

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

In the Matter of:) AA-CE-10-20
Citizens Commerce National Bank)
Versailles, Kentucky)

CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller”), through his National Bank Examiner, has examined Citizens Commerce National Bank, Versailles, Kentucky (“Bank”), and his findings are contained in the Report of Examination that commenced on August 31, 2009 (“ROE”).

WHEREAS, in the interests of cooperation, 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 (“Stipulation and Consent”), dated 3/18/2010, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference herein, the Bank, without admitting or denying any wrongdoing, has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

NOW, THEREFORE, the Comptroller, acting by and through his designated representative and by virtue of the authority conferred by 12 U.S.C. § 1818(b), hereby orders that:

ARTICLE I

CAPITAL MINIMUMS AND PLAN

(1) By August 31, 2010, the Bank shall achieve and thereafter maintain the following minimum capital levels (as defined in 12 C.F.R. Part 3):

- (a) Tier 1 Capital at least equal to eight percent (8%) of adjusted total assets;
and
- (b) Total Risk Based Capital at least equal to twelve percent (12%) of risk-weighted assets.

(2) The requirement in this Order 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).

(3) Within sixty (60) days, the Board shall develop a Capital Plan. The Capital Plan shall include:

- (a) specific plans for achieving and thereafter maintaining adequate capital that may in no event be less than the requirements of paragraph (1) of this Article;
- (b) projections of the sources and timing of additional capital to meet the Bank’s current and future needs;
- (c) the primary sources from which the Bank will strengthen its capital structure to meet the Bank’s needs;
- (d) contingency plans that identify alternative methods should the primary source(s) under (c) above not be available; and
- (e) if the Capital Plan is entirely or partially based on a stock offering by the Bank’s holding company, the Capital Plan shall be consistent with the terms of the Agreement between the Bank and the holding company dated March 18, 2010.

(4) Within five (5) days of completion, the Bank's Capital Plan 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 ensure that the Bank immediately implements and adheres to the Capital Plan.

(5) The Board shall review and update the Bank's Capital Plan on a quarterly basis, or more frequently if necessary. Prior to adoption by the Board, any subsequent amendments or revisions to the Capital Plan 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 ensure that the Bank immediately implements and adheres to the Capital Plan, as amended or revised.

(6) The Bank shall not declare any dividend without the prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

ARTICLE II

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within ninety (90) days, the Board shall ensure that the Bank obtains current and satisfactory credit information on all commercial borrowers with aggregate loans that equal or exceed \$250,000 and whose loans lack such information, including those listed in the ROE, in any subsequent Report of Examination, in any loan review report, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination or by any loan review.

(2) Within ninety (90) days, the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any loan review report, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination or by any loan review.

(3) If the Bank is unable to obtain the credit information or collateral documentation required by paragraphs (1) or (2) of this Article within ninety (90) days, the Bank shall document its efforts to obtain such information or documentation, and maintain the documentation of its efforts in the loan file.

(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 reason or purpose for the extension of credit and 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 a central file for review by examiners. The certifications 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 Loan Policy and, if it does not comply, identifying the exception and providing ample justification to support waiving the policy requirement.

(5) The aggregate amount of loans certified under paragraph (4) of this Article shall not exceed two percent (2%) of the Bank's total loans at the end of the previous calendar quarter.

(6) The certification exception granted by paragraph (4) 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).

ARTICLE III

CREDIT 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 of the Comptroller's Handbook. At a minimum, the Board must ensure, on an ongoing basis, that with respect to the Bank's 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, 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 source of repayment has weakened and the probability of default has increased;
- (d) collateral values reflect a current assessment of value based on actual market conditions and project status;
- (e) credit risk ratings are reviewed and updated whenever relevant new information is received, but no less frequently than annually; and
- (f) the credit risk rating analysis is documented and available for review by the Board and the OCC upon request.

(2) Within thirty (30) 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 cash or other liquid collateral as detailed in the "Rating Credit Risk" booklet of the Comptroller's Handbook. Consistent with the guidance in the "Rating Credit Risk" booklet, 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 forty-five (45) days, the Board shall develop, 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; and
- (b) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

ARTICLE IV

CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days, the Board shall develop and adopt a written asset diversification program. The program shall include, but not necessarily be limited to, the following:

- (a) an analysis of the risk of each of the Bank’s concentrations of credit, including but not limited to the Bank’s concentrations identified in the ROE, and a determination as to whether the risks of each concentration is excessive relative to the Bank’s capital;

- (b) based on the above analysis, the establishment of appropriate limits for each concentration of credit relative to the Bank's capital; and
- (c) an action plan approved by the Board to reduce the risk of any concentration deemed excessive in the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in the "Loan Portfolio Management" booklet of the Comptroller's Handbook, and Commercial Real Estate loans are as defined in the "Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" dated December 12, 2006 (OCC Bulletin 2006-46).

(3) Within five (5) days of completion, a copy of the program, or any subsequent amendments or changes to 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 asset diversification program.

(4) Until the Board has established limits for the Bank's overall concentration in Commercial Real Estate loans and each segment of the Commercial Real Estate portfolio and has received a determination of no objection from the Assistant Deputy Comptroller pursuant to paragraph (3) of this Article, the Bank shall not originate any new Commercial Real Estate loans. This restriction shall not apply to:

- (a) the renewal, extension, or restructuring of any loan, provided no new funds are advanced;
- (b) a loan that has been approved prior to the date of this Order;

- (c) an advance under a legally binding written commitment to lend that was entered into prior to the date of this Order;
- (d) a loan to a qualified borrower to finance the sale of any parcel of Other Real Estate Owned;
- (e) a loan guaranteed by the SBA under the 7(a) Loan Program, or by another federal agency, provided the guaranty amount is at least 75% of the loan amount; or
- (f) the extension of additional credit in connection with the workout of a classified asset, provided such extension is consistent with the “Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts” dated October 30, 2009 (OCC Bulletin 2009-32) and in compliance with the provisions of Article II and Article V of this Order.

(5) The Board shall ensure that all concentrations of credit are subjected to the analysis required by subparagraph (a) of paragraph (1) of this Article at least annually, and, if that analysis demonstrates that the concentration subjects the Bank to excessive risk, the Board shall take appropriate steps to mitigate such risk.

ARTICLE V

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 loan review, or in any list provided to management by the National Bank Examiners during any examination or by any loan review.

(2) Within sixty (60) days, the Board shall develop, 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 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. This program shall ensure, at a minimum:

- (a) The implementation of a written 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) 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.
- (b) The submission of 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 plans adopted pursuant to paragraph 2(a) of this Article for these assets; and
- (ii) a description of any changes in the 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 written program to eliminate the basis of criticism in criticized asset.

(4) Within forty-five (45) days of the Board's receipt of the quarterly status report, the Bank shall submit a copy of the plan for each criticized asset that equals or exceeds two hundred and fifty thousand dollars (\$250,000), the most recent status report prepared pursuant to paragraph (2)(b) of this Article, and the most recent written evaluation prepared pursuant to paragraph (3) to the Assistant Deputy Comptroller.

(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 loan review, or in any list provided to management by the National Bank Examiners during any examination or by any loan review and whose aggregate loans or other extensions equal or exceed two hundred and fifty thousand 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 written plans 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.

ARTICLE VI

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall develop, 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 United States generally accepted accounting principles (“GAAP”);
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans that are consistent with GAAP, 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 VII

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule, or regulation cited in the ROE and in any subsequent Report of Examination.

(2) Within thirty (30) days, the Board shall develop, adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and within ninety (90) days, the Board shall develop, 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 thirty (30) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall develop, adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and within ninety (90) days of receipt of any subsequent Report of Examination, the

Board shall develop, 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 VIII

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 Order;
 - (b) results of those actions; and
 - (c) a description of the actions needed to achieve full compliance with each Article of this Order.
- (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 future 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 each quarter end.

ARTICLE IX

CLOSING

(1) Although the Board is by this Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, 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 it 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.

(3) 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.

(4) The provisions of this Order are effective upon issuance of this Order by the Comptroller, through his authorized representative whose hand 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.

(5) 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;

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

In the Matter of:)	AA-CE-10-20
Citizens Commerce National Bank)	
Versailles, Kentucky)	

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

The Comptroller of the Currency of the United States of America (“Comptroller”) intends to initiate proceedings against Citizens Commerce National Bank, Versailles, Kentucky (“Bank”) pursuant to 12 U.S.C. § 1818(b) through the issuance of a Notice of Charges for unsafe and unsound banking practices relating to credit administration, call report accuracy, and capital adequacy.

The Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated 3/18/2010 (“Order”);

In consideration of the above premises, 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).

(4) Upon the issuance of this Order:

- (a) the Bank will not be an “eligible bank” pursuant to 12 C.F.R. § 5.3 (g)(4) for the purposes of 12 C.F.R. Part 5 regarding rules, policies, and procedures for corporate activities, unless otherwise informed in writing by the OCC;
- (b) the Bank will be subject to the limitation of 12 C.F.R. § 5.51(c)(6)(ii) for the purposes of 12 C.F.R. § 5.51 requiring OCC approval of a change in directors and senior executive officers, unless otherwise informed in writing by the OCC; and
- (c) the Bank will be subject to the limitation on golden parachute and indemnification payments provided by 12 C.F.R. § 359.1(f)(1)(ii)(C) and 12 C.F.R. § 5.51(c)(6)(ii), unless otherwise informed in writing by the OCC.

ARTICLE II

AGREEMENT

(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 agrees that said 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 agrees that said 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.

