

AGREEMENT BY AND BETWEEN
The First National Bank of Russell Springs
Russell Springs, Kentucky
and
The Comptroller of the Currency

The First National Bank of Russell Springs, Russell Springs, Kentucky (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) wish to protect the interests of the depositors, shareholders and other customers 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 the regulations relating to insider lending and overdrafts as well as unsafe and unsound banking practices relating to credit administration; loan review; credit risk identification, monitoring, and management; internal audit; and commercial loan underwriting and exceptions 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.

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) Unless otherwise informed in writing by the Comptroller, all programs, reviews, 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
10200 Forest Green Boulevard, Suite 501
Louisville, Kentucky 40223-5165

Article II

INSIDER ACTIVITIES

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written, comprehensive insider lending and overdraft program. The program shall contain, at a minimum, the following provisions:

- (a) policies and procedures to ensure compliance with Regulation O, 12 C.F.R. Part 215;
- (b) policies and procedures to ensure the Board reviews and approves in advance all extensions of credit to insiders or their related interests, including overdrafts;
- (c) a written policy concerning the extension of overdrafts to insiders that shall include, at a minimum:

- (i) the conditions and circumstances under which overdrafts will be permitted to insiders or their related interests;
- (ii) monthly reports to the Board for review of all overdrafts by insiders and their related interests to ensure compliance with the Bank's stated policy and applicable laws and regulations.

(2) For the purposes of this Agreement, "insider" and "related interest" are defined in 12 C.F.R. § 215.2.

Article III

CREDIT ADMINISTRATOR

(1) Within ninety (90) days, the Board shall appoint or employ a full-time, capable person to serve as a credit administrator who shall be vested with the authority to fulfill the duties and responsibilities of the position.

(2) Once filled, if the credit administrator position becomes vacant, the Board shall, within sixty (60) days of such vacancy, appoint a capable person to the vacant position who shall be vested with the authority to fulfill the duties and responsibilities of the position.

(3) If the Board is unable to locate an acceptable person to fill the credit administrator position within the timeframes required by this Article despite its best efforts, it shall not be a violation of this Article so long as

- (a) the Board notifies the Assistant Deputy Comptroller and documents its efforts to locate appropriate candidates; and
- (b) the Board provides quarterly reports to the Assistant Deputy Comptroller summarizing its continuing efforts to locate such candidates.

Article IV

INDEPENDENT LOAN REVIEW

(1) Within ninety (90) days, the Board shall establish, implement, and thereafter ensure Bank adherence to an effective, independent, and on-going loan review program to review, at least semi-annually, the Bank's loan and lease portfolios to assure the timely and accurate risk rating of credits and the identification of credit information, collateral documentation, and policy exceptions. The Bank's program shall provide for a written report to be filed with the Board after each review. Such reports shall include, at a minimum, conclusions regarding:

- (a) the identification, type, risk rating, and amount of problem loans and leases;
- (b) the accrual status and amount of impairment reserves, if necessary;
- (c) credit information and collateral documentation exceptions;
- (d) the identification and status of credit related violations of laws, rules, or regulations;
- (e) loans, leases, or extensions of credit, including overdrafts, to executive officers, directors, principal shareholders, and their related interests of the Bank; and
- (f) loans, leases, or extensions of credit not in conformance with the Bank's lending and leasing policies concerning underwriting standards, credit administration, problem loan identification, and risk ratings with a description of each exception.

(2) Within thirty (30) days of receipt, the full Board shall evaluate the internal loan and lease review reports and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report.

(3) A copy of the reports submitted to the Board, as well as documentation of the Board's review, decisions, and actions taken by the Bank to address concerns pursuant to this Article, shall be submitted to the Assistant Deputy Comptroller within fifteen (15) days after the actions required in paragraph (2) of this Article are completed.

Article V

LOAN RISK RATING SYSTEM

(1) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of commercial credit relationships¹ as assigned by loan officers, in-house credit reviewers, or by any independent loan reviewer are timely, accurate, and consistent with the regulatory credit classification criteria set forth in the "Rating Credit Risk" booklet 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 commercial credit 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) collateral, non-government guarantees, and other similar credit risk mitigants that affect potential loss in the event of default (rather than the probability of default) are taken into consideration only if the primary

¹ For purposes of this Agreement, commercial credit or loan includes commercial, industrial, commercial real estate, multi-family, and investor-owned 1-4 family loans. Commercial credit relationships include all aggregate debt exposures to the entities, related entities, and the principals and guarantors of those entities.

source of repayment has weakened and the probability of default has increased;

- (c) credit risk ratings are reviewed and updated whenever relevant new information is received, but no less frequently than annually;
- (d) the Bank's loans and other assets are timely placed on nonaccrual where appropriate in accordance with the Instructions for Consolidated Reports of Income and Condition and with the OCC's Bank Accounting Advisory Series; and
- (e) the credit risk rating analysis is documented, maintained in the credit file, and available for review by the Board and the OCC upon request.

(2) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that any commercial credit 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 cash or marketable securities. Consistent with the guidance in the "Rating Credit Risk" booklet of the *Comptroller's Handbook*, the presence of illiquid collateral or existence of a plan for improvement will not, and a non-government guarantee generally will not, mitigate the probability of default or a well-defined weakness.

Article VI

INTERNAL AUDIT

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program covering all areas of the Bank, 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; 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 within sixty (60) days of receipt.

(3) The program's audit reports must, at a minimum, include:

- (a) the names of customers or insiders affected by any adverse finding;
- (b) root causes of exceptions and the parties responsible;
- (c) descriptors of the loan sample (e.g., sample size and inclusive dates);
- (d) descriptors of findings (e.g., error rate percentages and volume comparisons); and
- (e) definitive conclusions or ratings on the adequacy of the areas reviewed.

(4) If the Bank employs a third party to conduct the audits pursuant to this Article, the Board shall ensure that it selects, contracts, oversees, and documents the third party relationship in a manner that is consistent with OCC Bulletin 2001-47, "Third Party Relationships."

(5) The persons responsible for implementing and executing the internal audit program described above shall report directly to the Board, 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 director.

(6) All audit reports shall be in writing.

(7) The Board shall ensure management responds in writing to all deficiencies cited in audit reports and management's responses include proposed corrective actions.

(8) The Board shall ensure management takes timely action to remedy deficiencies.

(9) The Board shall ensure corrective actions are formally tracked until the corrective actions are implemented and their effectiveness is verified.

(10) A copy of the report used to comply with the provision of paragraph (9) of this Article shall be submitted to the Assistant Deputy Comptroller within fifteen (15) days after the end of each calendar quarter.

(11) The audit staff shall have access to any record necessary to properly conduct its activities. The OCC shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

Article VII

COMMERCIAL LOAN UNDERWRITING

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to written commercial loan underwriting standards designed to ensure the Bank is granting, renewing, and restructuring commercial loans in a safe and sound manner. The standards shall include, at a minimum:

- (a) guidelines for evaluating and monitoring a borrower's capacity to meet a realistic repayment program. The guidelines, at a minimum shall establish:
 - (i) standards for acceptable financial information on borrowers and guarantors;
 - (ii) minimum standards for debt service coverage for the types of loans the Bank underwrites;
 - (iii) loan-to-value limits by loan type; and
 - (iv) minimum requirements for initial equity investments that have not been financed and the maintenance of required equity margins by the borrower.

- (b) guidelines and parameters for loan structure that, at a minimum:
 - (i) require that each loan have a clearly defined and prudent repayment program that matches the primary source of repayment;
 - (ii) require that a loan's maturity and amortization period be consistent with the purpose of the loan, the available cash flow from the primary source(s) of repayment, and the collateral pledged;
 - (iii) require principal curtailment from secondary sources of repayment or collateral re-margin if the original source of repayment is not sufficient to retire the debt in accordance with its original terms;
 - (iv) prohibit the extension of amortization periods to improve a borrower's debt service coverage ratios or to match competition, unless supported by prudent underwriting;

- (v) require stagnant portions of lines of credit to be amortized based on prudent loan terms; and
- (vi) establish when the use of, and types of, loan covenants will be required on the types of loans the Bank originates.

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

- (a) documenting the specific purpose for the extension of credit;
- (b) identifying the primary and secondary source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment for the extension of credit;
- (d) obtaining and accurately analyzing current and satisfactory credit information to appropriately assess the borrower's cash flow and financial position, and where repayment is dependent, in whole or in part, on one or more guarantors, performing an appropriate analysis of the guarantors' current financial position; and
- (e) documenting the current value of collateral with adequate supporting material, in compliance with 12 C.F.R. Part 34, subpart C where applicable, completing an adequate written review of all collateral valuations of real property, and documenting that the Bank's security interest has been properly recorded.

(3) Failure to obtain and analyze the information in paragraph (2)(d) of this Article, except for new loan originations, shall not constitute a violation of this Article if, prior to granting the extension of credit, a majority of the full Board (or a delegated committee thereof)

reasonably determines that not obtaining and analyzing the information required in paragraph (2)(d), would not be detrimental to the best interests of the Bank. Any such determination must be documented in a written certification that includes specific and adequate reasons for the Board's determination. A copy of the Board certification shall be maintained in the loan's credit file of the respective borrower(s) for subsequent review by the OCC.

Article VIII

COMMERCIAL LENDING EXCEPTIONS

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to ensure the Bank obtains and analyzes current financial information and collateral documentation on commercial loans in a timely manner. At a minimum, the program shall require the Bank to:

- (a) obtain and analyze current and satisfactory credit information;
- (b) maintain proper collateral documentation;
- (c) correct exceptions; and
- (d) substantiate, where necessary, the current value of collateral.

(2) Failure to obtain information pursuant to paragraph (1)(a) of this Article shall not constitute a violation of this Article if, prior to granting the extension of credit, a majority of the full Board (or a delegated committee thereof) reasonably determines that not obtaining the information required by paragraph (1)(a) would not be detrimental to the best interests of the Bank. Any such determination must be documented in a written certification that includes specific and adequate reasons for the Board's determination. A copy of the Board certification

shall be maintained in the Bank's credit file of the respective borrower(s) for subsequent review by the OCC.

(3) Failure to correct an exception pursuant to paragraph (1)(c) of this Article shall not constitute a violation of this Article if the Bank exercises reasonable and ongoing efforts to correct the exception, documents those efforts, and maintains that documentation in the Bank's credit file of the respective borrower(s) for subsequent review by the OCC.

(4) Within ninety (90) days, the Board must establish, implement, and thereafter ensure adherence to a tracking and monitoring system to ensure that financial, collateral, and policy exceptions for the Bank's commercial loans are tracked and reported to the Board in a timely manner. This tracking and monitoring system, at a minimum, must include:

- (a) maintenance of a detailed listing of all financial and collateral exceptions and the actions taken to correct the exceptions;
- (b) maintenance of a detailed list of loans, leases, or extensions of credit not in conformance with the Bank's commercial lending and leasing policies, with a notation as to whether the exceptions were properly granted in accordance with the Bank's policy; and
- (c) identification of the loan officer who originated each loan, lease, or extension of credit tracked pursuant to paragraphs (4)(a) and (4)(b) of this Article.

(5) The Board shall receive a monthly report addressing the information required pursuant to paragraph (4) of this Article. The report shall identify the number of exceptions compared to total loans, aggregate exceptions compared to the Board-established limits for exceptions, and the volume of exceptions for each originating loan officer.

Article IX

PROGRESS REPORTING - QUARTERLY

- (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 or 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 September 30, 2013 and will be due within fifteen (15) days of that date. Thereafter, progress reports will be due within fifteen (15) days after the quarter end.

Article X

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. If the Bank requires a suspension or waiver of any provision or an extension of any timeframe within this Agreement, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the Bank's request for a suspension or waiver of any provision or an extension of a timeframe within this Agreement.

(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) Each citation or referenced guidance included in this Agreement includes any subsequent guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(6) 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) ensure that the Bank has the processes, personnel, and control systems to ensure implementation of and adherence to the Articles of this Agreement;
- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner of any non-compliance with such actions.

(7) 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

08/07/13

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/

C. Douglas Aaron

08/07/13

Date

/s/

Charlene S. Harris

08/07/13

Date

/s/

Ronald S. Hopper

08/07/13

Date

/s/

Gene V. Smith

08/07/13

Date

/s/

Charles B. Smith, Jr.

08/07/13

Date

/s/

James Wilson

08/07/13

Date