

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

COMMONWEALTH OF KENTUCKY

OFFICE OF FINANCIAL INSTITUTIONS

_____	)	
In the Matter of	)	
	)	
FIRST COMMUNITY BANK	)	ORDER TO
VANCEBURG, KENTUCKY	)	CEASE AND DESIST
	)	
(Insured State Nonmember Bank)	)	FDIC-07-090b
_____	)	

First Community Bank, Vanceburg, Kentucky ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law, rule, or regulation alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under section 287.690 of the Kentucky Revised Statutes, Ky. Rev. Stat. Ann. § 287.690 (Michie 1981), regarding hearings before the Office of Financial Institutions for the Commonwealth of Kentucky ("KOFI"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and KOFI, dated July 3, 2007, whereby, solely for the purpose of this proceeding and without admitting

or denying the charges of unsafe or unsound banking practices and violations of law, rule, or regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and KOFI.

The FDIC and KOFI considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws, rules, or regulations. The FDIC and KOFI, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of law, rule, or regulations:

- A. Operating the Bank without effective supervision by the board of directors and executive management to prevent unsafe or unsound practices and violations of law and regulations related to the Bank Secrecy Act, 31 U.S.C. §§ 5311-5330, and regulations implementing the Bank Secrecy Act, including 12 C.F.R. Part 326, Subpart B, and 31 C.F.R. Part 103 (hereinafter collectively, "Bank Secrecy Act");

- B. Operating the Bank with an ineffective system of internal controls to assure ongoing compliance with the Bank Secrecy Act;
- C. Operating the Bank with an ineffective training program for appropriate Bank personnel to assure compliance with the Bank Secrecy Act;
- D. Operating in violation of section 326.8, of the FDIC's Rules and Regulations, 12. C.F.R. 326.8, and the Treasury Department's Financial Recordkeeping Regulations, 31 C.F.R Part 103, more fully described on pages 17 through 20 of the Joint FDIC and KOFI Report of Examination dated February 27, 2007;
- E. Operating with management whose actions and practices have resulted in violation of law and regulation relating to Bank Secrecy Act compliance; and
- F. Operating with a board of directors which has failed to provide adequate supervision over and direction to the management of the Bank to prevent violations of law and regulation relating to Bank Secrecy Act compliance.

IT IS FURTHER ORDERED that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. Within 120 days of the effective date of this ORDER, the Bank shall have and thereafter retain management that possesses the qualifications and experience necessary to fully comply with all responsibilities relating to section 326.8 of the FDIC Rules and Regulations, 12 C.F.R. § 326.8, or the Treasury Department's Financial Recordkeeping Regulations, 31 C.F.R Part 103. Each member of management with responsibilities relating to these areas shall have the qualifications and experience commensurate with his or her duties and responsibilities under those regulations.

WRITTEN COMPLIANCE PROGRAM

2. Within 60 days of the effective date of this ORDER, the Bank shall develop, adopt and implement a written compliance program, as required by the applicable provisions of section 326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8, designed to, among other things, assure and maintain compliance by the Bank with the Bank Secrecy Act and the rules and regulations issued pursuant thereto. Such program and its implementation shall be in a manner acceptable to the Regional Director of the Chicago Regional Office ("Regional Director") and Executive Director of KOFI ("Executive Director") as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall:

(a) Require the Bank to develop, adopt and implement a written plan designed to assure compliance with all provisions of the Bank Secrecy Act.

(b) Establish a system of internal controls to assure compliance with the Bank Secrecy Act and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions to assure that they are not being conducted for illegitimate purposes and that there is full compliance with all applicable laws and regulations.

(c) Provide for independent testing of compliance with all applicable rules and regulations related to the Bank Secrecy Act, and assure that compliance audits are performed regularly, are fully documented, and are conducted with the appropriate segregation of duties. Written findings of each audit shall be presented to the Board.

(d) Assure that the Bank's Bank Secrecy Act compliance program is managed by a qualified officer who shall have responsibility for all Bank Secrecy Act compliance and related matters, including, without limitation, monitoring the Bank's compliance and assuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies.

(e) Establish procedures to assure customers are being compared to current Office of Foreign Assets Control (OFAC) listings.

(f) Establish procedures to assure timely review of customers granted reporting exemptions.

(g) Establish and maintain records in accordance with Section 103.29 of the Financial Recordkeeping regulations to document sales of monetary instruments between \$3,000 to \$10,000 made in currency.

(h) Provide and document training by competent staff and/or independent contractors of all appropriate personnel, including, without limitation, directors, senior management, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel, in all aspects of regulatory and internal policies and procedures related to the Bank Secrecy Act, with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity. Training shall be updated on a regular basis to assure that all personnel are provided with the most current and up to date information.

INDEPENDENT TESTING

3. Within 60 days of the effective date of this ORDER, the Bank shall provide for independent testing of compliance

with the Bank Secrecy Act and 31 C.F.R. Part 103. The independent testing should be conducted on a regular basis in compliance with the procedures described in the FDIC's "Guidelines for Monitoring Bank Secrecy Act Compliance." The testing, at a minimum, should include the following:

- (a) A test of the Bank's internal procedures for monitoring Bank Secrecy Act compliance;
- (b) A test to assure all reportable transactions have been identified and Currency Transaction Reports have been filed within the prescribed time frames;
- (c) A test to assure the Bank is reviewing all applicable reports;
- (d) A test to assure bank personnel are reviewing monitoring reports for structuring activities and, if applicable, that appropriate Suspicious Activity Reports are filed in a timely manner with the appropriate law enforcement agencies;
- (e) A sampling of large currency transactions followed by a review of the Currency Transaction Report filings;
- (f) A test of the validity and reasonableness of the customer exemptions granted by the Bank;
- (g) A test of the Bank's customer identification procedures;

(h) A test of the Bank's recordkeeping system for compliance with the Bank Secrecy Act; and

(i) Documentation of the scope of the testing procedures performed and the findings of the testing. Written reports should be prepared which document the testing results and provide recommendations for improvement and shall be presented to the Bank's Board of Directors; and

(j) Assuring that the Bank is in compliance with rules and regulations related to:

- (i) Identifying and reporting suspicious activities;
- (ii) Funds transfer operations;
- (iii) On-going training of appropriate personnel;
- (iv) Office of Foreign Asset Control (OFAC) compliance;
- (v) High-risk activities related to customers and other areas of the Bank;
- (vi) Compliance with information sharing requirements;
- (vii) Testing of the accuracy and validity of the automated large transaction identification system; and

(viii) Confirming the integrity and accuracy of management information reports used in the anti-money laundering compliance program.

(ix) Retention of required records

TRAINING

4. Within 90 days from the effective date of this ORDER, the Bank shall provide and document initial training by competent staff and/or independent contractors of all appropriate personnel, including, without limitation, directors, senior management, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel, related to the Bank Secrecy Act, with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity.

RISK MANAGEMENT

5. Within 60 days from the effective date of this ORDER, the Bank shall complete a Bank Secrecy Act/Anti-money Laundering Risk Assessment, and a separate OFAC Risk Assessment that encompasses the associated risks from all departments and provides a comprehensive analysis of the BSA/AML risks. This assessment should identify specific risks unique to the Bank

including products, services, customers, and geographic locations.

CORRECTION OF VIOLATIONS

6. Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law detailed on pages 17 through 20 of the Joint FDIC and KOFI February 27, 2007 Report of Examination.

PROGRESS REPORTS

7. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and Executive Director written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and Executive Director have, in writing, released the Bank from making further reports.

CLOSING PRARAGRAPHS

The effective date of this ORDER shall be the day of its issuance by the FDIC and KOFI.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and KOFI.

Pursuant to delegated authority.

Dated: July 9, 2007

Sylvia H. Plunkett
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

Cordell G. Lawrence
Executive Director
Office of Financial
Institutions
Commonwealth of Kentucky