

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

COMMONWEALTH OF KENTUCKY

DEPARTMENT OF FINANCIAL INSTITUTIONS

FRANKFORT, KENTUCKY

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In the Matter of	)	
	)	
ALLIANCE BANKING COMPANY	)	CONSENT ORDER
WINCHESTER, KENTUCKY	)	FDIC-10-847b
	)	
(KENTUCKY CHARTERED	)	
INSURED NONMEMBER BANK)	)	
	)	

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Alliance Banking Company ("Bank"), Winchester, 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 February 1, 2011, 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 concurrently with the termination of the Cease and Desist Order previously issued 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 90 days from the effective date of this ORDER, the Bank shall develop a written analysis and assessment of the Bank's management needs ("Management Plan") for the purpose of providing qualified management for the Bank.

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

- (i) an assessment of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
- (ii) confirmation that Bank committees are adequate 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.

(c) A copy of the Management Plan required by this paragraph shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion. Within 30 days from the receipt of any comments from the Regional Director and the 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.

LOSS CHARGE-OFF

3. (a) 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 July 26, 2010 ("Report") that have not been previously collected or charged off.

(b) Thereafter, during the life of this Order, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in any subsequent Report of Examination, before the filing of the next quarterly Report of Condition and Income following such Report of Examination.

(c) Elimination or reduction of assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph.

DIVIDEND RESTRICTION

4. During the life 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) As of the effective date of this 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 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 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 capital ratio at a minimum of 8.5 percent and its total risk-based capital ratio at a minimum of 12.5 percent.

(c) By June 30, 2011, the Bank shall increase and thereafter maintain its capital ratio at a minimum of 9

percent and its total risk-based capital ratio at a minimum of 13 percent.

(d) 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.

(e) 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) During the life 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) During the life 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, or is past due 90 or more days, 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, to the extent it has not already done so, adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset relationship in excess of \$100,000 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) The Bank shall, to the extent it has not already done so, submit a copy of the plan required by this paragraph to the Regional Director and the Commissioner.

#### TECHNICAL EXCEPTIONS

8. Within 90 days from the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the Report.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

9. (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 allowance for loan and lease losses ("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 capital determinations required by this ORDER.

ASSET/LIABILITY MANAGEMENT

10. The Bank shall maintain the written plan addressing liquidity, the Bank's relationship of volatile liabilities to temporary investments and rate sensitivity objectives that it has developed and submitted to the Regional Director and the Commissioner in accordance with this paragraph. Annually 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 each revision of the plan shall be submitted to the Regional Director and the Commissioner upon completion. The plan required by this paragraph shall continue to include, at a minimum, provisions:

- (i) The maintenance of 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;
- (iii) Establishing appropriate lines of credit as are possible at correspondent banks, including the Federal Reserve Bank of Cleveland, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;
- (iv) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;
- (v) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;

- (vi) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (vii) Addressing the proper use of borrowings (*i.e.*, seasonal credit needs, match funding mortgage loans, etc.) and providing for appropriate tenor commensurate with the use of the borrowed funds, addressing concentration of funding sources, pricing and collateral requirements with specific allowable funding channels identified (*i.e.*, brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings); and
- (viii) 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), and the Joint Supervisory Statement on Investment Securities and End-user

Derivative Activities (April 23,  
1998).

PROFIT PLANNING AND BUDGET

11. (a) Within 45 days from the effective date of this ORDER, the Bank shall formulate, adopt, implement and submit to the Regional Director and Commissioner for review a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years of 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:

An identification of the major areas in, and means by which, the board will seek to improve the Bank's operating performance;

- (i) Realistic and comprehensive budgets;
- (ii) A budget review process to monitor the income and expenses of the Bank to



compare actual figures with budgetary projections;

(iii) 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 within 30 days of the end of each year.

#### STRATEGIC PLAN

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

(c) Within 30 days from the end of each calendar quarter following the adoption of the plan required by this paragraph, 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.

(d) The plan required by this ORDER shall be revised and submitted to the Regional Director and Commissioner for review annually at least 30 days prior to the end of each calendar year following adoption of the plan for which this ORDER is in effect.

CORRECTION OF VIOLATIONS AND CONTRAVENTIONS OF POLICY

13. Within 30 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. 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.

NOTIFICATION TO SHAREHOLDER

14. Following the effective date of this ORDER, the Bank shall send to its shareholder 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 outline this Order in all material respects.

#### MONITORING

15. During the life of this Order, the Bank's board of directors shall maintain a program that will provide for monitoring of the Bank's compliance with this ORDER.

#### PROGRESS REPORTS

16. 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: March 18, 2011.

\_\_\_\_\_/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