



## KENTUCKY BANK QUARTERLY 3Q17 REVIEW

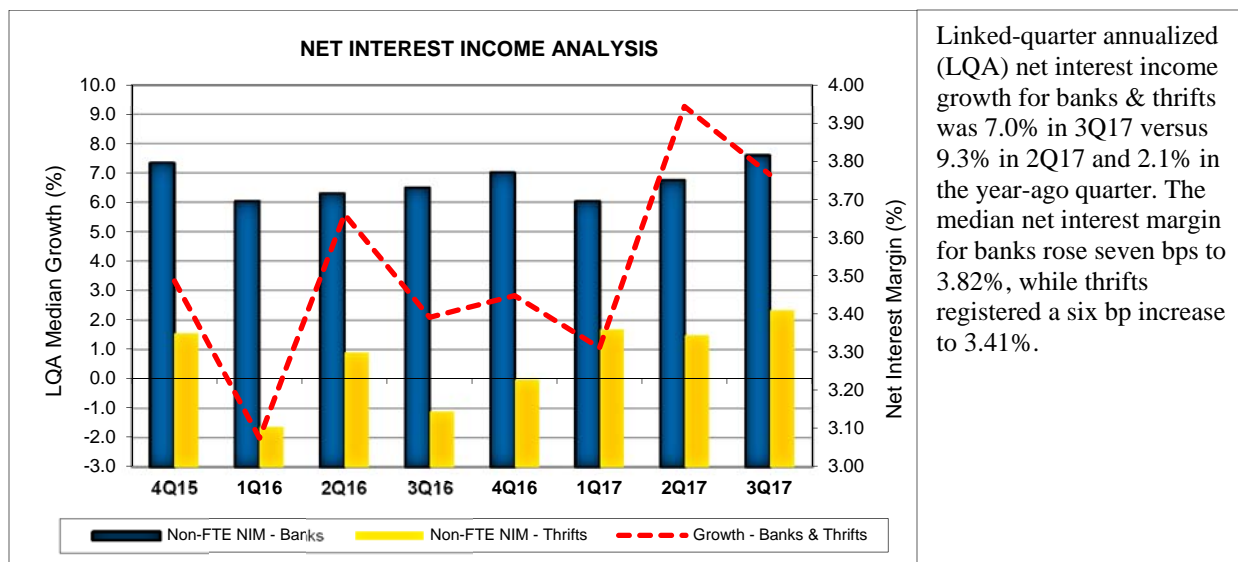
### Banks

Analyst: Andrew W. Stapp  
502-588-4190 / [astapp@hilliard.com](mailto:astapp@hilliard.com)  
Associate Analyst: Tyler Agee  
502-588-8686 / [ragee@hilliard.com](mailto:ragee@hilliard.com)  
Institutional Sales Desk: George Moorin  
502-588-9141 / [gmoorin@hilliard.com](mailto:gmoorin@hilliard.com)  
J.J.B. Hilliard, W.L. Lyons, LLC  
November 20, 2017

### FINANCIAL REVIEW

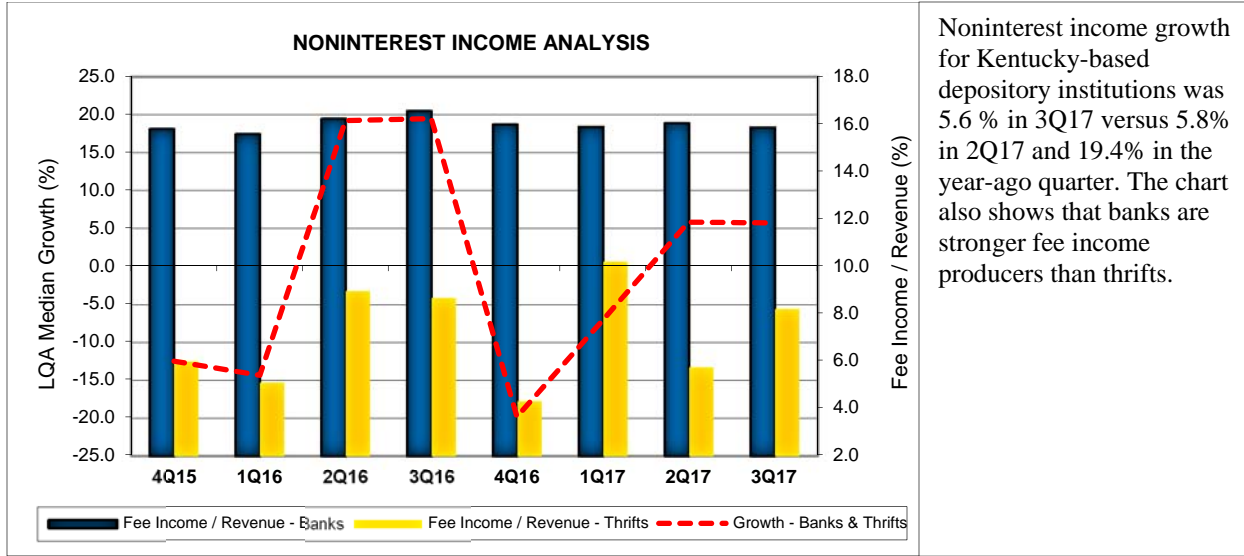
This section presents financial trends realized by the 167 financial institutions (144 banks and 23 thrifts) headquartered in Kentucky based on regulatory data provided by SNL Financial. The section contains the following subcategories: Income Statement Trends, Asset Quality Trends and Balance Sheet Trends. Unless otherwise noted, data is presented on a median annualized basis. Please note that growth and other statistics can be influenced by acquisition activity.

### Income Statement Trends

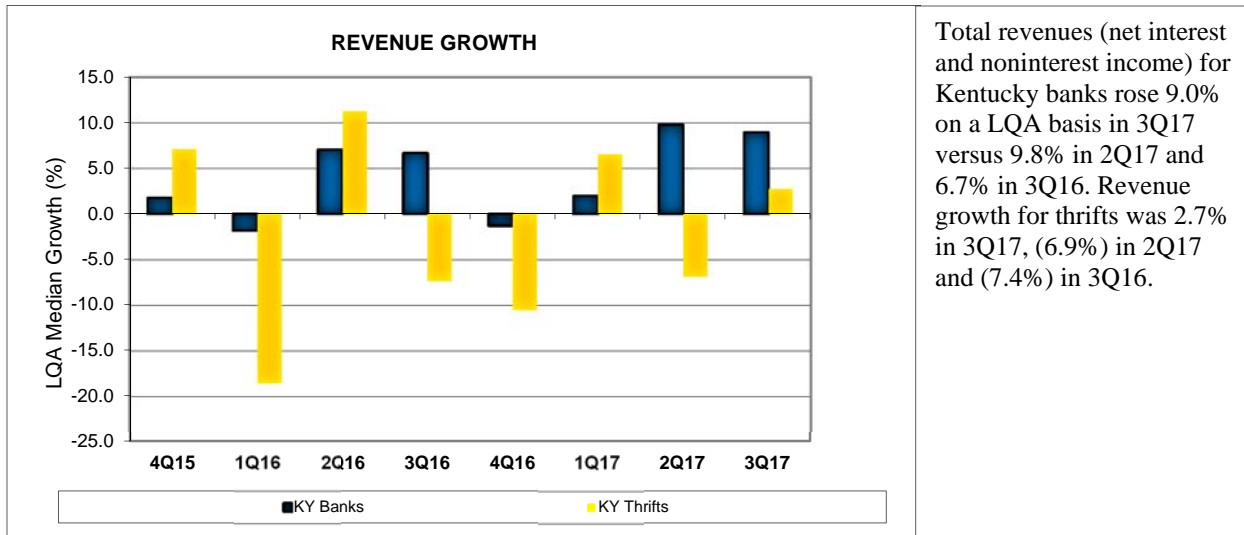


To obtain important disclosure information regarding Hilliard Lyons' rating system, valuation methods, risk factors and potential conflicts of interest with respect to the companies covered in this report, please call (800) 444-1854 ext. 8820, send a request via e-mail to [RsLib@hilliard.com](mailto:RsLib@hilliard.com), or go online to <http://hilliard.com/site/market-info/research-disclosures.html>. Requests should include the name and date of this report and a list of companies for which the disclosure information is requested.

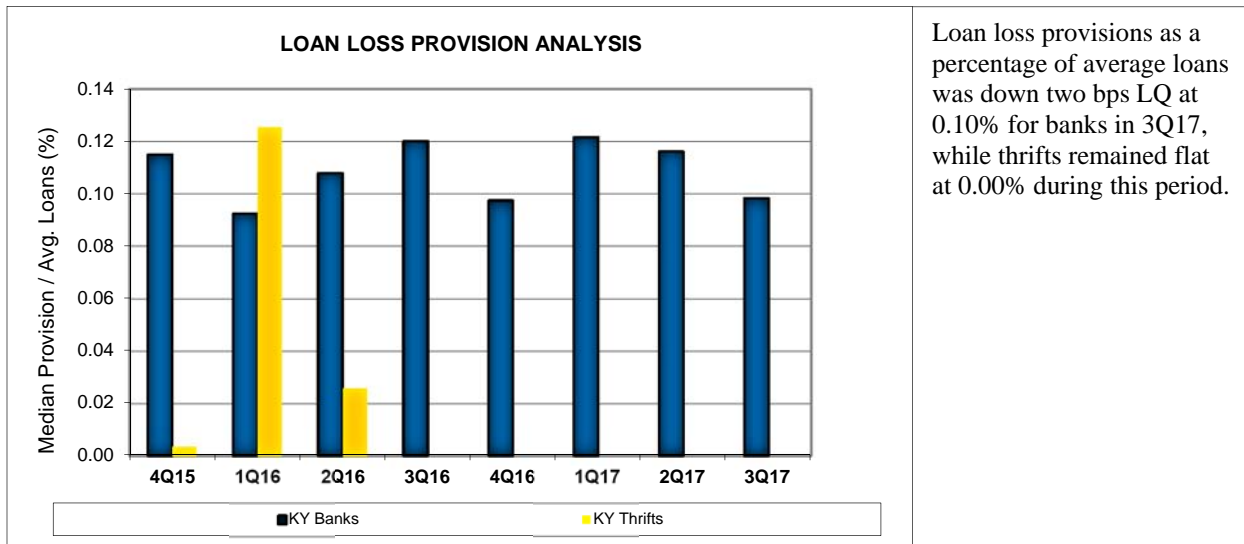
**Note Important Disclosures on pages 10-11**  
**Note Analyst Certification on page 10**



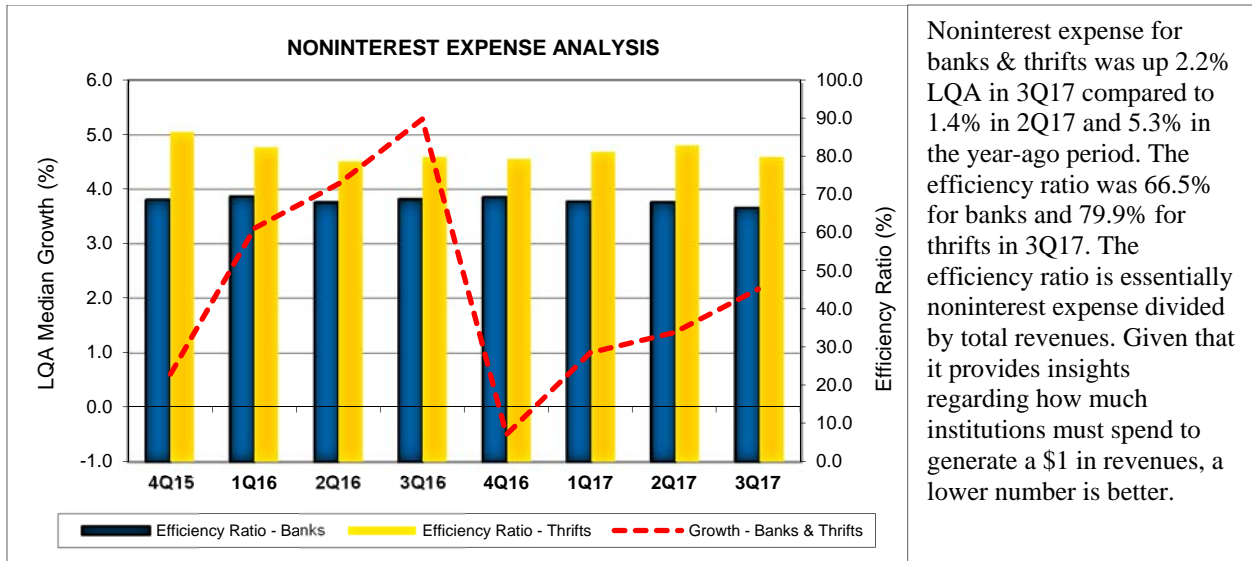
Noninterest income growth for Kentucky-based depository institutions was 5.6 % in 3Q17 versus 5.8% in 2Q17 and 19.4% in the year-ago quarter. The chart also shows that banks are stronger fee income producers than thrifts.



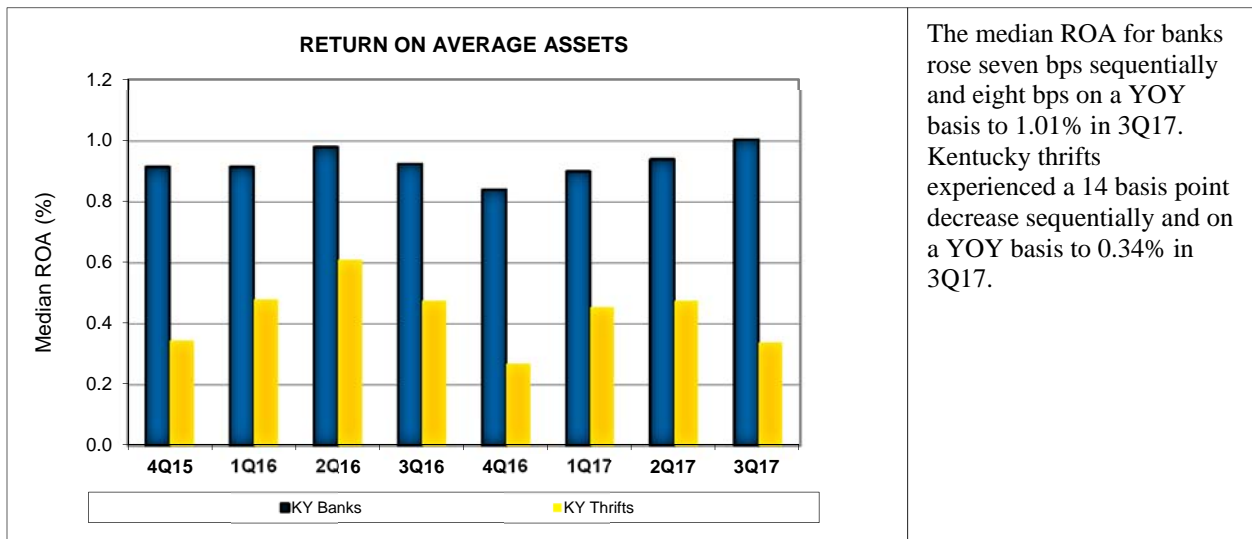
Total revenues (net interest and noninterest income) for Kentucky banks rose 9.0% on a LQA basis in 3Q17 versus 9.8% in 2Q17 and 6.7% in 3Q16. Revenue growth for thrifts was 2.7% in 3Q17, (6.9%) in 2Q17 and (7.4%) in 3Q16.



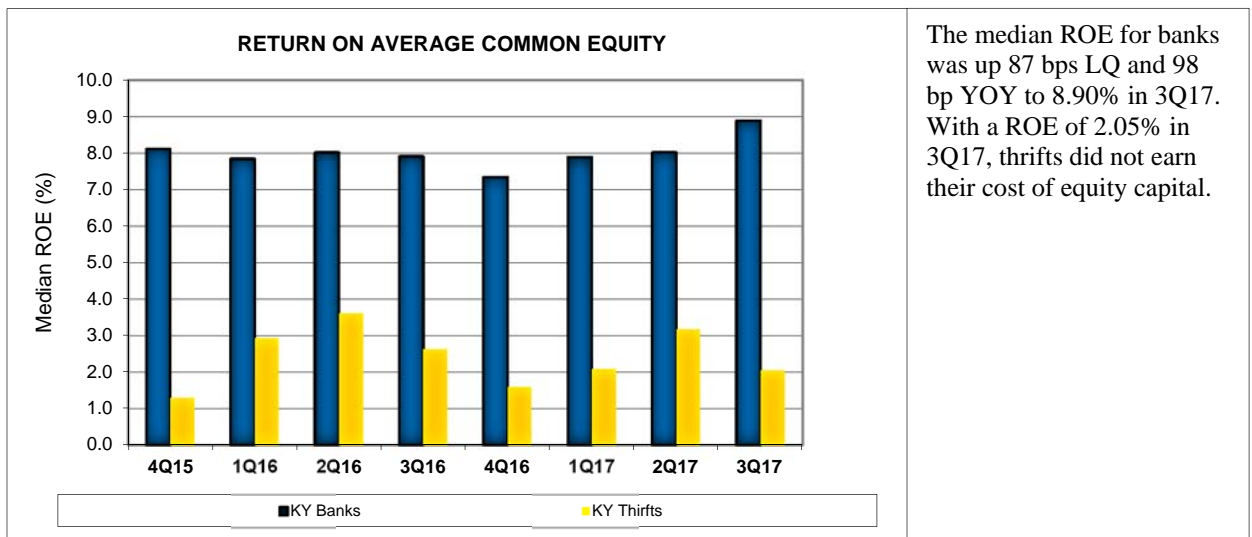
Loan loss provisions as a percentage of average loans was down two bps LQ at 0.10% for banks in 3Q17, while thrifts remained flat at 0.00% during this period.



Noninterest expense for banks & thrifts was up 2.2% LQA in 3Q17 compared to 1.4% in 2Q17 and 5.3% in the year-ago period. The efficiency ratio was 66.5% for banks and 79.9% for thrifts in 3Q17. The efficiency ratio is essentially noninterest expense divided by total revenues. Given that it provides insights regarding how much institutions must spend to generate a \$1 in revenues, a lower number is better.

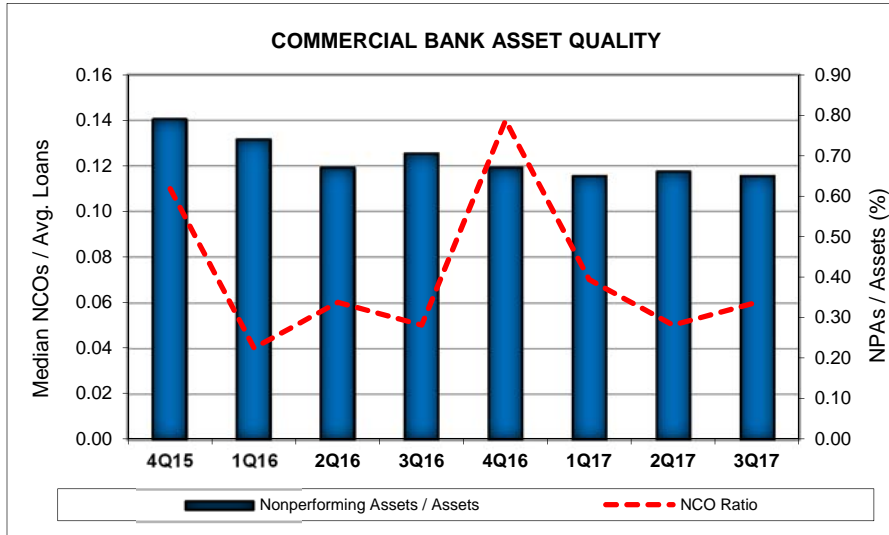


The median ROA for banks rose seven bps sequentially and eight bps on a YOY basis to 1.01% in 3Q17. Kentucky thrifts experienced a 14 basis point decrease sequentially and on a YOY basis to 0.34% in 3Q17.

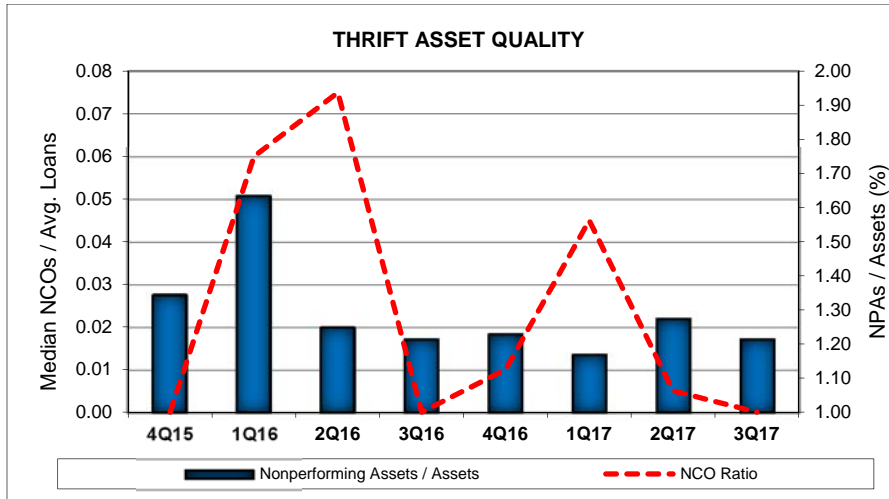


The median ROE for banks was up 87 bps LQ and 98 bp YOY to 8.90% in 3Q17. With a ROE of 2.05% in 3Q17, thrifts did not earn their cost of equity capital.

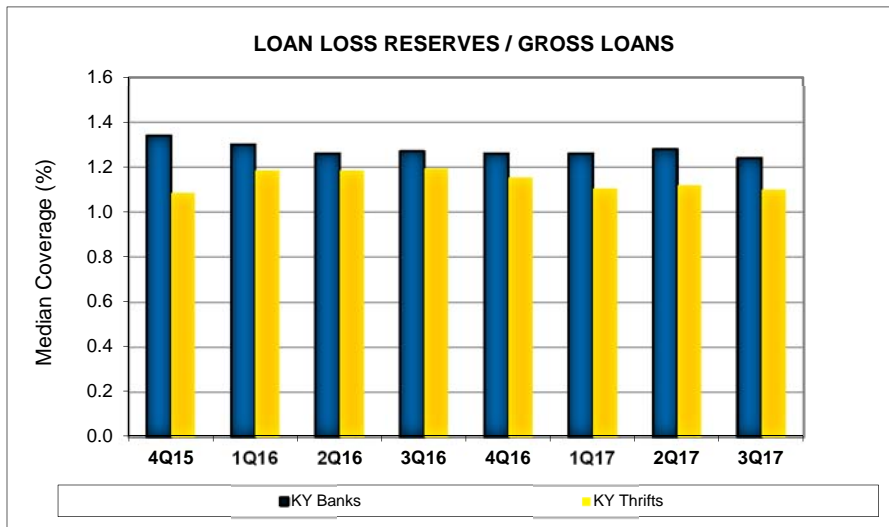
**Asset Quality Trends**



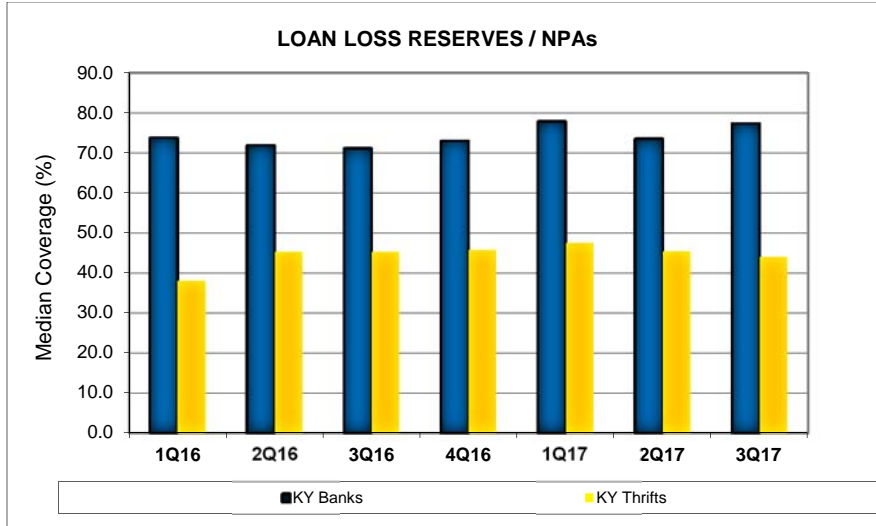
Asset quality remained strong for Kentucky-based commercial banks. Nonperforming assets (NPAs) fell one bp LQ to 0.65% of assets at the end of 3Q17. The net charge-off (NCO) ratio rose one bp to 0.06%.



Thrift NPAs decreased six bps LQ to 1.22% of assets at September 30, 2017. While Kentucky thrifts have had higher NPAs/Assets than banks, their loss content has been low with NCOs/Average Loans of 0.00% in 3Q17 and 0.01% in the prior quarter.

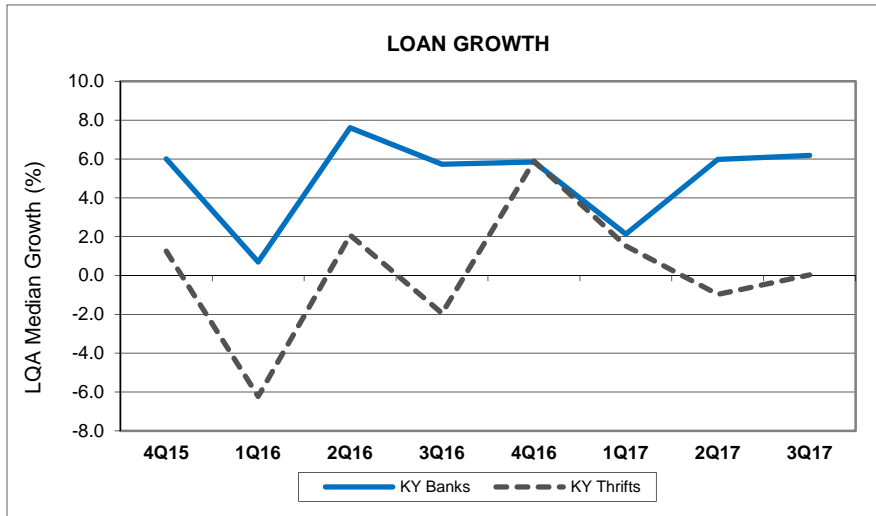


The reserve coverage of loans fell four bps LQ to 1.24% and two bps to 1.10% for banks and thrifts, respectively, at period-end of 3Q17.

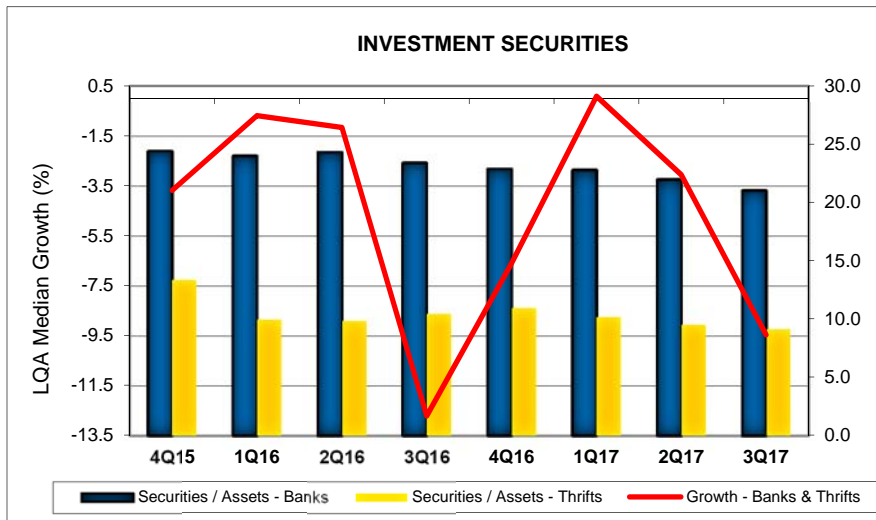


The reserve coverage of NPAs for Kentucky banks increased to 77.4% at the end of 3Q17 from 73.6% at period-end 2Q17. The NPA coverage for thrifts fell to 44.0% at September 30, 2017 from 45.5% at period-end 2Q17.

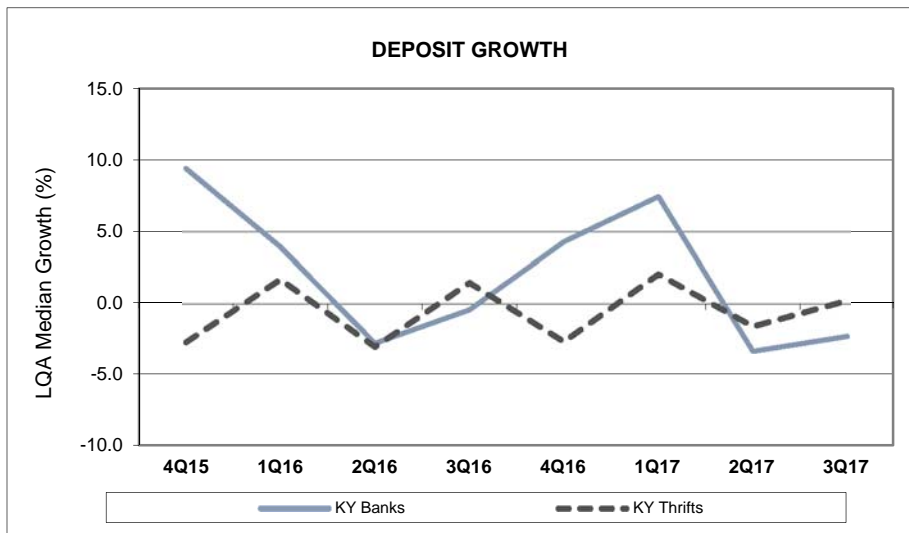
**Balance Sheet Trends**



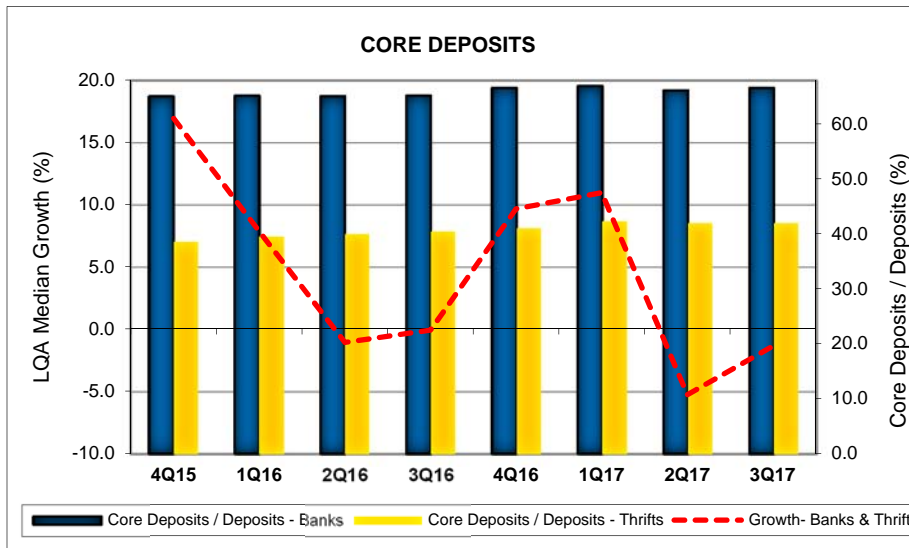
Kentucky banks realized LQA growth in end-of-period loans of 6.2% in 3Q17 versus growth of 6.0% in 2Q17 and 5.7% in 3Q16. Loan growth for thrifts was 0.0%, (1.0%) and (1.9%), respectively, during these periods.



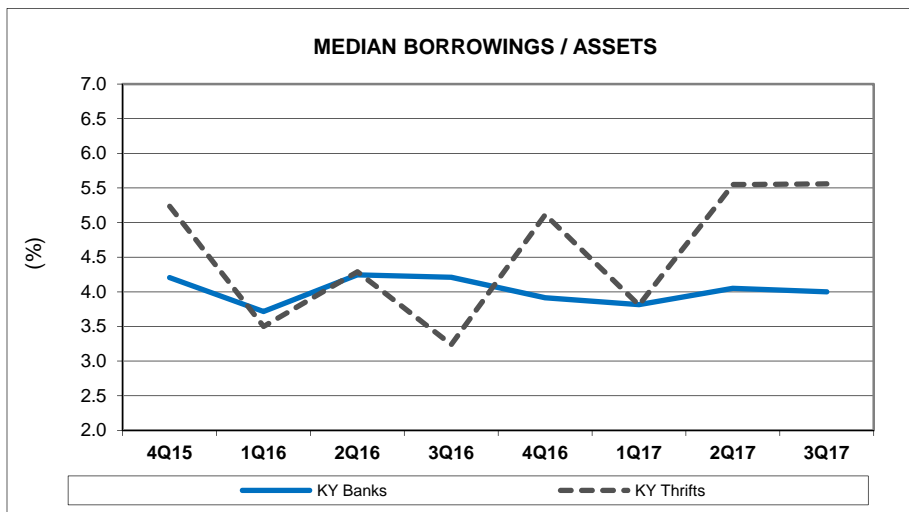
Total securities portfolio growth of Kentucky banks & thrifts was (9.5%) in 3Q17 versus (3.1%) in 2Q17 and (12.7%) in the year-ago period. Securities comprised 21.1% of bank assets and 9.2% of thrift assets at September 30, 2017.



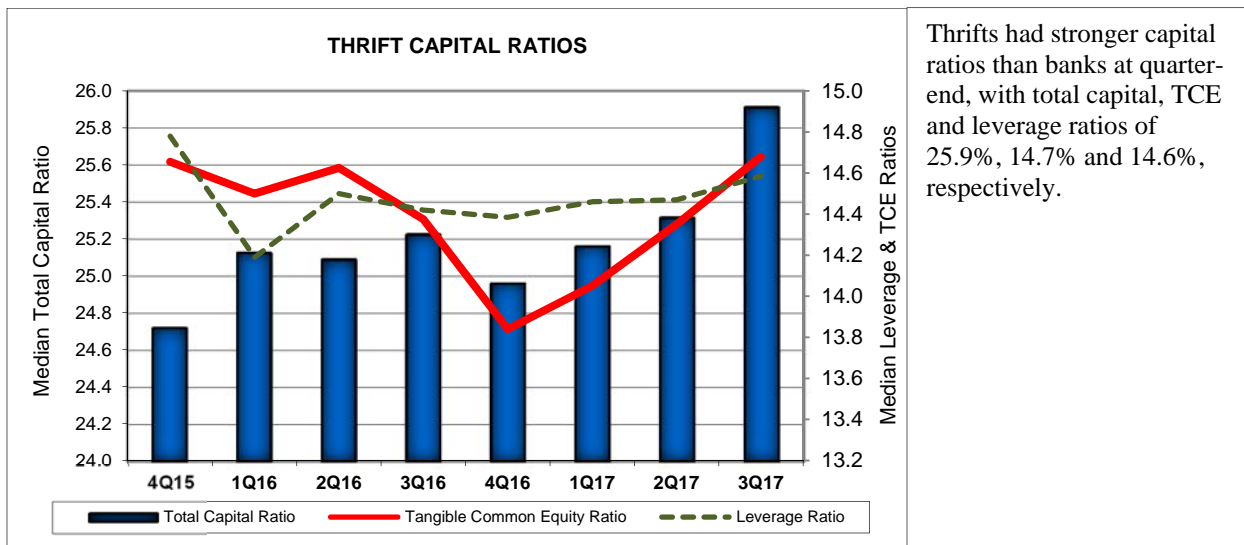
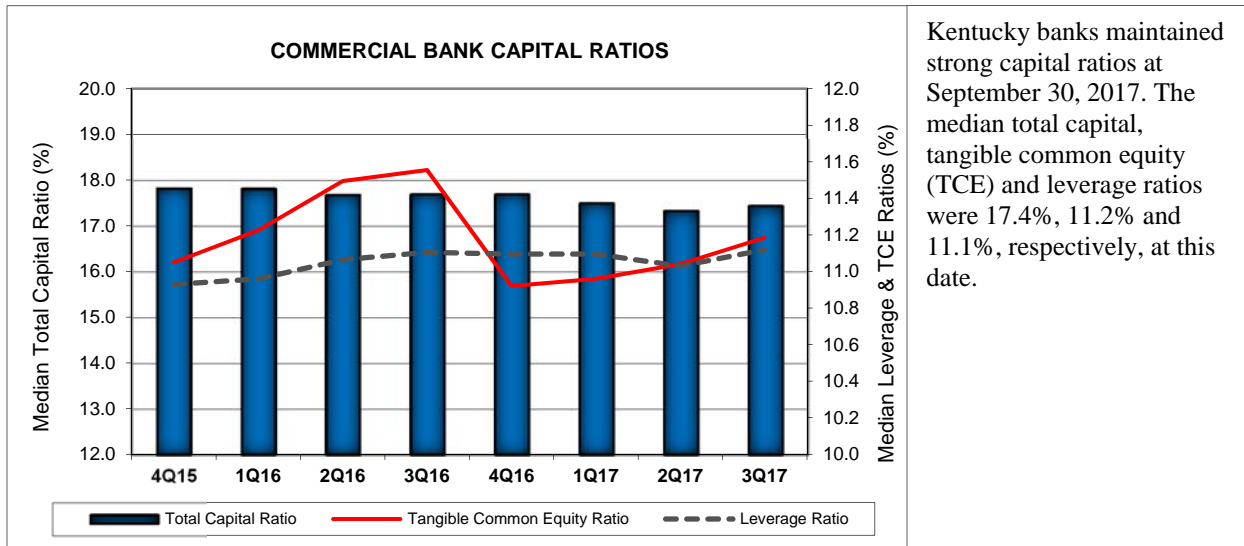
Total deposits of banks declined (2.3%) on a LQA basis in 3Q17 versus (2.3%) in 2Q17 and (0.4%) in the year-ago quarter. Thrifts realized an increase of 0.2% in 3Q17 versus (1.6%) in 2Q17 and 1.5% in the year-ago period.



Core deposits (total deposits less time deposits) fell (1.4%) for banks and thrifts on a LQA basis in 3Q17. They accounted for 66.6% of bank deposits and 42.0% of thrift deposits at the end of Q3.



Total outside borrowings as a percentage of assets were 4.0% for banks and 5.6% for thrifts at the end of 3Q17 compared to 4.1% and 5.6%, respectively, for banks and thrifts at June 30, 2017.



**MERGER & ACQUISITION ACTIVITY**

There were two whole bank acquisitions announced since 3Q16 involving Kentucky-based financial institutions (excluding any transactions involving private investors). Pricing multiples for these deals are provided in the following table.

**ANALYSIS OF BANK & THRIFT M&A ACTIVITY  
INVOLVING KENTUCKY-BASED INSTITUTIONS  
ANNOUNCED AFTER SEPTEMBER 30, 2016**

Buyer/ Target Name	Announce Date	Buyer State	Seller State	Deal Value (\$M)	Pricing @ Announcement	
					Deal Value/ Earnings (x)	Deal Value/ Tangible Common Equity (%)
MainSource Financial Group, Inc./ FCB Bancorp, Inc.	12/19/2016	IN	KY	57.0	21.5	184.9
First Prestonburg Bancshares, Inc./ First Guaranty Bank	2/22/2017	KY	KY	NA	NA	NA
<b>Median Multiple</b>					<b>21.5</b>	<b>184.9</b>

Source: SNL Financial

**PUBLIC COMPANY VALUATIONS**

There are fifteen Kentucky-based financial institutions traded on NASDAQ or over the counter. Current valuation multiples for these stocks are provided in the table below. Smaller institutions tend to have thinner tangible book multiples, which we largely attribute to the lack of critical mass to effectively absorb the increase in regulatory compliance costs subsequent to the financial crisis.

**ANALYSIS OF COMMON STOCK VALUATIONS  
KENTUCKY-BASED FINANCIAL INSTITUTIONS  
VALUATION DATA AS OF NOVEMBER 17, 2017**

Institution Name	Ticker	Exchange	Total Assets (\$Thou)	Closing Price	Market Cap (\$M)	Avg. Daily Volume	Price/ TTM EPS (X)	Price/ 2017 EPS Est (X)	Price/ 2018 EPS Est (X)	Price/ Tang. Book (%)	Dividend Yield (%)
Boyle Bancorp, Inc.	BYLB	OTC Pink	477,608	66.11	58.9	89	NA	NA	NA	NA	3.99
Citizens Commerce Bancshares, Inc.	CCVS	OTC Pink	215,530	0.45	0.8	7	NA	NA	NA	NM	0.00
Citizens First Corporation	CZFC	NASDAQ	455,422	23.08	58.3	10,058	13.9	NA	NA	141.5	0.87
Citizens National Corporation	CZNL	OTC Pink	597,236	43.82	46.0	0	NA	NA	NA	NA	1.92
Community Trust Bancorp, Inc.	CTBI	NASDAQ	3,932,169	47.15	834.2	34,386	17.2	16.8	15.7	182.2	2.80
Farmers Capital Bank Corporation	FFKT	NASDAQ	1,671,030	40.90	307.4	10,781	19.6	17.2	16.8	155.5	1.22
First Security, Inc.	FIIT	OTCQX	639,103	26.60	63.8	432	28.6	NA	NA	110.8	2.56
HFB Financial Corporation	HFBA	OTC Pink	350,295	29.00	35.6	354	13.5	NA	NA	89.8	2.62
HopFed Bancorp, Inc.	HFBC	NASDAQ	891,486	14.20	94.8	5,386	19.5	20.1	18.5	106.4	1.41
Kentucky Bancshares, Inc.	KTYB	OTCQX	1,028,447	45.00	133.7	729	12.8	NA	NA	155.7	2.58
Kentucky First Federal Bancorp	KFFB	NASDAQ	308,485	8.99	75.9	1,968	NM	NA	NA	144.3	4.45
Poage Bankshares, Inc.	PBSK	NASDAQ	458,465	18.10	63.7	1,338	60.3	NA	NA	99.6	1.33
Porter Bancorp, Inc.	PBIB	NASDAQ	945,177	14.69	91.9	2,111	NM	NA	NA	246.5	0.00
Republic Bancorp, Inc.	RBCAA	NASDAQ	4,816,309	39.37	821.3	17,542	16.2	16.1	12.9	133.3	2.24
Stock Yards Bancorp, Inc.	SYBT	NASDAQ	3,039,481	38.05	862.6	44,027	20.0	19.8	18.7	259.6	2.10
<b>Median</b>							<b>18.3</b>	<b>17.2</b>	<b>16.8</b>	<b>142.9</b>	<b>2.1</b>

Source: SNL Financial



The following table provides market data for publicly traded companies listed in this report.

**MARKET DATA FOR PUBLICLY TRADED COMPANIES  
REFERENCED IN THIS REPORT  
VALUATION DATA AS OF NOVEMBER 17, 2017**

<b>Company</b>	<b>City</b>	<b>State</b>	<b>Ticker</b>	<b>Closing Price</b>
Boyle Bancorp, Inc.	Danville	KY	BYLB	66.11
Citizens Commerce Bancshares, Inc.	Versailles	KY	CCVS	0.45
Citizens First Corporation	Bowling Green	KY	CZFC	23.08
Citizens National Corporation	Paintsville	KY	CZNL	43.82
Community Trust Bancorp, Inc.	Pikeville	KY	CTBI	47.15
Farmers Capital Bank Corporation	Frankfort	KY	FFKT	40.90
First Security, Inc.	Owensboro	KY	FIIT	26.60
HFB Financial Corporation	Middlesboro	KY	HFBA	29.00
HopFed Bancorp, Inc.	Hopkinsville	KY	HFBC	14.20
Kentucky Bancshares, Inc.	Paris	KY	KTYB	45.00
Kentucky First Federal Bancorp (MHC)	Frankfort	KY	KFFB	8.99
MainSource Financial Group, Inc.	Greensburg	IN	MSFG	36.86
Poage Bankshares, Inc.	Ashland	KY	PBSK	18.10
Porter Bancorp, Inc.	Louisville	KY	PBIB	14.69
Republic Bancorp, Inc.	Louisville	KY	RBCAA	39.37
Stock Yards Bancorp, Inc.	Louisville	KY	SYBT	38.05

Source: SNL Financial

*Additional information is available upon request.*

### **Analyst Certification**

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

I, Tyler Agee, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### **Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Citizens First Corp., Community Trust Bancorp, HopFed Bancorp, Republic Bancorp, and Stock Yards Bancorp are/were clients of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

Hilliard Lyons customers own at least 5% of the outstanding common stock of Boyle Bancorp, Citizens First Corp., and Stock Yards Bancorp.

Hilliard Lyons and/or its affiliates beneficially owned (as defined for purposes of section 13d of the 1934 act) 1% or more of the common stock of Citizens First Corp and Kentucky Bancshares.

### **Definitions of Ratings:**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

### **Definitions of Suitabilities:**

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

<b>Rating</b>	<b>Hilliard Lyons Recommended Issues</b>		<b>Investment Banking Provided in Past 12 Mo.</b>	
	<b># of Stocks Covered</b>	<b>% of Stocks Covered</b>	<b>Banking</b>	<b>No Banking</b>
<b>Buy</b>	32	29%	13%	88%
<b>Hold/Neutral</b>	73	65%	7%	93%
<b>Sell</b>	7	6%	0%	100%

*As of 8 November 2017*

### Other Disclosures

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