



Corporate Decision #2015-04
April 2015

March 31, 2015

Michael G. Keeley, Esq.
Norton Rose Fulbright
2200 Ross Avenue, Suite 2800
Dallas, Texas 75201

Re: Commonwealth Bank, F.S.B., Mt. Sterling, Kentucky (Savings Association)
Conversion Application Under 12 C.F.R. Part 192 and Capital Distribution Filing Under
12 C.F.R. Part 163
Charter No. 706591; OCC Control No. R2-2015-0001

Dear Mr. Keeley:

The Office of the Comptroller of the Currency (OCC) hereby approves the applications filed on behalf of the Savings Association to convert to a federally chartered stock savings association and to make a capital distribution. These approvals are granted based on a thorough review of the applications and other information available to the OCC, including commitments and representations made in the applications by representatives of the Savings Association during the application process.

The Savings Association has filed with the OCC an application (Conversion Application) for approval to convert from a federally chartered mutual savings association to a federally chartered stock savings association (Conversion), pursuant to section 5(i)(2) of the Home Owners' Loan Act, and 12 C.F.R. Part 192 (Conversion Regulations). As described in greater detail below, the Savings Association has requested that the OCC waive the following regulations, in accordance with 12 C.F.R. § 192.5(c): (i) Section 192.105(a); (ii) Section 192.395(b); and (iii) Section 192.505. The Savings Association intends to sell all of its stock to Poage Bankshares, Inc., Ashland, Kentucky (Holding Company), a Maryland-chartered corporation and a savings and loan holding company, and the Holding Company will offer shares of its common stock based on the appraised value of the Savings Association. Immediately after completion of the Holding Company's stock offering, the Savings Association will merge into Town Square Bank, Ashland, Kentucky (Bank), a wholly owned stock federal savings association subsidiary of the Holding Company.¹ The Bank will be the surviving depository institution. The Savings Association

¹ On December 19, 2014, the Bank submitted an application for approval under § 18(c) of the Federal Deposit Insurance Act (Bank Merger Act) and 12 C.F.R. § 163.22(a) to merge the Savings Association with and into the Bank.

requests approval to make a capital distribution of 50 percent of the net proceeds of the offering to the Holding Company, pursuant to 12 C.F.R. Part 163 (Capital Distribution).

Conversion Application

The Conversion Regulations provide that the OCC may approve an application for conversion only if: (i) the plan of conversion adopted by the savings association's board of directors complies with 12 C.F.R. Part 192; (ii) after the conversion, the savings association will meet its regulatory capital requirements; and (iii) the conversion will not result in a taxable reorganization of the association under the Internal Revenue Code (IRC). In addition, 12 C.F.R. § 192.200(c) provides that the OCC, in reviewing an application for conversion under 12 C.F.R. Part 192, will consider the extent to which the conversion will affect the convenience and needs of the community, and may deny or condition the application on the basis of this review. Furthermore, the Conversion Regulations provide that a plan of conversion shall contain no provision that the OCC shall determine to be inequitable or detrimental to the applicant, its savings account holders or other savings associations or to be contrary to the public interest.²

The OCC has considered the Savings Association's Plan of Conversion Merger (Plan), and has concluded that the Plan contains the required provisions, and that the Plan is in accordance with the relevant regulatory requirements, with the exception of the provisions for which the Bank has requested a waiver. In particular, we conclude that the purchase priorities in the subscription offering are consistent with the Conversion Regulations.

The Savings Association requests a waiver of 12 C.F.R. § 192.105(a), which requires a business plan reflecting how the Savings Association will deploy the proceeds of the conversion. In this case, the Savings Association will cease to exist when the transaction is consummated, because the Savings Association will be merged into the Bank. Because, upon completion of the transaction, the Savings Association will cease to exist, and the Savings Association's assets and liabilities will constitute only a minor part of the Bank upon completion of the transaction, we conclude that the waiver is equitable, not detrimental to the Savings Association, its account holders, or other savings associations, and is consistent with the public interest.

The Savings Association also requests a waiver of 12 C.F.R. § 192.395(b), which provides that if an institution offers shares in a community offering or public offering, it must first fill orders for its stock up to a maximum of two percent of the conversion stock on a basis that will promote a widespread distribution of stock, and that any remaining shares must be offered on an equal number of shares per order basis until all orders are filled. Because the Holding Company's common stock will be offered and sold in the conversion, implementing a two percent limitation on purchases of stock in the community offering will have little impact on the overall distribution of Holding Company common stock following the offering, especially given the size of the offering. Because the waiver will facilitate completion of the offering and is not necessary to promoting widespread distribution of the Holding Company's stock, we conclude that the

² 12 C.F.R. § 192.130.

waiver is equitable, not detrimental to the Savings Association, its account holders, or other savings associations, and is consistent with the public interest.

Finally, the Savings Association requests a waiver of 12 C.F.R. § 192.505, which restricts the ability of the Savings Association's officers and directors to sell stock obtained in the conversion and restricts the manner in which the Savings Association's officers and directors may acquire stock of the converted institution. The Holding Company's stock will be issued and sold in the conversion, and, at the completion of the transaction, the Savings Association will be merged into the Bank, an existing entity. Because the Holding Company's stock is publicly traded and the stock sold in the conversion will make up a small part of the Holding Company's stock, we conclude that the waiver is equitable, not detrimental to the Savings Association, its account holders, or other savings associations, and is consistent with the public interest.

The proposed transaction complies with the provisions addressing designation of a "local community." A preference in the community offering for natural persons (and trusts of natural persons) residing in the area constituting the "local community" is required by 12 C.F.R. § 192.390(b). The local community is defined in § 192.25 as including the county in which the Savings Association has its office. Here, the Savings Association has one office, located in Montgomery County, Kentucky. The Savings Association has designated Montgomery County, Kentucky, as the Savings Association's local community, and the Plan provides primary preference in any community offering to natural persons and trusts of natural persons in the local community. The Plan proposes that the Holding Company's existing stockholders be given a secondary preference in the community offering. The OCC Conversion Regulations provide only for a primary preference in the community offering. Therefore, the OCC has no objection to the provision for a secondary preference in the community offering. We conclude that the Plan, including the community offering section of the Plan, satisfies the Conversion Regulations.

With respect to the remaining approval criteria, the Conversion would not cause the Savings Association, which is currently well capitalized, to fail to meet its regulatory capital requirements, and the Conversion will not result in a taxable reorganization of the Savings Association under the IRC.

Based on the Savings Association's CRA rating of "Satisfactory" and the information provided in the Conversion Application, the OCC concludes that the Conversion meets the convenience and needs requirement set forth at 12 C.F.R. § 192.200(c).

The Conversion Regulations provide that a plan of conversion shall contain no provision that the OCC determines to be inequitable or detrimental to the applicant, its savings account holders or other savings associations or to be contrary to the public interest. We conclude that approval, as granted herein, is consistent with this standard.

Capital Distribution

The Savings Association has requested OCC approval, pursuant to 12 C.F.R. § 163.143, to make a capital distribution to the Holding Company of between \$342,500 at the minimum and \$582,500 at the maximum, or \$720,500 at the super-maximum. The OCC's regulations provide that a capital distribution notice may be denied if, generally, the proposed capital distribution would: (i) cause the institution to become undercapitalized; (ii) raise safety and soundness concerns; or (iii) violate any statute, regulation, agreement with the OCC or condition of approval.³ The OCC does not object to the capital distribution. The proposed distribution does not raise safety and soundness concerns; it will not violate any prohibition contained in law, agreement with the OCC, or condition of approval; and the resulting institution, the Bank, will remain "well capitalized" after the distribution. Accordingly, the OCC concludes that the Savings Association's capital distribution is consistent with approval.

Consummation Requirements

The approvals set forth herein are granted based on our understanding that other regulatory approvals, non-objections or waivers with respect to the proposed transaction will have been received prior to consummation of the transactions. Unless a timeframe is otherwise stated below, please submit the following information to the attention of the Senior Licensing Analyst in Washington D.C. prior to consummation of the transaction:

- Copies of all related regulatory approvals not previously submitted;
- On the business day prior to the date of consummation of the proposed transaction, the chief financial officer of the Savings Association must certify in writing to the Senior Licensing Analyst that no material adverse changes have occurred with respect to the financial condition or operation of the Savings Association as disclosed in the applications. If additional information having a material adverse bearing on any feature of the applications is brought to the attention of the Savings Association, or OCC since the date of the financial statements submitted with the applications, the transaction must not be consummated unless the information is presented to the Deputy Comptroller for Licensing (Deputy Comptroller), and the Deputy Comptroller provides written nonobjection to the consummation of the transaction;
- Promptly after the completion of the sale of all the shares of capital stock to be sold in connection with the Conversion, the Savings Association must submit to the OCC's Senior Licensing Analyst: (a) a certification by the Savings Association's chief executive officer stating that all the shares proposed to be sold have been sold, the price at which they were sold, and the date of completion of the offering; and (b) a statement by the Savings Association's independent appraiser that, to the best of his/her knowledge and judgment, nothing of a material nature has occurred (taking into account all of the

³ 12 C.F.R. § 192.146.

relevant factors including those which would be involved in a change in the maximum subscription price) which would cause him/her to conclude that the sale price was not compatible with his/her estimate of the Savings Association's total pro forma market value at the time of sale; and

- The Savings Association must, within five calendar days after the effective date of the proposed transaction, advise in writing: (a) of the effective date of the proposed transaction; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the applications and this approval.

If the transaction is not consummated within 120 calendar days of the approval date, the approval shall automatically terminate, unless the OCC grants an extension of the time period for good cause.

This approval and the activities and communications by OCC employees in connection with the filings do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States, or any officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. Our approval is based on the Savings Association's representations, submissions, and information available to the OCC as of this date. The OCC may modify, suspend or rescind this decision if a material change in information on which the OCC relied occurs prior to the date of the transaction to which this decision pertains. The foregoing may not be waived or modified by any employee or agent of the OCC or the United States.

If you have any questions, you may contact Senior Licensing Analyst Carla S. Holiman at (202) 649-6260 or at carla.holiman@occ.treas.gov.

Sincerely,

signed

Stephen A. Lybarger
Deputy Comptroller for Licensing