



## **PUBLIC DISCLOSURE**

September 10, 2018

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank of Kentucky  
Charter Number 2592  
604 Highland Avenue  
Carrollton, Kentucky 41008

Office of the Comptroller of the Currency  
10200 Forest Green Boulevard, Suite 501  
Louisville, Kentucky 40223

**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, and should not 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.

## Table of Contents

<b>OVERALL CRA RATING.....</b>	<b>3</b>
<b>DEFINITIONS AND COMMON ABBREVIATIONS.....</b>	<b>4</b>
<b>DESCRIPTION OF INSTITUTION .....</b>	<b>8</b>
<b>SCOPE OF THE EVALUATION .....</b>	<b>8</b>
<b>DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW.....</b>	<b>10</b>
<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS .....</b>	<b>11</b>
<b>LENDING TEST.....</b>	<b>11</b>
<b>APPENDIX A: SCOPE OF EXAMINATION.....</b>	<b>A-1</b>
<b>APPENDIX B: COMMUNITY PROFILE FOR FULL-SCOPE AREA .....</b>	<b>B-1</b>
<b>APPENDIX C: TABLE OF PERFORMANCE DATA.....</b>	<b>C-1</b>

## Overall CRA Rating

The institution is rated: **Satisfactory.**

First National Bank of Kentucky (FNBK or Bank) has a **satisfactory** record of meeting the credit needs of its community. This conclusion is based on the following.

The Lending Test is rated: **Satisfactory.**

The major factors supporting the rating for FNBK include the following:

- FNBK's loan-to-deposit (LTD) ratio is reasonable.
- FNBK originates a majority of loans within its delineated assessment area (AA).
- FNBK's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## **Description of Institution**

FNBK is a full-service, intrastate bank headquartered in Carrollton, Kentucky. FNBK is wholly owned by Port William Bancshares, Inc., a single bank holding company. On January 1, 2017, The First National Bank of Carrollton modified its legal charter name to First National Bank of Kentucky. As of June 30, 2018, FNBK reported \$112.6 million in total assets with \$80.7 million in total loans. Tier 1 capital totaled \$13.5 million with a tier 1 leverage ratio of 11.9 percent.

The Bank operates two full service offices in Carrollton, Kentucky, within Carroll County. FNBK had two loan production offices (LPO) during the evaluation period: one in Gallatin County, Kentucky, and one in Oldham County, Kentucky. Both the main office and Carrollton branch locations offer automated teller machines (ATM), and Saturday hours. FNBK also operates a stand-alone ATM in a Carrollton, Kentucky grocery store. Loan products include residential real estate, commercial real estate, agricultural, and consumer loans. Online banking services include mobile banking and bill pay.

FNBK designated a single AA which consists of Carroll and Owen Counties in their entirety. The AA is appropriate and does not arbitrarily exclude low- or moderate-income geographies. Carroll County consists of three middle-income CTs. Owen County consists of two middle- and one upper-income CTs.

FNBK offers traditional banking products and services. The Bank's lending focus during the evaluation period was primarily on residential mortgage loans. As of June 30, 2018, net loans represented 68.3 percent of average assets. The loan portfolio mix was as follows: one-to-four family residential real estate loans (53.4 percent), commercial real estate loans (21.2 percent), farmland (9.3 percent), construction and development loans (6.7 percent), commercial loans (3.8 percent), consumer loans (3.6 percent), and all other loans (2.0 percent).

Eight financial institutions operated 11 branches in the AA, including one office of a large national bank. According to Federal Deposit Insurance Corporation (FDIC) data, FNBK held the highest market share in the AA, 29.5 percent, with \$86.7 million in deposits.

There were no legal or financial impediments affecting the Bank's ability to meet the credit needs of its AA. The last CRA evaluation was performed by The Office of the Comptroller of the Currency (OCC) on December 31, 2012. The Bank received a Satisfactory rating.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

We evaluated FNBK's CRA performance using the OCC's Small Bank CRA Examination Procedures. These procedures assess an institution's record of meeting

the credit needs of its AA through lending activities. The CRA evaluation covers the period from the previous examination through September 10, 2018. Conclusions regarding the Bank's lending performance were based on a random sample of primary loan product originations between January 1, 2015 and December 31, 2017.

Based on both the number and dollar volume of loan origination data supplied by the Bank, the primary loan product was residential real estate loans. These represented 44.1 percent of the dollar volume and 18.4 percent of the number of loan originations during this period.

For analysis purposes, we compared the Bank's lending performance with demographic data from the 2010 United States (U.S.) Census, the 2015 American Community Survey (ACS) U.S. Census, and FDIC deposit market share data as of June 30, 2017. Please refer to *Appendix A: Scope of Examination* and *Appendix B: Community Profiles for Full-Scope Areas* for more information on the scope of the examination.

### **Selection of Areas for Full-Scope Review**

FNBK has one AA, consisting of Carroll and Owen Counties in their entirety. Please refer to *Appendix A: Scope of Examination* and *Appendix B: Community Profiles for Full-Scope Areas* for a description of the AA.

### **Ratings**

The bank's overall rating is based solely on the full-scope review of its AA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

# Conclusions with Respect to Performance Tests

## LENDING TEST

FNBK’s performance under the lending test is Satisfactory.

- The LTD ratio is reasonable.
- FNBK originated a majority of loans inside the AA.
- The distribution of loans to LMI individuals reflects reasonable penetration.

### Loan-to-Deposit Ratio

FNBK’s net LTD ratio is reasonable, given its size, financial condition, and volume of secondary market activity.

FNBK’s LTD ratio averaged 77.04 percent over the last 22 quarters, with a quarterly high of 88.2 percent and a quarterly low of 68.3 percent. However, secondary market activity is not captured in the LTD ratios. FKNB originated and sold over \$10 million of residential real estate loans during the evaluation period. We compared this performance to two banks in the AA with similar asset size and product types. The two similarly situated banks had marginally higher LTD ratios than FNBK’s with averages ranging from 79.9 percent to 85.6 percent. FNBK’s LTD ratio exceeded 80 percent during the most recent eight quarters and was the highest of the three banks as of June 30, 2018.

### Lending in Assessment Area

FNBK originated a majority of its primary loan product within the AA. Our sample of residential mortgage loan originations showed 65.0 percent of the total number, and 57.8 percent of the total dollar, were within the AA.

Lending Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total #	Inside		Outside		Total \$(000s)
	#	%	#	%		\$	%	\$	%	
Residential	13	65.0	7	35.0	20	999	57.8	732	42.2	1,731

Source: Evaluation Period: 1/1/2015 – 12/31/2017 Bank Data

## **Lending to Borrowers of Different Incomes**

FNBK's distribution of loans to LMI individuals reflects reasonable penetration, considering performance context information, demographic, and HMDA Aggregate comparators.

The overall borrower distribution of residential loans originated in 2015-2017 was reasonable, primarily due to the excellent penetration of loans to moderate-income borrowers. Bank performance significantly exceeded both the demographic comparator and 2017 HMDA aggregate data for moderate-income borrowers. The distribution to low-income borrowers was poor in comparison to the percentage of low-income families in the AA; however, FNBK originated a higher percentage of loans to low-income borrowers than the HMDA aggregate data. *See Appendix C.*

Opportunities for banks to originate residential mortgage loans in the AA are impacted by its demographic. All Carroll County CTs were designated as distressed nonmetropolitan geographies in 2015 and 2016. The number of people living in poverty within the AA (19.2 percent) exceeds the national average (12.7 percent). Additionally, 36.4 percent of AA households receive social security benefits. A low-income AA family earns less than \$23,900, while the median housing value is \$99,938. FNBK participates in the Welcome Home Program that provides grants to LMI borrowers to assist with down payments and closing costs. However, people living in poverty have a difficult time qualifying for a mortgage and turn to more affordable options. This is evidenced by the makeup of occupied housing units in the AA, as over 61 percent are rental units or mobile homes.

## **Geographic Distribution of Loans**

The focus of an analysis of a bank's geographic distribution of loans is to determine the extent to which the bank is dispersing loans among low-, moderate-, middle-, and upper-income AA geographies. There were no LMI CTs in either Carroll or Owen Counties during the evaluation period. Therefore, an analysis of the Bank's geographic distribution of loans is not meaningful and was not performed.

## **Responses to Complaints**

FNBK did not receive any CRA-related complaints during the evaluation period.

## Appendix A: Scope of Examination

---

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: January 1, 2015 to December 31, 2017	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First National Bank of Kentucky Carrollton, Kentucky	Residential Real Estate Loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
Not applicable	Not Applicable	Not applicable
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Kentucky - Carroll and Owen Counties	Full-Scope	

## Appendix B: Community Profiles for Full-Scope Areas

### AA: Carroll and Owen Counties

Demographic Information of the Assessment Area						
Assessment Area: First National Bank of Kentucky - 2017						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.0	0.0	83.3	16.7	0.0
Population by Geography	21,541	0.0	0.0	84.7	15.3	0.0
Owner-Occupied Housing by Geography	5,538	0.0	0.0	81.8	18.2	0.0
Businesses by Geography	1,038	0.0	0.0	91.8	8.2	0.0
Farms by Geography	90	0.0	0.0	78.9	21.1	0.0
Family Distribution by Income Level	5,394	20.2	14.1	19.5	46.2	0.0
Household Distribution by Income Level	8,111	21.3	14.2	15.7	48.8	0.0
Median Family Income = \$45,920 Households Below the Poverty Level = 19.2%		Median Housing Value = \$99,938				

Source: 2010 U.S. Census and 2015 ACS Census and 2017 D & B Data.

(\*) The NA category consists of geographies that have not been assigned an income classification.

Carroll and Owen are adjacent Counties located in rural, north-central Kentucky. None of FNBK's AA contains, or is within, a Metropolitan Statistical Area. The 2010 U.S. Census divided the AA into six CTs: three middle-income, and three upper-income. The distribution of the CTs changed during the CRA evaluation period. The 2015 ACS U.S. Census divided the six CTs into five middle-income and one upper-income tract. As indicated in the table above, the total population of the AA is 21,541. The median family income is \$45,920 with the percentage of households below the poverty level at 19.2 percent.

According to the Bureau of Labor Statistics, the annual unemployment rates for Carroll County in 2015, 2016, and 2017 were 5.6 percent, 5.0 percent, and 4.7 percent, respectively. The annual unemployment rates for Owen County for 2015, 2016, and 2017, were 4.0 percent, 4.2 percent, and 4.3 percent, respectively. Unemployment rates for both counties were generally lower than the annual average for Kentucky for these years (5.3 percent, 5.1 percent, and 4.9 percent). Over 19 percent of households live below the poverty level, 36 percent receive social security, and 23 percent are retired.

According to the Kentucky Cabinet for Economic Development, the major industry in Carroll County is manufacturing. North American Stainless employs 1,376 employees, and The Dow Chemical Company has 400 employees. Over 69 percent of Carroll County employees commute into the county for employment. The largest employment sectors in Owen County are education, trade, and transportation. Seventy-three percent of Owen County residents commute outside of the county for employment.

A community contact familiar with the AA identified a need for quality, living-wage employment. The contact indicated the large manufacturing companies in Carroll County are in need of workers. However, public transportation systems are insufficient to accommodate commuting needs, and childcare options are lacking.

Appendix C: Tables of Performance Data-

**Table 1**

Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2015-2017		
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers				
	#	\$	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate		
Carrollton Non MSA	346	42,106	44.1	423	20.2	5.0	3.1	14.1	35.0	15.4	19.5	25.0	18.4	46.2	35.0	46.1	0.0	0.0	17.0		

*Source: 2015 ACS Census; 01/01/2015 - 12/31/2017 Bank Data, 2017 HMDA Aggregate Data.*