

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

COMMONWEALTH OF KENTUCKY
DEPARTMENT OF FINANCIAL INSTITUTIONS

_____)	
In the Matter of)	CONSENT ORDER
)	
PBK BANK, INC.)	
STANFORD, KENTUCKY)	FDIC-10-147b
)	
(STATE CHARTERED)	
INSURED NONMEMBER BANK))	
_____)	

PBK Bank, Inc., Stanford, Kentucky (“Bank”), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law or 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 A CONSENT ORDER (“STIPULATION”) with representatives of the Federal Deposit Insurance Corporation (“FDIC”) and the KDFI dated April 9, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of violations of law or regulation or unsafe or unsound banking practices, the Bank consented to the issuance of a CONSENT ORDER (“ORDER”) by the FDIC and the KDFI.

The FDIC and the KDFI considered the matter and determined that the requirements for issuance of an Order under 12 U. S. C. 1818 (b) and under Ky. Rev. Stat. Ann. § 286.3-690 have been met. The FDIC and the KDFI, therefore, accepted the STIPULATION and HEREBY ORDER, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. (a) Within 120 days from the effective date of this ORDER, the Bank shall have and retain qualified management. At a minimum, such management shall include senior officers with the ability to manage a bank of comparable size and to upgrade a low quality loan portfolio and with an appropriate level of lending, collection, and loan supervision ability for the type and quality of the Bank’s loan portfolio. Such persons 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 asset quality, capital adequacy, earnings, management effectiveness, and liquidity.

(b) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC (“Regional Director”) and the Commissioner of KDFI (“Commissioner”) in writing of any changes in any of the Bank’s

directors or senior executive officers. 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) 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.

(c) 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, the Bank shall request and obtain the Commissioner’s written approval prior to the addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

MANAGEMENT PLAN

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

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

- (ii) The responsibilities of the consultant;
- (iii) An identification of the professional standards covering the work to be performed;
- (iv) Identification of the specific procedures to be used when carrying out the work to be performed;
- (v) 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.

(c) The Management Plan shall be developed within 90 days from the effective date of this ORDER. 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.

(d) 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 adhere to the Management Plan and/or any subsequent modification.

CAPITAL

3. (a) 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 leverage capital as a percentage of its total assets ("capital ratio") and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") for that calendar quarter. If the capital ratio is less than 8.0 percent or its total risk based capital ratio is less than 12.0 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 and its total risk based capital ratio to not less than 12.0 percent, calculated as of the end of that preceding quarterly period. For purposes of this ORDER,

Tier 1 capital, qualifying total capital, total risk-weighted assets, 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.

(b) Any such increase in Tier 1 capital or total qualifying 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 the effective date 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 shareholder of the Bank; or
- (v) Any other means acceptable to the Regional Director and the Commissioner; or
- (vi) Any combination of the above means.

(c) 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.

(d) 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.

(e) 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.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

4. 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:

- (a) has been charged off the books of the Bank or classified “Loss” in the Report of Examination dated October 26, 2009 (“Report”), or in any subsequent review by the Bank’s consultants or by a regulatory body so long as such credit remains uncollected.
- (b) has been classified “Substandard,” “Doubtful,” or is listed for “Special Mention” in the Report, on the Bank’s internal watch list, or in any subsequent review by the Bank’s consultant or by a regulatory body 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, including a thorough financial analysis gauging the borrower’s financial condition and overall ability to service the existing and new debt, shall be placed in the appropriate loan file and shall be

incorporated in the minutes of the applicable board of directors' meeting.

LOSS CHARGE-OFF

5. As of the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the Report that have not been previously collected or charged off. Any such charged-off asset shall not be rebooked without the prior written consent of the Regional Director and Commissioner. Elimination or reduction of these assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph.

ALLOWANCE FOR LOAN AND LEASE LOSSES

6. (a) Within 30 days from the effective date of this ORDER, the Bank shall replenish its allowance for loan and lease losses ("ALLL") by making a provision of at least \$645,000.

(b) Within 30 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC and filed by the Bank subsequent to October 26, 2009 but prior to the effective date of this ORDER, shall be amended and re-filed if they do not reflect a provision for loan and lease losses and an ALLL which are adequate considering the condition of the Bank's loan portfolio, and which, at a minimum, incorporate the adjustments required by this paragraph.

(c) 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.

REDUCTION OF SUBSTANDARD ASSETS

7. (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 (loans and other real estate parcels) in excess of \$100,000 which is classified "Substandard" in the 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 180 days 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 KDFI or FDIC.

(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 the next board of directors’ meeting. Thereafter, the Bank shall implement and adhere to this written plan.

SPECIAL MENTION/TECHNICAL EXCEPTIONS

8. Within 90 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed on the Items Listed for Special Mention pages in the Report or identified as Technical Exceptions during the examination.

To the extent any deficiencies listed on the Assets with Credit Data or Collateral documentation Exceptions of the loans listed for “Special Mention” in the Report 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 exceptions could not be corrected or eliminated.

LOAN GRADING

9. 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 cited in the Report relating to any loan;
- (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.

REDUCTION OF DELINQUENCIES

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

- (i) Prohibit the extension of credit for the payment of interest;
- (ii) Delineate areas of responsibility for ensuring the delinquent status of loans is properly calculated;
- (iii) Establish acceptable guidelines for the collection of delinquent credits; and
- (iv) Provide for the submission of monthly written progress reports to the Bank's board of directors for review and notation in the minutes of the meetings of the board of directors.

(b) 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 the next board of directors' meeting. Thereafter, the Bank shall implement and adhere to the plan.

LOAN POLICY

11. (a) Within 60 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 formal training of lending personnel to ensure their ability to fulfill all responsibilities for their positions;
- (iv) Evaluating and establishing the portfolio composition with regard to commercial, real estate, and consumer and other loans;
- (v) Establishing Commercial Real Estate underwriting procedures that address: maximum loan amount by type of property; loan terms; pricing structures; collateral valuation; LTV limits by property type; requirements for feasibility studies and sensitivity analysis or stress testing; minimum investment and maintenance of equity of the borrower and minimum standards for borrower net worth,

property cash flow, and debt service coverage for the property

- (vi) 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;
- (vii) Establishing dollar levels for unsecured lending;
- (viii) Requiring the establishment and maintenance of an internal loan watch list;
- (ix) Requiring a nonaccrual policy in accordance with the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income;
- (x) Requiring accurate reporting of past due loans to the board of directors and within the Consolidated Reports of Condition and Income;

- (xi) Requiring that collateral appraisals be completed 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; and
- (xii) Prohibiting advancement of loan due dates except through the full collection of principal and interest when due.

(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 the next board of directors' meeting. Thereafter, the Bank shall implement and adhere to the amended written loan policy.

CORRECTION OF VIOLATIONS

12. Within 90 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 Report.

PROFIT PLANNING

13. (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 2010, 2011, and 2012. 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.

STRATEGIC PLANNING

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

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

- (i) The Bank's mission statement;
- (ii) Economic issues of the industry and the market areas served;
- (iii) Internal strengths and weaknesses;
- (iv) Strategies to improve earnings;
- (v) Staff training;
- (vi) Financial goals, including, but not limited to target ranges for asset growth, capital adequacy, and earnings performance; and

- (vii) Identification of any new lines of business and new types of lending, as well as the Board's expertise in these areas.

INTERNAL ROUTINES

15. Within 90 days from the effective date of this ORDER, the Bank shall correct the deficiencies in internal routines and controls which are listed in the Report.

LIQUIDITY AND FUNDS MANAGEMENT

16. Within 60 days from the effective date of this ORDER, the Bank shall develop and submit to the Commissioner and the Regional Director for review and comment a written liquidity contingency plan in addition to a 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.

DIVIDEND RESTRICTION

17. While this ORDER is in effect, the Bank shall not declare or pay any dividends or make any other payment to or for the benefit of its holding company without the prior written approval of the Regional Director and Commissioner.

DISCLOSURE TO SHAREHOLDERS

18. 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 and KDFI shall be made prior to dissemination of the description, communication, notice or statement.

COMPLIANCE WITH ORDER

19. (a) Within 60 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

20. (a) 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.

This ORDER shall be effective upon its issuance by the FDIC and the 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: April 19, 2010.

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

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