

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

COMMONWEALTH OF KENTUCKY

DEPARTMENT OF FINANCIAL INSTITUTIONS

_____	)	
In the Matter of	)	
	)	ORDER TO
BANK OF THE BLUEGRASS & TRUST COMPANY	)	CEASE AND DESIST
LEXINGTON, KENTUCKY	)	
	)	FDIC-08-061b
(Insured State Nonmember Bank)	)	
	)	
_____	)	

Bank Of The Bluegrass & Trust Company, Lexington, 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 286.3-690 of the Kentucky Revised Statutes, Ky. Rev. Stat. Ann. § 286.3-690 (Michie 2006), regarding hearings before the Department of Financial Institutions for the Commonwealth of Kentucky ("KDFI"), 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 KDFI, dated July 8, 2008, 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 KDFI.

The FDIC and KDFI 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 KDFI, 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. Engaging in hazardous lending and lax collection practices, including, but not limited to:

- The failure to obtain proper loan documentation;
- The failure to obtain adequate collateral;
- The failure to establish and monitor collateral margins of secured borrowers;
- The failure to establish and enforce adequate loan repayment programs;

- The failure to obtain current and complete financial information;
- Extending credit with inadequate diversification of portfolio risk;
- Other poor credit administration practices.

B. Operating with an excessive level of adversely classified assets and nonaccrual loans.

C. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

D. Operating with a board of directors which has failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices.

E. Operating with inadequate earnings.

F. Operating with an inadequate allowance for loans and lease losses for the volume, kind and quality of loans and leases held.

G. Operating with inadequate liquidity in light of the Bank's asset and liability mix.

H. Operating with an inadequate level of capital protection for the kind and quality of assets held.

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

REDUCTION OF SUBSTANDARD ASSETS

1. Within 90 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Commissioner of KDFI ("Commissioner") for review and comment a written plan to reduce the Bank's risk position in each asset of \$250,000 or more which is classified "Substandard" or "Doubtful" in the Report of Examination as of December 3, 2007 ("Report").

(a) In developing such plan, the Bank shall, at a minimum:

- (i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and
- (ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) To the extent sufficient financial information cannot be obtained from each borrower, the Bank shall provide to the Regional Director and Commissioner a written statement indicating the identity of the borrower and giving an explanation of why sufficient information could not be obtained.

(c) Such plan shall include, but not be limited to:

- (i) Dollar levels for the reduction of each asset within 12 months from the effective date of this ORDER; and
- (ii) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(d) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; or (3) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC or KDFI.

(e) Within 30 days from the receipt of any comments from the Regional Director or Commissioner, and after considering the comments and revising the plan as necessary, the Bank shall adopt and implement the plan, recording such adoption in the minutes of the applicable board of directors' meeting.

SPECIAL MENTION

2. Within 90 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for "Special Mention" in the Report.

(a) To the extent the deficiencies of any Special Mention loan cannot be corrected within the indicated time frame, the Bank shall provide the Regional Director and Commissioner a written statement indicating the identity of the

borrower and giving an explanation of why the deficiencies could not be corrected.

TECHNICAL EXCEPTIONS

3. Within 90 days from the effective date of this ORDER, the Bank shall correct or eliminate all loan technical exceptions listed in the Report.

(a) To the extent any loan technical exception cannot be corrected or eliminated within the indicated time frame, the Bank shall provide to the Regional Director and Commissioner a written statement indicating the identity of the borrower and giving an explanation of why the technical exceptions could not be corrected or eliminated, or why an acceptable cash flow analysis could not be made.

(b) Prospectively, the Bank shall develop and adopt procedures to assure that:

- (i) All loans are properly documented at origination;
- (ii) Loan proceeds are not disbursed until loan files are complete and accurate; and
- (iii) New and renewed commercial loans are supported by a cash flow analysis, and other new or renewed loans are supported by information demonstrating the borrower's ability to service the debt.

LOAN AMORTIZATION SCHEDULES

4. During the life of this Order, the Bank shall enforce the use of loan amortization schedules, as required by the Bank's Loan Policy including allowed exceptions under the Policy.

(a) In utilizing these schedules, Bank personnel shall, at a minimum:

- (i) Identify the purpose and repayment sources of each loan;
- (ii) Properly structure loans to assure that repayment terms coincide with the loan purpose and repayment source;
- (iii) Enforce the amortization requirements of each loan and monitor the borrower's cash flow; and
- (iv) Establish appropriate repayment schedules for all unsecured loans.

DELINQUENT AND NONACCRUAL LOANS

5. Within 90 days from the effective date of this Order, the Bank shall adopt and implement a written plan for the reduction and collection of delinquent loans.

(a) The plan shall include, but not be limited to, provisions which:

- (i) Prohibit the extension of credit for the payment of interest;

- (ii) Prohibit loan maturity dates from being extended without prior collection of regularly scheduled payments due;
- (iii) Prohibit loan maturity dates from being extended without full collection of interest due; and
- (iv) Establish guidelines for the collection of delinquent and troubled credits.

INTERNAL LOAN REVIEW

6. Within 90 days from the effective date of this ORDER, the Bank shall implement the Bank's internal loan review and grading system to periodically review the Bank's loan portfolio and identify and categorize problem credits.

(a) At a minimum, the implemented loan review/grading system required by this paragraph shall provide for:

- (i) Identification of the overall quality of the loan portfolio;
- (ii) Identification and amount of each delinquent loan;
- (iii) Identification, or grouping, of loans that warrant the special attention of management;
- (iv) For each loan identified, a statement of the amount and an indication of the degree of risk that the loan will not be fully repaid according to its term and the reason(s) why

the particular loan merits special attention;

- (v) Identification of credit and collateral documentation exceptions;
- (vi) Identification and status of each violation of law, rule or regulation;
- (vii) Identification of new and renewed loans made after entering into this Order not in conformance with the Bank's lending policy and exceptions made to the Bank's lending policy;
- (viii) Identification of insider loan transactions; and
- (ix) The creation of a mechanism for reporting, no less than quarterly, to the board of directors on the status of each loan identified and the action(s) taken by management.

(b) A copy of those reports submitted to the board of directors, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be kept with the minutes of the board of directors.

DIRECTORS' LOAN COMMITTEE

7. As of the effective date of this ORDER, the Directors' Loan Committee shall meet at least monthly, and shall be composed of a majority of independent directors. The loan approval hierarchy shall be revised, and approval by a majority of the Directors' Loan Committee shall be required for lending relationships in excess of \$750,000.

(a) The Director's Loan Committee shall, at a minimum, perform the following functions:

- (i) Evaluate, grant and/or approve loans in accordance with the Bank's loan policy. The Director's Loan Committee shall provide a thorough written explanation of any deviations from the loan policy, which explanation shall address how said exceptions are in the Bank's best interest. The written explanation shall be included in the minutes of the corresponding committee meeting.
- (ii) Review and monitor the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" in regulatory examination reports, or that are included on the Bank's internal watch list.

- (iii) Review and give prior written approval for all advances, renewals, or extensions of credit to any borrower or the borrower's related interests when the aggregate volume of credit extended to the borrower and the borrower's related interests exceeds \$750,000; and
- (iv) Maintain written minutes of the committee meetings, including a record of the review and status of the aforementioned loans.

PROHIBITION OF ADDITIONAL CREDIT TO CLASSIFIED BORROWERS

8. As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" so long as such credit remains uncollected.

(a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any renewal for, or additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard," "Doubtful," or is listed for "Special Mention" in the Report, is on the Bank's internal watch list, or is classified in any subsequent review by Bank consultants or regulatory authorities, and remains uncollected, unless prior to such extension of

credit the Directors' Loan Committee has approved the credit based on a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank.

(b) A copy of the statement shall be placed in the appropriate loan file and shall be incorporated in the minutes of the applicable board of directors' meeting.

LOAN POLICY

9. Within 60 days from the effective date of this ORDER, the Bank shall revise the Loan Policies and procedures to adequately address all weaknesses identified in the Report.

(a) Minimally, the Policy shall be revised to include the following:

- (i) Guidelines regarding loan agreements and when restrictive covenants should be established;
- (ii) Guidelines regarding the quality of financial statements obtained from customers (corporate prepared; compiled, reviewed, or audited);
- (iii) Guidelines for a real estate appraisal review program. All loans subject to Part 323 of the FDIC's Rules and Regulations shall be supported by a real estate appraisal or evaluation as required by the regulation. The review process shall

document that each appraisal conforms fully to USPAP guidelines and Part 323 requirements.

- (iv) Guidelines relating to a loan pricing matrix to assure the bank is adequately compensated for the credit risk that is being underwritten.
- (v) Guidelines for reviewing loans that are 90 days or more past due where the loan needs to be placed on nonaccrual status in compliance with the guidelines set forth in the Instructions for the Preparation of Reports of Condition and Income. All accrued, but uncollected interest associated with loans that are placed on nonaccrual shall be eliminated from the Bank's books.
- (vi) Procedures formulated to ensure proper underwriting and monitoring of construction loans. At a minimum, such procedures shall include the following:
 - a) Document the background information of the builder/developer concerning reputation, work and credit experience, and financial statements;

- b) Establish loan agreements that specify the performance of each party during the course of construction;
- c) Ensure written construction inspections are prepared prior to funding draw requests;
- d) Monitor construction costs;
- e) Require appropriate documentation for loans to finance cost overruns; and
- f) Verify that proceeds are used properly to complete the construction or development of the project financed.

(vii) Guidelines regarding the capitalization of interest including:

- a) Prohibition of interest capitalization; and
- b) Prohibition of the origination of unsecured loans to capitalize interest.

LOSS CHARGE-OFF

10. Effective immediately, the Bank shall eliminate from its books, by charge off or collection, all assets classified "Loss" in the Report that have not been previously collected or charged off.

MANAGEMENT

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and Commissioner, who will develop a written analysis and assessment of the Bank's management needs ("Management Study") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and Commissioner with a copy of the proposed engagement letter or contract with the consultant for review. 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. 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; and

- viii. A provision for unrestricted examiner access to workpapers.

MANAGEMENT REVIEW

12. (a) During the life of this ORDER, the Bank shall have and thereafter retain qualified management. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management shall be assessed on their ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Operate the Bank in a safe and sound manner;
- (iii) Comply with applicable laws, rules, and regulations;
- (iv) Comply with board approved policies; and
- (v) Restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, and management effectiveness.

(b) Prior to the addition of any director to the board of directors or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104. For purposes of this ORDER, "director" is defined at Section 303.101(a) of the FDIC Rules and Regulations ("FDIC Rules"), 12

C.F.R. § 303.101(a), and "senior executive officer" is defined at section 303.101(b) of the FDIC Rules, 12 C.F.R. § 303.101.(b), and includes any person identified by the FDIC and KDFI, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank. Further, the Bank shall request and obtain the Commissioner's written approval prior to the addition of any director to the board of directors and the employment of any individual as a senior executive officer.

CONFLICTS OF INTEREST

13. Within 60 days from the effective date of this ORDER, the board of directors shall review the Bank's Conflicts of Interest Policy for adequacy and, based upon this review, shall make all appropriate revisions to the policy necessary to reduce the potential for conflicts of interest.

(a) At a minimum the Bank shall revise the conflicts of interest policy to:

- (i) Preclude all principal shareholders, directors, officers and employees ("bank officials") from directly participating in any transaction with or loan to Bank customers, if the bank official, including a member of his/her immediate family, has a direct or indirect financial interest in the customer or the customer's business. If any

uncertainty exists as to the applicability of this policy to a particular situation, it should be discussed with the Board prior to any action being taken. This prohibition includes originating loans, and voting on credit requests of customers at committee or Board meetings;

- (ii) Require board of director approval for any loan or other transaction in which a bank official, his/her related interests or immediate family members, have any direct or indirect financial interest;
- (iii) Document in the board of director minutes all Bank transactions with which a director has a conflict of interest, and detail actions taken to address or resolve the conflict of interest in the particular transaction; and
- (iv) Require employees to annually attest, in writing, that they have complied with the requirements of the policy.

STRATEGIC PLANNING

14. Within 90 days from the effective date of this ORDER, the Bank shall formulate and adopt a written, realistic and comprehensive, three-year strategic plan. A copy of the plan shall be submitted to the Regional Director and Commissioner for review and comment.

(a) At a minimum, the written strategic plan shall address or contain the following:

- (i) The organization's mission statement;
- (ii) Economic issues of the industry and the market areas served;
- (iii) Internal strengths and weaknesses;
- (iv) Strategies;
- (v) Succession of management;
- (vi) The possible need for additional staff at the management level;
- (vii) Staff training;
- (viii) Financial goals, including, but not limited to target ranges for asset growth, capital adequacy, and earnings performance; and
- (ix) Identification of any new lines of business and new types of lending, as well as the Bank's expertise in these areas.

(b) Within 30 days of receipt of any comment from the Regional Director or Commissioner regarding the plan, and after

considering the comments and revising the plan as necessary, the Bank shall approve and implement the plan, which approval shall be recorded in the minutes of the applicable board of directors' meeting.

BUDGET AND PROFIT PLAN

15. Within 90 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2008. The plans required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(a) The written profit plan shall address or contain, at a minimum: Income forecasts; National and local economic condition forecasts; Funding Strategies; An Appropriate Asset mix; Realistic Growth Objectives; Overhead costs; Personnel expenses; Competitive factors; Legal fees; and Consulting fees.

(b) Within 30 days of receipt of any comment from the Regional Director or Commissioner, and after considering the comments and revising the plan as necessary, the Bank shall approve and implement the plan, which approval shall be recorded in the minutes of the applicable board of directors' meeting.

(c) Within 30 days from the end of each calendar quarter following approval of the profit plan and budget required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(d) Written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

ALLOWANCE FOR LOAN AND LEASE LOSSES (ALLL)

16. As of the effective date of this Order, the Bank shall maintain an adequate ALLL that complies with the requirements of FASB 114 and FASB 5.

(a) The Bank's Board of Directors shall review, on at least a quarterly basis, the adequacy of the Bank's loan valuation reserve and make such entries (charges to operating income) as are necessary to provide a loan valuation reserve that is adequate in light of the condition of the loan portfolio at that time.

(b) In reviewing the adequacy of the loan valuation reserve, consideration shall be given to the volume and severity of adverse loan classifications made at the last FDIC or KDFI examination, the volume of delinquent loans, the results of the Bank's loan review function, the Instructions for the Preparation of Reports of Condition and Income, any growth in

the loan portfolio, and any other factors appropriate under the circumstances. The methodology used to determine the adequacy and any needed adjustments to the reserve shall be reduced to writing and made a part of the minutes of the appropriate board meeting.

ASSET/LIABILITY MANAGEMENT

17. Within 60 days of the effective date of the Order, the Bank shall revise and amend its Asset/Liability Management Policy to address or include, at a minimum, the following:

(a) Periodic review of the deposit structure, including volume and trend of total deposits, maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by trade area competition, caps on large time deposits, public funds, and out-of-area deposits;

(b) Policies and procedures that address funding concentrations in, or excessive reliance on, any single source or type of funding, such as brokered funds, internet deposits, or other similar rate sensitive or credit sensitive deposits;

(c) The methods and procedures for computing the cost of funds, and analyzing marginal funding costs;

(d) Acceptable risk tolerance levels, such as individual and aggregate limits on borrowed funds by type and source, or a minimum limit on the amount of short-term investments; and

(e) Acceptable contingent liquidity planning procedures addressing, at a minimum, the following:

- (i) Assigning responsibilities and decision-making authority;
- (ii) Projecting all significant on- and off-balance sheet fund flows;
- (iii) Matching potential sources and uses of funds;
- (iv) Establishing indicators that alert management to a predetermined level of potential risk;
- (v) Monitoring potential for triggering legal restrictions on brokered deposits;
- (vi) Establishing reporting time frames in a problem liquidity situation;
- (vii) Establishing procedures to ensure funds will meet the overnight cash letter; and
- (viii) Establishing an asset tracking system that monitors which assets are available for pledging or sale;

CAPITAL

18. Within 30 days from the last day of each calendar quarter following the effective date of this ORDER the Bank shall determine from its Report of Condition and Income its level of Tier 1 capital as a percentage of its total assets

("capital ratio") for that calendar quarter. If the capital ratio is less than 8.0 percent, the Bank shall, within 60 days of the date of the required determination, increase its capital ratio to not less than 8.0 percent calculated as of the end of that preceding quarterly period. For purposes of this ORDER, Tier 1 capital and total assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(a) Any such increase in Tier 1 capital may be accomplished by the following:

- (i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325; or
- (ii) The collection of, or recovery on, all or part of the assets classified "Loss" in the Report without loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that portion of the asset which was not charged off as of December 3, 2007, as provided in this ORDER; or
- (iii) The collection in cash of assets previously charged off; or

- (iv) The direct contribution of cash by the directors and/or the shareholders of the Bank; or
- (v) Any other means acceptable to the Regional Director and the Commissioner; or
- (vi) Any combination of the above means.

(b) If all or part of the increase in capital required by this paragraph is to be accomplished by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan to the extent approval of the plan by the shareholders of the Bank is required. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed 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 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 materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C.

20429 and to the Kentucky Department of Financial Institutions, 1025 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601, for their review. Any changes requested to be made in the materials by the FDIC or KDFI shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

(d) The capital ratio analysis required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

DIVIDEND RESTRICTION

19. As of the effective date of this ORDER, the Bank may pay dividends to the Bank's Holding Company, Bluegrass Bancshares, Inc., without prior approval of the Regional

Director and Commissioner only to allow the Holding Company to service existing debt, including but not limited to, trust preferred securities, provided the Bank's capital ratio will remain above the percentage required by Paragraph 18 of this Order after any such dividend payment. Any cash dividend for any reason other than to allow Bluegrass Bancshares, Inc. to service such debt may only be paid upon the prior written consent of the Regional Director and Commissioner.

SENSITIVITY TO MARKET RISK

20. Within 90 days of the effective date of the Order, the Bank shall formulate, adopt, and submit to the Regional Director and Commissioner, a plan to regularly obtain interest rate sensitivity reports. The reports shall document all significant assumptions made, which should be tailored to the Bank's risk characteristics.

(a) Within 60 days of the effective date of this Order, the Bank shall amend its Interest Rate Risk Policy to provide for appropriate risk limits for changes in the economic value of equity.

INFORMATION TECHNOLOGY

21. Within 90 days from the effective date of this ORDER, management shall correct all deficiencies cited in the Information Technology Report of Examination dated December 3, 2007.

(a) To the extent that any cited deficiency cannot be corrected within the indicated time frame, the Bank shall provide the Regional Director and Commissioner a written statement identifying the specific deficiency and giving an explanation of why the deficiency could not be corrected.

DISCLOSURE TO SHAREHOLDERS

22. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with the Bank's notice or proxy statement preceding the Bank's next shareholder meeting. 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 Department 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 or KDFI shall be made prior to dissemination of the description, communication, notice or statement.

PROGRESS REPORTS

23. 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 Commissioner 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 Commissioner have, in writing, released the Bank from making further reports.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be 10 days after its issuance by the FDIC and KDFI.

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 KDFI.

Pursuant to delegated authority.

Dated: July 8th, 2008.

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

Cordell G. Lawrence
Commissioner
Kentucky Department of
Financial Institutions
Commonwealth of Kentucky