FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

COMMONWEALTH OF KENTUCKY

DEPARTMENT OF FINANCIAL INSTITUTIONS

FRANKFORT, KENTUCKY

In the Matter of PEOPLES BANK & TRUST COMPANY OWENTON, KENTUCKY (KENTUCKY CHARTERED INSURED NONMEMBER BANK)	ORDER TO CEASE AND DESIST FDIC-09-331b

Peoples Bank & Trust Company, Owenton, Kentucky ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices 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 ("DFI"), 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 the DFI, dated September 11, 2009, 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 the DFI.

The FDIC and the DFI 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 the DFI, therefore, accepted the CONSENT AGREEMENT and issued the following:

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 regulation:

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

B. 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 and unsound banking practices.

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

D. Engaging in hazardous lending and lax collection practices.

E. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.

F. Operating with an excessive concentration of assets in private label mortgage-backed securities ("PLMBS").

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

H. Operating with inadequate policies to monitor and control asset growth.

I. Operating with inadequate internal routines and controls.

J. Operating with an inadequate funds management policy.

K. Violating laws, rules or regulations.

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

MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Management shall be provided the necessary written authority to implement the

provisions of this ORDER. 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 laws, rules, and regulations; and

(iv) Restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall request and obtain the DFI's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

BOARD PARTICIPATION

2. (a) As of the effective date of this ORDER, the board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the

Bank’s activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, charged off, and recovered loans; liquidity; investment activity and policies; individual committee reports; audit reports; risk management policies and procedures; internal control reviews including management’s responses; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Bank’s board of directors shall have in place a program that will provide for monitoring of the Bank’s compliance with this ORDER.

CAPITAL

3. (a) As of the effective date of the ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets (“capital ratio”) at a minimum of 8.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets (“total risk based capital ratio”) at a minimum of 12.0 percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets,

and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) If, while this ORDER is in effect, the Bank increases capital 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. 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 the DFI 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.

LOSS CHARGE-OFF

4. As of the effective date of this Order the Bank shall charge off from its books and records any loan classified "Loss" in the Report of Examination of May 18, 2009 ("ROE").

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

5. (a) 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” in the ROE, so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit (including any extension of credit for the payment of interest) to, or for the benefit of, any borrower whose loan or other credit has been classified “Substandard” or “Doubtful” in the ROE, and is uncollected unless the Bank’s board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. A copy of the statement shall be signed by each Director, and incorporated in the minutes of the applicable board of directors’ meeting. A copy of the statement shall be placed in the appropriate loan file.

<u>REDUCTION OF DELINQUENCIES AND CLASSIFIED LOANS</u>

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank’s risk position in each loan in excess of $450,000 which is, delinquent (in excess of 60 days) or classified “Substandard” or “Doubtful” in the ROE. The plan shall include, but not be limited to, provisions which:

(i) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;

(ii) Delineate areas of responsibility for loan officers;

(iii) Establish target dollar levels to which the Bank plans to reduce delinquencies and classified loans within 6 and 12 months from the effective date of this ORDER; and

(iv) Provide 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.

(b) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the DFI.

(c) A copy of the plan required by this paragraph shall be submitted to the FDIC Regional Director and DFI.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

LIQUIDITY PLAN

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt a written contingency funding plan ("Liquidity Plan"). The Liquidity Plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, two months, and three months. It shall detail appropriate risk limits, including a target amount for unpledged liquid assets, limitations and criteria for the use of purchased funds, parameters that provide for suitable diversification of funding sources and investments, and limits on contingent liabilities. At a minimum, the Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008.

(b) The revisions to the Bank's Liquidity Plan shall, at a minimum, incorporate the items discussed on pages 1 through 3, and 10 of the ROE.

(c) On each Friday that the Bank is open for business, the Bank shall submit to the FDIC Regional Director and DFI a liquidity analysis report in a format that is acceptable to the FDIC Regional Director and DFI until the board of directors is notified that submission of such report is no longer warranted.

(d) A copy of the plan required by this paragraph shall be submitted to the FDIC Regional Director and DFI.

DIVIDEND RESTRICTION

8. 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 FDIC Regional Director and DFI.

STRATEGIC PLAN

9. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition, market area, and asset growth strategy, and a description of the operating assumptions that form the basis for major projected income and expense components. The written strategic plan shall address, at a minimum:

(i) Strategies to reduce reliance on brokered funds and FHLB borrowings;

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

(iii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) Within 30 days from the end of each calendar quarter following the date on which the strategic plan required by this paragraph 9 is adopted, the Bank's board of directors shall evaluate the Bank's actual 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 board of directors’ meeting at which such evaluation is undertaken.

(c) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a board of directors’ meeting, and the Bank shall implement and adhere to the revised plan.

(d) Copies of the plan and revisions thereto required by this paragraph shall be submitted to the FDIC Regional Director and DFI.

CONCENTRATIONS OF PLMBS

10. (a) Within 60 days from the effective date of this ORDER, the Bank will formulate, adopt and implement a written plan to reduce the concentration of assets in PLMBS. Such plan shall prohibit additional purchases of PLMBS and shall include, but not be limited to:

(i) Levels to which the Bank shall reduce PLMBS concentrations within 6 and 12 months from the effective date of this ORDER; and

(ii) Provision for the submission of monthly written progress reports to the Bank’s board of directors for review and notation in the minutes of the board of directors' meetings.

(b) A copy of the plan required by this paragraph shall be submitted to the FDIC Regional Director and DFI.

OTHER-THAN-TEMPORARY IMPAIRMENT IN PLMBS

11. (a) At least quarterly while this ORDER is in effect, the Bank shall determine the fair value of the PLMBS that it owns. In determining the fair value, the Bank shall obtain pricing information from at least two independent sources for these securities. The Bank also shall determine whether other-than-temporary impairment ("OTTI") exists in these securities, and shall recognize any corresponding losses when such OTTI is determined to exist. The review shall fully document the methodology, source of the fair value estimate, and compliance with the Statement of Financial Accounting Standards Nos. 115 and 157, related FASB Staff Positions ("FSPs"), and other related accounting guidance, including FSP FAS 115-2.

(b) Within 90 days of the date of this ORDER, the Bank shall develop and implement policies and procedures to ensure timely identification and ongoing monitoring of investment securities with a fair value less than amortized cost. Such policies and procedures shall provide for adequate internal audit coverage of investment activities.

(c) The Bank shall reflect any additional credit loss associated with OTTI charges through an earnings charge and reflect such charge in its quarterly Consolidated Reports of Condition and Income.

(d) At least quarterly while this ORDER is in effect, an independent certified public accounting firm shall review the Bank's OTTI analysis.

(e) A copy of the OTTI review and policies and procedures required by this paragraph shall be submitted to the FDIC Regional Director and DFI.

INTERNAL ROUTINE AND CONTROLS

12. (a) Within 90 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a policy for the operation of the Bank in such a manner as to provide adequate internal routine and controls consistent with safe and sound banking practices.

(b) A copy of the policy required by this paragraph shall be submitted to the FDIC Regional Director and DFI.

CORRECTION OF VIOLATIONS

13. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed on pages 12 through 15 of the ROE or provide a written explanation as to why the violations cannot be corrected.

RESTRICTION ON GROWTH

14. During the life of this ORDER, the Bank shall not increase its total assets by more than 5.0 percent per quarter without providing, at least 30 days prior to its implementation, a growth plan to the FDIC Regional Director and DFI. Such growth plan, at a minimum, shall include the funding source to support the projected growth, as well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent of the FDIC Regional Director and DFI. In no event shall the Bank increase its total assets by more than 10.0 percent annually. For the purpose of this paragraph, "total assets" shall be defined as in the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income.

INTERNAL AUDIT

15. (a) Within 90 days from the effective date of this ORDER, the Bank's board of directors shall comply with the Interagency Policy Statement on Internal Audit Function and its Outsourcing. Changes made by the Bank in its audit program as a result of complying with this paragraph shall be recorded in the applicable board of directors' minutes and forwarded to the FDIC Regional Director and DFI.

(b) A copy of the audit program required by this paragraph shall be submitted to the FDIC Regional Director and DFI.

INVESTMENT POLICY/INTEREST RATE RISK

16. (a) Within 60 days from the effective date of this ORDER, and annually thereafter, the Board shall review the Bank's Investment Policy for adequacy and shall make the necessary revisions that, at a minimum, address the exceptions noted on pages 4 to 5, and 10 to 11 of the ROE and are consistent with the Federal Financial Institutions Examination Council's Instructions for Consolidated Reports of Condition and Income, generally accepted accounting principles, and the Bank's loan, liquidity and asset/liability management policies. The Investment Policy shall provide that all investment purchases must be approved by the Investment Committee prior to purchase and reported to the Board on a regular basis.

(b) Within 60 days of the effective date of this Order the Bank shall have procedures for managing the Bank's sensitivity to interest rate risk. The procedures shall comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

(c) A copy of the policy revisions and procedures required by this paragraph shall be submitted to the FDIC Regional Director and DFI.

NOTIFICATION TO SHAREHOLDERS

17. 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; or (2) in conjunction with its 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 DFI for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and the DFI shall be made prior to dissemination of the description, communication, notice or statement.

PROGRESS REPORTS

18. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the FDIC Regional Director and DFI 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.

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

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 in writing by the FDIC and the DFI.

Pursuant to delegated authority.

Dated: September 30, 2009.

/s/	/s/
M. Anthony Lowe Regional Director Chicago Regional Office Federal Deposit Insurance Corporation	Charles A. Vice Commissioner Department of Financial Institutions Commonwealth of Kentucky