

#2016-021

AGREEMENT BY AND BETWEEN
Blue Grass Federal Savings and Loan Association
Paris, Kentucky
and
The Comptroller of the Currency

Blue Grass Federal Savings and Loan Association, Paris, 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 members 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 certain unsafe and unsound banking practices relating to board and management supervision, problem loan resolution, credit administration, the allowance for loan and lease losses (“Allowance”), and profit planning 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)(7)(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) The Bank is designated in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(7), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible depository institution” for purposes of 12 C.F.R. § 5.3(h), 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 (“ADC”) pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Louisville Field Office
10200 Forest Green Boulevard, Suite 501
Louisville, Kentucky 40223

ARTICLE II

MANAGEMENT

(1) Within one hundred and eighty (180) days, the Board must ensure that the Bank has competent management in place on a full-time basis to carry out the Board’s policies; ensure compliance with this Agreement, applicable laws, rules and regulations; and manage the operations of the Bank in a safe and sound manner.

(2) Within sixty (60) days, the Board shall review the organizational structure and capabilities of the Bank’s management to perform present and anticipated duties, and the Board will determine whether management changes will be made, including the need for additions to or removals from current management. At a minimum, as part of, or based upon its review, the Board shall adopt a written plan to:

- (a) delineate and assign specific senior executive officer positions to qualified individuals with written defined duties and lines of authority sufficient to cover the scope of duties traditionally assigned to a president, chief executive officer, senior lending officer, chief credit administrator, chief financial officer, and compliance officer; and
- (b) ensure management succession plans promote the continuity of capable management.

(3) If the Board determines an officer will continue in his/her position but the officer's skills need improvement, the Board will within ninety (90) days implement a written development plan, with specific time frames, to improve the officer's supervision and management of the Bank.

(4) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written performance management program designed to ensure officers have appropriate guidance and feedback to perform their duties and responsibilities effectively. At a minimum, the program shall include:

- (a) written position descriptions and performance standards by which the officer's effectiveness will be measured; and
- (b) written performance appraisals for evaluating performance according to the officer's position description and performance standards.

(5) Beginning January 1, 2017, and annually thereafter, the Board shall review the Bank's succession plans, development plans, and performance management program and update the plans and program. This review and its decisions must be documented in the minutes of the Board or a designated committee thereof.

(6) Upon completion of the written plans required in paragraphs (2), (3), and (4), the Board will provide a copy of the plans to the ADC within thirty (30) days. Copies of the revised documents required in paragraph (5) will be provided to the ADC within forty-five (45) days after the beginning of the calendar year.

ARTICLE III

CRITICIZED ASSETS

(1) The Board shall, within ninety (90) days, develop, implement, and thereafter ensure Bank adherence to a written program to ensure the Bank takes immediate and continuing action to protect its interest in those assets criticized¹ by the Board, management, in any Report of Examination, in any list provided to management by examiners, or by internal or external loan review. This program shall include, at a minimum, on each criticized asset relationship equal to or exceeding two hundred thousand dollars (\$200,000):

- (a) a strategy designed to eliminate the basis of criticism;
- (b) time frames for specific actions to be taken to accomplish the Bank's strategy;
- (c) an identification of the expected sources of repayment;
- (d) an analysis of the primary and secondary repayment sources. These analyses must be based on current and satisfactory credit information, including cash flow analysis where obligations are to be repaid from business operations;

¹ For purposes of this Article, criticized assets are defined as other real estate owned and commercial loans or relationships that meet the definition of "special mention," "substandard," or "doubtful" in the "Rating Credit Risk" booklet of the *Comptroller's Handbook*.

- (e) a current collateral value and the position of the Bank's lien on such collateral, where applicable;
- (f) periodic, no less than quarterly, updates on the status of the criticized asset strategy and the Bank's contact with the borrowers, if applicable; and
- (g) recognition of any impairment, where applicable, in accordance with ASC 310-10, with results immediately factored into the Allowance.

(2) Upon adoption, a copy of the workout plan for each criticized asset equal to or exceeding two hundred thousand dollars (\$200,000) shall be forwarded to the ADC.

(3) The Board, or a designated committee thereof, shall conduct a review, on at least a quarterly basis, to determine and document in its minutes:

- (a) the status of each criticized asset workout plan equal to or exceeding two hundred thousand dollars (\$200,000);
- (b) management's adherence to each plan; and
- (c) needed revisions to any of the plans.

(4) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a commercial borrower whose loans or other extensions of credit are criticized by the Board, management, in any Report of Examination, or in any list provided to management by examiners in any internal or external loan review, and whose aggregate loans or other extensions exceed two hundred thousand dollars (\$200,000) only if each of the following conditions is met:

- (a) the Board finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing or extending any additional credit (including the capitalization of interest), a

majority of the full Board 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 problem loan relationship workout plan shows that the Board's plan to collect or strengthen the criticized asset will not be compromised.

(5) A copy of the approval of the Board shall be maintained in the loan file of the affected borrower.

ARTICLE IV

COMMERCIAL LOAN ADMINISTRATION

(1) The Board shall, within ninety (90) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's commercial loan administration. The program shall include, but not be limited to:

- (a) a system to track, aggregate, analyze, and report to the Board or a designated committee thereof commercial loan exceptions;
- (b) guidelines and limitations on commercial loan concentrations of credit;
- (c) procedures to track and analyze commercial loan concentrations of credit.

(2) Upon completion or revision, a copy of the program shall be forwarded to the ADC within thirty (30) days of its completion or revision.

(3) Beginning April 1, 2016, on a quarterly basis management will provide the Board or a designated committee thereof with written reports. These reports shall include, at a minimum, the following information:

- (a) commercial loan credit and collateral documentation exceptions;

- (b) the identification and status of commercial credit related violations of law, rule, or regulation;
- (c) commercial loan concentrations of credit compared to tier 1 capital plus the Allowance and board-approved limits; and
- (d) the identification of commercial loans not in conformance with the Bank's lending policies and exceptions to the Bank's lending policies.

ARTICLE V

PROFIT PLAN

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written profit plan to improve and sustain the earnings of the Bank.

This plan shall include, at minimum, the following elements:

- (a) identification of the major areas by which the Board will seek to improve the Bank's operating performance in a safe and sound manner;
- (b) the development of strategic goals and objectives to be accomplished over the short and long term;
- (c) realistic and comprehensive budgets, including projected balance sheets and year-end income statements;
- (d) a description of the operating assumptions that form the basis for major projected income and expense components in the budget;
- (e) a monthly budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections (i.e., a budget variance report); and

- (f) actions planned to address the cause of significant variances² between budgetary projections and actual figures.

(2) The budgets and related documents required in paragraph (1) above for calendar year 2016 shall be submitted to the ADC within thirty (30) days of completion. The Board shall submit to the ADC annual budgets as described in paragraph (1) above for each calendar year. The budget for each calendar year shall be submitted on or before December 31 of the preceding year.

(3) The Board shall forward comparisons of its balance sheet and profit and loss statement to the profit plan projections to the ADC on a quarterly basis.

ARTICLE VI

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days, the Board shall review the appropriateness of the Bank's Allowance and shall establish a program for the maintenance of an appropriate Allowance. This review and program shall be designed in light of the comments on maintaining an appropriate Allowance found in the "Allowance for Loan and Lease Losses" booklet of the Comptroller's Handbook, and shall include:

- (a) results of the Bank's internal loan review;
- (b) results of the Bank's external loan review;
- (c) an estimate of inherent loss exposure on each significant credit;
- (d) loan loss experience;
- (e) trends of delinquent and nonaccrual loans;
- (f) concentrations of credit in the Bank; and

² For the purposes of this subparagraph, a significant variance is defined as 10 percent of the budget amount provided the difference is equal to or greater than \$5,000.

(g) present and prospective economic conditions.

(2) Within ninety (90) days, the Board shall ensure the Bank's program for maintenance of an appropriate Allowance includes guidelines for ensuring current collateral valuations on impaired loans.

(3) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

ARTICLE VII

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 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 March 31, 2016 and will be due within fifteen (15) days of that date. Thereafter, progress reports will be due within fifteen (15) days after each quarter end.

ARTICLE VIII

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/her 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) 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.

(4) The provisions of this Agreement are effective upon issuance of this Agreement 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, through his authorized representative.

(5) Except as otherwise expressly provided herein, any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement.

(6) If the Bank requires a waiver or suspension 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 waiver or suspension of any provision or an extension of a timeframe within this Agreement.

(7) The Assistant Deputy Comptroller's decision concerning a request submitted pursuant to paragraph (6) of this Article is final and not subject to further review.

(8) 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, direct, 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.
- (e) ensure that the Bank has the processes, personnel, and control systems to ensure implementation of and adherence to the Agreement.

(9) 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

02/17/16

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/
Michael L. Beckett

02/17/16
Date

/s/
Forrest R. Fightmaster

02/17/16
Date

/s/
Kelli G. Mulberry

02/17/16
Date

/s/
Judith S. Roberts

02/17/16
Date

/s/
David A. Yeiser

02/17/16
Date