

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

COMMONWEALTH OF KENTUCKY

DEPARTMENT OF FINANCIAL INSTITUTIONS

FRANKFORT, KENTUCKY

In the Matter of)	
)	
TOWN & COUNTRY BANK AND TRUST COMPANY)	CONSENT ORDER
BARDSTOWN, KENTUCKY)	FDIC-10-560b
)	
(KENTUCKY CHARTERED)	
INSURED NONMEMBER BANK))	
)	

Town & Country Bank and Trust Company ("Bank"), Bardstown, Kentucky, 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. Section 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 October 4, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices, and without admitting or denying any violations of law, rule, or regulation, the Bank has consented to the issuance of this CONSENT ORDER ("ORDER") by the FDIC and the KDFI.

The FDIC and the KDFI considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and section 286.3-690 of the Kentucky Revised Statutes, KY. Rev. Stat. Ann. § 286.3-690 (Michie 2006), have been satisfied, the FDIC and KDFI 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) While this ORDER is in effect, 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. 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, earnings, 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 written approval of the Commissioner of the KDFI ("Commissioner"). 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).

MANAGEMENT PLAN

2. (a) Within 30 days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director of the FDIC's Chicago Region ("Regional Director") and the 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 the Commissioner with a copy of the proposed engagement letter or contract with the independent third party for review.

(c) The Management Study shall be developed within 60 days from the effective date of this ORDER. The Management Study shall include, at a minimum:

- (i) identification of both the type and number of officer 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 and senior staff members 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;
- (iv) evaluation of all Bank officers' compensation, including salaries, director fees, and other benefits; and
- (v) 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) Within 30 days after receipt of the Management Study the Bank shall formulate a plan to implement the recommendations of the Management Study.

(e) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Commissioner.

LOSS CHARGE-OFF

3. 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 Joint FDIC and KDFI Report of Examination as of March 31, 2010 ("Report") that have not been previously collected or charged off. 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.

DIVIDEND RESTRICTION

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

CAPITAL

5. (a) By December 31, 2010, 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 8.5 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk-based capital ratio") at a minimum of 11.5 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) By March 31, 2011, the Bank shall increase and thereafter maintain its Tier 1 Capital at a minimum of 9% and its Risk-Based Capital at a minimum of 12%.

(c) 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 Charles A. Vice, Commissioner of Banking, Commonwealth of Kentucky Department of Financial Institutions, for their review. Any changes requested to be made in the materials by the FDIC or the 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.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

6. (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 Report, 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 in the Report, 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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

7. (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 asset in excess of \$500,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the Report. The plan shall include, but not be limited to, provisions which:

- (i) prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;
- (ii) provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;
- (iii) delineate areas of responsibility for loan officers;
- (iv) establish target dollar levels to which the Bank plans to reduce delinquencies and classified

assets within 6 and 12 months from the effective date of this ORDER; and

- (v) 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 KDFI.

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

REDUCTION OF CONCENTRATIONS

8. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt and implement a written plan to reduce the construction and development loan concentration of credit and the total commercial real estate loan concentration of credit identified in the Report to not more than 100 percent and 300 percent, respectively, of the Bank's total capital. Such plan

shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

- (i) Target dollar levels to which the Bank plans to reduce each concentration within 6 and 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. As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell participations in; or (4) diversify the obligations of individuals through facilitation of the sale of assets to other borrowers.

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

SPECIAL MENTION LOANS

9. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for "Special Mention" in the Report.

TECHNICAL EXCEPTIONS

10. Within 60 days from the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the Report.

LOAN POLICY

11. (a) Within sixty (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.

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

- (i) Establish review and monitoring procedures for compliance with the FDIC's regulation on appraisals, 12 C.F.R. Part 323;

- (ii) Designate the Bank's normal trade area;
- (iii) Establish 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;
- (iv) Require a nonaccrual policy in accordance with the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income;
- (v) Require accurate reporting of past due loans to the loan committee on at least a monthly basis;
- (vi) Require strict guidelines and review of out-of-territory loans which, at a minimum, shall include complete credit documentation, approval by a majority of the board of directors

prior to disbursement of funds,
documentation of Bank expertise in
the management of the loan or
product, and a detailed written
explanation of why the loan is in
the best interest of the Bank;

(vii) Establish standards for initiating
collection efforts;

(viii) Prohibit the payment of any loan
through the use of overdrafts.

(c) 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.

(d) A copy of the Policy required by this
Paragraph shall be submitted to the Regional Director and
Commissioner.

LOAN REVIEW AND GRADING SYSTEM

12. Within sixty (60) days from the date of this
ORDER, the Bank shall implement revised comprehensive loan
grading and review procedures. The procedures shall
require that such loan grading and review will be performed

by a qualified individual. The loan review shall at a minimum:

(a) Require periodic confirmation of the accuracy and completeness of the watch list and all risk grades assigned by the Bank's loan officers;

(b) Identify loans or relationships that warrant special attention of management;

(c) Identify violations of law, rules, or regulations and credit and collateral documentation exceptions and track corrective measures;

(d) Review the bank's application of FASB ASC Subtopic 310-10 (which now supersedes prior FAS 114 guidelines); and

(e) Identify loans not in conformance with the Bank's loan policy.

LENDING AND COLLECTION POLICIES

13. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio.

(b) The revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall incorporate the items discussed in the Report.

(c) Copies of the policies and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Commissioner.

APPRAISAL REVIEW

14. Within 30 days from the effective date of this ORDER, the Bank shall develop a comprehensive 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 the appraisal conforms to USPAP guidelines and Part 323 requirements. The review shall document the reasonableness of market comparables and assumptions used in the appraisal. The review process should be performed by someone independent of the lending function.

LIQUIDITY PLAN

15. (a) Within 60 days of 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. At a minimum, the Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008, as supplemented by FIL-13-2010, and include provisions to address the issues identified in the Report.

(b) The plan required by this paragraph shall be submitted to the Regional Director and the Commissioner.

GROWTH PLAN

16. During the life of this ORDER, the Bank shall not increase its total assets by more than 2 percent during any consecutive three-month period without providing, at least 30 days prior to its implementation, a growth plan to the Regional Director and Commissioner. 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 Regional Director and Commissioner. In no event shall the Bank increase its total assets by more than 8 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.

STRATEGIC PLAN

17. (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 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 loan and deposit pricing policies and asset/liability management;
- (ii) Audit and risk assessment processes, including the review and real estate appraisal processes;
- (iii) Staffing adequacy, particularly in the lending administration area;
- (iv) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings, as well as an outline of steps to be taken to achieve those goals;

(v) An assessment of overall strengths and weaknesses, competitive advantages and disadvantages, and potential limitations on major strategic options.

(c) The Plan required by this Paragraph shall be submitted to the Regional Director and Commissioner.

(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.

(e) The Plan required by this ORDER shall be revised and submitted to the Regional Director and Commissioner for review 30 days prior to the end of each calendar year for which this ORDER is in effect.

CORRECTION OF VIOLATIONS

18. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulation listed in the Report.

(b) Within 30 days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

BUDGET AND PROFIT PLAN

19. (a) Within 30 days from the effective date of this ORDER, the Bank shall formulate adopt and implement a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 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 assumption 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 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) The Plan required by this Paragraph and any subsequent revisions shall be submitted to the Regional Director and Commissioner.

NOTIFICATION TO SHAREHOLDER

20. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy 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.

MONITORING

21. (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.

PROGRESS REPORTS

22. 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 issuance

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and the KDFI.

Pursuant to delegated authority.

Dated: October 8, 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