

**SPECIAL MEETING
OF THE
ARKANSAS STATE BANKING BOARD
DECEMBER 13, 2016**

A Special meeting of the Arkansas State Banking Board was held in the conference room of the Arkansas State Bank Department, 400 Hardin Road, Suite 100, Little Rock, Arkansas, at 10:00 a.m. on December 13, 2016. The following Board Members were present: Vice-Chairman Gary Smith, Elizabeth Bowles, and Randy Scott. Board Members Lana Hampton and Zach McClendon were called by phone and participated in the meeting by conference call. Representing the State Bank Department were Commissioner Candace A. Franks, Deputy Commissioners Luther Guinn and Susannah Marshall, Chief Counsel John Ahlen, Certified Examinations Manager John Ashby, and Research Project Analyst Barbara Mahoney. Lynn LaSalle from Bushman Court Reporting was the recording reporter for the applicants.

Bank Commissioner, Candace A. Franks, called this Special meeting of the State Banking Board. Notice of the Special meeting was sent by regular mail to each member of the State Banking Board on November 8, 2016. The notice was also given to the news media in accordance with state law.

Commissioner Franks opened the meeting. Secretary Luther Guinn declared a quorum was present. Commissioner Franks then asked the visitors and guests to stand and introduce themselves and state who they represent. In attendance were Laura Brissey, Michelle Reesor, Boris Dover, and Dale Cole representing First Community Bank, Batesville, Arkansas; Wade Ruckle and Steve Roberson representing Central Bank, Little Rock, Arkansas. She then turned the meeting over to Vice-Chairman Gary Smith.

First on the agenda was consideration of the Minutes of the October 6, 2016, Special Board Meeting. A motion was made by Randy Scott, seconded by Elizabeth Bowles, to approve the Minutes as presented. Motion carried and the Commissioner concurred.

Next on the agenda was an application by Central Bank, Little Rock, Arkansas, to merge Pinnacle Bank, Rogers, Arkansas, with and into Central Bank, Little Rock, Arkansas. Wade Ruckle, CEO and President of Central Bank, represented and spoke for the application.

Mr. Ruckle stated Pinnacle Bank was formed in 2004, Central Bank was formed in 2007, and about 40 percent of the shareholders at Central have ownership in Pinnacle. Mr. Ruckle stated both banks have the same management, same data processor, same teller and loan platforms, same policies and procedures, offer similar products and services, and use some of the same vendors for loan review, compliance, audit, etc. Mr. Ruckle stated they have been contemplating this transaction for several years and made a run at it in 2009, but the timing was not good with Pinnacle getting a case of the flu, and they kept hitting roadblocks. Mr. Ruckle stated times have changed and they finally found the bottom to Pinnacle's problems, and the area's economy has improved drastically in northwest Arkansas, they have moved a lot of ORE at Pinnacle, and both Pinnacle and Central are stronger financially today than they were in 2009. Mr. Ruckle stated it is no secret Pinnacle still has remnants of the flu, but with this transaction they pretty much get Pinnacle healthy.

Mr. Zach McClendon stated it looks like you have got a bundle of OREO that you will get rid of eventually. Mr. Ruckle stated he would get to that in a second, but wanted to explain the transaction.

Mr. Ruckle stated state law does not permit a bank holding company to merge into a bank except under certain limited situations so they have employed a reverse triangular merger whereby an acquisition sub has been created with a sole purpose to act as a conduit for the transaction. Mr. Ruckle stated Central Bank would end up about \$195 Million bank with no debt and they would repay Pinnacle Bancshares stock loan and subordinated debt of about \$3 Million. Mr. Ruckle stated they would have Tier 1 Capital of about \$18.5 Million, or 9.7 percent, a .8 ROA, and an adversely classified assets ratio of

around 33 percent. Mr. Ruckle stated the directors would remain the same, except none of the Pinnacle or Pinnacle Bancshares directors are being retained, and there will be no staff changes.

Mr. Ruckle stated they run pretty much both banks thin staff wise, but this is going to let them have a little bit better depth and backup with the folks they have got at both banks. Mr. Ruckle stated this transaction basically takes a problem bank off the list. Mr. Ruckle stated that with their real estate market, they waited, and were able to liquidate OREO at prices that were at book or above book. Mr. Ruckle stated they have a lot of synergies putting the two banks together and they are going to get some economies of scale with no longer having two data processing charges, two internal audits, two external audits, two tax returns, two loan reviews, and two compliance reviews.

Mr. Ruckle stated they will increase their banking opportunities within the two markets and since so much time has been spent at Pinnacle basically concentrating on solving problems and getting rid of problem assets that they really haven't gone out and done as good a job as they could have marketing, picking up new business, and new loans. Mr. Ruckle stated he had been doing this for seven years and putting these two banks together is going to make his life a whole lot easier, as he has had two of everything, monthly board meetings and at least two examinations, and by reducing some of the responsibilities, it is going to give him more time to do a lot of the others things he can do to help grow the organizations.

Vice-Chairman Smith asked where did Pinnacle start with their OREO and what was the starting point if you are down to this now. Mr. Ruckle stated at one time over \$22 Million in OREO and over 25 percent of its assets were in OREO or nonearning assets, but through the whole time Pinnacle has been pretty much profitable and once they found the bottom they have been profitable for quite some time. Vice-Chairman Smith asked if half of the OREO had been liquidated. Mr. Ruckle stated yes and they took their first loss

near the end of this year on a commercial building and he was not necessarily in favor of the price, but two other banks were involved, so he went along with it.

Mr. Randy Scott asked what was Central Bank's classified asset ratio. Mr. Ruckle stated 16 percent in two credits and no OREO. Mr. Scott asked what did Pinnacle have left. Mr. Ruckle stated about 125 percent right now and when you recognize the mark to market accounting, the combined ratio will be 33 percent.

A motion was made by Zach McClendon, seconded by Elizabeth Bowles, to approve the application, the motion carried and the Commissioner concurred.

Next on the agenda was an application by First Community Bank, Batesville, Arkansas, to merge Little River Bank, Lepanto, Arkansas, with and into First Community Bank, Batesville, Arkansas. Ms. Laura Brissey, Executive Vice-President of First Community Bank, represented and spoke for the application.

Ms. Brissey stated they thought this opportunity would be a great match for them and they entered the Jonesboro market within the last couple of years and have had tremendous success. Ms. Brissey stated they have a great team in northeast Arkansas and Lepanto is a natural fit. Ms. Brissey stated they started the due diligence process and looked at over 80 percent of the loan portfolio of the only bank in the small town. Ms. Brissey stated Lepanto had a good staff that will remain in place, but they would operate as a branch, use economies of scale, resources, administration, and knowledge out of the Batesville office, and the management team in Jonesboro, and really turn it around. Ms. Brissey stated Lepanto operates at a loss and what they can offer them where IT, loan review, and legal will not be outsourced, can make it a profitable branch.

Ms. Brissey stated Lepanto had quite a different loan to deposit ratio than Batesville, with quite a lot more deposits than loans. Ms. Brissey stated in the transaction they will get the benefit of bargain purchase accounting. Ms. Brissey stated they purchased the bank at a great price and will receive a benefit for 2016 if the transaction is

closed as expected and will realize a gain from the bargain purchase accounting that is a fairly significant gain.

Ms. Brissey stated the Lepanto Board of Directors will be dissolved and First Community Bank Board of Directors will remain the same.

A motion was made by Randy Scott, seconded by Elizabeth Bowles, to approve the application, the motion carried and the Commissioner concurred.

Being no further business, the meeting was adjourned.

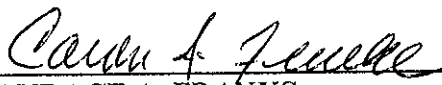


GARY SMITH, VICE-CHAIRMAN
State Banking Board

ATTEST:

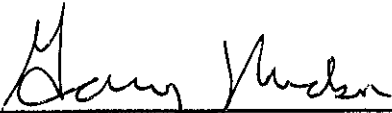


LUTHER GUINN, Secretary
State Banking Board




CANDACE A. FRANKS
Bank Commissioner

Board Members in Attendance:



GARY HUDSON, Chairman
State Banking Board

1-19-17
Date




GARY SMITH, Vice-Chairman
State Banking Board

1-19-17
Date



ZACH McCLEENDON, Member
State Banking Board

1-19-17
Date



ELIZABETH BOWLES, Member
State Banking Board

1/19/2017
Date

LANA HAMPTON, Member
State Banking Board

Date



RANDY SCOTT, Member
State Banking Board

1/19/2017
Date