

PUBLIC DISCLOSURE

September 20, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Paducah Bank and Trust Company
RSSD #285740**

**555 Jefferson Street
Paducah, Kentucky 42001**

Federal Reserve Bank of St. Louis

**P.O. Box 442
St. Louis, Missouri 63166-0442**

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 the 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.

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

The Lending Test is rated:

Satisfactory

The Community Development Test is rated:

Satisfactory

The Paducah Bank and Trust Company (Paducah Bank) meets the criteria for a Satisfactory rating based on the evaluation of the bank's lending and community development activities. The factors supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, and credit needs of the assessment areas.
- A majority of loans and other lending-related activities are in the assessment areas.
- The distribution of loans to borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income (LMI)) and businesses of different revenue sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment areas.
- There were no CRA-related complaints filed against the bank since the previous CRA evaluation.
- The bank's overall community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment areas. The bank has responded to these needs through community development loans, qualified investments, and community development services.

During the COVID-19 pandemic, the bank responded to the needs of the community through its participation in the CARES Act¹ Paycheck Protection Program (PPP), and such activity was also considered while evaluating the bank's CRA performance.

¹ Coronavirus Aid, Relief, and Economic Security Act, signed into law on March 27, 2020.

SCOPE OF EXAMINATION

The bank’s CRA performance was evaluated using the Federal Financial Institutions Examination Council’s (FFIEC’s) intermediate small bank (ISB) procedures. The ISB examination procedures entail two performance tests: the Lending Test and the Community Development Test. The bank operates in two delineated assessment areas within the state of Kentucky. The first assessment area consists of McCracken County, which is in a nonmetropolitan statistical area (nonMSA) portion in the western part of the state. The second assessment area comprises the entirety of Jefferson County, which is part of the Louisville-Jefferson County KY-IN MSA (Louisville MSA). The McCracken County assessment area was analyzed using full-scope review procedures, while the Jefferson County assessment area was analyzed using limited-scope review procedures.

The following table details the number of branch offices, breakdown of deposits, and the CRA review procedures applicable to each assessment area completed as part of this evaluation. Deposit information in the following table, as well as deposit information throughout this evaluation, is taken from the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report data as of June 30, 2021.

Assessment Area	Offices		Deposits as of June 30, 2021		Assessment Area Reviews		
	#	%	\$ (000s)	%	Full Scope	Limited Scope	TOTAL
McCracken County	5	83.3%	\$637,185	98.9%	1	0	1
Jefferson County	1	16.7%	\$6,896	1.1%	0	1	1
OVERALL	6	100.0%	\$644,081	100.0%	1	1	2

In light of branch structure, loan and deposit activity, and the bank’s CRA evaluation history, CRA performance in McCracken County was given primary consideration, as it contains the majority of the bank’s loan and deposit activity.

Furthermore, small business and 1–4 family residential real estate loans were used to evaluate the bank’s lending performance, as these loan categories are considered the bank’s core business lines based on lending volume and the bank’s stated business strategy. Therefore, the loan activity represented by these credit products is deemed indicative of the bank’s overall lending performance. However, as the bank has a particular emphasis on commercial lending, performance based on the small business loan category carried the most significance toward the bank’s overall performance conclusions. The following table details the performance criterion and the corresponding time periods used in each analysis.

Performance Criterion	Time Period
LTD Ratio	December 31, 2017 – June 30, 2021
Assessment Area Concentration	January 1, 2019 – December 31, 2019
Loan Distribution by Borrower’s Profile	
Geographic Distribution of Loans	
Response to Written CRA Complaints	November 27, 2017 – September 19, 2021
Community Development Activities	

Lending Test analyses often entail comparisons of bank performance to assessment area demographics and the performance of other lenders based on Home Mortgage Disclosure Act (HMDA) and CRA aggregate lending data. Unless otherwise noted, assessment area demographics are based on 2015 U.S. Census data; certain business demographics are based on 2019 Dun & Bradstreet data. When analyzing bank performance by comparing lending activity to both demographic data and aggregate lending data, greater emphasis is generally placed on the aggregate lending data, because it is expected to describe many factors impacting lenders within an assessment area. Aggregate lending datasets are also updated annually and are, therefore, expected to predict more relevant comparisons. In addition, the bank’s lending levels were evaluated in relation to those of comparable financial institutions operating within the same general region. Three other banks were identified as similarly situated peers, with asset sizes ranging from \$585.8 million to \$1.4 billion as of June 30, 2021.

As part of the Community Development Test, the bank’s performance was evaluated using the following criteria, considering the bank’s capacity and the need and availability of such opportunities for community development in the bank’s assessment areas:

- The number and dollar amount of community development loans.
- The number and dollar amount of qualified investments and grants.
- The extent to which the bank provides community development services.

The review included community development activities initiated from the date of the bank’s previous CRA evaluation to this review date. In addition, investments made prior to the date of the previous CRA evaluation, but still outstanding as of this review date, were considered.

To augment this evaluation, a roundtable discussion with five community contacts was conducted with members of the local community to ascertain specific credit needs, opportunities, and local market conditions within the bank’s assessment areas. Information from this roundtable also assisted in evaluating the bank’s responsiveness to identified community credit needs and community development opportunities, and the key details from this discussion are included in the *Description of Institution’s Operations in the McCracken County Assessment Area* section.

DESCRIPTION OF INSTITUTION

Paducah Bank is a full-service retail bank offering both consumer and commercial loans and deposit products. The bank is wholly owned by Paducah Bancshares, a single bank holding company. The bank and its holding company are both headquartered in Paducah, Kentucky, which is in the McCracken County assessment area, and the bank’s branch network consists of six offices (including the main office). In addition to being full-service facilities, each of the five offices in the McCracken County assessment area has drive-up accessibility, and four of the branches have on-site full-service automated teller machines/interactive teller machines (ATMs/ITMs). Furthermore, the bank maintains three stand-alone ITMs in the McCracken County assessment area; the bank closed one full-service branch in this assessment area during this review period. In March 2019, the bank converted its loan production office (LPO) in Jefferson County to a full-service branch, coinciding with the delineation of the bank’s second assessment area, the Jefferson County assessment area.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting the credit needs of its assessment areas based on its available resources and financial products. As of June 30, 2021, the bank reported total assets of \$811.6 million. As of the same date, loans and leases outstanding were \$607.8 million (74.9 percent of total assets), and deposits totaled \$644.1 million. The bank’s loan portfolio composition by credit category is displayed in the following table.

Distribution of Total Loans as of June 30, 2021		
Credit Category	Amount (\$000s)	Percentage of Total Loans
Construction and development	\$49,142	8.1%
Commercial real estate	\$217,979	35.9%
Multifamily residential	\$26,335	4.3%
1–4 family residential	\$157,135	25.9%
Farmland	\$12,849	2.1%
Farm loans	\$10	0.0%
Commercial and industrial	\$129,748	21.3%
Loans to individuals	\$7,142	1.2%
Total other loans	\$7,532	1.2%
TOTAL	\$607,872	100%

As indicated by the table above, a significant portion of the bank’s lending resources is directed to commercial real estate loans, loans secured by 1–4 family residential properties, and commercial and industrial-related loans. The bank also originates and subsequently sells a significant volume of loans related to residential real estate. As these loans are sold on the secondary market shortly after origination, this activity would not be captured in the table.

The bank received a Satisfactory rating at its previous CRA evaluation conducted by this Reserve Bank on November 27, 2017.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Paducah Bank meets the standards for a satisfactory Lending Test rating under the ISB procedures, which evaluate bank performance under the following five criteria as applicable. In addition to meeting the ISB Lending Test standards, the bank demonstrated innovative and flexible lending practices as an active participant in the Small Business Administration’s (SBA’s) PPP, which offered no-interest, forgivable loans to businesses across the country. During the review period, the bank originated more than 1,048 PPP loans totaling approximately \$92.2 million.

Loan-to-Deposit (LTD) Ratio

One indication of the bank’s overall level of lending activity is its LTD ratio. The table below displays the bank’s average LTD ratio in comparison to those of regional peers. The average LTD ratio represents a 15-quarter average, dating back to the bank’s last CRA evaluation.

LTD Ratio Analysis			
Name	Headquarters	Asset Size (\$000s) as of June 30, 2021	Average LTD Ratio
Paducah Bank and Trust Company	Paducah, Kentucky	\$811,569	95.8%
Regional Banks	Benton, Kentucky	\$1,450,132	84.4%
	Mayfield, Kentucky	\$585,842	85.3%
	Bardstown, Kentucky	\$644,227	62.7%

Based on data from the previous table, the bank’s level of lending is above that of other banks in the region. During the review period, the bank’s quarterly LTD ratio experienced a generally stable trend, with a 15-quarter average of 95.8 percent. In comparison, the average LTD ratios for the regional peers were lower and had a slightly decreasing trend. Therefore, compared to data from regional banks, the bank’s average LTD ratio is more than reasonable given the bank’s size, financial condition, and credit needs of its assessment areas.

Assessment Area Concentration

For the loan activity reviewed as part of this evaluation, the following table displays the number and dollar volume of loans inside and outside the bank’s assessment areas.

Lending Inside and Outside of Assessment Areas January 1, 2019 through December 31, 2019						
Loan Type	Inside Assessment Areas		Outside Assessment Areas		TOTAL	
Residential Real Estate	57	69.5%	25	30.5%	82	100%
	\$8,551	54.8%	\$7,062	45.2%	\$15,614	100%
Small Business	64	64.0%	36	36.0%	100	100%
	\$8,832	44.8%	\$10,874	55.2%	\$19,706	100%
TOTAL LOANS	121	66.5%	61	33.5%	182	100%
	\$17,384	49.2%	\$17,936	50.8%	\$35,320	100%

A majority of loans and other lending-related activities were made in the bank’s assessment areas. As shown in the preceding table, 66.5 percent of the total loans were made inside the assessment areas, accounting for 49.2 percent of the dollar volume of total loans. Bank management advised the discrepancy between loan volume and dollar volume can be attributed to participation loans outside of the bank’s assessment area.

Borrower and Geographic Distribution

As displayed in the following table, overall performance by borrower’s income/revenue profile is reasonable, based on performance in the full-scope review area.

Full-Scope Review Areas	Loan Distribution by Borrower’s Profile
NonMSA Kentucky Statewide Area	Reasonable

Limited-Scope Review Areas	Loan Distribution by Borrower’s Profile
Louisville MSA	Consistent

The bank’s overall geographic distribution of lending by income level of census tract is reasonable based on performance in the full-scope review area.

Full-Scope Review Areas	Geographic Distribution of Loans
NonMSA Kentucky Statewide Area	Reasonable

Limited-Scope Review Areas	Geographic Distribution of Loans
Louisville MSA	Consistent

Responses to Complaints

No CRA-related complaints were filed against the bank during this review period (November 27, 2017 through September 19, 2021).

COMMUNITY DEVELOPMENT TEST

Paducah Bank’s performance under the Community Development Test is rated Satisfactory, based on adequate responsiveness to the community development needs in the Kentucky nonmetropolitan statewide area.

Full-Scope Assessment Area	Community Development Test Performance
NonMSA Kentucky Statewide Area	Adequate

Limited-Scope Assessment Areas	Community Development Performance
Louisville MSA	Below

During the review period, the bank made 96 qualifying loans in its assessment areas totaling approximately \$17.0 million. Of those loans, 11 were for affordable housing, 4 were to community service organizations, and 1 supported the revitalization/stabilization of an LMI area. And as previously mentioned, the bank was an active participant in the SBA's PPP; in response to the COVID-19 pandemic (pandemic); the bank made 80 PPP loans to businesses located in LMI geographies in the bank's assessment areas totaling approximately \$14.2 million, which helps to revitalize and stabilize these areas.

The bank also made community development investments and donations in its assessment areas totaling \$255,867. This amount includes two new qualified investments totaling \$44,821 and 79 donations totaling \$211,046. Both investments were mortgage-backed securities (MBS) that financed affordable housing in the Jefferson County assessment area. The 79 donations were to 27 separate organizations having a community development purpose. The donations were made primarily to local community service organizations and schools with a majority of students from LMI families.

During the review period, 23 bank employees used their financial expertise to contribute community development services to 13 different community development organizations within the bank's assessment areas. Employees offered assistance primarily to local community service organizations and organizations specializing in affordable housing. In addition, services included financial literacy classes for students at schools with a majority of students from LMI families.

In addition to adequately meeting the community development needs of its assessment areas, the bank made one qualified investment in the broader, Kentucky statewide area totaling \$16,200.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Based on findings from the Consumer Affairs examination, including a fair lending analysis performed under Regulation B – Equal Credit Opportunity and the Fair Housing Act requirements, conducted concurrently with this CRA evaluation, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

KENTUCKY NONMETROPOLITAN STATEWIDE AREA *(Full-Scope Review)*

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE MCCRACKEN COUNTY ASSESSMENT AREA

Bank Structure

The bank operates five of its six offices (83.3 percent) in this assessment area. Of the five offices, two are in middle-income census tracts, and three are located in upper-income census tracts; however, three of the branches are adjacent to LMI census tracts in the assessment area. Since the last examination, the bank closed one branch in a moderate-income census tract. Based on its branch network and other service delivery systems, the bank is well positioned to deliver financial services to substantially all of the assessment area.

General Demographics

The assessment area comprises McCracken County in its entirety, which is in the far western portion of Kentucky, bordering Illinois to the north along the Ohio River. As of 2015, the assessment area population was 65,408. Of the ten FDIC-insured depository institutions with a branch presence in this assessment area, the bank ranked first in deposit market share, encompassing 32.0 percent of total deposit dollars.

Credit needs in the assessment area include affordable housing and business loan products. Other particular community needs noted by community contacts include financial literacy initiatives, specifically credit recovery classes. Contacts also noted that affordable housing stock is severely limited in Paducah, McCracken County’s largest city, and roughly 600 clients are on the local housing authority’s waitlist.

Income and Wealth Demographics

Assessment Area Demographics by Geography Income Level						
Dataset	Low-	Moderate-	Middle-	Upper-	Unknown	TOTAL
Census Tracts	1	3	5	8	0	17
	5.9%	17.6%	29.4%	47.1%	0.0%	100%
Family Population	419	1,473	4,568	10,567	0	17,027
	2.5%	8.7%	26.8%	62.1%	0.0%	100%

As shown in the preceding table, 23.5 percent of the census tracts in the assessment area are LMI geographies; however, only 11.2 percent of the family population resides in those tracts. The LMI tracts are primarily concentrated in and around the city of Paducah in the northeast-central portion of McCracken County.

Based on 2015 U.S. Census data, the median family income for the assessment area was \$57,186. At the same time, the median family income for nonMSA Kentucky was \$45,986. More recently,

the FFIEC estimates the 2019 median family income for nonMSA Kentucky to be \$49,800. The following table displays population percentages of assessment area families by income level compared to the nonMSA Kentucky family population as a whole.

Family Population by Income Level					
Dataset	Low-	Moderate-	Middle-	Upper-	TOTAL
McCracken County Assessment Area	2,945	2,160	3,008	8,914	17,027
	17.3%	12.7%	17.7%	52.4%	100%
NonMSA Kentucky	115,103	77,548	89,036	200,284	481,971
	23.9%	16.1%	18.5%	41.6%	100%

As shown in the table above, 30.0 percent of families within the assessment area were considered LMI, which is significantly lower than the LMI family percentage of 40.0 percent in nonMSA Kentucky. Furthermore, the percentage of families living below the poverty threshold in the assessment area, 13.7 percent, is also below the 18.2 percent level in nonMSA Kentucky. Considering these factors, the assessment area appears more affluent than nonMSA Kentucky as a whole.

Housing Demographics

Based on housing values, income levels, and rental costs, housing in the assessment area appears to be less affordable than in nonMSA Kentucky.

Housing Demographics			
Dataset	Median Housing Value	Affordability Ratio	Median Gross Rent (Monthly)
Assessment Area	\$124,000	35.4%	\$604
NonMSA Kentucky	\$90,748	39.0%	\$578

The median housing value for the assessment area is \$124,400, which is significantly greater than the figure for nonMSA Kentucky (\$90,748). The assessment area housing affordability ratio of 35.4 percent is below the nonMSA Kentucky figure of 39.0 percent. In addition, the median gross rent for the assessment area of \$604 per month is greater than the \$578 per month for nonMSA Kentucky.

Furthermore, rental units appear to be more prominent in the assessment area than in nonMSA Kentucky. Of all housing units in the assessment area, 28.7 percent are rental units, compared to 24.8 percent of rental units found in nonMSA Kentucky, which correlates with a smaller available inventory of 1–4 family residential real estate housing. Based on housing data and additional information from community contact interviews, housing does not appear to be broadly within reach of the LMI population in the assessment area.

Industry and Employment Demographics

The assessment area supports a large and diverse business community, including a strong small business sector as noted by community contacts. County business patterns indicate there are 36,868

paid employees in the assessment area. By percentage of employees, the three largest job categories are healthcare and social assistance (19.7 percent), retail trade (16.0 percent), and accommodation and food services (12.1 percent). The table below details unemployment data from the U.S. Department of Labor Statistics (not seasonally adjusted) for the assessment area compared to nonMSA Kentucky as a whole.

Unemployment Levels			
Dataset	Time Period (Annual Average)		
	2017	2018	2019
McCracken County Assessment Area	5.9%	5.4%	4.8%
nonMSA Kentucky	5.8%	5.0%	4.8%

As shown in the table above, unemployment levels for the assessment area have been generally consistent with nonMSA Kentucky, with both experiencing notable decreases between 2017 and 2019.

Community Contact Information

Information from a roundtable of five community contacts was used to help shape the performance context in which the bank’s activities in the McCracken County assessment area were evaluated. Of these community contact interviewees, three individuals were from local organizations specializing in economic development. In addition, one individual was from a local government agency, while another was from a local nonprofit agency providing various community services.

Multiple contacts made note of the assessment area’s severely limited affordable housing stock, specifically around Paducah. In addition, the contacts stated the affordable housing and rental units that are available are generally in need of repairs. Furthermore, difficulties finding affordable housing have been exacerbated by the ongoing trends in the real estate market. With such limited affordable housing available, the local housing authority’s waitlist is long. Contacts also indicated that the small business sector in McCracken County has fared relatively well despite the pandemic. PPP loans were lifelines for the small business community, and contacts noted that local financial institutions were very responsive in processing PPP loans. All contacts agreed that most banks serving the area are strong allies and are actively engaged in community projects benefiting the community, including LMI individuals. In addition, contacts noted community banks are the prominent banks in the region, especially for LMI individuals. Furthermore, community banks are more accessible and try harder to meet the needs of small businesses. However, contacts also identified opportunities for bank participation, specifically mentioning credit recovery classes and a need for banks to assist small businesses with loan packaging.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE MCCRACKEN COUNTY ASSESSMENT AREA

LENDING TEST

The overall distribution of loans by borrower’s income/revenue profile reflects reasonable penetration among borrowers of different income levels and businesses of different revenue sizes. Furthermore, the bank’s overall geographic distribution of loans reflects reasonable penetration throughout the McCracken County assessment area.

Loan Distribution by Borrower’s Profile

Overall, the bank’s loan distribution by borrower’s profile is reasonable, based on performance from both loan categories reviewed. The bank’s performance under both the small business and 1–4 family residential real estate loan categories is considered reasonable.

Small business loans were reviewed to determine the bank’s lending levels to businesses of different sizes. The following table shows the distribution of 2019 small business loans by loan amount and business revenue compared to Dun & Bradstreet and aggregate data.

Small Business Loans by Revenue and Loan Size Assessment Area: McCracken County								
Business Revenue and Loan Size		2019						
		Count			Dollars			Total Businesses
		Bank		Aggregate	Bank		Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	%
Business Revenue	\$1 Million or Less	32	53.3%	42.8%	\$3,993	54.7%	33.6%	89.2%
	Over \$1 Million/Unknown	28	46.7%	57.2%	\$3,302	45.3%	66.4%	10.8%
	TOTAL	60	100.0%	100.0%	\$7,295	100.0%	100.0%	100.0%
Loan Size	\$100,000 or Less	40	66.7%	91.8%	\$1,509	20.7%	31.9%	
	\$100,001–\$250,000	11	18.3%	3.9%	\$1,642	22.5%	16.5%	
	\$250,001–\$1 Million	9	15.0%	4.4%	\$4,144	56.8%	51.6%	
	Over \$1 Million	0	0.0%	0.0%	\$0	0.0%	0.0%	
	TOTAL	60	100.0%	100.0%	\$7,295	100.0%	100.0%	
Loan Size Revenue \$1 Million or Less	\$100,000 or Less	20	62.5%		\$799	20.0%		
	\$100,001–\$250,000	6	18.8%		\$941	23.6%		
	\$250,001–\$1 Million	6	18.8%		\$2,253	56.4%		
	Over \$1 Million	0	0.0%		\$0	0.0%		
	TOTAL	32	100.0%		\$3,993	100.0%		

The bank’s level of lending to small businesses is 53.3 percent, which is below demographic data (89.2 percent). However, the bank’s lending level is above the aggregate lending data (42.8

percent); therefore, the bank’s level of lending to small businesses is considered reasonable. Furthermore, the bank originated 66.7 percent of its business loans in dollar amounts less than \$100,000, indicating a willingness to lend to businesses of all sizes.

Next, 1–4 family residential real estate loans were reviewed to determine the bank’s lending levels to borrowers of different income levels. Borrowers are classified into low-, moderate-, middle-, and upper-income categories by comparing their reported income to the applicable median family income figure as estimated by the FFIEC (\$49,800 for nonMSA Kentucky as of 2019). The following table shows the distribution of the bank’s 1–4 family residential real estate loans by borrower income level compared to family population income demographics for the assessment area. Additionally, aggregate data for the assessment area is displayed.

Borrower Distribution of Residential Real Estate Loans Assessment Area: McCracken County								
Product Type	Borrower Income Levels	2019						
		Count			Dollar			Families
		Bank		HMDA Aggregate	Bank		HMDA Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	%
RESIDENTIAL REAL ESTATE TOTALS	Low	2	3.6%	3.4%	49	0.6%	1.5%	17.3%
	Moderate	10	18.2%	11.8%	632	8.3%	7.3%	12.7%
	Middle	7	12.7%	15.6%	536	7.1%	11.3%	17.7%
	Upper	36	65.5%	49.6%	6,354	83.9%	57.8%	52.4%
	Unknown	0	0.0%	19.6%	0	0.0%	22.0%	0.0%
	TOTAL	55	100.0%	100.0%	7,571	100.0%	100.0%	100.0%

As displayed in the preceding table, the bank’s percentage of lending to low-income borrowers (3.6 percent) is substantially below the low-income family population figure (17.3 percent); however, the bank’s performance is similar to the aggregate lending level to low-income borrowers (3.4 percent). Therefore, the bank’s performance among low-income borrowers is reasonable. The bank’s level of lending to moderate-income borrowers (18.2 percent) is above both the moderate-income family population percentage (12.7 percent) and aggregate lending levels of 11.8 percent, reflecting excellent performance. However, considering performance in all income categories (with a primary focus on the LMI lending), the bank’s overall distribution of 1–4 family residential real estate loans is reasonable.

Geographic Distribution of Loans

As noted previously, the McCracken County assessment area includes one low-income and three moderate-income census tracts, representing 23.5 percent of all assessment area census tracts. Overall, the bank’s geographic distribution of loans in this assessment area reflects reasonable penetration throughout these LMI census tracts, based on an excellent distribution of small business loans coupled with a poor distribution of residential real estate loans. The following table displays 2019 small business loan activity by geography income level compared to the location of businesses throughout the bank’s assessment area and 2019 small business aggregate data.

Geographic Distribution of Small Business Loans							
Assessment Area: McCracken County							
Tract Income Levels	2019						
	Count			Dollar			Businesses
	Bank		Aggregate	Bank		Aggregate	
	#	%	%	\$ 000s	\$ %	\$ %	%
Low	23	38.3%	3.4%	\$1,051	14.4%	8.8%	2.6%
Moderate	4	6.7%	10.5%	\$197	2.7%	11.5%	10.3%
Middle	14	23.3%	26.1%	\$1,990	27.3%	21.4%	29.3%
Upper	19	31.7%	57.3%	\$4,058	55.6%	57.6%	57.7%
Unknown	0	0.0%	2.7%	\$0	0.0%	0.8%	0.0%
TOTAL	60	100.0%	100.0%	\$7,296	100.0%	100.0%	100.0%

The bank’s level of lending in the one low-income census tract (38.3 percent) is substantially higher than the estimated percentage of businesses operating inside these census tracts (2.6 percent) and 2019 aggregate lending levels in the assessment area’s low-income census tract (3.4 percent). As a result, bank performance in the low-income census tract is considered excellent.

The bank’s percentage of loans in moderate-income census tracts (6.7 percent) is reasonably similar to both the 2019 aggregate lending percentage (10.5 percent), as well as the percentage of small businesses in moderate-income census tracts (10.3 percent). Given these figures, the bank’s performance in moderate-income census tracts was deemed reasonable. Combined, the bank’s geographic distribution of small business loans in LMI geographies (45.0 percent) is excellent.

Second, the bank’s geographic distribution of 1–4 family residential real estate loans was reviewed. The following table displays 2019 1–4 family residential real estate loan activity by geography income level compared to the location of businesses throughout the bank’s assessment area and 2019 aggregate HMDA data.

Geographic Distribution of Residential Real Estate Loans								
Assessment Area: McCracken County								
Product Type	Tract Income Levels	2019						
		Count			Dollar			Owner-Occupied Units
		Bank		HMDA Aggregate	Bank		HMDA Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	%
RESIDENTIAL REAL ESTATE TOTALS	Low	1	1.8%	0.6%	41	0.5%	0.3%	1.1%
	Moderate	0	0.0%	4.4%	0	0.0%	3.6%	6.5%
	Middle	16	29.1%	22.1%	1,447	19.1%	15.2%	25.5%
	Upper	38	69.1%	72.9%	6,083	80.3%	80.8%	66.9%
	Unknown	0	0.0%	0.0%	0	0.0%	0.0%	0.0%
	TOTAL	55	100.0%	100.0%	7,571	100.0%	100.0%	100.0%

The analysis of 1–4 family residential real estate loans revealed reasonable performance to borrowers residing in the sole low-income geography. While just one loan was originated in the low-income census tract, the bank’s level of lending in this tract (1.8 percent) is similar to both the percentage of owner-occupied housing units in the low-income census tract (1.1 percent) and the aggregate lending level (0.6 percent).

Conversely, the bank did not have any 1–4 family residential real estate lending activity in moderate-income census tracts. This figure is lower than the percentage of owner-occupied housing units (6.5 percent) and aggregate lending level (4.4 percent) in moderate-income census tracts; however, both the demographic and aggregate figures evidence limited home lending opportunities throughout these census tracts. While performance context includes additional challenges to residential real estate lending in these moderate-income areas, such as a higher concentration of commercial properties and increased levels of rental housing units, other lenders were able to make residential, home mortgage loans in these geographies. Consequently, the bank’s overall geographic distribution of 1–4 family residential real estate lending is considered poor.

Lastly, based on reviews from both lending categories, Paducah Bank had loan activity in all assessment area census tracts, which supports the conclusion that the bank’s overall geographic distribution of loans is reasonable.

COMMUNITY DEVELOPMENT TEST

The bank demonstrates adequate responsiveness to community development needs within the McCracken County assessment area, considering the bank’s capacity and the need and availability of such opportunities for community development. The bank addressed these needs through community development loans, qualified investments, and community development services.

During the review period, the bank extended 92 community development loans totaling approximately \$14.3 million. Of these loans, 11 were for affordable housing and 4 were to community service organizations targeting LMI individuals. In addition, 77 of the qualifying loans were PPP loans originated to businesses located in LMI geographies throughout McCracken County, totaling approximately \$11.8 million. The bank’s community development loans are

particularly responsive considering the assessment area's lack of affordable housing and the effects of the pandemic on the local business community, both noted by community contacts.

Community development investments made to the assessment area totaled \$211,046; this entire amount is composed of donations. The donations were made primarily to local community service organizations that target a majority of their services to LMI individuals and qualifying schools.

In addition, 23 different employees, including officers, provided community development services to 13 community development organizations in the assessment area during the review period. Employees offered assistance to affordable housing organizations and health organizations targeting LMI individuals. Additionally, services included financial literacy classes for students in the assessment area.

LOUISVILLE-JEFFERSON COUNTY KENTUCKY- INDIANA METROPOLITAN STATISTICAL AREA

(Limited-Scope Review)

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE JEFFERSON COUNTY ASSESSMENT AREA

The assessment area includes the entirety of Jefferson County, one of ten counties that make up Louisville-Jefferson County Kentucky-Indiana MSA. The bank operates one office in this assessment area, converting an LPO to a full-service branch in March 2019. This branch does not contain an on-site ATM, and the bank does not operate any stand-alone ATMs/ITMs in the assessment area. The tables below detail key demographics relating to this assessment area.

Assessment Area Demographics by Population Income Level					
Demographic Type	Population Income Level				TOTAL
	Low-	Moderate-	Middle-	Upper-	
Family Population	42,891	32,605	35,563	74,699	185,758
	23.1%	17.6%	19.1%	40.2%	100%
Household Population	81,172	50,086	53,850	121,807	306,915
	26.5%	16.3%	17.6%	39.7%	100%

Assessment Area Demographics by Geography Income Level						
Dataset	Geography Income Level					TOTAL
	Low-	Moderate-	Middle-	Upper-	Unknown-	
Census Tracts	31	44	57	57	2	191
	16.2%	23.0%	29.8%	29.8%	1.0%	100%
Family Population	19,505	36,889	64,944	64,162	258	185,758
	10.5%	19.9%	35.0%	34.5%	0.1%	100%
Household Population	35,461	66,642	105,860	97,413	1,539	306,915
	11.6%	21.7%	34.5%	31.7%	0.5%	100%
Business Institutions	3,242	5,752	10,435	15,694	1,891	37,014
	8.8%	15.5%	28.2%	42.4%	5.1%	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE JEFFERSON COUNTY ASSESSMENT AREA

The bank’s Lending Test performance in this assessment area is consistent with the bank’s Lending Test performance in the assessment area within nonMSA Kentucky that was reviewed using full-scope procedures, as detailed in the following table. For more detailed information relating to the bank’s Lending Test performance in this assessment area, see the tables in *Appendix A*.

Lending Test Criteria	Performance
Distribution of Loans by Borrower’s Profile	Consistent
Geographic Distribution of Loans	Consistent
OVERALL	Consistent

COMMUNITY DEVELOPMENT TEST

The bank’s Community Development Test performance in this assessment area is below the bank’s Community Development Test performance in the assessment area within nonMSA Kentucky that was reviewed using full-scope procedures.

During the review period, the bank made four community development loans in the assessment area. One was a small business loan for \$215,600 that qualified as revitalization/stabilization, and three were PPP loans made to businesses located in Jefferson County totaling approximately \$2.4 million. Additionally, the bank made two qualified investments totaling \$44,821, primarily in MBS that finance affordable housing.

**LENDING PERFORMANCE TABLES FOR LIMITED-SCOPE REVIEW
ASSESSMENT AREAS**

Kentucky

Jefferson County, Kentucky Assessment Area

Small Business Loans by Revenue and Loan Size								
Assessment Area: Jefferson County								
Business Revenue and Loan Size		2019						
		Count			Dollars			Total Businesses
		Bank		Aggregate	Bank		Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	%
Business Revenue	\$1 Million or Less	3	75.0%	46.7%	\$1,062	69.1%	30.2%	89.7%
	Over \$1 Million/Unknown	1	25.0%	53.3%	\$475	30.9%	69.8%	10.3%
	TOTAL	4	100.0%	100.0%	\$1,537	100.0%	100.0%	100.0%
Loan Size	\$100,000 or Less	0	0.0%	89.8%	\$0	0.0%	26.7%	
	\$100,001–\$250,000	2	50.0%	5.1%	\$348	22.6%	18.2%	
	\$250,001–\$1 Million	2	50.0%	5.1%	\$1,189	77.4%	55.1%	
	Over \$1 Million	0	0.0%	0.0%	\$0	0.0%	0.0%	
	TOTAL	4	100.0%	100.0%	\$1,537	100.0%	100.0%	
Loan Size Revenue \$1 Million or Less	\$100,000 or Less	0	0.0%		\$0	0.0%		
	\$100,001–\$250,000	2	66.7%		\$348	32.8%		
	\$250,001–\$1 Million	1	33.3%		\$714	67.2%		
	Over \$1 Million	0	0.0%		\$0	0.0%		
	TOTAL	3	100.0%		\$1,062	100.0%		

Borrower Distribution of Residential Real Estate Loans								
Assessment Area: Jefferson County								
Product Type	Borrower Income Levels	2019						
		Count			Dollar			Families
		Bank		HMDA Aggregate	Bank		HMDA Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	%
HOME MORTGAGE TOTALS	Low	0	0.0%	9.4%	0	0.0%	4.6%	23.1%
	Moderate	1	50.0%	20.1%	63	6.4%	12.9%	17.6%
	Middle	0	0.0%	19.9%	0	0.0%	16.0%	19.1%
	Upper	1	50.0%	37.1%	918	93.6%	45.0%	40.2%
	Unknown	0	0.0%	13.4%	0	0.0%	21.5%	0.0%
	TOTAL	2	100.0%	100.0%	981	100.0%	100.0%	100.0%

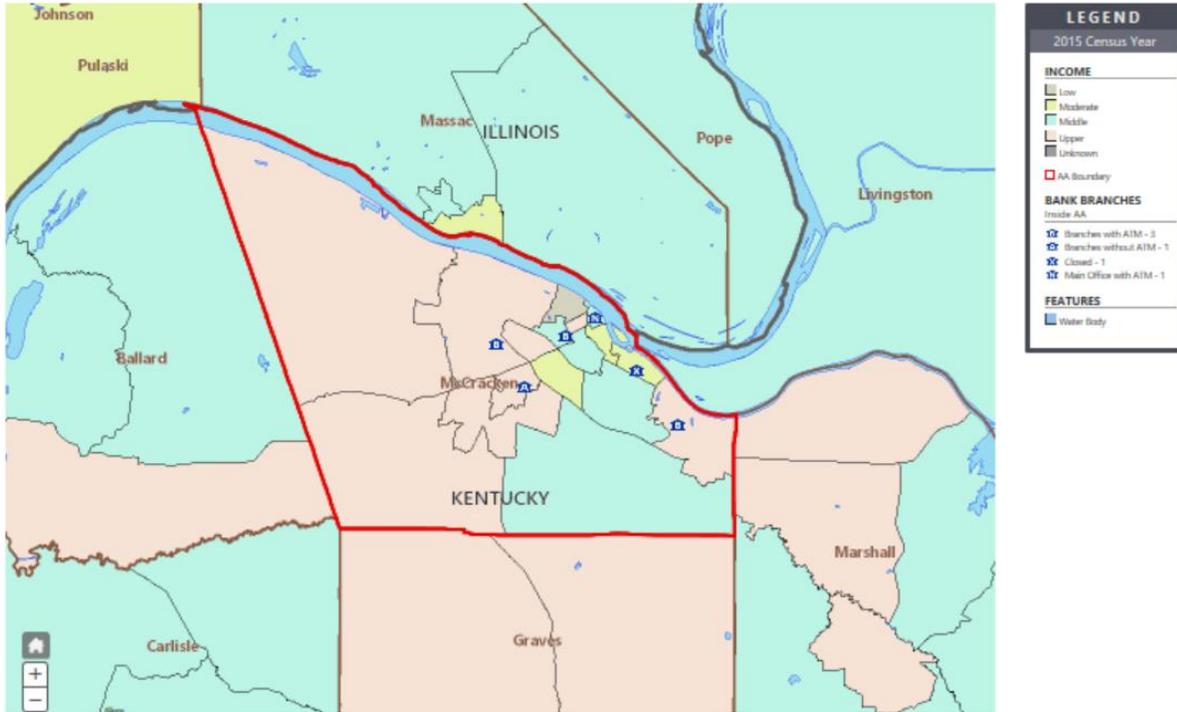
Geographic Distribution of Small Business Loans							
Assessment Area: Jefferson County							
Tract Income Levels	2019						
	Count			Dollar			Businesses
	Bank		Aggregate	Bank		Aggregate	
	#	%	%	\$ 000s	\$ %	\$ %	%
Low	2	50.0%	8.7%	\$348	22.6%	12.3%	8.8%
Moderate	2	50.0%	17.1%	\$1,189	77.4%	19.9%	15.5%
Middle	0	0.0%	27.1%	\$0	0.0%	26.8%	28.2%
Upper	0	0.0%	42.1%	\$0	0.0%	33.9%	42.4%
Unknown	0	0.0%	5.0%	\$0	0.0%	7.1%	5.1%
TOTAL	4	100.0%	100.0%	\$1,537	100.0%	100.0%	100.0%

Geographic Distribution of Residential Real Estate Loans								
Assessment Area: Jefferson County								
Product Type	Tract Income Levels	2019						
		Count			Dollar			Owner-Occupied Units
		Bank		HMDA Aggregate	Bank		HMDA Aggregate	
		#	%	%	\$ (000s)	\$ %	\$ %	%
HOME MORTGAGE TOTALS	Low	0	0.0%	4.1%	0	0.0%	3.5%	6.0%
	Moderate	0	0.0%	14.2%	0	0.0%	9.2%	17.8%
	Middle	0	0.0%	34.5%	0	0.0%	26.6%	36.8%
	Upper	2	100.0%	47.0%	981	100.0%	60.1%	39.2%
	Unknown	0	0.0%	0.1%	0	0.0%	0.6%	0.1%
	TOTAL	2	100.0%	100.0%	981	100.0%	100.0%	100.0%

ASSESSMENT AREAS DETAIL

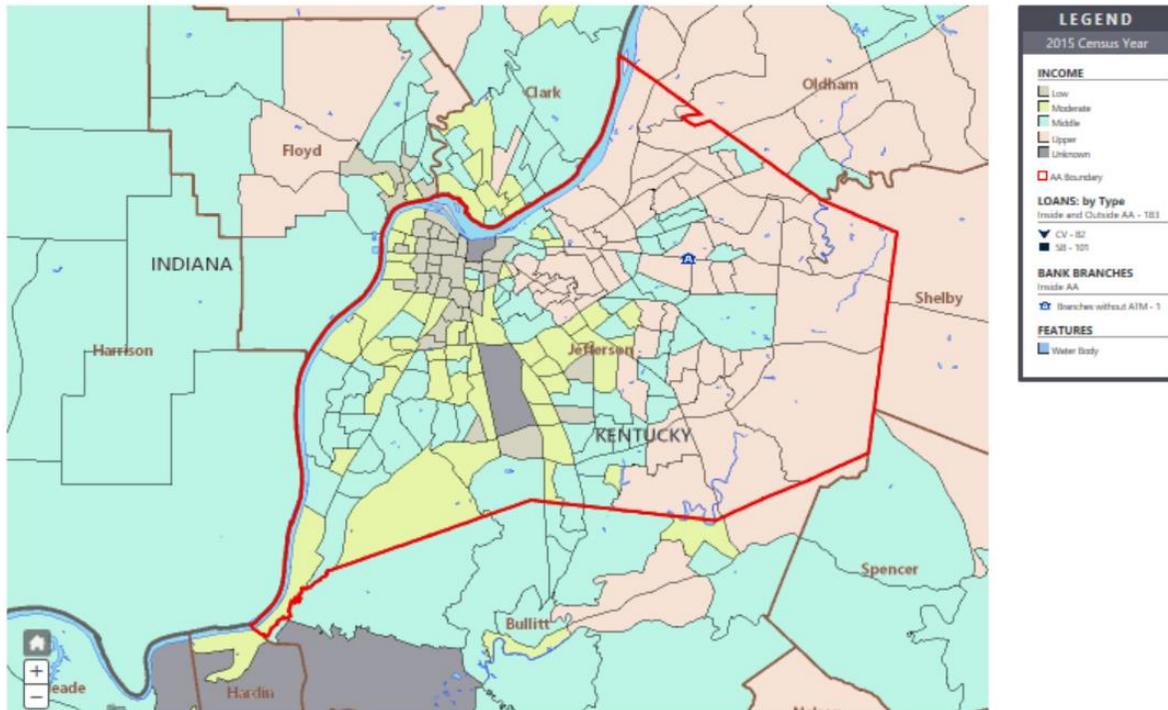
McCracken County Assessment Area

Paducah Bank and Trust Company
NonMSA KY 2019



Jefferson County Assessment Area

Paducah Bank and Trust Company
Partial Louisville, KY-IN MSA



GLOSSARY

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 metropolitan area/assessment area.

Assessment area: One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

Census tract: A small subdivision of metropolitan and non-metropolitan counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on 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 contact: Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies; or (5) Neighborhood Stabilization Program (NSP) eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and geographies.

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.

Demographics: The statistical characteristics of human populations (e.g., age, race, sex, and income) used especially to identify markets.

Distressed non-metropolitan middle-income geography: A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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-scope 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 do 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; and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

Household: One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Housing affordability ratio: Calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

Limited-scope 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 metropolitan area/assessment area.

Median family income: The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

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.

Nonmetropolitan statistical area (nonMSA): Not part of a metropolitan area. (See metropolitan area.)

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.

Performance context: The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution's record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

Performance criteria: These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

Performance evaluation (PE): A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

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 businesses/small farms: A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were \$1 million or less.

Small loan(s) to business(es): That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are secured either by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.

Small loan(s) to farm(s): That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports 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.

Underserved middle-income geography: A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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