FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of	)	
PEOPLES EXCHANGE BANK STANTON, KENTUCKY	)	CONSENT ORDER
	)	FDIC-12-370b
(Kentucky Chartered Insured Nonmember Bank)	)	

Peoples Exchange Bank, Stanton, 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 or regulation alleged to have been committed by the Bank in the area of consumer protection and compliance, 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 having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated September 10, 2012, 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 or regulation, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC.

The FDIC considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b)have been satisfied, the FDIC HEREBY ORDERS 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, take affirmative action as follows:

BOARD OVERSIGHT

1. From the effective date of this ORDER, the Bank's board of directors ("Board") shall increase its participation in the oversight of the Bank's Compliance Management System, as hereinafter defined, and shall assume full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities involving consumer protection and compliance, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(a) Within sixty (60) days from the effective date of this ORDER, the Bank's Board shall appoint a compliance committee ("Compliance Committee") that shall include at least two (2) directors who are not active officers of the Bank and at least one (1) member of senior management, plus the compliance officer ("Compliance Officer") retained pursuant to this ORDER.

(b) The existence of the Compliance Committee in no way diminishes the responsibility of the entire Board for ensuring compliance with the provisions of this ORDER.

(c) The Bank's Board, in conjunction with the Compliance Committee, shall allocate resources to the compliance area that are:

(i) commensurate with the level of complexity of the Bank's operations to ensure the establishment and implementation of an adequate compliance management system ("Compliance Management System") as described in Section II of the FDIC's Compliance Examination Manual ("Compliance Management System Guidance"), and shall include specific procedures to ensure the Bank's compliance with all federal consumer protection and compliance laws and regulations relating to financial transactions and services ("Consumer Laws"); and

(ii) sufficient to ensure the Bank's timely compliance with the provisions of this ORDER.

(d) The Bank's Board shall ensure that the Compliance Officer:

(i) has and retains sufficient authority and independence to implement policies related to Consumer Laws and to institute corrective action as needed. This authority shall include access to all areas of the Bank's operations and the ability to effectuate corrective action upon discovering deficiencies; and

(ii) receives ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the Bank's Compliance Management System.

(e) The Bank's Board, in conjunction with the Compliance Committee, shall ensure that the duties and responsibilities of the Compliance Officer are clearly defined and provide for accessibility to both the Board and senior management. The duties assigned to the Compliance Officer shall include:

(i) the prompt review and written response to both internal and external audit reports relating to all areas of the Bank's

Compliance Management System, with all such written responses being presented to the Board; and

(ii) the preparation of monthly written reports on all aspects of the Compliance Management System and the presentation of these reports to the Board.

(f) Within sixty (60) days from the effective date of this ORDER, the Bank's Board shall have in place procedures that will provide for monitoring of the Bank's compliance with this ORDER. These monitoring procedures shall require that:

(i) the Compliance Committee meet no less frequently than monthly, during which the Compliance Committee shall review and approve (A) minutes of the Compliance Committee, (B) reports submitted by the Compliance Officer, (C) compliance audit reports, (D) compliance program policies, and (E) the status of the Bank's overall compliance with this ORDER ("Compliance Committee Report");

(ii) the Board meet no less frequently than monthly and the Compliance Committee shall submit Compliance Committee Report(s) in writing to the Board and the minutes of the Board shall document the review and approval of the Compliance Committee Report(s), including the names of any dissenting directors; and

(iii) the Board shall review progress reports required by this ORDER and any written responses to such reports, with each such report or response being signed by each member of the Board, and recorded in the minutes of the applicable Board meeting. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") has released, in writing, the Bank from making additional reports.

(g) The Board shall ensure proper and timely follow-up and resolution to audit and examination findings indicating need for corrective action.

(h) The Board shall hold employees accountable for following adopted policies, procedures, and regulatory requirements related to the Bank's Compliance Management System and shall develop an internal monitoring system of employees' performance to ensure that such policies, procedures, and regulatory requirements are adequately implemented and followed.

MANAGEMENT

2. While this ORDER is in effect, the Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities relating to the Bank's Compliance Management System. Each applicable member of management shall be provided appropriate written authority from the Bank's Board to implement the provisions of this ORDER.

(b) The qualifications of management shall be assessed on its ability to:

(i) comply with the requirements of this ORDER;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable Consumer Laws and related regulations; and

(iv) develop, implement and administer a satisfactory Compliance Management System in accordance with the Compliance Management System Guidance.

COMPLIANCE OFFICER

3. During the life of this ORDER, the Bank shall have and retain a full-time Compliance Officer who possesses the requisite knowledge, capacity, and experience to administer and oversee an effective Compliance Management System.

(a) The responsibilities of the Compliance Officer shall, at a minimum, include:

(i) developing compliance policies and procedures, and conducting regular reviews of such policies and procedures to ensure that updates are adopted as necessary;

(ii) administering a compliance training program and providing training in Consumer Laws to the Bank's Board, Bank management and employees on a continuing basis; and

(iii) coordinating responses to consumer complaints.

(b) The ongoing determination of whether the Bank has retained a qualified Compliance Officer within the meaning of this ORDER shall be based upon the continued effectiveness of the Bank in achieving compliance with the requirements of this ORDER and with the Consumer Laws.

COMPLIANCE CONSULTANT

4. Within thirty (30) days from the effective date of this ORDER, the Bank shall have and retain a qualified consultant with the requisite knowledge and experience to assist the Bank in developing an effective Compliance Management System.

(a) The Bank shall provide the Regional Director with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum should include:

(i) a description of the work to be performed under the contract or engagement letter;

(ii) the responsibilities of the consultant;

(iii) an identification of the professional standards covering the work to be performed;

(iv) identification of the specific procedures to be used when carrying out the work to be performed;

(v) procedures ensuring that the consultant's work shall be independent of that by external auditors engaged pursuant to this ORDER;

(vi) the qualifications of the consultant’s employee(s) who are to perform the work;

(vii) the time frame for completion of the work;

(viii) any restrictions on the use of the reported findings; and

(ix) a provision for unrestricted examiner access to workpapers, memoranda and/or reports.

(b) At a minimum, the Compliance Management System developed with the assistance of the consultant shall meet the standards set forth in the Compliance Management System Guidance cited above.

COMPLIANCE POLICY AND PROCEDURES

5. Within ninety (90) days from the effective date of this ORDER, the Bank shall revise and implement its compliance policy (“Compliance Policy”). The Compliance Policy shall be acceptable to the Regional Director as determined at subsequent examinations or visitations. At a minimum, the Compliance Policy shall require the adoption of a comprehensive compliance program in conformity with the Compliance Management System Guidance, which will be reviewed and approved annually by the Board.

COMPLIANCE MONITORING

6. Within ninety (90) days from the effective date of this ORDER, the Bank shall ensure that effective compliance monitoring procedures are developed and instituted throughout the Bank. The procedures required by this paragraph shall be acceptable to the Regional Director as determined at subsequent examinations or visitations of the Bank.

(a) At a minimum, monitoring procedures should include ongoing reviews of:

(i) banking transactions that constitute the routine daily activities of employees for all applicable departments;

(ii) disclosures and calculations for various loan and deposit products;

(iii) document filing and retention procedures;

(iv) marketing literature and advertising; and

(v) the internal compliance communication system that provides updates resulting from revisions to Consumer Laws to appropriate Bank personnel.

(b) The monitoring procedures shall ensure that:

(i) the Bank’s actual practices reflect the Compliance Policy; and

(ii) all Consumer Laws and related regulations are being followed.

(c) The compliance monitoring procedures shall be incorporated into the normal activities of every department or operating unit of the Bank.

(i) Reviews of the routine daily activities of employees in all operating units of the Bank shall be conducted at the transactional level on a regular basis, but not less often than monthly; and

(ii) Reviews of third-party vendors doing financially related business with the Bank shall be conducted on a regular basis, but not less than quarterly, and due diligence concerning the compliance of such vendors be completed prior to entering into any new business relationship with a third-party vendor.

TRAINING PROGRAM

7. Within ninety (90) days from the effective date of this ORDER, the Bank shall review, revise and implement its training program relating to Consumer Laws for all Bank personnel commensurate with their individual job functions and duties.

(a) The training program, at a minimum, shall address the violations contained in the FDIC’s Compliance Report of Examination of the Bank as of February 1, 2012 (“Compliance Report”) and any deficiencies found through internal monitoring or external audits and shall address updates to federal and state consumer protection laws, regulations, and policies.

(b) The training program shall provide for training of all Bank personnel, including senior management and the Board, commensurate with their individual job functions and duties.

(c) The training program required by this paragraph shall be acceptable to the Regional Director as determined at subsequent examination or visitations.

EXTERNAL AUDIT

8. Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall cause an external audit to be commenced with respect to the Bank’s compliance with Consumer Laws.

(a) The audit shall assess the Bank’s Compliance Management System in conjunction with the Compliance Management System Guidance, and at a minimum, shall:

(i) be comprehensive in scope;

(ii) identify the number of transactions sampled by category or product type;

(iii) identify deficiencies;

(iv) provide descriptions of or suggestions for corrective actions and time frames for correction; and

(v) establish follow-up procedures to verify that corrective actions are implemented and effective.

(b) The scope of the audit, audit findings, deficiencies, and recommendations must be documented in a written report and provided to the Board within ten (10) days after completion of the external audit.

(c) Within thirty (30) days of receipt of the external auditor's written report, the Board shall meet and take action to address the audit findings, correct any deficiencies noted, and implement any recommendations or explain in a written report, signed by all Board members and included in the minutes of the applicable Board meeting, why a particular recommendation has not been implemented.

(d) The Bank shall provide the Regional Director with a copy of the proposed engagement letter with the external auditor for review before it is executed. The engagement letter, at a minimum, should include:

(i) a description of the work to be performed under the engagement letter;

(ii) the responsibilities of the external auditor;

(iii) an identification of the professional standard covering the work to be performed;

(iv) identification of the specific procedures to be used when carrying out the work to be performed;

(v) the qualifications of the employee(s) who are to perform the work;

(vi) the time frame for completion of the work;

(vii) any restrictions on the use of the reported findings;

(viii) a provision for unrestricted examiner access to work papers, memoranda and/or reports; and

(ix) a provision stating that the external auditor will present the audit findings directly to the Board.

(e) After receipt of the initial external audit, the Bank shall, on a quarterly basis, have subsequent external audits conducted. The subsequent audits shall be conducted in compliance with all of the provisions of this paragraph.

(f) A copy of any external audit report(s) received by the Bank and the Bank's response thereto shall be submitted to the Regional Director within forty-five (45) days of receipt.

DOCUMENTATION OF AUDIT FINDINGS

9. Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement procedures, acceptable to the Regional Director as determined at subsequent examinations or visitations, to ensure that Bank responses to audit findings, as well as Bank corrective actions in response to audit findings, are documented and reported to the Board.

CORRECTION OF VIOLATIONS

10. Within thirty (30) days from the effective date of this ORDER, the Bank shall eliminate or correct all violations of Consumer Laws identified in the Compliance Report.

DISCLOSURE TO SHAREHOLDER(S)

11. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) a copy of this ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

12. Within thirty (30) days from the end of the first calendar quarter following the effective date of this ORDER, and

within thirty (30) days after the end of each successive calendar quarter thereafter, the Bank shall furnish written progress reports to the Regional Director detailing the form and manner of any action taken to secure compliance with this ORDER and the results thereof.

CLOSING PARAGRAPHS

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

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

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

Pursuant to delegated authority.

Dated this 14th day of September, 2012.

/S/

M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance Corporation