

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
FRANKFORT, KENTUCKY

Written Agreement by and among

PEOPLES-MARION BANCORP, INC.  
Marion, Kentucky

THE PEOPLES BANK  
Marion, Kentucky

FEDERAL RESERVE BANK OF ST. LOUIS  
St. Louis, Missouri

and

COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
Frankfort, Kentucky

Docket Nos. 24-002-WA/RB-HC  
24-002-WA/RB-SM

Administrative Action  
No. KDFI 2024-AH-0001

WHEREAS, Peoples-Marion Bancorp, Inc., Marion, Kentucky (“Bancorp”), is a registered bank holding company that owns and controls The Peoples Bank, Marion, Kentucky (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor of Bancorp and the Bank;

WHEREAS, the Commonwealth of Kentucky Department of Financial Institutions (“KDFI”) is the appropriate state banking supervisor of Bancorp and the Bank;

WHEREAS, it is the common goal of Bancorp, the Federal Reserve Bank of St. Louis (the “Reserve Bank”), and KDFI to maintain the financial soundness of Bancorp so that Bancorp may serve as a source of strength to the Bank;

WHEREAS, Bancorp, the Bank, the Reserve Bank, and KDFI have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, the boards of directors of Bancorp and the Bank, respectively, have authorized the undersigned to enter into this Agreement on behalf of Bancorp and the Bank, and consent to compliance with each and every provision of this Agreement by Bancorp and the Bank.

NOW, THEREFORE, Bancorp, the Bank, the Reserve Bank, and KDFI agree as follows:

#### **Source of Strength**

1. The board of directors of Bancorp shall take appropriate steps to fully utilize Bancorp’s financial and managerial resources, pursuant to section 38A of the Federal Deposit Insurance Act (the “FDI Act”) (12 U.S.C. § 1831o-1) and section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with this Agreement and any other supervisory action taken by the Bank’s federal or state regulators.

#### **Board Oversight**

2. Within 30 days of the effective date of this Agreement, the board of directors of the Bank shall submit a written plan acceptable to the Reserve Bank and KDFI to strengthen board oversight of the management and operations of the Bank. The plan shall include the following five items:

(a) the actions that the board of directors will take to maintain effective control over, and supervision of, the Bank's major operations and financial condition, including, but not limited to, asset quality, lending, credit risk management, audit, capital, earnings, and liquidity;

(b) measures to ensure that the board of directors provides adequate resources to ensure the Bank's compliance with this Agreement, including sufficient resources, and succession planning;

(c) steps to ensure that the Bank's management has requisite qualifications, subject matter expertise, skills, and training to competently perform present and anticipated duties;

(d) measures to ensure that the board of directors monitors management's adherence to approved policies and procedures and risk tolerance guidelines and limits, including any exceptions thereto; and

(e) steps to improve the quality, comprehensiveness, and granularity of the information and reports provided to the board of directors in its oversight of the Bank and its operations and management, including, but not limited to, the Bank's capital, liquidity, and credit risk management.

### **Strategic Plan**

3. Within 30 days of the effective date of this Agreement, the Bank shall submit to the Reserve Bank and KDFI a written strategic plan that, at a minimum, establishes short- and long-term goals designed to improve the condition of the Bank and a description of how the Bank's board of directors and senior management intend to achieve the stated objectives.

## **Credit Risk Management**

4. Within 30 days of the effective date of this Agreement, the Bank shall submit a written plan acceptable to the Reserve Bank to strengthen credit risk management practices. The plan shall include the following four items:

- (a) the responsibility of the board of directors to establish appropriate concentration of credit risk tolerances or limits by types of loan products, geographic locations, and other common risk characteristics or sensitivities;
- (b) policies, procedures, and strategies to identify, limit, and manage concentrations of credit;
- (c) a schedule for reducing and the means by which the Bank will reduce the excessive concentrations of credit and timeframes for achieving the reduced levels; and
- (d) improvements to the Bank's management information systems to ensure that the board of directors and senior management obtain timely and accurate credit-related information, including identification of highly concentrated credit relationships.

## **Lending and Credit Administration**

5. Within 30 days of the effective date of this Agreement, the Bank shall submit a written plan acceptable to the Reserve Bank and KDFI to strengthen its written lending and credit administration policies and procedures. The plan shall include the following nine items:

- (a) measures to ensure the lending and underwriting functions have adequate resources and staff with the appropriate experience and training that is commensurate with the Bank's size and complexity;
- (b) policies, standards, and criteria for assessing the credit quality of loans, including a discussion of the factors used to assign appropriate risk grades to loans;

- (c) procedures to ensure compliance with loan documentation and collateral requirements to minimize exceptions;
- (d) controls to ensure staff's consistent application and adherence to the Bank's lending policies, standards, and criteria;
- (e) policies and procedures to re-evaluate the grading of loans in the event of material changes in the borrower's performance or the value of the collateral;
- (f) procedures to evaluate, at least quarterly, the grading of all loans criticized, adversely classified, or on the watch list;
- (g) procedures for the timely movement of loans to non-accrual status, and the monitoring and reporting of loans on non-accrual status;
- (h) enhanced procedures and monitoring systems to ensure that deteriorating credits are promptly identified, properly risk rated, and accurately and timely placed on the watch list; and
- (i) written reports to the board of directors, at least quarterly, that identify and report the status of loans that are nonperforming or adversely graded, the prospects for full collection or strengthening of the quality of any such loans, and the steps that the Bank will take to reduce the exposure to each nonperforming or adversely graded loan.

### **Asset Improvement**

6. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the examination of the Bank, dated April 13, 2023 or August 31, 2023 (the "Reports of Examination"), conducted by the Reserve Bank and KDFI, or in any subsequent report of examination conducted by the Reserve Bank and KDFI, without

the prior approval of a majority of the full board of directors or a designated committee thereof.

The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

7. (a) Within 30 days of the effective date of this Agreement, the Bank shall submit a written plan acceptable to the Reserve Bank and KDFI designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of \$200,000, including other real estate owned

(“OREO”), that is past due as to principal or interest more than 90 days as of the date of this Agreement, is on the Bank’s problem loan list, or was adversely classified in the Reports of Examination.

(b) Within 30 days of the date that any additional loan, relationship, or other asset in excess of \$200,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank’s problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and KDFI an acceptable written plan to improve the Bank’s position on such loan, relationship, or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and KDFI to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank’s current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and KDFI and shall document the review in the minutes of the board of directors’ meetings.

#### **Allowance for Credit Losses**

8. (a) Within 30 days from the receipt of any report of examination, the Bank shall charge off all assets classified as “loss” unless otherwise approved in writing by the Reserve Bank and KDFI.

(b) Within 30 days of the effective date of this Agreement, the Bank shall review and revise its allowance for credit losses (“ACL”) methodology consistent with relevant

supervisory guidance, including the Interagency Policy Statement on Allowances for Credit Losses, dated May 8, 2020 (SR 20-12) and the findings and recommendations regarding the ACL (identified as the Allowance for Loan and Lease Losses in the Reports of Examination), and submit a description of the revised methodology to the Reserve Bank and KDFI. The revised ACL methodology shall be designed to maintain an adequate ACL and shall, at a minimum, include the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 30 days of the effective date of this Agreement, the Bank shall submit to the Reserve Bank and KDFI a written program for the maintenance of an adequate ACL. The program shall, at a minimum, include policies and procedures to ensure adherence to the ACL methodology and provide for periodic reviews and updates to the ACL methodology. The program also shall provide for a review of the ACL by the board of directors on at least a quarterly basis. Any deficiency found in the ACL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Report of Condition and Income. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ACL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and KDFI, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ACL and a description of any changes to the methodology used in determining the amount of the ACL for that quarter.



## **Liquidity and Funds Management**

9. Within 30 days of the effective date of this Agreement, the Bank shall submit an enhanced liquidity risk management program acceptable to the Reserve Bank and KDFI that, at a minimum, includes steps to diversify sources of funding, enhanced liquidity stress test scenarios, and periodic independent review and evaluation of all components of the Bank's liquidity risk management process.

10. Within 30 days of the effective date of this Agreement, the Bank shall submit a revised written contingency funding plan acceptable to the Reserve Bank and KDFI that, at a minimum, is consistent with the Interagency Policy Statement on Funding and Liquidity Risk Management, dated March 17, 2010 (SR 10-6), and includes adverse scenario planning.

## **Capital Plan**

11. Within 30 days of the effective date of this Agreement, Bancorp and the Bank shall jointly submit a written plan acceptable to the Reserve Bank and KDFI to maintain sufficient capital at Bancorp on a consolidated basis and the Bank on a stand-alone basis. The plan shall include the following three items:

(a) Bancorp and the Bank's current and future capital requirements, including compliance with the applicable requirements of Regulation Q of the Board of Governors (12 C.F.R. § 217.12);

(b) the adequacy of the Bank's capital, taking into account the volume of adversely classified assets, the adequacy of the ALLL, current and projected asset growth, projected earnings, and anticipated and contingency funding needs; and

(c) the source and timing of additional funds to fulfill Bancorp and the Bank's future capital requirements.

12. (a) Bancorp and the Bank shall notify the Reserve Bank and KDFI, in writing, no more than 30 days after the end of any calendar quarter in which any of the Bank's capital ratios fall below the approved capital plan's minimum ratios. Together with the notification, Bancorp and the Bank shall submit a written plan acceptable to the Reserve Bank and KDFI that details the steps Bancorp or the Bank, as appropriate, will take to increase Bancorp's or the Bank's capital ratios to or above the approved capital plan's minimums.

(b) During the term of this Agreement, the Bank shall not enter into any agreement to sell or purchase any loan or other asset that, in the aggregate, would exceed 5 percent of the Bank's total assets at the end of the prior quarter without the prior written approval of the Reserve Bank and KDFI.

(c) All requests for prior written approval shall be received at least 30 days prior to the proposed sale or purchase. All requests shall contain, at a minimum, a description of the terms of the proposed sale or purchase; the identity of the proposed purchaser or seller; current and projected information on the Bank's capital, asset quality, earnings, and ALLL needs; and the identification of the sources of funds for any proposed purchase or sale.

### **Capital Conservation**

13. (a) Effective immediately, Bancorp and the Bank shall not, directly or indirectly, declare or pay dividends, engage in share repurchases, or make any other capital distribution in respect of common shares, preferred shares, or other capital instruments, including, without limitation, any interest payments due on subordinated debentures, without the prior written approval of the Reserve Bank, the Director of Supervision and Regulation of the Board of Governors, and KDFI. All requests for prior approval shall be received in writing at least 30 days prior to the earlier of the proposed declaration, payment, or distribution date, or

required notice of deferral, and shall contain, at a minimum, current and projected information, as appropriate, on Bancorp and the Bank's respective capital, earnings, and cash flow; the Bank's asset quality, earnings, and allowance for loan and lease losses; and identification of the source(s) of funding for the proposed payment or distribution.

(b) Effectively immediately, Bancorp and the Bank shall not, directly or indirectly, incur, increase, prepay, or guarantee any debt without the prior written approval of the Reserve Bank and KDFI. All requests for prior approval shall be received at least 30 days prior to the proposed transaction date and contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

#### **Compliance with Laws and Regulations**

14. (a) The Bank shall take all necessary steps to correct all apparent violations of law or regulation cited in the Report of Examination. In addition, the Bank shall take necessary steps to ensure future compliance with all applicable laws and regulations.

(b) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Bancorp and the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

(c) Bancorp and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. § 359).

## **Progress Reports**

15. Within 45 days after the end of each calendar quarter following the date of this Agreement, Bancorp and the Bank shall submit to the Reserve Bank and KDFI written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement and the results thereof.

## **Approval and Implementation of Plans, Policies, Procedures, and Programs**

16. (a) Bancorp or the Bank, as applicable, shall submit written plans, policies, procedures, and programs, that are acceptable to the Reserve Bank and KDFI within the applicable time periods set forth in paragraphs 2, 3, 4, 5, 7(a), 8(b), 8(c), 9, 10, and 11 of this Agreement. Each plan, policy, procedure, and program shall contain a timeline for full implementation of the plan, policy, procedure, or program with specific deadlines for the completion of each component of the plan, policy, procedure, or program.

(b) Within 10 days of approval by the Reserve Bank and KDFI, Bancorp, or the Bank, as applicable, shall adopt the approved plans, policies, procedures, and programs. Upon adoption, Bancorp or the Bank, as applicable, shall promptly implement the approved plans, policies, procedures, and programs, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, and programs, shall not be amended or rescinded without the prior written approval of the Reserve Bank and KDFI.

## **Communications**

17. All communications regarding this Agreement shall be sent to:

- (a) Mr. Allen North  
Vice President  
Federal Reserve Bank of St. Louis  
P.O. Box 442  
St. Louis, Missouri 63166
- (b) Marni Rock Gibson  
Acting Commissioner  
Commonwealth of Kentucky  
Department of Financial Institutions  
500 Mero Street, 2SW19  
Frankfort, Kentucky 40601
- (c) Terry L. Bunnell  
President/Chief Executive Officer  
Peoples-Marion Bancorp., Inc.  
The Peoples Bank  
116 South Main Street  
Marion, Kentucky 42064

## **Miscellaneous**

18. Notwithstanding any provision of this Agreement, the Reserve Bank and KDFI may in their discretion, grant written extensions of time to Bancorp and Bank to comply with any provision of this Agreement.

19. The provisions of this Agreement shall be binding upon Bancorp and Bank and their institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), in their capacities as such, and their successors and assigns.

20. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and KDFI.

21. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, KDFI, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and

their successors and assigns.

22. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 22nd day of January, 2024.

PEOPLES-MARION BANCORP, INC.

FEDERAL RESERVE BANK  
OF ST. LOUIS

By: /s/ Terry L. Bunnell  
Terry L. Bunnell  
Chairman, President, and  
Chief Executive Officer

By: /s/ Allen North  
Allen North  
Vice President

THE PEOPLES BANK

COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF FINANCIAL  
INSTITUTIONS

By: /s/ Terry L. Bunnell  
Terry L. Bunnell  
Chairman, President, and  
Chief Executive Officer

By: /s/ Marni Rock Gibson  
Marni Rock Gibson  
Acting Commissioner