

PUBLIC DISCLOSURE

July 11, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Ascencia Bank
278**

**2500 Eastpoint Parkway
Louisville, Kentucky 40223**

**Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
Chicago Regional Office
500 West Monroe Street, Suite 3500
Chicago, IL 60661**

NOTE: 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.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Ascencia Bank prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of July 11, 2005. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.

INSTITUTION RATING

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

Ascencia Bank has a reasonable record of lending to businesses of different sizes given the assessment area credit needs and demographics. The bank's average net loan-to-deposit ratio of 96 percent is reasonable given the bank's size, resources, financial condition and assessment area credit needs and opportunities. A majority of the reviewed loans, both by number and dollar amount, were originated inside the assessment area. The geographic distribution of reviewed loans is also reasonable.

DESCRIPTION OF INSTITUTION

Ascencia Bank is a large commercial bank with an Internet deposit focus. Ascencia Bank's one office is located at 2500 Eastpoint Parkway, Louisville, Kentucky, within the Louisville, Kentucky- Indiana Metropolitan Statistical Area (MSA). The bank is wholly owned by Ascencia Bancorp, Inc., a one-bank holding company, which is 67 percent owned by Porter Bancorp, Inc., a multi-bank holding company. The holding companies are located in Shepherdsville, Kentucky. Porter Bancorp assets total \$887,000,000 as of December 31, 2004. The bank's one office is located in upper-income census tract (CT) 103.06. The bank's visibility and accessibility are limited given its Internet strategy; with small and limited signage, no branches, no drive-through services, and no proprietary automated teller machines (ATMs). Loan applications are primarily received via phone, mail and fax. Walk-in applicants are rare.

As of the March 31, 2005, Report of Condition, Ascencia Bank reported total assets of \$306,415,000. Gross loans of \$254,605,000 represent approximately 83 percent of these assets. A substantial majority of the bank's deposits are generated via the Internet. Analysis from an internal bank report shows that it is receiving deposits from all states. As of December 31, 2004, state of Kentucky deposits only represented approximately 12 percent of total bank deposits (by dollar volume). The remaining 88 percent of the deposits were derived from out of state, with the top five being: California (11 percent); Florida (10 percent); Texas (8 percent); New York (7 percent); and, Ohio (6 percent).

Conversely, loans are not originated via the Internet. A breakdown of the bank's total loans is detailed in Table 1.

Table 1: Loan Portfolio Breakdown as of 3/31/2005		
Loan Category	Volume (\$000)	Percent
Construction	\$81,162	32%
Secured by Farmland	\$7,296	3%
1-4 Family Residential	\$31,280	12%
Multifamily	\$15,896	6%
Commercial RE	\$106,403	42%
Total Real Estate	\$242,037	95%
Commercial and Industrial	\$11,740	5%
Consumer	\$825	<1%
Other	\$3	<1%
Total Loans:	\$254,605	100%

Source 3/31/2005 Report of Condition

As shown in Table 1, commercial lending activity is the bank's targeted loan focus. By dollar volume, the commercial loan categories represent approximately 53 percent of the portfolio (commercial real estate, multifamily, and commercial/industrial). However, management estimated that approximately 99 percent of the construction loans were originated to builders/contractors for development projects and spec homes. Factoring in these business-related construction loans increases the commercial portfolio to approximately 84 percent of total loans. The commercial loan focus is further emphasized by the level of 1-4 family residential loans that are non-owner occupied, with management commenting that such loans are primarily rentals/investment property. Based on the bank's 2004 and year-to-date 2005 home mortgage disclosure loan application registers, approximately 35 percent of the originated residential loans are non-owner occupied. Additionally, the bank purchases and sells commercial participations from/to affiliated and non-affiliated banks. As of year-end 2004, participations purchased totaled \$45,179,609, while total participations sold were \$32,573,949. Given the bank's substantial emphasis on commercial lending, only the business lending activity was included in this evaluation.

The bank's CRA performance was last evaluated on December 9, 2002, which resulted in a "Satisfactory" rating. The bank does not have any legal, financial, or other impediments that prevent it from meeting its obligations under the Community Reinvestment Act, to serve the credit needs of the designated assessment area.

DESCRIPTION OF ASCENCIA BANK'S ASSESSMENT AREA (AA)

Management designated all of Jefferson County, Kentucky, as the bank's AA. It consists of 170 whole and contiguous census tracts (CTs) within Louisville-Indiana MSA 31140. CT designations include: 13 low-income; 51 moderate-income; 58 middle-income; and, 48 upper-income. The AA meets the requirements of the CRA regulation, and does not arbitrarily exclude any categories of geographies.

Businesses of various sizes are spread throughout the AA. Table 2 breaks out year 2004 AA businesses by revenue size, as presented by Dun & Bradstreet. This information is only reflective of the businesses that reported to Dun & Bradstreet.

Table 2: AA Businesses by Revenue Size		
Gross Annual Revenue	Businesses 2004	
	#	%
< \$0.5 Million	25,673	58%
\$0.5 - \$0.99 Million	2,179	5%
\$1 - \$24 Million	3,042	7%
\$25 - \$49 Million	111	<1%
≥ \$50 Million	156	<1%
Not Reported/Revenue Size Unknown	13,498	30%
Total	44,659*	100%

*Source: Dun & Bradstreet < Less than; ≥ Greater than or equal to *2% of total are farms*

For evaluation purposes, a small business is considered one with gross annual revenue of \$1,000,000 or less. As Table 2 shows, a majority (63 percent) of the total businesses have gross annual revenue of less than \$1,000,000. When non-reported (revenue unknown) businesses are removed, the percentage of income-reporting businesses with revenues less than \$1,000,000 increases to approximately 82%. Demographics for the area reflect numerous businesses located in the area in recent years, with more planning to come. Several of the larger businesses include: United Parcel Services (International Air Hub); Ford Motor Company; Norton Healthcare; Kroger Company; Humana Inc.; Publishers Printing; and Yum Brands, Inc. Given the proximity to the Louisville airport and the UPS International Air Hub, Louisville is fast becoming a distribution center, attracting major distribution companies such as: Kroger Company; Reynolds Company; Stride Rite; Guess; GSI Commerce Solutions; and Linen and Things.

In 2003, when the county and city governments merged, Louisville became the 16th largest city in the nation. The merging of the governments and creation of a single economic development group, gave a more unified approach at building the local economy, making Louisville an attractive option for business location. The local government has organized an economic development group and outreach program to assist in attracting and retaining area businesses, and aiding in facilitating business expansions. Through the economic development group, there are various programs to assist new and existing small businesses. Area financial institutions have the opportunity to be involved with these programs.

Management commented that Louisville has several commercial/industrial development sites, with available space. A community contact confirmed this, identifying 36 industrial parks, all with available space, within the Louisville metro area. The community contact said that there is an ongoing demand for business credit, for such purposes as: business purchases and start-ups, expansions, improvements, and ongoing operational needs. The contact said that there are opportunities for ongoing, business financing, as well as for service and investment opportunities. The community contact commented that there is also the ongoing need for revitalization efforts for distressed business districts, such as the “West-End” district (West part of Louisville).

Significant competition exists within the AA, from other banks, brokers, and credit unions located in various communities throughout and near the AA. The 2003 Peer Mortgage Data “Lender Market Share Report” gives a perception of the area competition, as it shows that 499 lenders originated reportable loans within the AA. The bank is ranked 199th for number of overall reported loans originated within its AA. The community contact confirmed that there is a large population of financial institutions within the Louisville metro area. The contact stated that there is a substantial level of competition, which is good for the consumer (for accessibility to financing and comparative shopping purposes). The community contact feels that area financial institutions are generally doing a good job of meeting area credit needs within their ability. The contact was not aware of any unmet credit needs in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s overall lending performance is based, in part, upon a review of small business loans, as this activity represents the bank’s predominant lending focus, as discussed previously. Residential real estate lending is not a significant focus, and such lending activity is minimal. Although the bank is a Home Mortgage Disclosure reporter, the volume of loans is low and due to misinterpretations, significant reporting errors were within the report. Therefore, an analysis of the bank’s residential real estate lending activity was not included in this evaluation. Since agricultural and consumer purpose credits are also not a targeted business strategy, they were not analyzed.

The bank’s lending performance under “Lending to Small Businesses of Different Sizes” was given the most weight among the five performance criteria. It is considered the best measure of this bank’s lending performance within the AA given the bank’s lending emphasis.

Loan Sampling Procedures

Small business loans for calendar year 2004 and from January 1, 2005 through June 30, 2005 (evaluation period) were analyzed. As the bank geo-codes its small business loans, all such loans originated during the evaluation period were reviewed. Lending during that time period is considered representative of the bank’s lending performance during the entire evaluation period. In 2004, the bank originated 641 commercial loans totaling \$214,991,572. Of these, 603 (94%) totaling \$116,410,377 were small business loans (in amounts of \$1,000,000 or less). The bank

originated 275 commercial loans year-to-date 2005 totaling \$103,594,024. Of these, 260 (95%) totaling \$59,373,319 were small business loans.

Lending to Small Businesses of Different Sizes

Overall, Ascencia Bank's record of lending to small businesses of different sizes is reasonable given the demographics of the AA and available opportunities. Analyses of the bank's performance include only those loans originated within the bank's AA. The bank's performance in providing loans to small businesses was analyzed using loan amount as a proxy for business size (the smaller the loan the smaller the business). Table 3 shows the bank's small business lending performance by loan size, for the analyzed period.

Table 3: Distribution of Small Business Loans by Loan Size								
Loan Size (000s)	2004				1/1/05 – 6/20/05			
	#	%	\$(000)	%	#	%	\$(000)	%
≤ \$50	56	18%	\$2,188	3%	11	8%	\$311	1%
> \$50 to ≤ \$100	40	12%	\$3,120	4%	19	14%	\$1,579	5%
> \$100 to ≤ \$250	121	38%	\$20,443	29%	43	33%	\$8,148	24%
> \$250 to ≤ \$500	72	23%	\$24,791	36%	48	37%	\$16,579	49%
> \$500 to ≤ \$1,000	28	9%	\$19,234	28%	11	8%	\$7,312	21%
Total	317	100%	\$69,776	100%	132	100%	\$33,929	100%

Source: Bank-generated Reports > Greater Than; ≤ Less than or equal to

Note: Calendar Year 2003 small business lending performance is consistent with the above performance.

Table 3 shows that, by number, a majority of the bank's small business loans are in amounts of \$250,000 and less (68 percent in 2004; 55 percent in 2005). This reflects reasonable loan dispersion among businesses of various sizes when compared to the AA business demographics as stated previously. Distribution by dollar volume generally shows an inverse trend; even though more loans are originated to smaller businesses, there are less dollars going to the smaller businesses. The above data reflects 36 percent of the 2004 dollars originated in amounts of \$250,000 and less. The 2005 dispersion of dollars is similar, with 30 percent originated in amounts of \$250,000 and less. This is reasonable, as it takes more of the smaller dollar volume loans to match the fewer higher dollar volume loans. Also, smaller businesses can generally afford less of a loan amount.

The bank's business lending includes origination of government related loan programs, such as USDA and SBA. These programs are generally complex and time-consuming. In 2004 the bank originated one USDA loan, and one SBA loan, with a combined total of \$3,900,000. Offering such programs and making such originations enhances the bank's business lending performance. Overall, the bank's lending to businesses of different sizes is reasonable.

Average Net Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and AA credit needs. The net loan-to-deposit ratio averaged approximately 96 percent over the ten quarters since the prior evaluation. Several similarly situated banks were identified, which have an average loan-to-deposit ratio ranging from 109 percent to 123 percent. The bank also originates loans for sale on the secondary market and sells commercial participations to affiliated and non-affiliated entities (as detailed previously). These sales, although not included in the bank’s loan to deposit ratio, enhance the overall lending performance.

Lending Within the Assessment Area

The bank has originated a majority of its small business loans, both by number and dollar volume, within the AA. Table 4 shows the AA concentration for the reviewed loans. The data shows that, on a combined basis, 52 percent of the number and 59 percent of the dollar volume were originated within the AA.

Table 4: Distribution of Loans Inside and Outside the Assessment Area										
Analysis Year	Number of Loans					Dollar Amount of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Small Business										
2004	317	53%	286	47%	603	\$69,776	60%	\$46,634	40%	\$116,410
2005	132	51%	128	49%	260	\$33,929	57%	\$25,444	43%	\$59,373
TOTAL	449	52%	414	48%	863	\$103,705	59%	\$72,078	41%	\$175,783

Source: Bank Records

Although the AA concentration is just past a majority, when viewed in relation to the volume of deposits derived from the AA, this concentration is reasonable. As detailed previously, only about 12 percent of the bank’s deposits are obtained from the State of Kentucky. Details regarding AA specific deposit percentages are not available, however, it is recognized that the percentage of AA specific deposits would be even less given the smaller geographic boundary. The bank is obtaining a substantial majority of its deposits from other states, yet lending a majority of its loans within its AA. The bank has a reasonable performance of lending within the designated AA.

Geographic Distribution of Loans

The bank's small business loans are reasonably dispersed throughout the AA. Table 5 breaks out the distribution of the bank's small business loans for the evaluation period.

Table 5: Distribution of Small Business Loans by Income Category of the Census Tracts									
CT Income Level	CTs as % of Total AA CTs	2004				Y-T-D 2005			
		#	%	\$(000)	%	#	%	\$(000)	%
Low	8%	4	1%	\$1,217	2%	2	2%	\$183	1%
Moderate	30%	28	9%	\$4,583	6%	17	13%	\$2,998	9%
Middle	34%	123	39%	\$20,290	29%	32	24%	\$5,379	16%
Upper	28%	162	51%	\$43,686	63%	81	61%	\$25,369	74%
TOTALS	100%	317	100%	\$69,776	100%	132	100%	\$33,929	100%

Source: Bank-Generated Reports

Table 5 shows that the bank is lending in CTs of all income level designations. The data shows that the number and dollar volume of loans within low- and moderate-income CTs (for both evaluation periods) is less than the demographic composition of the AA. This can be explained by the fact that the bank's office location is in an upper-income CT, located a significant distance from the low- and moderate-income CTs. Furthermore, other financial institutions serve the low- and moderate-income CTs. The community contact was not aware of any unmet credit needs in the area. The geographic distribution of loans is reasonable.

Response to Complaints

There have been no consumer complaints relating to the bank's performance in meeting the community credit needs.

Compliance with Antidiscrimination Laws and Regulations

A Fair Lending review was performed during this evaluation, along with a review for compliance with the Equal Credit Opportunity and Fair Housing regulations. These reviews did not identify any acts, policies, or practices that result in substantive violations of the antidiscrimination laws and regulations.