

{{10-3-05 p.C-12300.1}}

[¶12,300] **In the Matter of First Community Bank, Vanceburg, Kentucky**, Docket No. 04-170b (10-4-04).

A cease and desist order was issued, based on findings by the FDIC that it had reason to believe that Respondent was engaged in unsafe and unsound practices. *(This order was terminated by order of the FDIC dated 10-3-05; see ¶16,439.)*

[.1] Management—Qualifications Specified

[.2] Bank Secrecy Act—Compliance Program

[.3] Bank Secrecy Act—Compliance Program—Independent Testing Required

[.4] Violations of Law—Correction of Violations Required

[.5] Shareholders—Disclosure of Cease and Desist Order Required

[.6] Progress Report—Written Report Required

**In the Matter of
FIRST COMMUNITY BANK
VANCEBURG, KENTUCKY
(Insured State Nonmember Bank)
ORDER TO CEASE AND DESIST**

FDIC-04-170b

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 September 17, 2004, 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
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system of independent testing for compliance with the Bank Secrecy Act;

C. Operating the Bank with an ineffective system of internal controls to ensure ongoing compliance with the Bank Secrecy Act;

D. Failing to implement effective customer identification procedures;

E. Operating the Bank with an ineffective training program for appropriate Bank personnel to ensure compliance with the Bank Secrecy Act;

F. 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 7 through 10 of the FDIC's Report of Examination dated June 21, 2004;

G. Operating with management whose policies and practices have resulted in violation of law and regulation relating to Bank Secrecy Act compliance; and

H. 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:

[.1] 1. During the life of this Order, the Bank shall have and thereafter retain qualified management. Each member of management with 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, shall have the qualifications and experience commensurate with his or her duties and responsibilities under those regulations.

[.2] 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, ensure 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 ensure compliance with all provisions of the Bank Secrecy Act.

(b) Establish a system of internal controls to ensure 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 ensure 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 ensure that compliance

audits are performed at least annually, are fully documented, and are conducted with the appropriate segregation of duties. Written findings of each audit shall be presented to the Board.

(d) Ensure 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 ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies.

(e) Establish a customer identification program.

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

(g) Establish guidelines for sharing information with Federal law enforcement consistent with Section 314 of the USA Patriot Act.

(h) Establish updated procedures for granting customer exemptions.

(i) Establish and maintain records to document sales of monetary instruments in increments from \$3,000 to \$10,000 made in currency.

(j) Provide and document training by competent staff and/or independent contractors

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of all appropriate personnel, including, without limitation, 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 ensure that all personnel are provided with the most current and up-to-date information.

[10] 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 an annual 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 sampling of large currency transactions followed by a review of the currency Transaction Reports filings;

(c) A test of the validity and reasonableness of the customer exemptions granted by the Bank;

(d) A test of the Bank's customer identification procedures;

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

(f) 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.

[.4] 4. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law detailed on pages 7 through 10 of the FDIC's June 21, 2004 Report of Examination.

[.5] 5. Following the effective date of this ORDER, the Bank shall send to its shareholders and to the shareholders of Lewis Bancshares, Inc., Vanceburg, Kentucky ("Bank Holding Company") a copy or description of this ORDER: (1) in conjunction with the Bank's and the Bank Holding Company's next shareholder communications; and (2) in conjunction with the Bank's and the Bank Holding Company's notice or proxy statement preceding the Bank's or their next shareholder meetings. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to the Kentucky Office of Financial Institutions, 1025 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and KOFI shall be made prior to dissemination of the description, communication, notice or statement.

[.6] 6. 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.

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. October 4, 2004.

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