

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
	)	CONSENT ORDER
COMMUNITY TRUST & BANKING COMPANY	)	
OOLTEWAH, TENNESSEE	)	FDIC-11-085b
	)	
	)	
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Community Trust & Banking Company, Ooltewah, Tennessee (“Bank”), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting board of directors (“Board”), has executed a “STIPULATION TO THE ISSUANCE OF A CONSENT ORDER” (“STIPULATION”), dated June 14, 2011, that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to deficient credit underwriting and monitoring, failure to identify problem assets, and weaknesses in capital, interest rate risk and liquidity, to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

COMPLIANCE COMMITTEE – NON-EMPLOYEE DIRECTORS REQUIRED

1. Within 30 days after the effective date of this ORDER, the Board shall establish a committee of the Bank's Board of Directors charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. At least a majority of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. The committee shall report monthly to the full Bank's Board, and a copy of the report and any discussion relating to the report or the ORDER shall be noted in the minutes of the Bank's Board meetings. The establishment of this subcommittee shall not diminish the responsibility or liability of the entire Bank's Board to ensure compliance with the provisions of this ORDER.

ALLOWANCE FOR LOAN AND LEASE LOSSES

2. Within 30 days after the effective date of this ORDER, the Bank must continue to use Financial Accounting Standards Board Accounting Standards Codification Numbers 450 and 310 (formerly Statement Numbers 5 and 114) for determining the Bank's allowance for loan and lease losses ("ALLL") reserve adequacy with all examiner recommendations addressed in the November 15, 2010 Report of Examination. Provisions for loan losses must be based on the inherent risk in the Bank's loan portfolio. The directorate must document with written reasons any decision not to require provisions for loan losses in the Board's minutes.

CAPITAL MAINTENANCE

3. (a) Within 60 days after the effective date of this ORDER, the Bank, after establishing an adequate ALLL, shall have a Tier 1 Leverage Capital ratio equal to or greater than 8.5% of the Bank's Average Total Assets; shall have a Tier 1 Risk-Based Capital ratio equal

to or greater than 10.5% of the Bank's Total Risk-Weighted Assets; and shall have a Total Risk-based Capital ratio equal to or greater than 12.5% of the Bank's Total Risk Weighted Assets.

Within 240 days of the effective date of this ORDER, the Bank's capital ratios shall be equal to or greater than 9%, 11%, and 13%, respectively.

(b) If any such capital ratios are less than required by the ORDER, as determined as of the date of any Report of Condition and Income or at an examination by the FDIC or the Tennessee Department of Financial Institutions ("State"), the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the Regional Director of the FDIC's Dallas Regional Office ("Regional Director") or the Commissioner of the Tennessee Department of Financial Institutions ("Commissioner"), present to the Regional Director and the Commissioner a plan to increase the Bank's Tier 1 Capital or to take such other measures to bring all the capital ratios to the percentages required by this ORDER. After the Regional Director and the Commissioner respond to the plan, the Bank's Board shall adopt the plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

(c) Thereafter, to the extent such measures have not previously been initiated, the Bank shall immediately initiate measures detailed in the plan, to increase its Tier 1 Capital by an amount sufficient to bring all the Bank's capital ratios to the percentages required by this ORDER within 30 days after the Regional Director and the Commissioner respond to the plan. Such increase in Tier 1 Capital and any increase in Tier 1 Capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

(1) The sale of securities in the form of common stock; or

- (2) The direct contribution of cash subsequent to November 15, 2010 by the directors and/or shareholders of the Bank or by the Bank's holding company; or
- (3) Receipt of an income tax refund or the capitalization subsequent to November 15, 2010, a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.

(d) If all or part of the increase in Tier 1 Capital required by this ORDER is to be accomplished by the sale of new securities, the Bank's Board shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan, and in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or the materials by the FDIC shall be made prior to their dissemination. If the increase in Tier 1 Capital is to be provided by the sale of non-cumulative perpetual preferred

stock, then all terms and conditions of the issue shall be presented to the Regional Director and the Commissioner for prior approval.

(e) In complying with the provisions of this ORDER and until such time as any such public offering is terminated, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities written notice of any planned or existing development or other change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days after the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

(f) The Capital Plan must include a contingency plan ("Contingency Plan") that shall include a plan to sell or merge the Bank in the event that the Bank:

- (1) Fails to maintain the minimum capital ratios required by the ORDER;
- (2) Fails to submit an acceptable Capital Plan; or
- (3) Fails to implement or adhere to a Capital Plan to which no written objection was provided by the Regional Director and the Commissioner.

The Bank shall be required to implement the Contingency Plan only upon written notice from the Regional Director and the Commissioner.

(g) In addition, the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(h) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

DIVIDEND RESTRICTION

4. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Commissioner.

RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS

5. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose existing credit has been classified Loss by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

(b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose extension of credit is classified Doubtful and/or Substandard by the FDIC or the State as the result of its examination

of the Bank, either in whole or in part, and is uncollected, unless the Bank's Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable Bank's Board meeting.

CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION

6. (a) Within 30 days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the State as a result of its examination of the Bank as of November 15, 2010. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph.

(b) Within 60 days after the effective date of this ORDER, the Bank shall submit a written plan to the Regional Director and the Commissioner to reduce the remaining assets classified Doubtful and Substandard as of November 15, 2010. The plan shall address each asset so classified with a balance of \$250,000 or greater and provide the following:

- (1) The name under which the asset is carried on the books of the Bank;
- (2) Type of asset;
- (3) Actions to be taken in order to reduce the classified asset; and
- (4) Time frames for accomplishing the proposed actions.

The plan shall also include, at a minimum:

- (1) A review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (2) An evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

In addition, the Bank's plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall contain a provision requiring the submission of monthly progress reports to the Bank's Board and a provision mandating a review by the Bank's Board.

(c) The Bank shall present the plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director's and the Commissioner's response, the plan, including any requested modifications or amendments shall be adopted by the Bank's Board, which approval shall be recorded in the minutes of the Bank's Board meeting. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(d) For purposes of the plan, the reduction of adversely classified assets as of November 15, 2010, shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's ALLL and may be accomplished by:

- (1) Charge-off;
- (2) Collection;

(3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the State; or

(4) Increase in the Bank's Tier 1 Capital.

(e) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any future examination conducted by the FDIC or the State.

SPECIAL MENTION AND TECHNICAL EXCEPTIONS

7. (a) Within 60 days after the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for Special Mention in the November 15, 2010 Report of Examination.

(b) Within 90 days after the effective date of this ORDER, the Bank shall review its system for monitoring loan documentation exceptions and implement any procedures necessary to reduce the level of such exceptions in the future.

LOAN POLICY

8. (a) Within 90 days after the effective date of this ORDER, and annually thereafter, the Bank's Board shall review the Bank's loan policy and procedures for effectiveness and, based upon this review, shall make all necessary revisions to the policy in order to strengthen the Bank's lending procedures and abate additional loan deterioration. The revised written loan policy shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion. After the Regional Director and the Commissioner have

responded to the Bank's loan policy and procedures, the Bank's Board shall adopt the revised policies as amended or modified by the Regional Director and the Commissioner. The revised policies will be implemented immediately to the extent that they are not already in effect at the Bank.

(b) The revisions to the Bank's loan policy required by this paragraph, at a minimum, shall include provisions:

- (1) Requiring the establishment and maintenance of a formal loan classification or credit grading system so that the credit grades reflect the risk of default and credit losses for which a description is maintained, including:
 - (a) A written description of the factors used to assign appropriate classifications or grades to loans;
 - (b) Those factors should be quantified and include guidelines for debt service coverage ratios and other financial metrics; and
 - (c) Require that all loans over \$250,000 are assigned a grade.
- (2) Outline the factors in a Credit Approval Memorandum, including:
 - (a) Amount of the loan(s), name of the borrower, and internal risk rating;
 - (b) Origination date and amount, repayment terms, next due date, purpose of the loan and the source of repayment;
 - (c) Describe collateral, lien position, and method of perfection;

- (d) For Real Estate Collateral:
 - i. Date of the appraisal;
 - ii. Appraised value; and
 - iii. Specifically describe in detail any and all perceived weaknesses, if any, contained in the appraisal.
 - (e) For all other collateral:
 - i. Provide values and source of value of the collateral;
 - ii. Describe method and type of verification of the collateral such as location, date of inspection, and specifically describe in detail any and all perceived weaknesses, if any, regarding collateral valuations.
 - (f) Detail the borrower's financial condition and financial statement such as date of the statement, preparer of the statement, audited or compiled; and
 - (g) Detail the borrower's income statement such as time period covered, source of information, calculate traditional cash flow or use Statement of Cash Flows from audited statements, calculate debt service requirement on aggregate basis.
- (3) Establishing review and monitoring procedures to ensure compliance with FDIC's regulation on appraisals pursuant to Part 323 of the FDIC's Rules and Regulations, 12 C.F.R. Part 323 and

complies with Interagency Guidance Appraisal and Evaluation Guidelines (FIL 82-2010).

BANK'S PROFIT PLAN AND BUDGET

9. (a) The Bank will continue to monitor its written profit plan and comprehensive budget, which contains the Bank's formal goals and strategies, consistent with sound banking practices, for reducing discretionary expenses, improving the Bank's overall earnings and net interest income, and a description of the operating assumptions that form the basis for major projected income and expense components, including an analysis of the Bank's pricing structure and its plan to continue to reduce the Bank's cost of funds.

(b) Within 30 days after the end of each calendar quarter following the effective date of this ORDER, the Bank's Board shall evaluate the Bank's actual performance in relation to the written profit plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Bank's Board meeting when such evaluation is undertaken.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and the Commissioner for review and comment within 30 days after the end of each year. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after adoption of any recommended changes, the Bank shall approve the written profit plan and budget, which approval shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement and follow the plan.

INTEREST RATE RISK

10. Within 60 days after the effective date of this ORDER, the Bank will review its implementation of its interest rate risk policy and procedures, taking into consideration any recommendations made during the most recent examination of the Bank and ensuring compliance with the January 6, 2010 Joint Agency Advisory on Interest Rate Risk.

INTERNAL AUDIT CONTROL PROGRAM

11. Within 60 days after the effective date of this ORDER, the Bank's Board shall revise its internal control program to address the recommendations set out in the Report of Examination.

LIQUIDITY/ASSET/LIABILITY MANAGEMENT

12. (a) Within 60 days after the effective date of this ORDER, the Bank shall review its written plan addressing the Bank's liquidity position and dependence on potentially volatile funding sources. Annually thereafter, while this ORDER is in effect, the Bank shall review this plan for adequacy and, based upon such review, shall make necessary revisions to the plan to strengthen liquidity and reduce dependence on potentially volatile funding sources. The initial plan shall include, at a minimum, provisions:

- (1) Establishing a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report;
- (2) Identifying the source and use of borrowed and/or volatile funds;
- (3) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in

amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;

- (4) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (5) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs; and
- (6) Addressing the use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for reasonable maturities commensurate with the use of the borrowed funds; addressing concentration of funding sources; and addressing pricing and collateral requirements with specific allowable funding channels (i.e., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings).

(b) Within 60 days after reviewing and revising the plan as necessary, the Bank shall adopt the plan, which adoption shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement the plan.

MANAGEMENT

13. (a) The Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

- (1) Comply with the requirements of the ORDER;
- (2) Operate the Bank in a safe and sound manner;
- (3) Comply with applicable laws and regulations; and
- (4) Restore all aspects of the Bank to a safe and sound condition, including improving the Bank's asset quality, capital adequacy, earnings, management effectiveness, liquidity, and its sensitivity to market risk.

(b) While this ORDER is in effect, the Bank shall notify the Regional Director and the Commissioner in writing of any changes in management. The notification must include the name(s) and background(s) of any replacement personnel and must be provided 60 days prior to the individual(s) assuming the new position(s).

BUSINESS PLAN

14. From the date of this ORDER, the Bank shall not enter into any new line of business without the prior written consent of the Regional Director.

STRATEGIC PLAN

15. (a) Within 120 days after the effective date of this ORDER, the Bank shall review its strategic plan and shall assure that the plan contains an assessment of the Bank's current financial condition and market area and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written strategic plan shall address, at a minimum:

- (1) Strategies for pricing policies and asset/liability management;

- (2) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;
- (3) Goals for reducing problem loans;
- (4) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions;
- (5) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and
- (6) Formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Bank shall submit the strategic plan to the Regional Director and the Commissioner for review and comment. After consideration all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of the Bank's Board meeting. Thereafter, the Bank shall implement and follow the strategic plan.

(d) Within 30 days after the end of each calendar quarter following the effective date of this ORDER, the Bank's Board shall evaluate the Bank's performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Bank's Board meeting at which such evaluation is undertaken.

(e) The strategic plan required by this ORDER shall be revised and submitted to the Regional Director and the Commissioner for review and comment 30 days after the end of each calendar year for which this ORDER is in effect. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after consideration of all such

comments, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of the Bank's Board meeting. Thereafter, the Bank shall implement the revised plan.

SHAREHOLDER NOTIFICATION

16. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

PROGRESS REPORTS

17. Within 30 days after the end of the first calendar quarter following the effective date of this ORDER, and within 30 days after the end of each successive calendar quarter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by the ORDER have been accomplished and the Regional Director has released the Bank in writing from making additional reports.

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC, the State, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

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 the State.

Issued pursuant to delegated authority this 15th day of June 2011.

/s/
Kristie K. Elmquist
Acting Regional Director
Dallas Region
Division of Risk Management Supervision
Federal Deposit Insurance Corporation