

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

COMMONWEALTH OF KENTUCKY

DEPARTMENT OF FINANCIAL INSTITUTIONS

FRANKFORT, KENTUCKY

_____)	
In the Matter of)	
)	
UNITED KENTUCKY BANK OF)	CONSENT ORDER
PENDLETON COUNTY, Inc.)	
FALMOUTH, KENTUCKY)	FDIC-11-104b
)	
(KENTUCKY CHARTERED)	
INSURED NONMEMBER BANK))	
_____)	

United Kentucky Bank of Pendleton County, Inc., Falmouth, 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. Section 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 A CONSENT ORDER ("**STIPULATION**") with representatives of the Federal Deposit Insurance Corporation ("**FDIC**") and the DFI, dated February 22,2011, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of a CONSENT ORDER ("**ORDER**") by the FDIC and the DFI.

The FDIC and the DFI considered the matter and determined that they had reason to believe the Bank had engaged in unsafe or unsound banking practices and therefore accepted 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 the DFI **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) As of the effective date of this Order, the Bank shall appoint a manager, acceptable to the FDIC and the DFI, to operate the institution in compliance with this Order until a Senior Executive Officer is approved and appointed, as set forth below.

(b) The name and qualifications of the manager shall be submitted to the Regional Director of the FDIC and the DFI as of the effective date of this Order.

(c) Within thirty (30) days of the effective date of this Order, the Bank shall select a Senior Executive Officer, acceptable to the FDIC and the DFI, to operate the Bank on an ongoing basis. The Bank shall make application and otherwise comply with Section 32 of the Act.

(d) Within thirty (30) days of the effective date of this Order, the Bank shall develop a management succession plan that provides for adequate replacement of senior management in the event of a vacancy.

LIQUIDITY

2. (a) Within five (5) days from the effective date of this ORDER the Bank shall have and thereafter retain a minimum liquidity position of not less than fifteen (15%) percent of Total Assets.

(b) Upon the effective date of this ORDER, the Bank shall monitor and review its liquidity position daily to ensure that the Bank has sufficient liquid assets to meet current and anticipated liquidity needs. The results of the daily reviews shall be presented to the board of directors each month and the results of board review and any actions taken recorded in the minutes.

(c) Upon the effective date of this ORDER, the Bank shall establish and maintain an account relationship with the Federal Reserve Bank of Cleveland to exchange and settle payment transactions through a clearing account balance.

(d) On each day the Bank is open for business during the life of this ORDER it shall submit a liquidity analysis report to the DFI and the Regional Director of the FDIC's Chicago Regional Office ("Regional Director"). The liquidity analysis shall be in a format acceptable to the DFI and the Regional Director.

CAPITAL

3. (a) By March 31, 2011, 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 six (6) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("**total risk based capital ratio**") at a minimum of eight (8) percent. By June 30, 2011, the Bank shall have and maintain its capital ratio at a minimum of eight and one half (8.5) percent and its total risk based capital ratio at a minimum of twelve (12) 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 State and Federal securities laws. Prior to the implementation of the plan and, in any event, not less than twenty (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 ten (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.

4. (a) By March 15, 2011, the Bank shall develop and adopt a written capital plan ("Capital Plan") to meet and maintain the capital requirements of this Order and to comply with the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A. The Capital Plan must be approved by the Regional Director and the DFI.

(b) The Capital Plan shall include a contingency plan ("the Contingency Plan") to merge the Bank with and into an insured depository institution acceptable to the Regional Director and the DFI, or to sell the Bank to an acquirer acceptable to the Regional Director and the DFI. The Bank's Board of Directors shall implement the Contingency Plan if the Bank has not achieved capital levels in compliance with this Order. The Bank's Board of Directors shall provide the Regional Director and the DFI with a copy of any definitive agreement to

merge or sell not later than 5 days after entering such an agreement.

DIVIDENDS

5. 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 the DFI.

FORENSIC AUDIT

6. (a) Within fifteen (15) days from the effective date of this ORDER, the Bank shall retain an independent third party forensic auditor acceptable to the Regional Director and the DFI, who will examine the accounts and lending activities of officers and employees of the bank from beginning January 1, 2006 to the effective date of this ORDER.

(b) The Bank shall provide the Regional Director and the DFI with a copy of the proposed engagement letter or contract with the independent third party forensic auditor for review.

(c) The Forensic Audit shall be completed within 90 days from the effective date of this ORDER.

(d) Within sixty (60) days after receipt of the completed Forensic Audit the Bank shall implement and enforce an effective system of internal controls, consistent with the findings of the external Forensic Audit.

(e) The Forensic Audit required by this paragraph shall be submitted to the Regional Director and the DFI for review and comment. Within 30 days of receipt of any comments from the Regional Director and the DFI the Bank shall incorporate any changes required by the Regional Director and the DFI and thereafter adopt, implement, and adhere to the recommendations of the Forensic Audit.

PROGRESS REPORTS

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

SHAREHOLDER NOTIFICATION

8. 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 of proxy statement preceding the Bank's next shareholder meeting.

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

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 DFI and the FDIC.

Pursuant to delegated authority.

Dated: March 16, 2011.

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

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