

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

COMMONWEALTH OF KENTUCKY

DEPARTMENT OF FINANCIAL INSTITUTIONS

In the Matter of)	ORDER TO CEASE AND DESIST
)	
ALLIANCE BANKING COMPANY)	FDIC-08-223b
WINCHESTER, KENTUCKY)	
)	
(KENTUCKY CHARTERED)	
INSURED NONMEMBER BANK))	

Alliance Banking Company, Winchester, 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 laws, rules, or regulations 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 November

19, 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 laws, rules, or regulations, 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:

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 laws, rules, or regulations:

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

B. 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 enforce adequate loan repayment programs;

- Extending credit with inadequate diversification of risk; and
 - Other poor credit administration practices.
- C. Violating laws, rules, or regulations, including:
- The Commonwealth of Kentucky legal lending limit restrictions as set forth in section 286.3 of the Kentucky Revised Statutes, Ky. Rev. Stat. Ann. § 286.3-280(Michie 1981); and
 - The appraisal requirements of Part 323 of the FDIC Rules and Regulations, 12 C.F.R. Part 323;
- D. Operating with an excessive level of adversely classified loans, delinquent loans, and nonaccrual loans.
- E. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.
- F. Operating with inadequate net interest margins.
- G. Operating with excessive concentrations of credit exposure.
- H. Operating with internal routines and controls weaknesses.
- I. Operating with an inadequate loan policy.
- J. Operating with an inadequate funds management policy.
- K. Operating with management whose practices are

detrimental to the Bank and jeopardize the safety of its deposits.

L. 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 and violation(s) of 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:

LIQUIDITY AND FUNDS MANAGEMENT

1. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop 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 addressing specific actions to be taken to improve asset\liability management practices, reduce reliance on volatile funding sources, and reduce the bank's exposure to changes in interest rates.

(b) Annually thereafter during the life of this ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs.

A copy of the plan and each revision thereof shall also be submitted to the Regional Director and Commissioner upon completion. The initial plan shall include, at a minimum, provisions:

- (i) Establishing a desirable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report;
- (ii) Identifying the source and use of borrowed and/or volatile funds and detailing the specific plans to reduce reliance on these sources;
- (iii) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (iv) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs; and
- (v) Establishing procedures for managing the Bank's sensitivity to interest rate risk which comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996).

(c) Within 30 days from the receipt of all such comments from the Regional Director and Commissioner, and after adoption

of any recommended changes, the Bank shall adopt the plan, which adoption shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the plan.

CAPITAL

2. Within 60 days of the effective date of this ORDER, the Bank shall develop, implement, and adhere to a plan which is acceptable to the Regional Director and Commissioner to address the adequacy of the Bank's capital.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

3. (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" 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 to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard", "Doubtful", or is listed for Special Mention 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 placed in the appropriate loan file and shall be incorporated in the minutes of the applicable board of directors' meeting.

LOAN REVIEW

4. Within 120 days from the effective date of this ORDER, the Bank shall revise, adopt, implement, and adhere to an internal loan review and grading system to periodically review the Bank's loan portfolio and identify and categorize problem credits. At a minimum, the loan review/grading system shall provide for:

(a) Identification of the overall quality of the loan portfolio;

(b) Identification and amount of each delinquent loan;

(c) Identification, or grouping, of loans that warrant the special attention of management;

(d) 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 terms and the reason(s) why the particular loan merits special attention;

(e) Identification of credit and collateral documentation exceptions;

(f) Identification and status of each violation of law, rule, or regulation;

(g) Identification of loans not in conformance with the Bank's lending policy and exceptions to the Bank's lending policy;

(h) Identification of insider loan transactions; and

(i) 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.

ALLOWANCE FOR LOAN AND LEASE LOSSES

5. (a) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or KDFI.

(b) ALLL entries required by this paragraph shall be

made prior to any Tier 1 leverage or total risk based capital determinations required by this ORDER.

(c) While this ORDER is in effect, the Bank shall submit to the Regional Director and Commissioner a copy of all Reports of Condition and Income filed with the FDIC, including those Reports filed pursuant to this paragraph.

REDUCTION OF SUBSTANDARD AND DOUBTFUL ASSETS

6.(a) 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 plan to reduce the Bank's risk position in each asset in excess of \$100,000 which is classified "Substandard" or "Doubtful" in the Joint KDFI and FDIC Report of Examination as of June 16, 2008 ("Joint Report"). 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) Such plan shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce each asset within six months (6) 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.

(c) 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 and KDFI.

(d) Within 30 days from the receipt of any comment from the Regional Director and Commissioner, and after the adoption of any recommended changes, the Bank shall approve the written plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow this written plan.

SPECIAL MENTION/TECHNICAL EXCEPTIONS

7. (a) Within 90 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed on the Assets with Credit Data or Collateral Documentation

Exceptions pages and the loans listed for "Special Mention" in the Joint Report.

(b) To the extent that any of the deficiencies listed on the Assets with Credit Data or Collateral Documentation Exceptions pages or the loans listed for Special Mention in the Joint Report 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.

CONCENTRATIONS OF CREDIT

8. 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 plan to reduce the aggregate of construction, land development, and commercial real estate loan concentrations to not more than 300 percent of the Bank's total Tier 1 capital. Such plan shall prohibit any additional advances that would increase the concentration or create any new concentrations 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. The plan shall include, but not be limited to:

(a) Dollar levels to which the Bank shall reduce the concentration within three and six months from the effective date of this ORDER; and

(b) 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. As used in this paragraph, "reduce" means to collect, sell or charge off loans classified as construction, land development, or commercial real estate.

REDUCTION OF DELINQUENT LOANS

9. 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 plan for the reduction and collection of delinquent loans. The plan shall include, but not be limited to, provisions which:

(a) prohibit the extension of credit for the payment of interest;

(b) establish acceptable guidelines for the collection of delinquent credits;

(c) establish dollar levels to which the Bank shall reduce delinquencies within three and six months from the effective date of this ORDER; and

(d) 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. As used in this paragraph, "reduce" means to collect, sell or charge off such loans.

(e) Within 30 days from receipt of any comment from the Regional Director and Commissioner, and after the adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

LOAN POLICY

10. (a) Within 90 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policy necessary to strengthen lending procedures and abate additional loan deterioration. The revised written loan policy shall be submitted to the Regional Director and Commissioner for review and comment upon its completion.

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

- (i) Establishing review and monitoring procedures for compliance with the FDIC's regulation on appraisals, 12 C.F.R. Part 323;
- (ii) Establishing review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy;
- (iii) Requiring that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests; have a clearly defined and stated purpose; and have a predetermined and realistic repayment source and schedule. Credit information and collateral documentation shall include current financial information, profit and loss statements or copies of tax returns,

- and cash flow projections, and shall be maintained throughout the term of the loan;
- (iv) Requiring the establishment and maintenance of a loan grading system and internal loan watch list;
 - (v) Requiring a nonaccrual policy in accordance with the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income;
 - (vi) Addressing concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;
 - (vii) Establishing standards for extending unsecured credit;
 - (viii) Incorporating collateral valuation requirements, including: (A) maximum loan-to-collateral-value limitations; (B) a requirement that the valuation be completed

prior to a commitment to lend funds; (C) a requirement for periodic updating of valuations; and (D) a requirement that the source of valuations be documented in Bank records; and

- (ix) Requiring that collateral valuations be performed prior to the making of secured extensions of credit, and that periodic collateral valuations be performed for all secured loans listed on the Bank's internal watch list, criticized in any internal or outside audit report of the Bank, or criticized in any regulatory report of examination of the Bank.

(c) Within 30 days from the receipt of any comments from the Regional Director and Commissioner, and after the adoption of any recommended changes, the board of directors shall approve the written loan policy and any subsequent modification thereto, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the amended written loan policy. The Bank shall inform the Regional Director and Commissioner, in writing, of the manner in which it intends to implement this policy and ensure compliance therewith.

MANAGEMENT

11. (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 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 asset quality, capital adequacy, earnings, management effectiveness, and liquidity.

(b) 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 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. Further, 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 also submit to the Commissioner the same information as the Bank submitted to the FDIC and request and obtain the KDFI's written approval.

MANAGEMENT PLAN

12. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") for the purpose of providing qualified management for the Bank.

(b) The Management Plan shall include, at a minimum:

- (i) Identification of both the type and number of officer and staff positions needed to properly manage and supervise the affairs of the bank;
- (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) Evaluation of all Bank officers to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and

restoration and maintenance of the Bank in a safe and sound condition; and

- (iv) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions identified by this paragraph of this ORDER.

(c) The Management Plan shall be submitted to the Regional Director and Commissioner for review and comment upon its completion. Within 30 days from the receipt of any comments from the Regional Director and Commissioner and after the adoption of any recommended changes, the Bank shall approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and/or any subsequent modification.

STRATEGIC PLANNING

13. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and adopt a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain 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:

- (i) Strategies for pricing policies and asset/liability management; and
- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(c) The Bank will submit the strategic plan to the Regional Director and Commissioner or for review and comment. After consideration all such comments, and adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the revised plan.

(d) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, 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.

CORRECTION OF VIOLATIONS AND CONTRAVENTIONS OF POLICY

14. (a) Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulation and contraventions of policy statements listed in the Joint Report.

(b) Within 60 days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, regulations and statements of policy.

INTERNAL ROUTINES AND CONTROLS

15. Within 60 days from the effective date of this ORDER, the Bank shall correct the deficiencies in internal routines and controls which are listed in the Joint Report. Additionally, the Bank shall establish policies to prevent the recurrence of any deficiencies noted.

PROFIT PLANNING

16. (a) Within 60 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 years of 2008, 2009, and 2010. 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.

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

- (i) An identification of the major areas in, and means by which, the board will seek to improve the Bank's operating performance;
- (ii) Realistic and comprehensive budgets;
- (iii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iv) A description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components; and
- (v) Periodic salary review.

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

SHAREHOLDER DISCLOSURE

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; and (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 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.

COMPLIANCE MONITORING

18. (a) 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.

(b) Following the required date of compliance with subparagraph (a) of this paragraph, the Bank's board of directors shall review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled board of directors' meeting.

PROGRESS REPORTS

19. 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.

The effective date of this ORDER shall be 10 calendar 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: December 1, 2008.

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

Charles A. Vice
Commissioner
Department of Financial
Institutions
Commonwealth of Kentucky