

**SPECIAL MEETING
OF THE
ARKANSAS STATE BANKING BOARD
May 2, 2019**

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 May 2, 2019. The following Board Members were present: Randy Scott, David Leech, Scott Miller, Ronald Mobley. Todd Smith and Lana Hampton participated via telephone. Representing the State Bank Department were Commissioner Candace A. Franks, Deputy Commissioner Susannah Marshall, Deputy Commissioner and Chief Counsel John Ahlen, Kevin Mosley, Secretary to the Board Cynthia Nixon, Research Analyst Barbara Mahoney, Administrative Analyst Lisa Smith and Lynn LaSalle from Bushman Court Reporting was the recording reporter for the applicants. No media representatives were present.

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 March 26, 2019. The notice was also given to the news media in accordance with state law.

Commissioner Franks opened the meeting and declared a quorum was present. Commissioner Franks recognized Scott Miller as a newly appointed board member. Commissioner Franks then asked the visitors and guests to stand and introduce themselves and state who they represent. Representing The Farmers and Merchants Bank, Stuttgart, Arkansas: Chief Lending Officer Brad Chambliss, General Counsel Lyndsay Carter, President/CEO Gary Hudson. Representing Stone Bank, Mountain View, Arkansas: Randy Dennis, Joshua Dennis with DD&F, Chief Executive Officer Marnie Oldner, Chief Technology and Operations Officer Bruce Upton, President and Chief Lending Officer Nick Roach, Chairman Kevin Compton and Chief Financial Officer Steve Raglan. Chief

Executive Office of DeWitt Bank and Trust Company David Jessup. Kathryn Henry with Arkansas Bureau of Legislative Research was also in attendance.

CHAIRMAN SCOTT: The first item on the agenda was consideration of the Minutes of the February 28, 2019 Special Board Meeting. A motion was made by David Leech, seconded by Ronald Mobley, to approve the Minutes as presented. Motion carried and the Commissioner concurred.

CHAIRMAN SCOTT: Our first application for consideration today is the application by The Farmers and Merchants Bank, Stuttgart, Arkansas, to merge Integrity First Bank, National Association, Mountain Home, Arkansas, with and into The Farmers and Merchants Bank, Stuttgart, Arkansas.

MR. HUDSON: Mr. Chairman, Commissioner, and the rest of the Bank Department, I just want to let you know what a pleasure it is to work with the Bank Department, not only in the role that we are in here today, but as a former member of the board. I think the Bank Department is an excellent example of how the dual banking system is supposed to work. Mr. Pattillo, years ago had the forethought to have us become a member of the Federal Reserve Bank, in the early 1990s. And, of course, we have been a member of the state banking system since January 1, 1945, this next January 1st will actually be our 75th anniversary.

I want to tell the board how much we appreciate you calling a special meeting today to listen to our application. The Farmers and Merchants Bank was formed almost 75 years ago in Stuttgart, during the time of the Second World War, so it was pretty much a bold step for our stockholders to go out and to create a new bank when the war was still going on in two fronts.

We have grown to where we are a little over a billion dollars. We have offices in six Arkansas counties. We have three branches and the main bank in Stuttgart. We have a

large branch in DeWitt. We have a branch in Lee County in Marianna. We have two branches in Prairie County which are in Hazen and Des Arc. We have a branch in Perry County which is Perryville, one in Morrilton which is in Conway County. We operate eight branches under the fictitious name the "Bank of Fayetteville" in Washington County.

We have been in negotiations and visiting with the people at Integrity First Bank. The first contact was made over two years ago. And so it has been an on-going process to put the two entities together. Integrity First Bank is a \$525 million operation located and headquartered in Baxter County, where they operate three other branches, another branch in Mountain Home, small branches in Lakeview and in Gassville. They have one in Marion County at Yellville. They have a large branch in Jonesboro, Craighead County, two in Randolph County in Pocahontas, and single branches in Benton County in Bentonville and one in Fayetteville in Washington County. And so what we want to do is to put those organizations together to where we can form one larger organization. It gives us a larger footprint, and yet we have very little activity where we operate in the same area. The only branch is on Gregg Street in Fayetteville. It is a mile and a half from our closest branch and we have made application to operate that branch as a part of the Bank of Fayetteville. A definitive agreement was signed between the parties on January 15, 2019. A new corporation would be formed, Newco, which would be merged with Mountain Home Bancshares. Then Mountain Home Bancshares would be merged into The Farmers and Merchants Bankshares, Inc., with The Farmers and Merchants Bankshares, Inc. being the survivor.

Also, Integrity First Bank would be merged in with The Farmers and Merchants Bank, and The Farmers and Merchants Bank would be the surviving bank. Therefore, The Farmers and Merchants Bankshares would be the single holding company, and the single entity under the holding company would be The Farmers and Merchants Bank.

The application for the bank merger was filed with the Bank Department and the Federal Reserve Bank of St. Louis on February 28, 2019. The Federal Reserve Bank approved our application to merge the banks on April 4, 2019. The request today will be for the final approval for the corporate entities to go forward, and we would close on May 10, 2019. We would open the branch offices on May 13, 2019, but they would still be under the name of Integrity First Bank. Proper notices will be displayed in all of our lobbies informing customers that Integrity First Bank is now part of The Farmers and Merchants Bank.

There are five things that we need to talk about today as far as statutory requirements. I want to mention those. The proposed transaction provides adequate capital structure after the two banks are merged. There will be at least a 9.32% average Tier 1 leverage ratio. The terms of the transaction are fair. We believe the terms are negotiated by the parties at arm's length. Both parties were represented by outside counsel and by outside investment bankers. Both entities received fairness opinions prior to a definitive agreement being signed, letting us know that we think that it was fair for both parties. Third, the merger is not contrary to the public interest. We are not planning to close any branches. The one branch that we do have that is in the same market, we plan on keeping it and changing the name to the Bank of Fayetteville. We will be providing services and products that Integrity First Bank has not been able to provide and we will be adding a more IT savvy group as well. Integrity First Bank has some products that we are going to use, and we think we will be able to put the two entities together to provide better products and services for customers. Fourth, the proposed transaction adequately provides for dissenters' rights. Integrity First Bank at the stockholders meeting had over a 90 percent approval. They had no stockholders voting against the merger. They had a few people that abstained. The banks are both owned by holding companies, both holding company boards approved the merger, so there were no dissenters in the bank level. The

fifth one is the fact that we believe we have met all the requirements of state and federal laws. We have great representation, great leadership and overview from both regulators. One final thing that I want to mention Integrity First Bank has been named Integrity First Bank for about five years. Prior to that, it was First National Bank of Mountain Home, which means that it was controlled and regulated by the Comptroller of the Currency. Should this proposal go through, this would be adding about \$525 million in assets that would be reviewed by the state banking system and add to our overall system going forward. I have two representatives with me here today, Brad Chambliss and Lyndsay Carter. Brad is our CLO and he has been involved in a lot of the due diligence. Lyndsay has been involved with all HR issues and the legal concepts. If anyone has any questions, we would love to answer them for you.

CHAIRMAN SCOTT: I will open it up to the board for any questions of Mr. Hudson. It looks like a merger of two great banks. It really expands your foothold in the state.

MR. HUDSON: We look forward to it. We have offered opportunities for all employees to stay through at least December 31, 2019 at current salaries. Our biggest task is to keep a community bank culture and to make sure that we let those people represent their communities the way they have been.

CHAIRMAN SCOTT: I will open it up for a motion to approve the application.

MR. MOBLEY: I make a motion to approve the application.

MR. MILLER: Second.

CHAIRMAN SCOTT: Any further discussion? All those in favor, signify by saying "aye."

BOARD MEMBERS: Aye.

CHAIRMAN SCOTT: Anyone opposed?

VICE-CHAIRMAN LEECH: I am abstaining from the vote.

CHAIRMAN SCOTT: One abstaining. The motion carries.

COMMISSIONER FRAKS: Commissioner concurs.

MR. HUDSON: Thank you so much.

COMMISSIONER FRANKS: Congratulations.

MR. HUDSON: Thank you so much.

CHAIRMAN SCOTT: Next is the application by Stone Bank, Mountain View, Arkansas, to merge DeWitt Bank and Trust Company, DeWitt, Arkansas, with and into Stone Bank, Mountain View, Arkansas.

MR. JOSHUA DENNIS: It is hard to follow that presentation, because I'm not nearly as descriptive as Mr. Hudson. We filed an application for merger and consolidation on March 22nd with your office. In conjunction with that, we also filed an interagency bank merger application with the FDIC. We have not received approval from the FDIC at this point. We are expecting the approval anytime. We have answered all questions satisfactorily to the FDIC. Similar to what Gary said, there are five things that must be proven before you will approve the application. The first thing is the merger must provide an adequate capital structure. This merger does. Stone Bank is adequately capitalized currently, and the pro forma projections we have shown that post-merger they will have a common equity Tier 1 of 12.2, leverage of 10.5, and a total risk base of 13.2, so well capitalized on that regard. Second, the terms of the agreement must be fair. The boards of both parties have looked at the agreement and found it to be fair. Third, it must not be contrary to the interest of the public. The fourth item is dissenters' rights must be

addressed. At the time of the merger, Stone Bancshares would be the sole shareholder of both DeWitt Bank and Trust Company and Stone Bank, and we do not foresee any dissenting shareholders. Lastly, all applicable federal and state laws must be complied with. As I mentioned, we have applications with your office, and hopefully we will get approval. The FDIC, we are waiting on their approval after we file their required application. So at this time, I will turn it over to Marnie Oldner, and she can tell you a little more detail about the transaction.

MS. OLDNER: Thank you so much for your oversight and your assistance. We are so happy to be a state-chartered bank at this time. And I am really happy that David Jessup, who is the President and CEO of DeWitt Bank and Trust Company, is here, as well with me, I have our Chief Technology and Operations Officer Bruce Upton; our President and Chief Lending Officer Nick Roach; our Chairman of the bank Kevin Compton and our Chief Financial Officer Steve Raglan. David and I both felt like combined we are a stronger bank than separate. I believe that what DeWitt Bank and Trust Company will do for us is broaden our ag lending in South Arkansas as well as providing trust services for farmers. We are very happy to have him and his team of people to help us with that effort. I think David believes that what we bring to the table, is broader depth of management in the areas of technology with Bruce and his group and a number of other things that size has been able to gain for us. We have been a growth-oriented company for the past four years, and as such, we were looking for our core deposits, which David has a rich group of deposits that we are glad to have blended with ours. We are excited about this transaction and appreciate the board entertaining this today.

CHAIRMAN SCOTT: Any questions from the board?

VICE-CHAIRMAN LEECH: How much experience do you all have in agri lending?

MS. OLDNER: We have a lot in poultry lending, which we have done in the northern half of the state, predominantly. But we also, with our expansion in White Hall, have several ag lenders there and so we have \$65 million of row crop lending that we have done over the last several years. Poultry lending, we have a lot more than that. We have some cattle, as well. So the agricultural market is one that suits Stone Bank very well.

VICE-CHAIRMAN LEECH: Thank you for your response.

CHAIRMAN SCOTT: On the analysis here, it shows a loan-to-deposit ratio post-merger of 80.49%, and then it says one year later 90.40%. Is that because you plan on doing a lot of loan growth?

MS. OLDNER: Yes, we have had about a 53% annual compounded growth rate for the past four years. We have done it by growing in a number of areas, and one is to have expansion into Harrison. We broadened our presence in White Hall. We got into the Little Rock market. So we are doing the more traditional things there. In addition, we have focused on government-guaranteed lending, because we did a lot of that through the poultry lending and cattle to some degree in north Arkansas over the last five years. And so with that expertise that we have, we have also grown now our SBA and USDA lending into other areas, so that diversification. We have added lenders. That has enabled us to expand. On the deposit side, we were looking for a lot more growth in the more traditional blend of core deposits in Harrison and Little Rock, White Hall and in Mountain View and that just is very slow to move. So with that, our cost-of-funds rises, and our margins compress. Obviously, those are concerns. What we have with David is his core deposit base and very low loan-to-deposit ratio. And so over the course of about a year, we will actually pay down some wholesale funds with the advantage we get with that and continue our growth.

CHAIRMAN SCOTT: Any other questions from the board?

CHAIRMAN SCOTT: If not, do I have a motion to approve?

VICE-CHAIRMAN LEECH: So moved.

CHAIRMAN SCOTT: Motion and second?

MR. MOBLEY: Second.

CHAIRMAN SCOTT: Any other discussion? If not, all those in favor, signify by saying "aye."

BOARD MEMBERS: Aye.

CHAIRMAN SCOTT: Anyone opposed? Motion carries.

COMMISSIONER FRANKS: Commissioner concurs.

MS. OLDNER: Thank you.

COMMISSIONER FRANKS: Congratulations.

Next on the agenda is consideration of a proposed Rule concerning Collective Investments Funds. (appended to minutes)

CHAIRMAN SCOTT: It looks like we are striking out about eight or nine pages of rules and replacing it with something much shorter. Is that correct?

JOHN AHLEN: Yes sir, that is generally correct. The current rule was taken nearly verbatim from a federal rule. Since we adopted our rule, the federal rule has been changed and our rule is now in conflict with the new federal rule. We are just deleting the old text of our rule and incorporating the new federal rule by reference.

CHAIRMAN SCOTT: Any questions from the Board? If not, do I have a motion?

VICE-CHAIRMAN LEECH: I make a motion to approve the proposed rule.

TODD SMITH: Second.

CHAIRMAN SCOTT: Any other discussion? If not, all those in favor, signify by saying "aye."

BOARD MEMBERS: Aye.

CHAIRMAN SCOTT: Anyone opposed? Motion carries.

COMMISSIONER FRANKS: Commissioner concurs.

Next on the agenda is recognition of Gary Hudson's ten year service to the Arkansas State Banking Board.

Resolution (appended to minutes) was read by Commissioner Franks recognizing Gary Hudson's service for 10 years to the State Banking Board.

CHAIRMAN SCOTT: Do I have a motion?

VICE-CHAIRMAN LEECH: I make a motion to approve the Resolution.

RONALD MOBLEY: Second.

CHAIRMAN SCOTT: Any other discussion? If not, all those in favor, signify by saying "aye."

BOARD MEMBERS: Aye.

CHAIRMAN SCOTT: Anyone opposed? Motion carries.

COMMISSIONER FRANKS: Commissioner concurs.

Being no further business, a motion was made by Vice-Chairman Leech, seconded by Ronald Mobley, to adjourn the meeting. Motion carried. Commissioner concurred.

Randy Scott

**RANDY SCOTT, Chairman
State Banking Board**

6-27-19

Date

ATTEST:

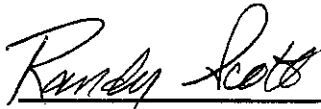
Cynthia Nixon

**CYNTHIA NIXON, Secretary
State Banking Board**

Candace A. Franks

**CANDACE A. FRANKS
Bank Commissioner**

Board Members in Attendance:



RANDY SCOTT, Chairman
State Banking Board

6-27-19

Date



DAVID LEECH, Vice-Chairman
State Banking Board

6-27-19

Date



SCOTT MILLER, Member
State Banking Board

6-27-19

Date



RONALD MOBLEY, Member
State Banking Board

8-22-19

Date

LANA HAMPTON, Member
State Banking Board
(Via Phone)

6-27-19

Date



TODD SMITH, Member
State Banking Board
(Via Phone)

6-27-19

Date

RESOLUTION

WHEREAS, Gary Hudson served faithfully for 10 years as a member of the Arkansas State Banking Board; and

WHEREAS, he unselfishly devoted his energies through his judgment and decision-making during this period of time to the improvement of the banking industry for the citizens of this state; and

WHEREAS, his contributions to the duties and responsibilities of the State Banking Board have been most valuable; and

WHEREAS, his service to the State of Arkansas and especially to banking should be recognized.

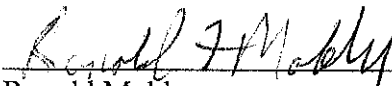
NOW THEREFORE BE IT RESOLVED; That the State Banking Board adopts this Resolution of Appreciation to Gary Hudson on this Second day of May, Two Thousand Nineteen.



Randy Scott



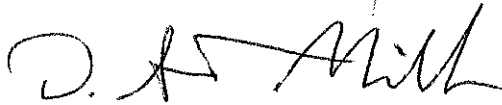
David Leech



Ronald Mobley

/s/ Todd Smith

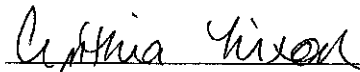
Todd Smith



Scott Miller

/s/ Lana Hampton

Lana Hampton



Cynthia Nixon, Secretary

CERTIFICATE OF PERMANENT REGULATION

In respect to the foregoing permanent regulation of the State Bank Department Rules and Regulations Manual, the State Banking Board certifies as follows:

- (1) Said regulation was adopted at a Special Meeting of the State Banking Board, with the Bank Commissioner and Deputy Bank Commissioners in attendance, held in the Conference Room of the State Bank Department, 400 Hardin Road, Suite 100, Little Rock, Arkansas on May 2, 2019, beginning at the hour of 10:00 a.m., all members of the Board having been sent notice of the meeting, and 6 members of the Board being present in person, or by teleconference, and participating in the meeting.
- (2) The foregoing regulation was adopted at said Special Meeting upon the vote of 6 members of the State Banking Board. The Bank Commissioner concurred with the Board in the adopting of said regulation.
- (3) The State Banking Board finds that notice of the foregoing permanent regulation was given as required by A.C.A. § 25-15-204 the Arkansas Administrative Procedure Act and that the foregoing regulation is hereby now adopted and effective as a permanent regulation.

ADOPTED AT A SPECIAL MEETING OF THE STATE BANKING BOARD MAY 2, 2019.

STATE BANKING BOARD

Randy Scott

Chairman State Banking Board

ATTEST:

Cynthia Nixon
Secretary State Banking Board



Candace A. Franks

Candace A. Franks
Bank Commissioner

FINAL RULE

(Please Note: The section of Rule 47-701.9 pertaining to Collective Investment Funds is repealed and replaced with the following section)

COLLECTIVE INVESTMENT FUNDS

Collective Investment. (Common Trust Funds as in A.C.A. § 28-69-202)

- (a) Any common trust fund or collective investment authorized by Arkansas Code Annotated § 28-69-202 shall be established and maintained in accordance with 12 C.F.R. 9.18 as of January 1, 2019, and any subsequent amendments to 12 C.F.R. 9.18 thereafter.