

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)	
In the Matter of)	
)	
BLUEGRASS COMMUNITY BANK)	CONSENT ORDER
DANVILLE, KENTUCKY)	
)	FDIC-10-279b
(State Chartered)	
Insured Nonmember Bank))	
_____)	

Bluegrass Community Bank, Danville, 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 regulation related to its compliance management system 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 having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated February 9, 2011, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law or regulation relating to its compliance management system as set forth in the FDIC's Compliance Report of Examination of the Bank ("Report") as of February 22, 2010,

the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC.

The FDIC considered the matter and decided to accept this STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC HEREBY ORDERS 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:

BOARD OVERSIGHT

1. From the effective date of this ORDER, the Bank's board of directors ("Board") shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's compliance management activities consistent with the role and expertise commonly expected for directors of banks of comparable size and risk profile.

(a) Within sixty (60) days from the effective date of this ORDER, the Bank's Board shall appoint a compliance committee ("Compliance Committee") that shall include at least two (2) directors who are not active officers of the Bank and at

least one (1) member of senior management, plus the Compliance Officer retained pursuant to this ORDER.

(b) The existence of the Compliance Committee in no way diminishes the responsibility of the entire Board for ensuring compliance with the provisions of this ORDER.

(c) The Bank's Board, in conjunction with the Compliance Committee, shall allocate resources to the compliance area that are:

- (i) commensurate with the level of complexity of the Bank's operations to ensure the establishment and implementation of an adequate compliance management system ("Compliance Management System") as described in the FDIC's Compliance Examination Manual, Sections II-2.1 through II-2.4 ("Compliance Management System Guidance"), including procedures ensuring the Bank's compliance with applicable federal consumer protection and compliance laws and regulations relating to financial transactions and services ("Consumer Laws"); and

(ii) sufficient to ensure the Bank's timely compliance with the provisions of this ORDER.

(d) The Bank's Board shall ensure that the Compliance Officer:

(i) has and retains sufficient authority and independence to implement policies related to Consumer Laws and to institute corrective action as needed. This authority shall include the ability to cross departmental lines, have access to all areas of the Bank's operations, and effectuate corrective action upon discovering deficiencies.

(ii) receives ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the Bank's Compliance Management System.

(e) The Bank's Board, in conjunction with the Compliance Committee, shall:

(i) ensure that the duties and responsibilities of the Compliance Officer are clearly defined and provide

for accessibility to both the Board and senior management;

- (ii) require that the Compliance Officer prepare monthly written reports on all aspects of the Compliance Management System and present the reports to the Board;
- (iii) require that the Compliance Officer review and respond promptly in writing to audit reports relating to all areas of the Bank's Compliance Management System; and
- (iv) require that the Compliance Officer prepare a schedule of requirements for Consumer Laws (such as the type and timing of disclosures), so that Bank employees will be informed of the requirements relating to their duties.

(f) Within sixty (60) days from the effective date of this ORDER, the Bank's Board shall have in place a procedure that will provide for monitoring of the Bank's compliance with this ORDER.

- (i) The procedure shall include, but not be limited to, meetings to be held no less

frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: minutes of the Compliance Committee, Compliance Officer reports, Compliance Management Program audit reports, compliance program policies, and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(ii) The Compliance Committee shall report to the Board at each monthly Board meeting held while the ORDER is in effect. The minutes of the Compliance Committee shall be reviewed by the Board at its monthly meeting, and the minutes of the Board shall document these reviews and approvals, including the names of any dissenting directors.

(iii) All progress reports and other written responses to this ORDER shall be reviewed and signed by each member of the Board, and such reviews shall be recorded in the minutes of the applicable Board meeting.

Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") has released, in writing, the Bank from making additional reports.

(g) The Board shall ensure proper and timely follow-up and resolution to audit and examination findings indicating need for corrective action.

(h) The Board shall hold employees accountable for following adopted policies, procedures and regulatory requirements related to the Bank's Compliance Management System and shall develop an internal monitoring system of employees' performance to ensure that compliance policies, procedures and regulatory requirements are adequately implemented.

MANAGEMENT

2. (a) While this ORDER is in effect, the Bank shall have and retain management that meets the qualifications set forth in (b) below regarding the Bank's Compliance Management System. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank relating to its Compliance Management System. The Board shall provide each member of

management appropriate written authority to implement the provisions of this ORDER.

(b) 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 in the area of consumer compliance;
- (iii) comply with Consumer Laws; and
- (iv) develop, implement and administer a satisfactory Compliance Management System.

COMPLIANCE OFFICER

3. Within ninety (90) days from the effective date of this ORDER, the Bank shall have and retain a Compliance Officer who possesses the requisite knowledge and experience to administer an effective Compliance Management System.

(a) The responsibilities of the Compliance Officer shall, at a minimum, include:

- (i) developing compliance policies and procedures, and conducting regular reviews to ensure that updates are accomplished as necessary;

- (ii) administering a compliance training program and providing training in Consumer Laws to the Bank's Board, Bank management and employees on a continuing basis; and
- (iii) coordinating responses to consumer complaints.

(b) The ongoing determination of whether the Bank has retained a qualified Compliance Officer within the meaning of this ORDER shall be based upon the continued effectiveness of the Bank in achieving compliance with the requirements of this ORDER and with the Consumer Laws.

COMPLIANCE CONSULTANT

4. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall have and retain a qualified consultant with the requisite knowledge and experience to assist the Bank in developing an effective Compliance Management System and the policies and procedures to administer an effective Compliance Management System.

(b) The Bank shall provide the Regional Director 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 consultant's 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) At a minimum, the Compliance Management System developed with the assistance of the consultant shall address those items described in the Compliance Management System Guidance.

COMPLIANCE POLICY AND PROCEDURES

5. Within ninety (90) days from the effective date of this ORDER, the Bank shall develop and implement a compliance

policy ("Compliance Policy"), acceptable to the Regional Director as determined at subsequent examinations or visitations. At a minimum, this Compliance Policy shall:

(a) require the adoption of a comprehensive compliance program in conformity with the Compliance Management System Guidance, which will be reviewed and approved annually by the Board; and

(b) require the development of internal monitoring procedures.

COMPLIANCE MONITORING

6. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall ensure that effective compliance monitoring procedures are developed and incorporated into the normal activities of every department. The procedures required by this paragraph shall be acceptable to the Regional Director as determined at subsequent examinations or visitations of the Bank. At a minimum, monitoring procedures should include ongoing reviews of:

- (i) Applicable departments;
- (ii) Disclosures and calculations for various loan and deposit products;
- (iii) Document filing and retention procedures;
- (iv) Marketing literature and advertising; and

- (v) An internal compliance communication system that provides updates resulting from revisions to Consumer Laws to Bank appropriate personnel.
- (b) The internal monitoring procedures shall ensure that:
- (i) the Bank's actual practices reflect the Compliance Policy;
 - (ii) all Consumer Laws are being followed;
 - (iii) compliance monitoring procedures are incorporated into the normal activities of every department or operating unit of the Bank; and
 - (iv) reviews are conducted on a regular basis, but not less often than monthly, at the transactional level during the normal daily activities of employees in all operating units of the Bank.

EXTERNAL AUDIT

7. (a) Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall cause an external audit to be conducted to ensure compliance with Consumer Laws. Further, the audit will assess the Bank's Compliance Management

System in conjunction with the Compliance Management System Guidance, and at a minimum, shall:

- (i) define a comprehensive audit scope;
- (ii) identify the number of transactions sampled by category or product type;
- (iii) identify deficiencies;
- (iv) provide descriptions of or suggestions for corrective actions and time frames for correction; and
- (v) establish follow-up procedures to verify that corrective actions were implemented and effective.

(b) Audit findings, deficiencies, and recommendations must be documented in a written report and provided to the Board within ten (10) days after completion of the external audit.

(c) Within thirty (30) days of receipt of the external auditor's written report, the Board shall take action to address the audit findings, correct any deficiencies noted, and implement any recommendations or explain in a writing signed by all Board members, why a particular recommendation has not been implemented.

(d) The Bank shall provide the Regional Director with a copy of the proposed engagement letter with the external

auditor for review before it is executed. The engagement letter, at a minimum, should include:

- (i) a description of the work to be performed under the engagement letter;
- (ii) the responsibilities of the external auditor;
- (iii) an identification of the professional standard 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;
- (viii) a provision for unrestricted examiner access to work papers;
- (ix) a provision stating that the external auditor will present the audit findings directly to the Board.

(e) After receipt of the external audit, the Bank shall, on a quarterly basis, have subsequent external audits conducted. The subsequent audits shall comply with all of the provisions of this paragraph.

(f) The external auditor required by this Paragraph must be independent from the consultant required by the Paragraph of this Order entitled Compliance Consultant.

(g) A copy of any external audit(s) received by the Bank shall be submitted to the Regional Director within fifteen (15) days of receipt.

DOCUMENTATION OF AUDIT FINDINGS

8. Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement procedures, acceptable to the Regional Director as determined at subsequent examinations or visitations, to ensure that Bank responses to audit findings, as well as Bank corrective actions in response to audit findings, are documented and reported to the Board.

TRAINING PROGRAM

9. Within ninety (90) days from the effective date of this ORDER, the Bank shall develop a training program related to Consumer Laws, acceptable to the Regional Director as determined at subsequent examinations or visitations, for all Bank

personnel, including senior management and the Board, commensurate with their individual job functions and duties.

CORRECTION OF VIOLATIONS

10. By March 31, 2011, the Bank shall eliminate or correct all violations of Consumer Laws identified in the Report.

DISCLOSURE TO SHAREHOLDERS

11. 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; or (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 Accounting and Securities Disclosure Section 550 17th Street, N.W., Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice or statement.

PROGRESS REPORTS

12. Within thirty (30) days from the end of the first calendar quarter following the effective date of this ORDER, and within thirty (30) days after the end of each successive calendar quarter thereafter, the Bank shall furnish written

