

FEDERAL RESERVE SYSTEM

Farmers Bank & Capital Trust Company
Frankfort, Kentucky

Order Approving the Merger of Banks and the Establishment of Branches

Farmers Bank & Capital Trust Company (“Farmers Bank”), Frankfort, Kentucky, a state member bank, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act¹ (“Bank Merger Act”) to merge with its affiliated banks, United Bank & Trust Company, Versailles (“United Bank”), a state nonmember bank; First Citizens Bank, Elizabethtown, a state member bank; and Citizens Bank of Northern Kentucky, Inc., Newport (“Citizens Bank”), a state nonmember bank, all in Kentucky.² In addition, Farmers Bank has applied under section 9 of the Federal Reserve Act (“FRA”)³ to establish and operate branches at the locations of the main offices and branches of United Bank, First Citizens Bank, and Citizens Bank.

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.⁴ The time for filing comments has expired. The Board has

¹ 12 U.S.C. § 1828(c).

² Farmers Bank, United Bank, First Citizens Bank, and Citizens Bank are wholly owned subsidiaries of Farmers Capital Bank Corporation, Frankfort, Kentucky (“FCBC”).

³ 12 U.S.C. § 321. These branches are listed in the appendix.

⁴ 12 CFR 262.3(b).

considered the application and all comments received in light of the factors set forth in the Bank Merger Act and the FRA.

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.⁵ The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of communities to be served.⁶

Farmers Bank's proposal involves the consolidation of four banks that are affiliates in the same banking organization, and the proposal, therefore, would not lessen competition in any relevant market. The Board has received no objection to the proposal from the other federal banking agencies. Based on the record, the Board concludes that consummation of the proposed transaction would not be likely to result in a significantly adverse effect on competition or the concentration of banking resources in any banking market, and that competitive factors are consistent with approval.

⁵ 12 U.S.C. § 1828(c)(5)(A).

⁶ 12 U.S.C. § 1828(c)(5)(B).

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under the Bank Merger Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved. In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of public and supervisory information regarding capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board consistently considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Farmers Bank is well capitalized and would remain so on consummation of the proposal. United Bank, First Citizens Bank, and Citizens Bank would be merged into

Farmers Bank.⁷ The asset quality, earnings, and liquidity of Farmers Bank are consistent with approval, and Farmers Bank appears to have adequate resources to absorb the costs of the proposal and to complete the integration of the operations of Farmers Bank, United Bank, First Citizens Bank, and Citizens Bank. In addition, future prospects are considered consistent with approval. Based on its review of the record, the Board finds that the organization has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of Farmers Bank, including assessments of its management, risk-management systems, and operations, and has reviewed the examination records of Farmers Bank, United Bank, First Citizens Bank, and Citizens Bank. In addition, the Board has considered its supervisory experiences and those of the FDIC and the banks' record of compliance with applicable banking and anti-money laundering laws. The Board also has considered Farmers Bank's plans for implementing the proposal.

Farmers Bank is considered to be well managed, and its board of directors and senior management have substantial banking experience. Farmers Bank would operate the acquired branches of United Bank, First Citizens Bank, and Citizens Bank under its existing policies and procedures, which are considered to be satisfactory. In

⁷ In addition to United Bank, First Citizens Bank, and Citizens Bank, FCB Services, Inc., Frankfort, Kentucky ("FCB"), a nonbank subsidiary of FCBC, will be merged into Farmers Bank. FCB provides data processing services and related support. The merger of FCB into Farmers Bank is subject to approval under the Bank Merger Act and is being reviewed by the Federal Deposit Insurance Corporation ("FDIC").

addition, Farmers Bank's management has the experience and resources that should allow the combined organization to operate in a safe and sound manner.

Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of Farmers Bank, as well as the records of effectiveness of Farmers Bank, United Bank, First Citizens Bank, and Citizens Bank in combating money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.⁸ In its evaluation of the effect of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act ("CRA"). The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,⁹ and requires the appropriate federal

⁸ 12 U.S.C. § 1828(c)(5)(B).

⁹ 12 U.S.C. § 2901(b).

financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods.¹⁰ In this regard, the federal financial supervisory agencies evaluate the performance of each institution in the context of the bank's product offerings, business strategy, and institutional capacity and constraints.¹¹

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the applicant institution's business model, its marketing and outreach plans, the institution's plans after consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of Farmers Bank, United Bank, First Citizens Bank, and Citizens Bank, the fair lending and compliance records of all four banks, the supervisory views of the FDIC, confidential supervisory information, information provided by Farmers Bank, and the

¹⁰ 12 U.S.C. § 2903.

¹¹ See, e.g., 12 CFR 228.21(b).

public comments received on the proposal.

Public Comment on the Proposal

A commenter on the proposal expressed concern that the products and services of the involved banks might be reduced as a result of the bank merger and that access to physical branches might be diminished. This commenter also expressed concern about the planned change of name of Farmers Bank to United Bank & Capital Trust following the proposed transaction, suggesting the potential for customer confusion.

Response to the Comment

Farmers Bank represents that there will be no change to the product and service offerings of the four banks as a result of the proposed merger and that customers will continue to be able to access physical branches for their banking needs. Farmers Bank also represents that the name change is intended to distinguish Farmers Bank from several competitors with similar names and that adequate notice of the name change was provided to customers of the four banks.

Record of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions, as well as information and views provided by the appropriate federal

supervisors.¹²

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.¹³ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, onsite evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test to evaluate the performance of a small insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's available Home Mortgage Disclosure Act data, automated loan reports, and other reports generated by the institution to assess the institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on the institution's loan-to-deposit ("LTD") ratio, loan originations for sale to the secondary market, lending-related activities in its assessment areas, record of engaging in lending-related activities

¹² See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

¹³ 12 U.S.C. § 2906.

for borrowers of different income levels and businesses and farms of different sizes, geographic distribution of loans, and record of taking action in response to written complaints about its performance. In addition to the lending test, intermediate small institutions, such as Farmers Bank, United Bank, and First Citizens Bank, are also subject to a community development test that evaluates the number and amount of the institution's community development loans and qualified investments, the extent to which the institution provides community development services, and the institution's responsiveness through such activities to community development lending, investment, and service needs.¹⁴

CRA Performance of Farmers Bank

Farmers Bank received an overall rating of "Satisfactory" at its most recent CRA performance examination by the Federal Reserve Bank of St. Louis ("Reserve Bank") in October 2014 ("Farmers Bank Evaluation").¹⁵ Farmers Bank received "Satisfactory" ratings for both the lending test and the community development test.¹⁶

Examiners determined that Farmers Bank's LTD ratio was reasonable given the bank's size, financial condition, and assessment area credit needs. Examiners

¹⁴ See 12 CFR 228.26.

¹⁵ The Farmers Bank Evaluation was conducted using the Interagency CRA Procedures for Intermediate Small Institutions, which consists of the lending and community development tests described above. The Farmers Bank Evaluation reviewed lending data from July 1, 2013, to December 31, 2013, and community development activities from May 7, 2012, to October 27, 2014.

¹⁶ The Farmers Bank Evaluation included reviews of the bank's activities in Franklin, Anderson, Mercer, and Boyle counties, all of which are located in a nonmetropolitan statistical area portion of the state of Kentucky.

found that a majority of Farmers Bank’s loans and other lending-related activities were undertaken in the assessment area. Examiners also found that the geographic distribution of loans reflected reasonable dispersion throughout the assessment area and a reasonable penetration of loans among individuals of different income levels, including LMI individuals, and businesses of different sizes.

Examiners concluded that Farmers Bank’s community development loan and investment record demonstrated adequate responsiveness to the community development needs in its assessment area.

CRA Performance for United Bank

United Bank received an overall rating of “Satisfactory” at its most recent CRA performance examination by the FDIC in July 2015 (“United Bank Evaluation”).¹⁷ United Bank received “Satisfactory” ratings for both the lending test and the community development test.¹⁸

Examiners found United Bank’s LTD ratio to be reasonable given the institution’s size, financial condition, and assessment area credit needs. Examiners noted that a majority of United Bank’s loans and other lending-related activities were made in

¹⁷ The United Bank Evaluation was conducted using the Interagency CRA Procedures for Intermediate Small Institutions, which consists of the lending and community development tests described above. The United Bank Evaluation reviewed lending data from January 1, 2014, to May 31, 2015, and community development activities from July 2, 2012, to July 27, 2015.

¹⁸ The United Bank Evaluation included reviews of the bank’s activities in Fayette, Jessamine, Scott, and Woodford counties, Kentucky, all of which are located in the Lexington-Fayette, Kentucky metropolitan statistical area (“MSA”).

the assessment area. Examiners found that the geographic distribution of loans reflected reasonable dispersion throughout the assessment area, and the distribution of borrowers reflected reasonable penetration of loans among individuals of different income levels, including LMI individuals, and businesses of different sizes.

Examiners concluded that United Bank demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans and qualified investments.

CRA Performance of First Citizens Bank

First Citizens Bank received an overall rating of “Satisfactory” at its most recent CRA performance examination by the Reserve Bank in May 2016 (“First Citizens Bank Evaluation”).¹⁹ First Citizens Bank received “Satisfactory” ratings on the lending test and the community development test.²⁰

Examiners determined that First Citizens Bank’s LTD ratio was reasonable given the bank’s size, financial condition, and assessment area credit needs. Examiners noted that a majority of First Citizens Bank’s loans and other lending-related activities

¹⁹ The First Citizens Bank Evaluation was conducted using the Interagency CRA Procedures for Intermediate Small Institutions, which consists of the lending and community development tests described above. The First Citizens Bank Evaluation reviewed lending data from January 1, 2014, to December 31, 2014, and community development activities from April 16, 2012, to May 9, 2016.

²⁰ The First Citizens Bank Evaluation included reviews of the bank’s activities in Hardin County, Kentucky, which is located in the Elizabethtown-Fort Knox, Kentucky MSA, as well as Bullitt and Jefferson counties, Kentucky, which are located in the Louisville/Jefferson County, Kentucky-Indiana MSA.

were made in the assessment area. Examiners found that the geographic distribution of loans reflected reasonable dispersion throughout the assessment area and a reasonable penetration of loans among individuals of different income levels, including LMI individuals, and businesses of different sizes.

Examiners concluded that First Citizens Bank's community development loan and investment record demonstrated adequate responsiveness to the community development needs in its assessment area.

CRA Performance of Citizens Bank

Citizens Bank received an overall rating of "Satisfactory" at its most recent CRA performance examination by the FDIC in May 2015 ("Citizens Bank Evaluation").²¹ Citizens Bank received a "Satisfactory" rating for the lending test.²²

Examiners found Citizens Bank's LTD ratio to be reasonable given the institution's size, financial condition, and assessment area credit needs. Examiners noted that a majority of Citizens Bank's loans and other lending-related activities were made in the assessment area. Examiners found that the geographic distribution of loans reflected reasonable dispersion throughout the assessment area, and the distribution of borrowers reflected reasonable penetration of loans among individuals of different income levels, including LMI individuals, and businesses of different sizes.

²¹ The Citizens Bank Evaluation was conducted using the Interagency CRA Procedures for Small Institutions, which consists of the lending test described above. The Citizens Bank Evaluation reviewed lending data from January 1, 2014, to December 31, 2014.

²² The Citizens Bank Evaluation included reviews of the bank's activities in Boone, Campbell, and Kenton counties, Kentucky, all of which are located in the Cincinnati-Middleton, Ohio-Kentucky-Indiana MSA.

Additional Information on Convenience and Needs of Communities to Be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits.

Farmers Bank represents that the proposed transaction would provide customers of United Bank, First Citizens Bank, and Citizens Bank with more efficient services and expanded banking access. In addition, the merger would provide increased efficiencies and other savings, particularly in areas of management of personnel and operating expenses, risk management, strategic planning, regulatory compliance, and data processing. Customers of United Bank, First Citizens Bank, and Citizens Bank will continue to have access to existing banking services in each of the communities currently served by these banks, and there would be no change to the accessibility of all of the branches currently operated by those banks and Farmers Bank.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination of the CRA records of the institutions involved, information provided by Farmers Bank, and confidential supervisory information. Based on the Board's assessment of the CRA performance and consumer compliance programs of Farmers Bank, United Bank, First Citizens Bank, and Citizens Bank, its review of examination reports, and its consultations with the FDIC, the Board concludes that the convenience

and needs factor, including the CRA records of the insured depository institutions involved in this transaction, is consistent with approval of the application.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) amended the Bank Merger Act to require the Board to consider a merger proposal’s “risk to the stability of the United States banking or financial system.”²³

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.²⁴ These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution’s

²³ Section 604(f) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1828(c)(5).

²⁴ Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.²⁵

In this case, the Board has considered information relevant to risk to the stability of the United States banking or financial system. The Board generally presumes that a merger that represents a corporate reorganization will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this case.

Based on these and all other facts of record, the Board concludes that considerations relating to financial stability are consistent with approval.

Establishment of Branches

Farmers Bank has applied under section 9 of the FRA to establish branches at the current locations of United Bank, First Citizens Bank, and Citizens Bank, and the Board has considered the factors it is required to consider when reviewing an application under that section.²⁶ Specifically, the Board has considered Farmers Bank's financial condition, management, capital, actions in meeting the convenience and needs of the communities to be served, CRA performance, and investment in bank premises. For the

²⁵ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

²⁶ 12 U.S.C. § 322; 12 CFR 208.6.

reasons discussed in this order, the Board finds those factors to be consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines 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. Approval of the applications is specifically conditioned on compliance by Farmers Bank with all the commitments made in connection with this proposal and the conditions set forth in this order. The commitments and conditions are deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

Acquisition of United Bank, First Citizens Bank, and Citizens Bank may be consummated immediately upon the effective date of this order²⁷ but not later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors,²⁸ effective February 3, 2017.

Margaret McCloskey Shanks (signed)
Margaret McCloskey Shanks
Deputy Secretary of the Board

²⁷ 12 U.S.C. § 1828(c)(6).

²⁸ Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.

Appendix

Branches to Be Acquired by Farmers Bank in Kentucky

1. Branches to Be Acquired from United Bank

100 United Drive, Versailles
146 North Locust Street, Versailles
206 North Grantz Street, Midway
200 East Main Street, Georgetown
100 North Bradford Lane, Georgetown
100 Farmers Bank Drive, Georgetown
3285 Main Street, Stamping Ground
3098 Harrodsburg Road, Lexington
2509 Sir Barton Way, Lexington
201 North Main Street, Nicholasville
995 South Main Street, Nicholasville
986 North Main Street, Nicholasville
106 South Lexington Avenue, Wilmore

2. Branches to Be Acquired from First Citizens Bank

425 West Dixie Avenue, Elizabethtown
3030 Ring Road, Elizabethtown
111 Towne Drive, Elizabethtown
645 South Dixie Boulevard, Radcliff
4810 North Preston Highway, Shepherdsville
157 Eastbrooke Court, Mount Washington

3. Branches to Be Acquired from Citizens Bank

103 Churchill Drive, Newport
7300 Alexandria Pike, Alexandria
164 Fairfield Avenue, Bellevue
8730 U.S. Highway 42, Florence
34 North Fort Thomas Avenue, Fort Thomas
2911 Alexandria Pike, Highland Heights
2774 Town Center Boulevard, Crestview Hills