) actions taken to comply with each Article of this Order;
- (b) results of those actions; and
- (c) description of the remaining actions needed, including expected completion dates and assigned individuals, to achieve full compliance with each Article of this Order.

(2) The minutes detailing the Board's review of each progress report and a copy of each progress report shall be retained in the Bank's records.

ARTICLE X

OTHER PROVISIONS

(1) The Board shall ensure that the Bank has sufficient processes, management, personnel, and control systems in place to effectively implement and adhere to all provisions of this Order, and that Bank management and personnel have sufficient training and authority to execute their duties and responsibilities under this Order.

(2) All reports and programs which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Order shall be forwarded by overnight mail to the following:

Office of the Comptroller of the Currency  
Assistant Deputy Comptroller  
Louisville Field Office

10200 Forest Green Blvd., Suite 501  
Louisville, Kentucky 40223

(3) Although the Board is required by this Order to submit certain reports and programs to the Assistant Deputy Comptroller, the Board has the ultimate responsibility for proper and sound management of the Bank.

(4) 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 Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(5) Any time limitations imposed by this Order shall begin to run from the effective date of this Order. Such time limitations may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

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

(7) In each instance in this Order 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 Order;

- (b) require the timely reporting, at least quarterly, by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (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.

(8) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

(9) The terms of this Order, 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.

IT IS SO ORDERED, this 25 day of June, 2012.

/s/

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Curtis D. Schuman  
Assistant Deputy Comptroller  
Louisville Field Office

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

<b>In the Matter of:</b>	)	AA-CE-12-54
The First National Bank of Manchester	)	
Manchester, Kentucky	)	

**STIPULATION AND CONSENT TO THE ISSUANCE  
OF A CONSENT ORDER**

**WHEREAS**, the Comptroller of the Currency of the United States of America (“Comptroller”) intends to initiate cease and desist proceedings against The First National Bank of Manchester, Manchester, Kentucky (“Bank”) pursuant to 12 U.S.C. § 1818(b), through the issuance of a Notice of Charges, for unsafe and unsound banking practices and violations of law relating to internal controls, internal audit, management and director compensation, late fee collection, insider transactions, affiliate transactions, and collateral evaluations.

**WHEREAS**, the Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated June 25, 2012 (“Order”), by executing this Stipulation and Consent to the Issuance of a Consent Order;

**NOW THEREFORE**, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

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 1818(b).

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

## ARTICLE II

### ACKNOWLEDGMENTS

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further acknowledges that the Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and acknowledges that the Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i). 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(i), 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.

(3) The Bank also expressly acknowledges that no officer or employee of the Comptroller 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.

ARTICLE III

WAIVERS

- (1) The Bank, by signing this Stipulation and Consent, hereby waives:
- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
  - (b) any and all procedural rights available in connection with the issuance of the Order;
  - (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i), 12 C.F.R. Part 19;
  - (d) all rights to seek any type of administrative or judicial review of the Order;  
and
  - (e) any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

OTHER PROVISIONS

(1) The provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, the Comptroller deems it appropriate to do so to fulfill the responsibilities placed upon him by the several laws of the United States of America.

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

/s/

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Curtis D. Schuman  
Assistant Deputy Comptroller  
Louisville Field Office

June 25, 2012

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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/  
\_\_\_\_\_  
James Dobson

6/25/12  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Charles Goins

6/25/12  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Jerry Greer

6/25/12  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Randell Greer

6/25/12  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Rex Greer

6/25/12  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Lynda Gilbert

6/25/12  
\_\_\_\_\_  
Date