

FEDERAL RESERVE SYSTEM

The Citizens Bank
Batesville, Arkansas

Order Approving the Acquisition and Establishment of a Branch

The Citizens Bank (“Citizens Bank”),¹ a state member bank, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act² (the “Bank Merger Act”) to purchase the assets and assume the liabilities of the Cave City branch (“Branch”) of First National Bank and Trust Company (“First National Bank”), Mountain Home, Arkansas.³ Citizens Bank also has requested the Board’s approval to operate Branch as a branch of Citizens Bank pursuant to section 9 of the Federal Reserve Act (“FRA”).⁴

Notice of the proposal, affording interested persons an opportunity to submit comments, has been given in accordance with the Bank Merger Act and the Board’s Rules of Procedure.⁵ As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General and relevant banking agencies. The time for filing comments has expired, and the Board has considered the applications and all the facts of record in light of the factors set forth in the Bank Merger Act and section 9 of the FRA.

Citizens Bank, with total consolidated assets of approximately \$418.6 million, is the 24th largest insured depository institution in Arkansas,

¹ Citizens Bank is a wholly owned subsidiary of Citizens Bancshares of Batesville, Inc., also of Batesville, which is a bank holding company within the meaning of the Bank Holding Company Act, 12 U.S.C. § 1842.

² 12 U.S.C. § 1828(c).

³ The branch’s address is 201 South Main Street, Cave City, Arkansas.

⁴ 12 U.S.C. § 321.

⁵ 12 C.F.R. 262.3(b).

controlling deposits of approximately \$301.9 million.⁶ Branch controls deposits of approximately \$7 million. On consummation of the proposal, Citizens Bank would become the 23rd largest insured depository institution in Arkansas, controlling deposits of \$308.9 million, which represent less than 1 percent of total deposits of insured depository institutions in the state.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market.⁷ The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.⁸

Citizens Bank and First National Bank compete directly in the Batesville banking market in Arkansas.⁹ The Board has carefully reviewed the competitive effects of the proposal in this banking market in light of all the facts of record, including the number of competitors that would remain in the market, the relative shares of total deposits in depository institutions in the market (“market deposits”) controlled by Citizens Bank and First National Bank,¹⁰ the concentration

⁶ In this context, depository institutions include commercial banks, savings banks, and savings associations. Deposit and ranking data are as of June 30, 2004. Ranking data are adjusted to reflect merger and acquisition activity through May 6, 2005.

⁷ 12 U.S.C. § 1828(c)(5)(A).

⁸ 12 U.S.C. § 1828(c)(5)(B).

⁹ The Batesville banking market is defined as Independence County and Sharp County south of the Strawberry River.

¹⁰ Deposit and market share data are as of June 30, 2004.

level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),¹¹ and other characteristics of the market.

Although the Batesville banking market would remain highly concentrated on consummation of the proposal, the increase in the post-merger HHI would be consistent with DOJ Guidelines and Board precedent. Citizens Bank is the largest depository institution in the market, controlling approximately \$291.5 million in deposits, which represents approximately 45.6 percent of market deposits.¹² First National is the smallest depository institution in the market, with deposits of approximately \$7 million, which represent approximately 1.1 percent of market deposits. On consummation of the proposal, Citizens Bank would remain the largest depository institution in the market, controlling deposits of approximately \$298.5 million, and its market share would increase by a small percentage to 46.7 percent of market deposits. The HHI would increase by 100 points to 3145, which is consistent with DOJ Guidelines.

The Board also has considered other factors that indicate the proposal is not likely to have a significant effect on competition in the Batesville banking market. Six commercial banking organizations would remain in the market after consummation, including two competitors each with more than 10 percent of

¹¹ Under the DOJ Guidelines, a market is considered highly concentrated if the post-merger HHI is more than 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher than normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

¹² Citizens Bank increased its market share by opening seven de novo branches over a twenty-three-year period.

deposits in the market. In addition, the second largest competitor increased its market share from 14.2 percent to 27.6 percent between 1999 and 2004, while Citizens Bank's market share decreased by four percentage points during the same period.

In addition, several factors indicate that the Batesville banking market is attractive for entry. One of the existing competitors entered the market de novo in February 2005 and another commercial banking organization recently received approval to open a de novo branch in the market. Moreover, Independence County, the main county in the market, experienced above-average population and deposit growth rates relative to the average rates for nonmetropolitan counties in Arkansas between 1996 and 2003, and its per capita income exceeded the averages for nonmetropolitan counties during this period.

The DOJ has reviewed the proposal and advised the Board that consummation of the proposal is not likely to have a significantly adverse competitive effect in the Batesville banking market. The other federal banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposed transaction would not likely result in a significantly adverse effect on competition or on the concentration of banking resources in the Batesville banking market or in any other relevant banking market and that competitive factors are consistent with approval.

Financial and Managerial Considerations

In reviewing the proposal under the Bank Merger Act and section 9 of the FRA, the Board has carefully considered the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has

considered these factors in light of all the facts of record including, among other things, confidential reports of examination and other supervisory information received from the federal and state banking supervisors of Citizens Bank and First National Bank, publicly reported and other financial information, and information provided by Citizens Bank.

In evaluating financial factors in expansion proposals by depository institutions, the Board reviews the financial condition of the institutions involved. In this evaluation, the Board considers a variety of areas, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the applicant on a pro forma basis, including its capital position, asset quality, and earnings prospects and the impact of the proposed funding of the transaction.

Based on its review of these factors, the Board finds that Citizens Bank is well capitalized and would remain so on consummation of the proposal. The Board also finds that Citizens Bank has sufficient financial resources to effect the proposal. The proposed transaction would be funded with cash on hand at Citizens Bank.

The Board also has considered the managerial resources of the institutions involved, including the resources of Citizens Bank on a pro forma basis. The Board has reviewed the examination records of Citizens Bank and First National Bank, including assessments of their management, risk management systems, and operations. In addition, the Board has considered its supervisory experience and that of the other relevant banking supervisory agencies with the institutions and their records of compliance with applicable banking law. The Board also has considered Citizens Bank's plans to integrate Branch and its

proposed management and to implement Citizen Bank's risk management systems at Branch.

Based on all the facts of record, the Board has concluded that the financial and managerial resources and future prospects of the institutions and the other supervisory factors involved are consistent with approval of the proposal.

Convenience and Needs

In acting on the proposal, the Board also must consider its effects on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").¹³ Citizens Bank received a "satisfactory" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of St. Louis, as of November 12, 2003. First National Bank received an "outstanding" rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of November 4, 2002. The Board notes that the proposal would provide Branch's customers with access to a broader array of products and services in expanded service areas, including access to larger branch and ATM networks.

Based on all the facts of record, the Board concludes that the considerations relating to the convenience and needs of the communities to be served and the CRA performance records of the institutions involved are consistent with approval of this proposal.

Establishment of a Branch

Citizens Bank also has applied under section 9 of the FRA to establish a branch at the Cave City location of First National Bank. The Board has assessed the factors it is required to consider when reviewing an application under section 9 of the FRA, including section 208.6 of the Board's Regulation H, which

¹³ 12 U.S.C. § 2901 *et seq.*

implements sections 9(3) and 9(4) of the FRA, and finds those factors to be consistent with approval.¹⁴

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the applications should be, and hereby are, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the Bank Merger Act and the FRA. The Board's approval is specifically conditioned on compliance by Citizens Bank with the conditions imposed in this order, commitments made to the Board in connection with the applications, and receipt of all other regulatory approvals. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law. The transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁵ effective June 2, 2005.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁴ 12 U.S.C. §§ 321 and 322; 12 C.F.R. 208.6(b).

¹⁵ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.