



PUBLIC DISCLOSURE

May 1, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank and Trust
Charter Number 7890

202 S. Main Street, London, Kentucky 40741

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

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated Satisfactory.

First National Bank and Trust (FNB or Bank) had a satisfactory record of meeting its community's credit needs during the evaluation period. These conclusions were reached based on the following:

- FNB's average loan-to-deposit ratio (LTD) was reasonable given Bank's size, financial condition, and the credit needs of its assessment area (AA).
- The number of FNB's loans originated to borrowers within its AA represented a substantial majority of its loan portfolio.
- Given the economic conditions within the AA, FNB's loan distribution represented a reasonable penetration of low- and moderate-income individuals and businesses of different sizes.
- There were no low- or moderate-income geographies in the Bank's AA. Therefore, a review of the Bank's performance under the "Geographic Distribution of Loans" criterion was not performed.
- The institution did not receive any CRA-related complaints since the previous evaluation.

Description of the Institution

FNB is a \$212 million full-service, intrastate bank, 100 percent owned by First National London Bancshares Corporation, a single-bank holding company headquartered in London, Kentucky. As of December 31, 2016, the Bank had \$91 million in total loans, \$175 million in total deposits, and \$22 million in tier 1 capital. The Bank operates one main office and three branches within Laurel County, Kentucky. All locations have drive-thru facilities. FNB offers four full-service automated teller machines (ATMs) and three cash-only dispensers within the AA. FNB closed one stand-alone ATM since our prior examination. The main office, branches, and ATMs are accessible to all segments of the community.

FNB offers traditional banking products and services. The Bank's primary lending focus during the evaluation period was residential real estate and business loans. As of December 31, 2016, net loans represented approximately 43 percent of the Bank's average assets. The loan portfolio mix was as follows: 42 percent commercial and industrial loans, 38 percent one-to-four family residential mortgages, 8 percent consumer loans, 4 percent farm or farm-related loans, and 8 percent all other loans.

There were no legal or financial circumstances that impacted the Bank's ability to meet community credit needs. The previous CRA evaluation was performed on April 30, 2012. FNB received a rating of Satisfactory.

Description of the Assessment Area

The Bank's single AA consisted of Laurel County, Kentucky. The AA met the requirements of the regulation and did not arbitrarily exclude any low- or moderate-income census tracts (CTs). The AA consisted of 11 middle-income CTs, two upper-income CTs and no low- or moderate-income CTs. During the evaluation period, 11 of the 13 CTs were classified as distressed by the Federal Financial Institutions Examination Council (FFIEC). This classification is assigned to middle-income CTs with poverty rates of 20 percent or more.

Laurel County is located in the southern portion of the Eastern Kentucky coal field region. It lies almost entirely within the Daniel Boone National Forest. The total population of Laurel County was approximately 58,849 persons with London, the AA's largest city and county seat, having approximately 7,954 persons.

According to the U.S. Department of Labor Statistics, the AA unemployment rate as of December 31, 2016 was 6.10 percent. This rate exceeded the state and national unemployment rates of 5.00 percent 4.90 percent, respectively. AA demographics are detailed in Table 1.

The primary areas of employment in Laurel County were in services, manufacturing, trade, transportation, and utilities industries. The Kentucky Cabinet for Economic Development listed the five largest employers in Laurel County as General Dynamics Information Technology with 2,292 employees; Senture, LLC with 900; SERCO with 865; Walmart Distribution Center with 851; and Hearthside Food Solutions, LLC with 734 employees. Both General Dynamics Information Technology and SERCO are new to the area since the prior evaluation.

Competition within the AA for financial services was high. There were 12 different banking entities within the county with 24 separate offices. As of June 2016, these offices held a combined total deposits of \$758 million. FNB had a 22.26 percent market share. These entities included branches of three large, regional banks (with deposits in the area ranging from \$1.4 million to \$102.83 million) and nine community banks (with deposits ranging from \$2.43 million to \$240.94 million).

Table 1 - Demographic Information for Full-Scope Area: Laurel County							
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #	
Geographies (Census Tracts)	13	0.00	0.00	84.62	15.38	0.00	
Population by Geography	58,849	0.00	0.00	90.26	9.74	0.00	
Owner-Occupied Housing by Geography	16,110	0.00	0.00	88.96	11.04	0.00	
Businesses by Geography	3,350	0.00	0.00	90.30	9.70	0.00	
Farms by Geography	111	0.00	0.00	97.30	2.70	0.00	
Families by Income Level	15,849	22.63%	17.28%	17.45	42.64	0.00	
Distribution of Low- and Moderate-Income Families throughout AA Geographies	6,325	0.00	0.00	93.60	6.40	0.00	
Median Family Income	\$43,992						
FFIEC Updated Median Family Income for 2016	\$46,400	Median Housing Value				\$95,870	
Families Below the Poverty Level	%	Unemployment Rate (2016)				6.10%	

Source(s): 2010 U.S. Census and 2016 FFIEC updated Median Family Income. U.S. Department of Labor, Bureau of Labor Statistics. (*) The NA category consists of geographies not assigned an income classification.

Scope of the Evaluation

Evaluation Period/Products Evaluated

FNB was evaluated by the Office of the Comptroller of the Currency (OCC) using Small Bank Examination Procedures. The evaluation period covered May 1, 2012 through March 31, 2017. We conducted a Lending Test to evaluate the Bank's record of meeting the credit needs of their AA through their lending activities. The Lending Test evaluates the Bank's performance according to the following criteria: LTD ratio, lending within the AA, geographic distribution of loans, lending to borrowers of different incomes and businesses of different sizes, and the Bank's response to CRA-related complaints. The scope of the Lending Test covered the Bank's primary loan products, residential real estate and business loans. For 2015, 2016 and the first quarter of 2017, the sample included 51 residential real estate loans, 26 business loans, and 25 home equity lines of credit (HELOCs).

A community contact familiar with the AA identified a need for home improvement loans in the AA.

Conclusions with Respect to Performance Tests

Loan-to-Deposit Ratio

FNB's average LTD ratio was reasonable given FNB's size, financial condition, and AA credit needs. The Bank's average net LTD for the nineteen quarters since the last CRA evaluation was 56.97 percent. There were no other similarly situated banks operating in the AA. However, two similarly situated financial institutions with a located in southern Kentucky had comparable net LTDs of 58.54 percent and 55.64 percent, respectively.

Lending in the Assessment Area

A substantial majority of the loans made by FNB were within its AA. The OCC analyzed a random sample of 102 loans originated between January 1, 2015 and March 31, 2017.

Table 2 - Lending in Laurel County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	47	92.16	4	7.84	51	6,911	91.93	607	8.07	7,518
Business Loans	23	88.46	3	11.54	26	8,633	90.50	906	9.50	9,539
HELOC	21	84.00	4	16.00	25	1,659	89.05	204	10.95	1,863
Totals	91	89.35	11	10.65	102	17,203	90.88	1,717	9.12	18,920

Source(s): Random sample of residential real estate, HELOC, and business loans originated between January 1, 2015 and March 31, 2017.

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

The distribution of loans reflected reasonable penetration among individuals of different income levels and businesses of different sizes, given the economic condition and demographics of the AA.

Table 3 shows the Bank's originations of residential real estate and HELOC loans to low-income borrowers was below the percentage of families that are considered low-income. Despite this disparity, this level of performance was considered reasonable as peer data for banks reporting 2015 HMDA data in Laurel County showed lending of 5.72 percent of residential real estate loans to low-income borrowers, which is lower than the Bank's lending percentages. In addition, sixteen percent of families in the AA were

below the poverty level. Families that live below the poverty level often experience economic barriers to homeownership, reducing opportunities for banks to originate home loans.

Lending to moderate-income borrowers was reasonable. The origination of loans to moderate-income borrowers was near the demographic comparator for residential real estate loans and lower than the comparator for HELOCs. Taking into account the lending volume and the 11 distressed CTs within the bank’s AA, the percentage of loans originated to low and moderate-income borrowers is reasonable.

Table 3 - Borrower Distribution of Residential Real Estate Loans in Laurel County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	22.63	6.38	17.28	12.77	17.45	17.02	42.64	63.83
HELOC	22.63	9.52	17.28	9.52	17.45	4.77	42.64	76.19

Source(s): 2010 United States Census and random sample of residential real estate loans originated between January 1, 2015 and March 31, 2017.

Table 4 indicates that by number, the percentage of FNB’s business loans extended to companies considered small (revenues under \$1 million) exceeded the percentage of small businesses within the AA. The Bank originated 91.30 percent of loans to small business, which exceeded the demographic comparator of 81.46 percent.

Table 4 - Borrower Distribution of Loans to Businesses in Laurel County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	81.46	5.91	12.63	100
% of Bank Loans in AA by #	91.30	8.70	N/A	100
% of Bank Loans in AA by \$	66.93	33.07	N/A	100

Source(s): 2010 United States Census, 2016 Dunn and Bradstreet business geodemographic data Random sample of business loans originated between January 1, 2015 and March 31, 2017.

Geographic Distribution of Loans

As the AA does not include any low- or moderate-income geographies, we did not conduct a review of the Bank’s geographic loan distribution.

Response to Complaints

FNB did not receive any complaints about its performance in meeting community credit needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank's 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 (HUD), and the Consumer Financial Protection Bureau (CFPB).

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.