

Farmers Capital Bank Corporation

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March 2, 2009

Neil M. Barofsky
Special Inspector General – TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, D.C. 20220

Re: Farmers Capital Bank Corporation – TARP CPP Sequence No. 85
Response to Letter dated February 6, 2009

Dear Mr. Barofsky:

The purpose of this letter is to respond to your letter of February 6, 2009.

Background

Farmers Capital Bank Corporation (“Farmers”) received \$30 million (the “TARP Funds”) from the U.S. Treasury on January 9, 2009 in return for 30,000 shares of its Series A Preferred Stock (the “Preferred Stock”) and a warrant for common stock in conjunction with Farmers’ participation in the Troubled Asset Relief Program Capital Purchase Program (“CPP”). The amount received equates to 2.2% of Farmers’ risk based assets as of December 31, 2008.

Anticipated Use of TARP Funds

As explained below, Farmers anticipates using the TARP Funds in a manner to enable its five subsidiary banks (the “Subsidiary Banks”) to retain their anticipated earnings for at least the next twelve months. This plan should permit the Subsidiary Banks to both increase their capital and continue making loans in the communities they serve.

Historically, Farmers relied on its Subsidiary Banks to pay Farmers dividends to fund Farmers’ holding company cash needs, which are primarily: (1) dividends to Farmers’ shareholders, (2) interest payments on Farmers’ trust preferred securities, (3) dividends on Preferred Stock, and (4) general holding company operating expenses. The current economic environment has strained the balance sheets of the Subsidiary Banks, making it more difficult for the Subsidiary Banks to dividend enough funds to Farmers to satisfy Farmers’ cash requirements and still maintain their own “well capitalized” status and continue making loans.



Consequently, Farmers intends to retain the TARP Funds to fund its cash needs for at least the next twelve months, permitting the Subsidiary Banks to suspend their dividends to Farmers for such period. This will allow each of the Subsidiary Banks to strengthen their capital positions and permit them to continue making loans. While loans by the Subsidiary Banks may not necessarily be growing, under this plan the TARP Funds will be used to allow the Subsidiary Banks to operate without shrinking their balance sheets. The unacceptable alternative is to reduce loans in order to increase capital ratios in the face of nonperforming loans, which have increased over the past year and are likely to increase further in the current economic climate. In essence, the TARP Funds are being utilized to enable Farmers and the Subsidiary Banks the ability to weather the storm of the current economic crisis without cutting back on new loans.

Use of TARP Funds to Date; Comingling

The TARP Funds were deposited into a savings account maintained by Farmers with Farmers Bank & Capital Trust Company ("Farmers Bank"), one of the Subsidiary Banks. The Tarp Funds were comingled with other funds of Farmers on deposit at Farmers Bank. However, Farmers' management is separately tracking the TARP Funds.

As of the date of this letter, Farmers has spent approximately \$846,000 of the TARP Funds on Preferred Stock dividends, interest on trust preferred securities and holding company operating expenses. Farmers anticipates the total spending in 2009 of the TARP Funds as follows:



b(4)

Given the uncertainty of the economy, Farmers intends to reassess periodically how to best use the remaining TARP Funds, which may include extending the plan. The above is only the current plan of management and Farmers reserves its right to revise its plan and use the TARP Funds in other permitted manners.

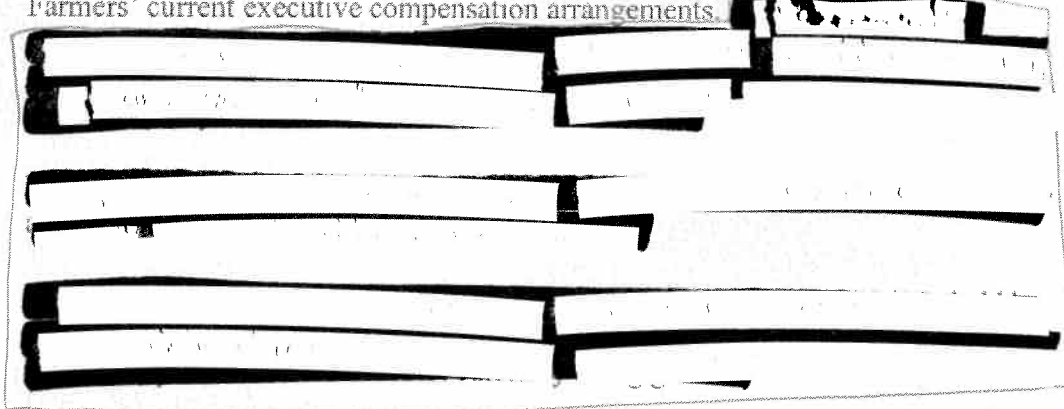
Supporting Documentation

On February 5, 2009 Farmers distributed the enclosed internal memorandum (the "Memo") to all employees concerning the CPP to clarify two points that seem to be misconstrued in the general public. This Memo addresses the misuse of the term "bailout" and that the CPP is intended to provide capital to qualified banks to expand the flow of credit to consumers and businesses to promote growth for the economy. Farmers stands by that statement.

The second point addressed in the Memo is that the capital investment provided by the U.S. Treasury is a temporary bridge until the capital markets become healthy and stable to permit Farmers to make a follow-up public offering of common or preferred stock. The proceeds from such an offering would be used to repurchase the Preferred Stock.

Executive Compensation

- The executive compensation limitations have to date not required any changes to Farmers' current executive compensation arrangements.



Farmers' compensation committee will meet on or prior to April 9, 2009 (90 days after the TARP Funds were received) to engage in the required 90-day review under 31 CFR Section 30.3 and 30.4. Further, Farmers will adopt appropriate "clawback" provisions as part of any bonus or incentive compensation plans.

The American Recovery and Reinvestment Act of 2009 contained more stringent executive compensation requirements and expanded existing requirements to more employees than just CEOs. Farmers will evaluate its executive compensation arrangements again after the adoption of the regulations by the Secretary of the Treasury required by this recent legislation to determine if any such arrangements require modification under the stricter requirements. If modification is required, Farmers will address this on a case-by-case basis.

Certification

The undersigned hereby certifies that to the best of his knowledge the statements, representations and supporting documentation which is included are accurate, subject to the requirements and penalties of 18 U.S.C. 1001.

Sincerely,


G. Anthony Busseri
President and CEO

Enclosure

MEMORANDUM

TO: All Employees

FROM: Tony Busseni
President & CEO

DATE: February 5, 2009

As most of you know by now Farmers Capital Bank Corporation has elected to participate in the U.S. Treasury's Capital Purchase Program for healthy banks. Under this plan, the U.S. Treasury has invested \$30 million in Farmers Capital preferred stock on which it will receive a dividend of 5% annually. This plan has also provided the U.S. Treasury with warrants to purchase approximately \$4.5 million in common stock.

I would like to be clear concerning two important points. First, for banking organizations such as Farmers this is not a "bailout" – a term that you no doubt have heard used by the media and others. The U.S. Treasury has stated that the Capital Purchase Program is only for healthy banks. The program is intended to provide capital to qualified banks to expand the flow of credit to consumers and businesses to promote growth for the economy. Secondly, we view this capital investment by the U.S. Treasury to be a temporary bridge until the capital markets become healthy and stable, which will permit Farmers Capital to make a follow-up public offering of its common or preferred stock. In fact, the Treasury's investment program contemplates such a future public offering to replace the Treasury's investment.

For some time, as part of our normal capital management process, Farmers Capital has been exploring various avenues to raise additional equity through the capital markets to support opportunities that we anticipate could bring profitable growth from both internal and external sources. The volatility of the capital markets, when combined with the deep discounts to current market prices required by investors, would have resulted in an unacceptable dilution of our current shareholders' interests and a decrease in earnings per share. Management concluded that such results were unacceptable, especially since we believe the pricing shown by the capital markets for offerings over the past year has been more reflective of the problem banks, which have needed capital, not healthy banking organizations such as Farmers Capital.

The capital investment from the U.S Treasury will allow Farmers Capital to take advantage of opportunities to grow organically through lending to well-qualified individuals and business in our communities, consistent with the intent of the U.S Treasury.

Farmers Capital and its subsidiaries are healthy, well-capitalized and have been committed to supporting the economic well being of our communities for over 150 years. We look forward to continuing to serve the financial needs of our customers now and in the future.