



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

October 18, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Lexington
Charter Number 24349**

**2404 Sir Barton Way
Lexington, KY 40509**

**Comptroller of the Currency
Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, KY 40222**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First National Bank of Lexington in Lexington, Kentucky prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of October 18, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

This institution is rated Satisfactory.

Major Conclusions:

- A majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- Geographic distribution of loans reflects reasonable penetration, given the community's credit needs and demographics, in relation to the bank's location and capacity to lend.
- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.

DESCRIPTION OF INSTITUTION

First National Bank of Lexington (FNB) is a full-service intrastate bank 100% owned by local investors in central Kentucky. It opened in October of 2002. As of September 30, 2004, the bank had \$63 million in total assets, \$53 million in deposits, \$47 million in loans, and \$6 million in Tier One Capital. The bank offers traditional banking products and services. It operates from one full-service office.

The bank's primary lending focus is home mortgage loans and business loans. FNB also makes loans to consumers in the area. As of September 30, 2004, net loans represented approximately 71% of the bank's average assets. The loan portfolio mix is as follows: 1-4 family residential loans 42%, business-purpose loans 35%, construction and development loans 10%, farmland loans 5%, multifamily dwelling loans 4%, and consumer loans 4%.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. This is the first CRA evaluation of the bank.

DESCRIPTION OF ASSESSMENT AREA

FNB has identified part of Fayette County and all of Clark County as its assessment area (AA) for CRA purposes. The assessment area delineation is in conformance with the regulatory requirements of CRA and appears appropriate in relation to the location of the bank's office. The delineation of the assessment area does not arbitrarily exclude any low- or moderate-income areas. The AA is part of the Lexington-Fayette County, KY Metropolitan Statistical Area (MSA). The bank's office is located in the northeast section of Lexington.

The 2000 U.S. Census divides the assessment area into fifty-one census tracts (CT's), designating five low-income, eleven moderate-income, twenty-two middle-income, twelve upper-income, and one unclassified. This designation is based on the Lexington-Fayette County, KY MSA 2000 Census Median Family Income of \$49,876.

Our analysis of the borrower distribution of loans and the geographic distribution of loans compares loans originated in 2003 to the 2000 U.S. Census demographic information. In our analysis of the borrower distribution of loans, the four income level designations are based on the Department of Housing and Urban Development (HUD) estimate of the Lexington MSA's 2003 Median Family Income of \$56,200.

According to the 2000 U.S. Census, the population of the assessment area is 216,313. Of the assessment area's 90,468 households, 13% are below the poverty level and 20% receive social security benefits. The assessment area's median family income is \$52,938, according to the 2000 U.S. Census.

The economy of the assessment area is stable, with a mix of manufacturing and service sector employment. The largest individual employers are University of Kentucky, Toyota Motor,

Lexmark, Eastern Kentucky University, Johnson Controls, Trane, and three local hospitals. They account for 35,000 jobs. Employment from state, local and federal government accounts for another 55,000 jobs. Total employment for the entire MSA is about 276,000.

The unemployment rate for the Lexington-Fayette County, KY MSA labor market has improved. According to the U.S. Department of Labor, the unemployment rate declined from 4.9% as of February 2003 to 3.2% as of October 2004. It is now lower than state (4.7%) and national (5.5%) unemployment rates.

The Lexington-Fayette County, KY MSA has a high number of banks in competition. According to the FDIC's website, 34 banks and savings institutions compete for the MSA's \$6.5 billion in deposits. They operate from 177 offices inside the MSA. The top six banks control over 60% of the market. FNB has less than 1% market share. The market includes six large regional banks (over \$4 billion in assets), five large area banks (\$0.5 - \$4.0 billion in assets), and 23 small community institutions.

A community contact familiar with the area's credit needs indicated all local banks are active in the community and are willing to provide financing for potential projects. The contact did not identify any credit needs that were not being addressed by the banks or through other sources.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending in Assessment Area

A majority of loans and other lending-related activities are in FNB's assessment area. The analysis shows borrowers inside the assessment area received 55% of the number and 52% of the dollar amount of sampled loan originations. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans originated since the bank opened. See the table below for details.

Lending Inside and Outside of Assessment Area				
	Number of Loans	Percentage of loans	Dollar Amt of Loans \$(000's)	Percentage of Loans
Inside the Assessment Area	11	55.00%	\$2,254	52.28%
Outside the Assessment Area	9	45.00%	\$2,057	47.72%
Totals	20	100.00%	\$4,311	100.00%

* Source of data is a randomly selected sample of loans originated from the bank's opening to December 31, 2003.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans from each of the bank's two primary loan types. Primary loan types were determined by reviewing the number and dollar amount of loans outstanding. The primary loan types identified for this analysis were 1-4 family residential mortgage loans and business loans. Loans in the sample were originated in 2003. See the tables below for details.

"Table INC-1 Home Mortgage Loans" shows the percentage of FNB's home mortgage loans to low- and moderate-income borrowers exceeds the percentage of families in the assessment area with low- and moderate-income. Low-income borrowers received 30% of the number of home mortgage loans and moderate-income borrowers received 20% of the number of home mortgage loans. According to the 2000 U.S. Census, 22% of the families in FNB's assessment area are low-income and 17% are moderate-income. FNB's home mortgage lending is reasonable considering the identified home mortgage credit needs in the community.

Table INC-1 Home Mortgage Loans

Borrower Distribution of 1-4 Family Mortgage loans					
Borrower Income Level	# of Loans	%	\$ (000's)	%	% of Families by Income Level
Low	6	30.00%	\$ 502	22.38%	21.55%
Moderate	4	20.00%	\$ 503	22.43%	17.15%
Middle	1	5.00%	\$ 98	4.37%	21.18%
Upper	9	45.00%	\$1,140	50.82%	40.12%
Total	20	100.00%	\$2,243	100.00%	100.00%

* Source of bank data is randomly selected sample of 1-4 family residential mortgage loans originated between January 1, 2003 and December 31, 2003. Source of demographic comparator data is 2000 U.S. Census.

“Table INC-2 Business Loans” shows the percentage of FNB’s business loans made to firms with \$1 million or less annual revenue exceeds the percentage of businesses in the assessment area reporting \$1 million or less annual revenue. FNB’s business lending is reasonable, considering the identified business credit needs in the community.

Table INC-2 Business Loans

Borrower Distribution of Loans to Businesses					
Business Revenue (Sales) Level	# of Loans	%	\$ (000's)	%	% of Businesses by Income Level
≤\$1 Million	15	75.00%	\$ 8,693	80.66%	61.85%
>\$1 Million	5	25.00%	\$ 2,085	19.34%	6.06%
Unreported	0	0%	\$ 0	0%	32.09%
Total	20	100.00%	\$10,778	100.00%	100.00%

* Source of bank data is randomly selected sample of business loans originated between January 1, 2003 and December 31, 2003. Source of demographic comparator data is Dunn and Bradstreet data and 2000 U.S. Census.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment area. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans from each of the two primary loan types for 2003. The two primary loan types were 1-4 family residential mortgage loans and business loans.

"Table GEO-1 Home Mortgage Loans" reflects FNB has reasonable penetration in making home mortgage loans in the moderate-income census tracts. The table below shows borrowers located in the moderate-income census tracts received 25% of the number of home mortgage loans. According to the 2000 U.S. Census, 18% of the assessment area's owner-occupied housing is located in the twelve moderate-income census tracts.

Borrowers in the five low-income census tracts received none of the home mortgage loans in the sample. The bank's performance context and physical location put this finding into perspective. The low-income census tracts comprise only 3% of the assessment area's owner-occupied housing, a statistically small percentage. Of all the housing available in the low-income census tracts, 64% is renter-occupied, 15% is vacant, and only 21% is owner-occupied. The low-income tracts are clustered on the far west border of the bank's assessment area, in downtown Lexington, where many other banks are in close proximity. Demographic information indicates residents of this area are more likely to visit the nearby banks than drive across town to FNB. Several of these banks are much larger in size, with greater presence in the market. They have more branches, higher advertising budgets, and competitively, can offer better home loan rates and terms. For these reasons, FNB's lack of penetration is mitigated.

Table GEO-1 Home Mortgage Loans

Geographic Distribution of 1-4 Family Mortgage Loans					
Census Tract Income Level	# of Loans	%	\$ (000's)	%	% of AA Owner- occupied Housing
Low	0	0.00%	\$ 0	0.00%	3.29%
Moderate	5	25.00%	\$ 325	14.50%	17.83%
Middle	11	55.00%	\$ 1,577	70.34%	45.73%
Upper	4	20.00%	\$ 340	15.16%	33.15%
Total	20	100.00%	\$ 2,242	100.00%	100.00%

* Source of bank data is randomly selected sample of 1-4 family residential mortgage loans originated between January 1, 2003 and December 31, 2003. Source of demographic comparator data is 2000 U.S. Census.

“Table GEO-2 Business Loans” shows FNB has reasonable penetration in making business loans in the low- and moderate-income census tracts. The table shows firms located in the low-income census tracts and moderate-income census tracts each received 15% of the number of business loans. This is comparable to the area’s demographics. According to the 2000 U.S. Census, 16% of the assessment area’s businesses are located in the low-income census tracts and 21% are in the moderate-income census tracts.

Table GEO-2 Business Loans

Geographic Distribution of Loans to Businesses in Assessment Area					
Census Tract Income Level	# of Loans	%	\$ (000's)	%	% of AA Businesses
Unknown	0	0.00%	\$ 0	0.00%	0.52%
Low	3	15.00%	\$ 1,591	14.76%	16.44%
Moderate	3	15.00%	\$ 716	6.64%	20.58%
Middle	6	30.00%	\$ 1,197	11.11%	35.63%
Upper	8	40.00%	\$ 7,274	67.49%	26.83%
Total	20	100.00%	\$10,778	100.00%	100.00%

* Source of bank data is randomly selected sample of business loans originated between January 1, 2003 and December 31, 2003. Source of demographic comparator data is Dunn and Bradstreet data and 2000 U.S. Census.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs.

FNB’s average net loan-to-deposit ratio for the eight quarters since the bank opened in October 2002 is 71.09%. The ratio has ranged from a low of 49.08% as of March 31, 2003 to a high of 89.15% as of September 30, 2004. Over the period the ratio has been steadily increasing.

We compared FNB to six similarly situated banks operating in markets comparable to FNB’s market. These banks are comparable to FNB in asset size, deposit size, and major lending products. The average loan-to-deposit ratios of these banks for the last eight quarters range from 60% to 96%, as shown in the chart below. As a group the other banks average 83%. FNB’s average loan-to-deposit ratio is reasonable, considering the bank has been open for only two years. Before a new bank reaches stabilization, deposits may grow faster than loans, impacting the loan-to-deposit ratio. Management indicated FNB has not reached stabilization.

Institution	Average
FNB	71.09%
Bank #1	60.45%
Bank #2	80.05%
Bank #3	83.04%
Bank #4	85.79%
Bank #5	92.61%
Bank #6	96.03%

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.