



PUBLIC DISCLOSURE

January 05, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples National Bank
Charter Number 21041

1020 John Sims Parkway
Niceville, FL 32578-2221

Office of the Comptroller of the Currency

8375 Dix Ellis Trail, Suite 403
Jacksonville, FL 32256-8273

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 institution is rated Satisfactory

The major factors to support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of the bank's loans were made in the Assessment Area (AA).
- Lending activities represent reasonable penetration of borrowers of different incomes and businesses of different sizes.
- Geographic distribution of lending activities represents reasonable dispersion.
- The bank has not received any CRA related complaints during the evaluation period.

SCOPE OF EXAMINATION

The exam was completed using Small Bank examination procedures, which include the Lending Test. The lending test evaluates the bank or federal savings association's record of meeting the credit needs of its AA through its lending activities.

Peoples National Bank's (PNB) primary loan products are 1-4 family home loans and commercial loans. The lending test for PNB uses its Home Mortgage Disclosure Act (HMDA) reported loans from January 1, 2012 to the start of the examination on January 5, 2015, and a sample of twenty commercial loans made during this period.

DESCRIPTION OF INSTITUTION

PNB is a community bank with \$113 million in total assets as of September 30, 2014. The bank was founded in 1986 and is owned by a single-asset holding company, Bancshares Corporation of Niceville. The institution operates three locations. The bank's headquarters are located in Niceville, Florida. The other branches are located in Freeport, Florida and Defuniak Springs, Florida. PNB offers full service banking, which includes drive-up facilities, automated teller machines, on-line banking, and safe deposit rentals.

Deposit products include personal and business checking accounts, savings accounts, certificates of deposit, individual retirement accounts, and money market accounts.

PNB offers a variety of both fixed and variable rate loan products. Residential product offerings include first or second mortgages for the purchase, refinance, improvement, and construction of 1-4 family homes. Commercial loan offerings include commercial real estate, construction, land development, and loans to finance commercial and industrial operations. Consumer product offerings include credit card, automobiles, and

other single pay or installment products. The loan portfolio is summarized in the chart below.

Loan Portfolio Summary by Loan Product September 30, 2014	
Loan Category	% of Outstanding Dollars
Residential Real Estate	41%
Commercial and Commercial Real Estate	33%
Construction, Development & Other	23%
Consumer Loans	3%

Source: Report of Condition dated September 30, 2014

There are no financial or legal obstacles affecting PNB’s ability to meet the credit needs of the community.

PNB received an overall rating of "Satisfactory" at the previous CRA evaluation dated September 21, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

PNB has one defined AA that consists of Okaloosa and Walton Counties and contains the Crestview-Fort Walton Beach-Destin Metropolitan Statistical Area (MSA). In previous reviews, these counties were separate AAs. However, since the two counties are contiguous and have a similar demographic makeup, they were combined for this review.

The AA contains fifty-four census tracts. These tracts are complete and include all tracts in both Okaloosa (43 tracts) and Walton (11 tracts) Counties. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

PNB has three full service locations in the AA. The main office is located in Okaloosa County, and the two branch locations are in Walton County. The main office is located in an upper-income census tract while both branch offices are located in moderate-income tracts.

The AA is located in the Florida Panhandle in an area known as “The Emerald Coast.” A major interstate divides the AA at its middle and several small regional airports are located in the AA. The primary industries in the area are defense, technology, and tourism.

According to *Moody’s Analytics*, top employers for the area include Eglin Air Force Base, Fort Walton Beach Medical Center, and Northwest Florida State College. Seven of the ten major U.S. defense contractors have operations in the area, including Lockheed Martin and Boeing. Tourism and growth in tourism are major factors in the recovery of the commercial real estate prices in the area. During the summer of 2014, the area experienced a record level of real estate sales and rentals.

Like most of Florida, this region was adversely affected during the recession when real estate values fell. Home prices have recovered modestly since bottoming out in 2011 and construction demand for new homes has increased. Some of the growth is associated with demand for more vacation homes and investment properties; but, residential demand is also increasing as new jobs continue to open in the area.

In 2014, unemployment in the area fell to 4.7 percent, which is lower than both the average for the state of Florida at 5.8 percent and the U.S. at 5.6 percent. Unemployment levels within the AA have been declining since 2010. Despite the improving unemployment numbers, the level of population in the area below the poverty line is still high at 13 percent.

Banking competition in the AA is aggressive and consists of competition from large national banks, regional banks, as well as several smaller community institutions.

Additional demographic and economic data from the U.S. Census Bureau is shown below:

2010 Demographic and Economic Characteristics of Okaloosa and Walton Counties	
<i>Population</i>	
Total Population	235,865
Number of Families	64,011
Number of Households	95,358
<i>Geographies</i>	
Number of Census Tracts	54
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	20%
% Middle-Income Census Tracts	52%
% Upper-Income Census Tracts	24%
% Not Applicable Census Tracts*	4%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$65,634
2010 HUD-Adjusted MFI	\$64,500
<i>Economic Indicators</i>	
Unemployment Rate	5%
Median Housing Value (2009-2013)	\$182,100
% of Households Below Poverty Level	13%

Source: 2010 Census data and HUD updated income data *The AA includes two tracts assigned to portions of the Gulf of Mexico that are non-inhabitable.

Opportunities for Community Development

As a part of our review, we discussed the Community Development needs of the AA with a local community contact. Our contact works with a community-based development group whose goals are to bring new business to the area, as well as find support for existing industries. The contact stated the primary community development

and lending needs in the AA include affordable housing loans and loans for the construction of additional homes.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s performance under the Lending Test rating is “Satisfactory.”

PNB’s LTD ratio is reasonable. A substantial majority of loans are made in the AA. Lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration. The geographic distribution of loans for both residential and commercial borrowers represents reasonable dispersion.

Loan-to-Deposit Ratio

PNB's net LTD ratio is reasonable given the bank's size, financial condition, and its level of competition. The bank's net LTD ratio averaged 58 percent since the previous CRA exam. The LTD peaked at 72 percent and reached a quarterly low of 47 percent.

The bank's net LTD ratio compares reasonably with other similarly situated institutions. Of the six banks in their peer group, PNB had the fourth highest average net LTD. The highest ranked similar institution had an LTD of 82 percent, and the lowest ranked institution had an LTD of 45 percent.

Lending in Assessment Area

A substantial majority of the bank’s lending during the review period took place inside the AA. We reviewed the bank’s HMDA data between the years 2012-2014 and included a 20 loan sample of commercial loans for a comprehensive look at the bank’s lending in the AA.

Overall, 97 percent of the loans reviewed were made inside the bank's AA and 98 percent of all the dollars lent were lent to individuals or businesses inside the AA.

Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Loans	199	97.55	5	2.45	204	19,306	98.26	342	1.74	19,648
Business Loans	19	95.00	1	5.00	20	3,615	97.75	83	2.25	3,698
Totals	218	97.32	6	2.68	224	22,921	98.11	442	1.89	23,363

Source: 2012, 2013, 2014 HMDA and 20 Loan Sample

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

The overall borrower distribution is satisfactory and represents reasonable penetration of borrowers of different income levels and businesses of different sizes.

Residential Loans

PNB’s lending to borrowers of different incomes is reasonable. The percentage of families in the AA that are low- and moderate-income (LMI) are approximately 20 percent and 18 percent, respectively. PNB’s level of lending for LMI borrowers falls below these benchmarks, but is not unreasonably low. Considering the high poverty level in the AA and the level of competition present by other institutions, it is reasonable that the bank would have difficulty finding a high number of qualifying LMI borrowers.

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
Home Purchase	19.58	5.88	17.97	14.71	22.96	17.65	39.49	50.00
Home Improvement	19.58	12.50	17.97	12.50	22.96	18.75	39.49	56.25
Refinance	19.58	12.08	17.97	6.71	22.96	14.09	39.49	50.34

Source: 2012, 2013, and 2014 HMDA; 2010 U.S. Census data

Commercial Loans

The bank’s lending to businesses of different sizes is reasonable. Based on the information gathered from our 20 loan sample, the bank makes a majority of its loans to businesses that make less than \$1 million in gross revenue at 80 percent, which is slightly more than the 74 percent of businesses in the AA with less than \$1 million in gross revenue.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73.74	2.54	23.72	100%
% of Bank Loans in AA by #	80.00	10.00	10.00	100%
% of Bank Loans in AA by \$	63.08	16.68	20.24	100%

Source: 20 Loan Sample; Dunn & Bradstreet data

Geographic Distribution of Loans

The geographic distribution of loans in the AA represents reasonable dispersion across census tracts of different income levels.

Residential Loans

The geographic distribution of residential real estate loans is reasonable. Approximately 17 percent of owner occupied housing lies in moderate-income census tracts. PNB’s HMDA data indicates that, for home purchases, home improvement, and refinances, the bank lends at a level just below that rate. The bank’s best performance was under the home purchase category. Approximately 15 percent of its residential loans were made for home purchases in moderate-income census tracts.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	16.61	14.71	57.71	58.82	25.68	26.47
Home Improvement	0.00	0.00	16.61	12.50	57.71	56.25	25.68	31.25
Refinance	0.00	0.00	16.61	12.08	57.71	66.44	25.68	21.48

Source: 2012, 2013, and 2014 HMDA; 2010 U.S. Census data.

Commercial Loans

The geographic distribution of loans to businesses in the AA represents reasonable dispersion. Approximately 15 percent of businesses in the AA fall in moderate-income census tracts. The 20 loan sample indicated that 10 percent of the bank’s commercial loans fall in moderate income tracts. This performance is under the average level for the AA, but is reasonable considering that there are only a few scattered moderate-income geographies in the AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	0.00	0.00	14.72	10.00	54.74	80.00	30.54	10.00

Source: 20 Loan Sample; Dunn & Bradstreet data

Responses to Complaints

PNB did not receive any complaints regarding its performance under CRA during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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