



# KENTUCKY BANK QUARTERLY 4Q17 REVIEW

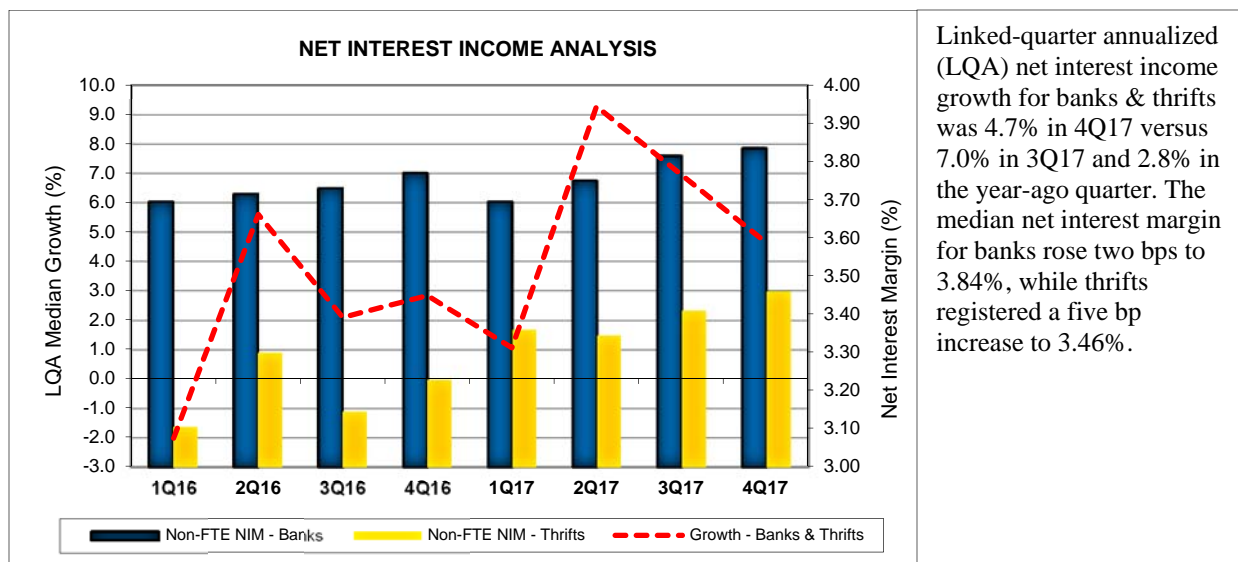
## Banks

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J.J.B. Hilliard, W.L. Lyons, LLC  
February 8, 2018

### 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.

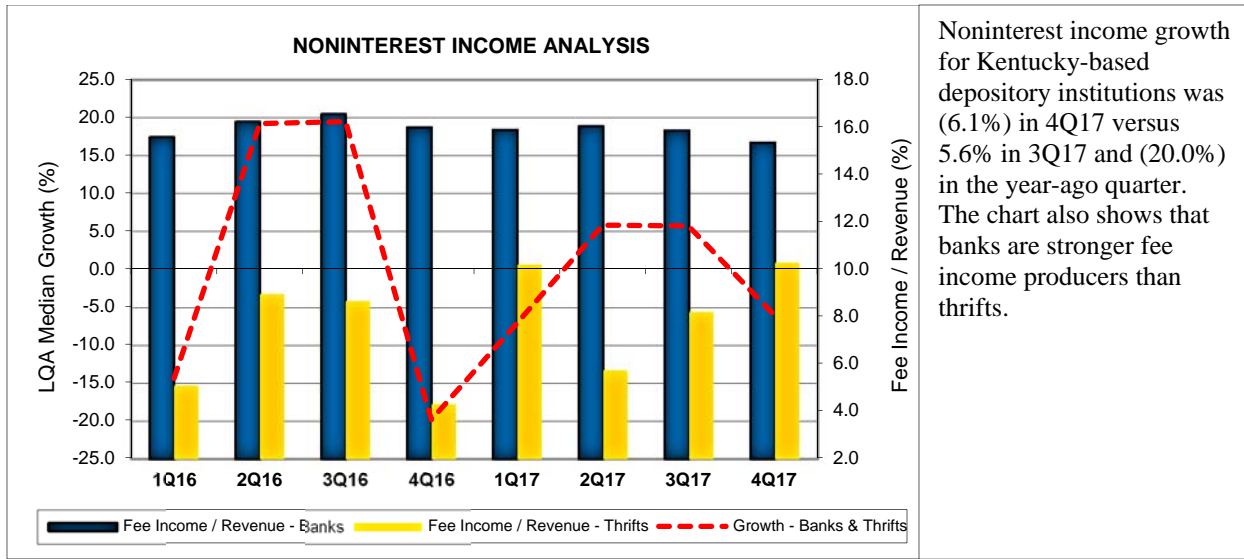
### Income Statement Trends



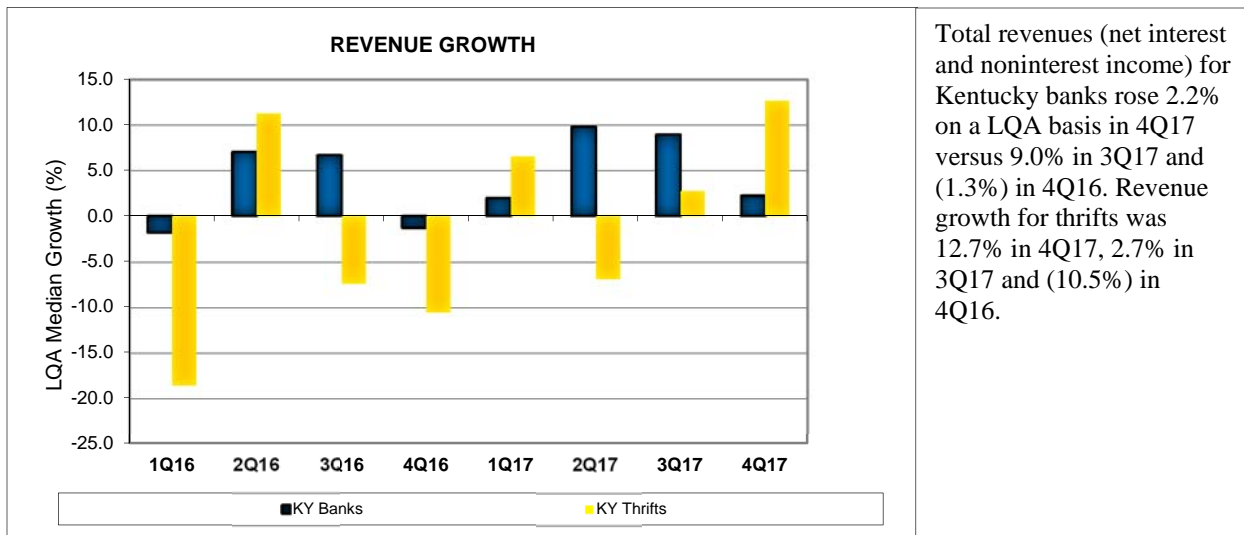
Linked-quarter annualized (LQA) net interest income growth for banks & thrifts was 4.7% in 4Q17 versus 7.0% in 3Q17 and 2.8% in the year-ago quarter. The median net interest margin for banks rose two bps to 3.84%, while thrifts registered a five bp increase to 3.46%.

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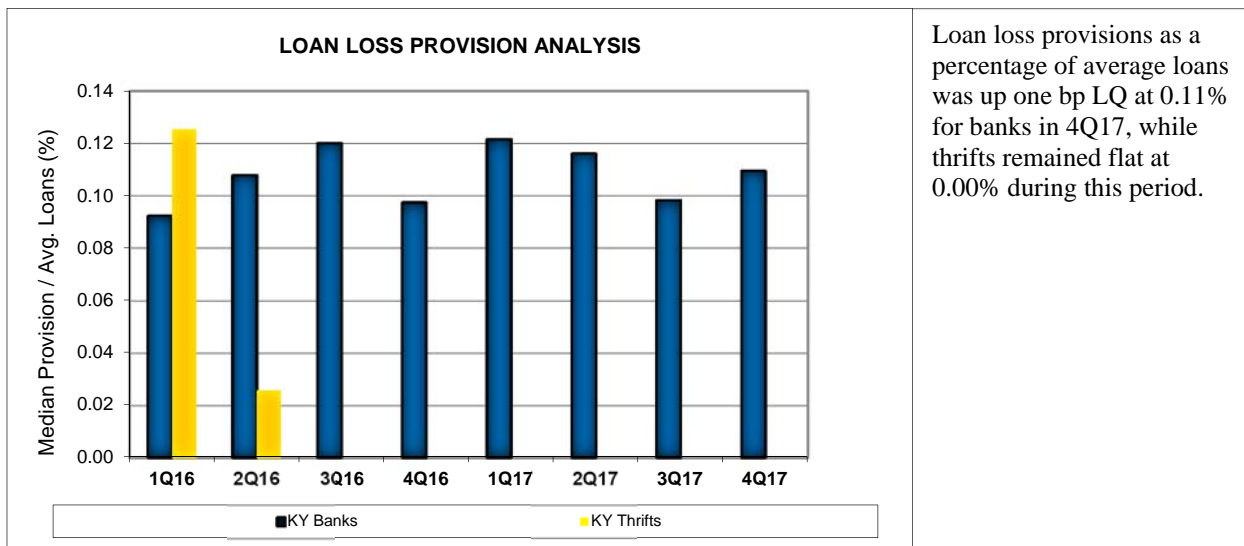
**Note Important Disclosures on pages 10-11**  
**Note Analyst Certification on page 10**



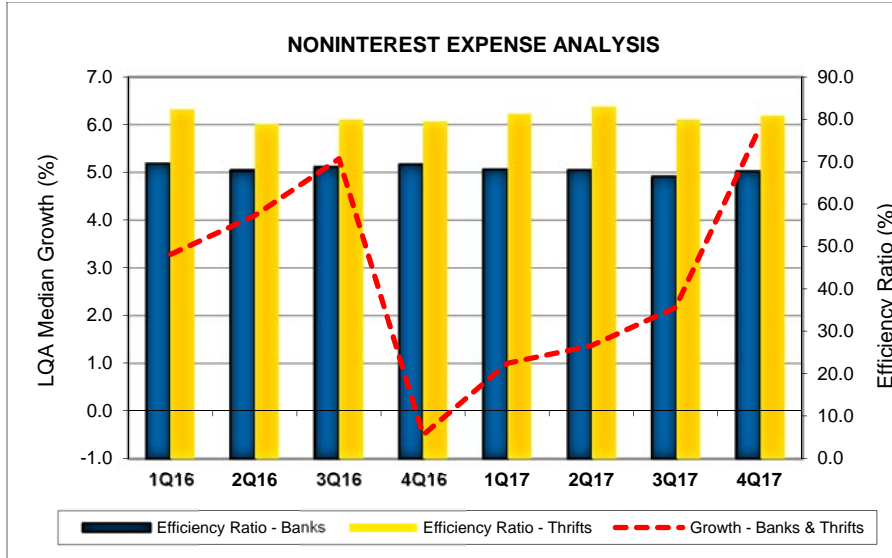
Noninterest income growth for Kentucky-based depository institutions was (6.1%) in 4Q17 versus 5.6% in 3Q17 and (20.0%) in the year-ago quarter. The chart also shows that banks are stronger fee income producers than thrifts.



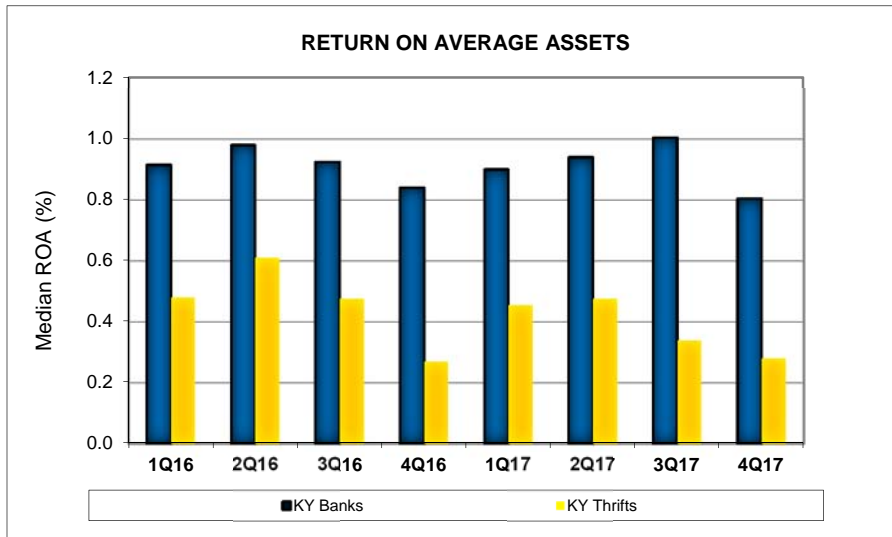
Total revenues (net interest and noninterest income) for Kentucky banks rose 2.2% on a LQA basis in 4Q17 versus 9.0% in 3Q17 and (1.3%) in 4Q16. Revenue growth for thrifts was 12.7% in 4Q17, 2.7% in 3Q17 and (10.5%) in 4Q16.



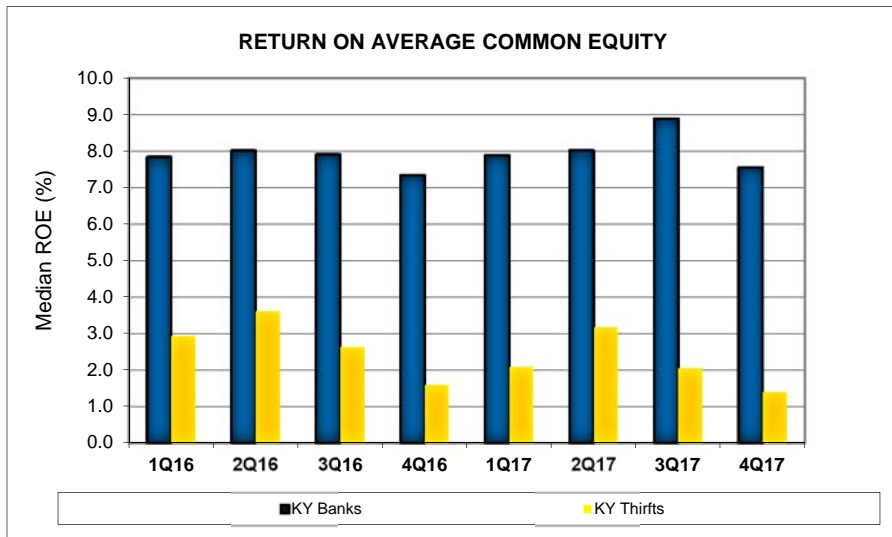
Loan loss provisions as a percentage of average loans was up one bp LQ at 0.11% for banks in 4Q17, while thrifts remained flat at 0.00% during this period.



Noninterest expense for banks & thrifts was up 5.9% LQA in 4Q17 compared to 2.2% in 3Q17 and (0.5%) in the year-ago period. The efficiency ratio was 67.8% for banks and 80.9% for thrifts in 4Q17. 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.

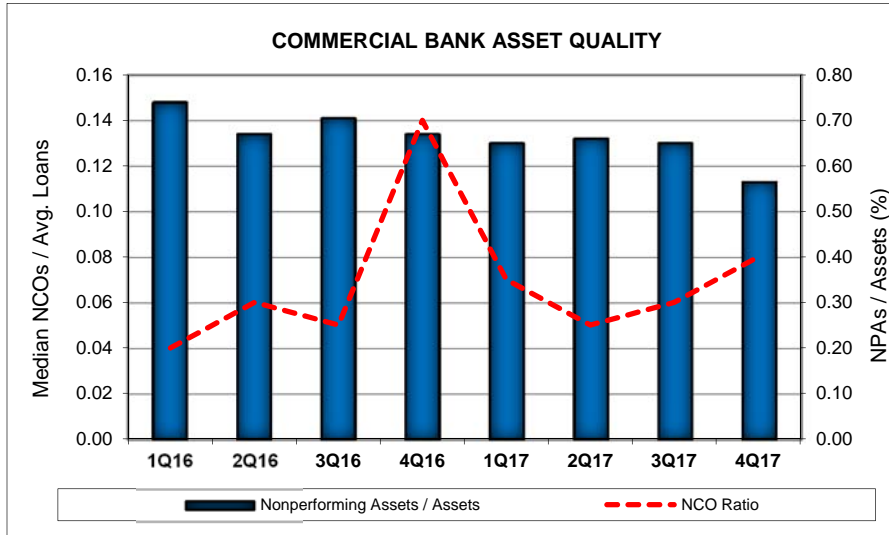


The median ROA for banks declined 20 bps sequentially and three bps on a YOY basis to 0.81% in 4Q17. Kentucky thrifts experienced a six basis point decrease sequentially and rose one bp on a YOY basis to 0.28% in 4Q17.

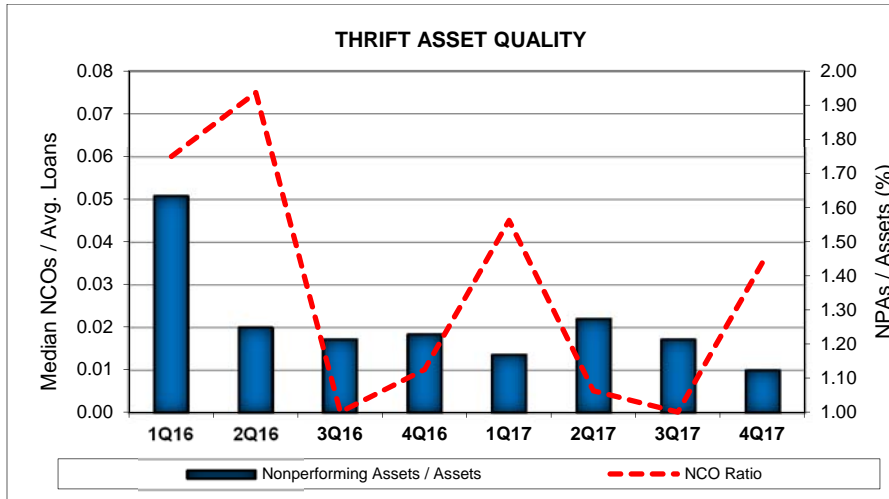


The median ROE for banks was down 134 bps LQ and up 21 bps YOY to 7.56% in 4Q17. With a ROE of 1.41% in 4Q17, thrifts did not earn their cost of equity capital.

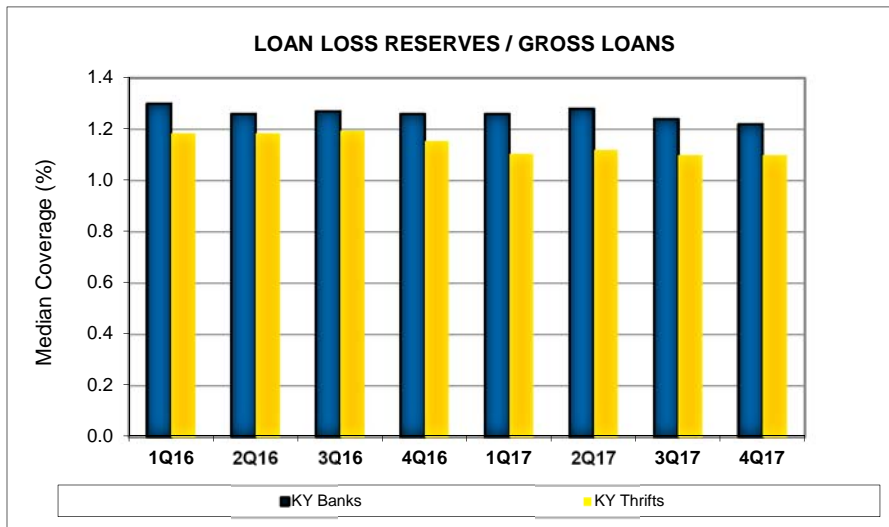
**Asset Quality Trends**



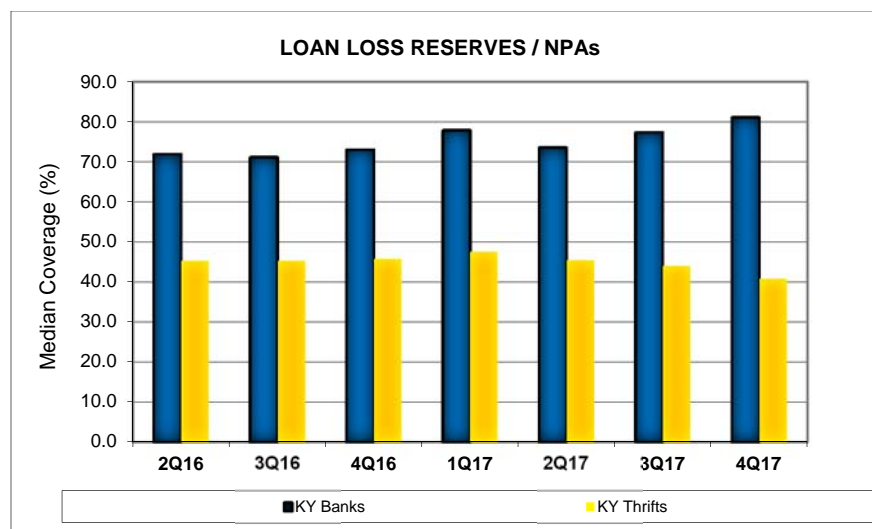
Asset quality remained strong for Kentucky-based commercial banks. Nonperforming assets (NPAs) fell eight bps LQ to 0.57% of assets at the end of 4Q17. The net charge-off (NCO) ratio rose two bps to 0.08%.



Thrift NPAs decreased nine bps LQ to 1.13% of assets at December 31, 2017. While Kentucky thrifts have had higher NPAs/Assets than banks, their loss content has been low with NCOs/Average Loans of 0.04% in 4Q17 and 0.00% in the prior quarter.

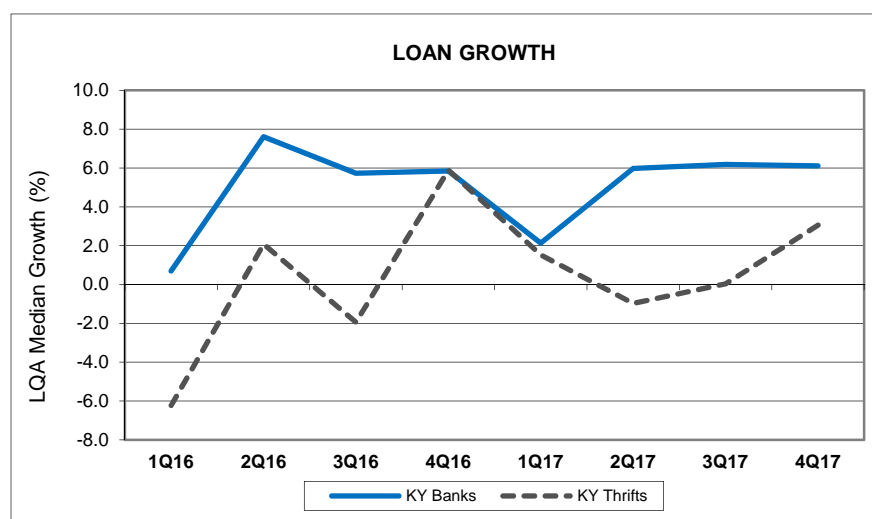


The reserve coverage of loans fell two bps LQ to 1.22% and was flat at 1.10% for banks and thrifts, respectively, at period-end 4Q17.

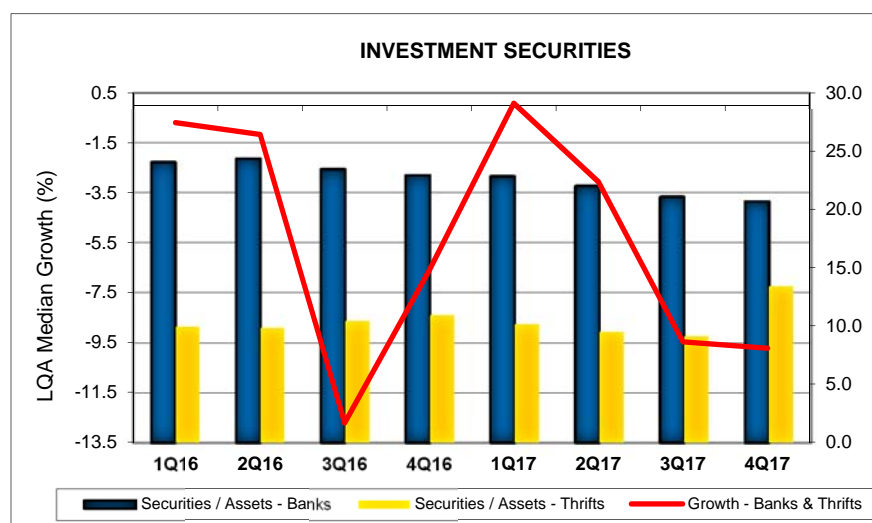


The reserve coverage of NPAs for Kentucky banks increased to 81.1% at the end of 4Q17 from 77.4% at period-end 3Q17. The NPA coverage for thrifts fell to 40.9% at December 31, 2017 from 44.0% at period-end 3Q17.

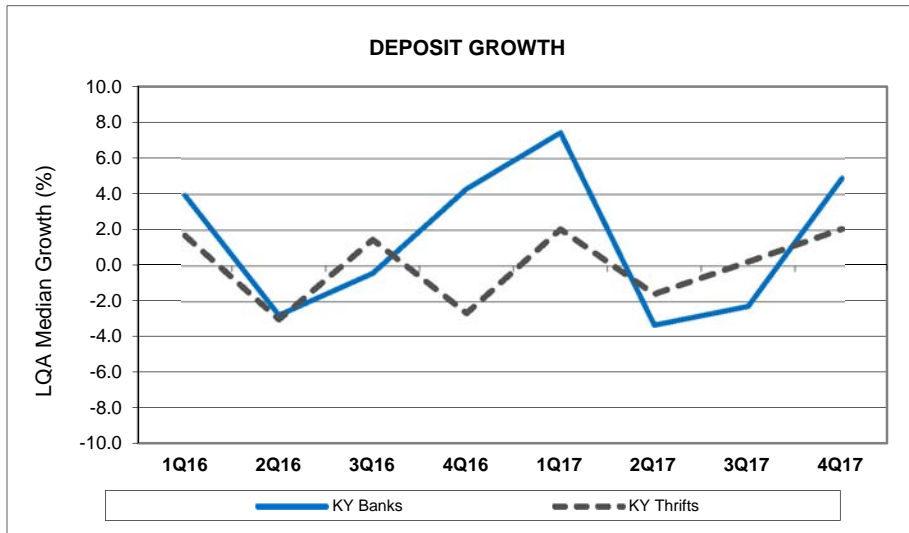
### Balance Sheet Trends



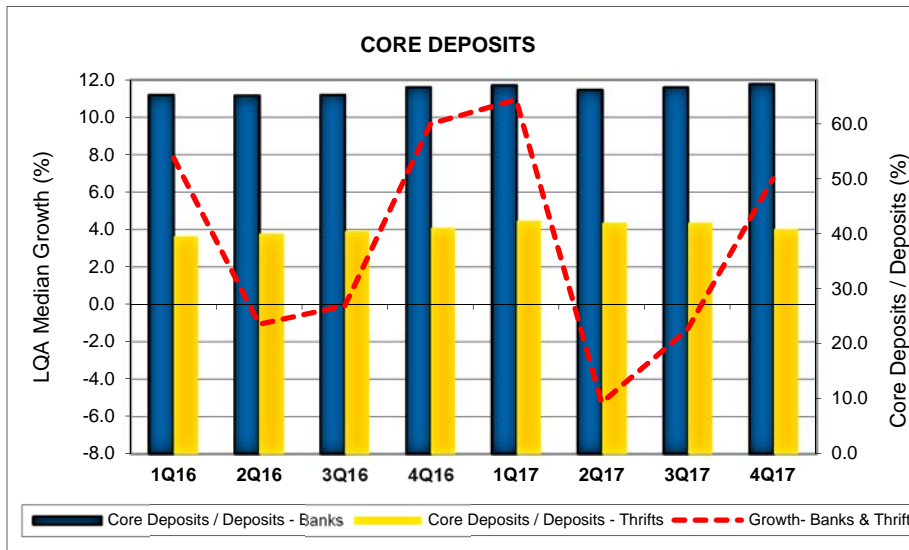
Kentucky banks realized LQA growth in end-of-period loans of 6.1% in 4Q17 versus growth of 6.2% in 3Q17 and 5.9% in 4Q16. Loan growth for thrifts was 3.1%, 0.0% and 5.9%, respectively, during these periods.



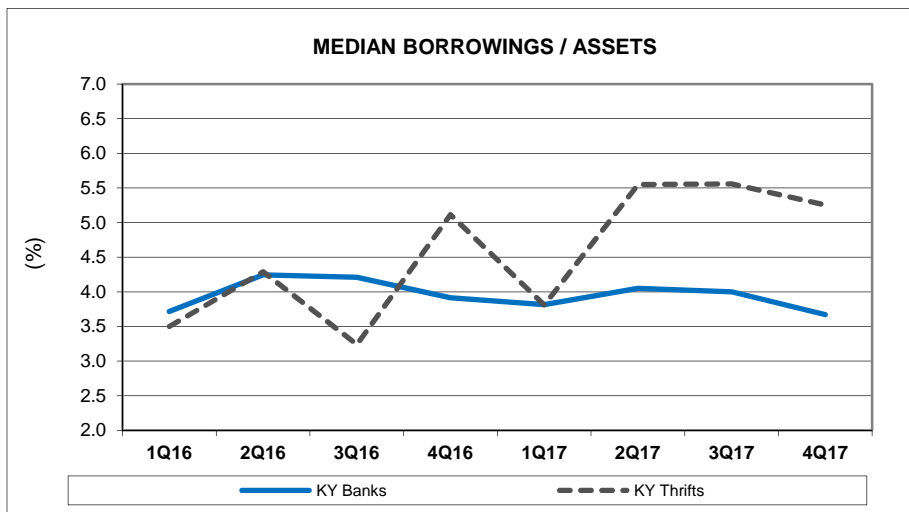
Total securities portfolio growth of Kentucky banks & thrifts was (9.7%) in 4Q17 versus (9.5%) in 3Q17 and (6.6%) in the year-ago period. Securities comprised 20.7% of bank assets and 13.4% of thrift assets at December 31, 2017.



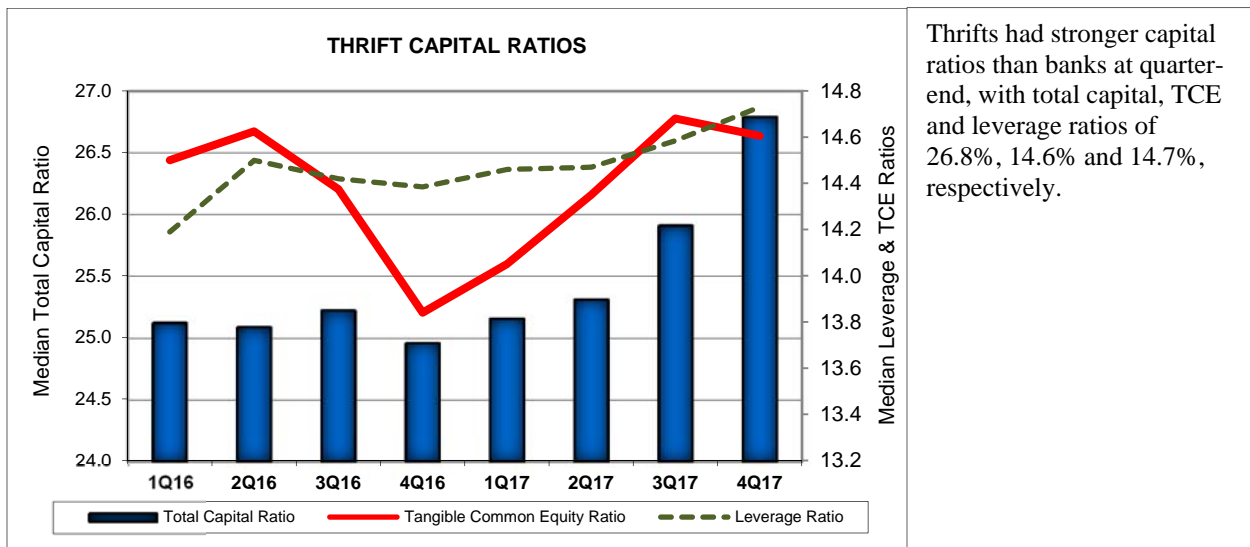
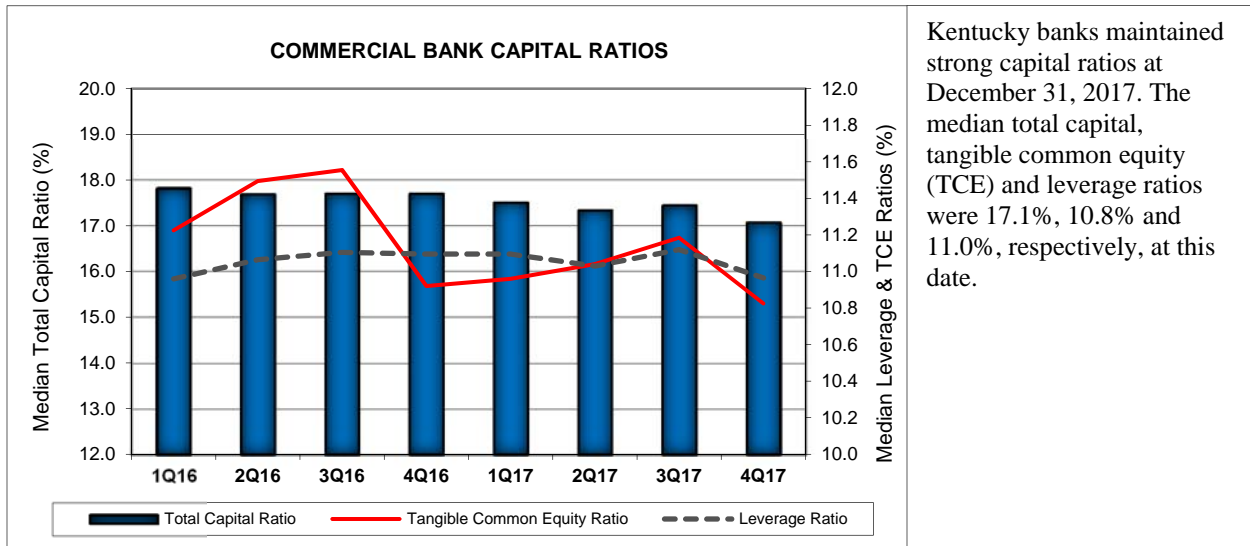
Total deposits of banks grew 4.9% on a LQA basis in 4Q17 versus (2.3%) in 3Q17 and 4.3% in the year-ago quarter. Thrifts realized an increase of 2.1% in 4Q17 versus 0.2% in 3Q17 and (2.6%) in the year-ago period.



Core deposits (total deposits less time deposits) rose 6.7% for banks and thrifts on a LQA basis in 4Q17. They accounted for 67.2% of bank deposits and 40.8% of thrift deposits at the end of Q4.



Total outside borrowings as a percentage of assets were 3.7% for banks and 5.3% for thrifts at the end of 4Q17 compared to 4.0% and 5.6%, respectively, for banks and thrifts at September 30, 2017.



**MERGER & ACQUISITION ACTIVITY**

There was one whole bank acquisition announced since 4Q16 involving Kentucky-based financial institutions (excluding any transactions involving private investors). We are unable to calculate deal multiples as there is no publicly available pricing information regarding this transaction.

**ANALYSIS OF BANK & THRIFT M&A ACTIVITY  
INVOLVING KENTUCKY-BASED INSTITUTIONS  
ANNOUNCED AFTER DECEMBER 31, 2016**

Buyer/ Target Name	Announce Date	Buyer State	Seller State	Pricing @ Announcement		
				Deal Value (\$M)	Deal Value/ Earnings (x)	Deal Value/ Tangible Common Equity (%)
First Prestonburg Bancshares, Inc./ First Guaranty Bank	2/22/2017	KY	KY	NA	NA	NA

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 FEBRUARY 7, 2018**

Institution Name	Ticker	Exchange	Total		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 (%)
			Assets (\$Thou)	Closing Price							
Boyle Bancorp, Inc.	BYLB	OTC Pink	477,608	67.60	60.3	209	NA	NA	NA	101.3	3.91
Citizens Commerce Bancshares, Inc.	CCVS	OTC Pink	215,530	0.60	1.1	263	NA	NA	NA	NM	0.00
Citizens First Corporation	CZFC	NASDAQ	465,382	23.80	60.1	3,667	14.9	NA	NA	144.5	1.01
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	4,136,231	45.50	805.0	32,040	15.6	13.7	13.4	173.0	2.90
Farmers Capital Bank Corporation	FFKT	NASDAQ	1,673,872	38.45	289.1	18,524	24.6	13.5	13.1	149.5	1.30
First Security, Inc.	FIIT	OTCQX	639,103	26.90	64.5	504	34.5	NA	NA	112.0	2.53
HFB Financial Corporation	HFBA	OTC Pink	350,295	30.50	37.4	89	13.4	NA	NA	94.5	2.49
HopFed Bancorp, Inc.	HFBC	NASDAQ	917,303	14.50	96.8	9,926	24.2	16.6	15.8	109.6	1.38
Kentucky Bancshares, Inc.	KTYB	OTCQX	1,053,193	47.75	142.2	563	13.2	NA	NA	165.3	2.43
Kentucky First Federal Bancorp	KFFB	NASDAQ	308,485	9.00	76.0	1,900	50.0	NA	NA	143.0	4.44
Poage Bankshares, Inc.	PBSK	NASDAQ	458,465	19.44	68.5	1,732	64.8	NA	NA	107.0	1.23
Porter Bancorp, Inc.	PBIB	NASDAQ	970,801	14.05	88.0	11,868	2.3	NA	NA	125.8	0.00
Republic Bancorp, Inc.	RBCAA	NASDAQ	5,085,362	37.78	787.7	15,777	17.2	12.6	11.9	128.0	2.33
Stock Yards Bancorp, Inc.	SYBT	NASDAQ	3,239,646	35.75	810.8	43,074	21.5	15.8	15.0	244.4	2.35
<b>Median</b>							<b>19.4</b>	<b>13.7</b>	<b>13.4</b>	<b>128.0</b>	<b>2.3</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 FEBRUARY 7, 2018**

Company	City	State	Ticker	Closing Price
Boyle Bancorp, Inc.	Danville	KY	BYLB	67.60
Citizens Commerce Bancshares, Inc.	Versailles	KY	CCVS	0.60
Citizens First Corporation	Bowling Green	KY	CZFC	23.80
Citizens National Corporation	Paintsville	KY	CZNL	43.82
Community Trust Bancorp, Inc.	Pikeville	KY	CTBI	45.50
Farmers Capital Bank Corporation	Frankfort	KY	FFKT	38.45
First Security, Inc.	Owensboro	KY	FIIT	26.90
HFB Financial Corporation	Middlesboro	KY	HFBA	30.50
HopFed Bancorp, Inc.	Hopkinsville	KY	HFBC	14.50
Kentucky Bancshares, Inc.	Paris	KY	KTYB	47.75
Kentucky First Federal Bancorp (MHC)	Frankfort	KY	KFFB	9.00
Poage Bankshares, Inc.	Ashland	KY	PBSK	19.44
Porter Bancorp, Inc.	Louisville	KY	PBIB	14.05
Republic Bancorp, Inc.	Louisville	KY	RBCAA	37.78
Stock Yards Bancorp, Inc.	Louisville	KY	SYBT	35.75

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 First Security, Inc.

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>	31	28%	10%	90%
<b>Hold/Neutral</b>	74	66%	9%	91%
<b>Sell</b>	7	6%	0%	100%

*As of 7 February 2018*

### Other Disclosures

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