



PUBLIC DISCLOSURE

September 08, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank Northwest Florida
Charter Number 18214

101 East 23rd Street
Panama City, FL 32401

Office of the Comptroller of the Currency

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

FNB Northwest Florida (FNB) has a satisfactory record of meeting community credit needs.

The major factors to support this rating include:

- FNB's loan-to-deposit ratio is reasonable given the bank's size, capacity, financial condition and lending opportunities available in the assessment area.
- A majority of the loans and lending activities were made in the assessment area.
- FNB's distribution of loans reflects reasonable penetration among businesses of different sizes.
- FNB's geographic distribution of business loans reflects reasonable dispersion throughout the assessment area.
- The bank has not received any CRA related complaints during the evaluation period.

SCOPE OF EXAMINATION

The Performance Evaluation is an assessment of First National Bank of Northwest Florida's ability to meet the credit needs of the community in which it operates. The evaluation period is from January 2009 through June 2014. The lending test covers the bank's performance from January 1, 2012 through December 31, 2013.

Examiners evaluated the bank's performance under the Small Bank Test using the Interagency Community Reinvestment Act (CRA) procedures. Based on Call Report and internal bank information, we determined the bank's primary loan products. In addition, we spoke with management to determine business strategies and product offerings during the evaluation period.

During the January 2012 to December 2013 evaluation period the bank made \$47.4 million in business loans, representing 88% of all loan originations. We pulled a judgmental sample of thirty-one (31) business loans originated in the bank's assessment area (AA). Community credit needs in the AA were determined by conducting contact with a non-profit community organization.

DESCRIPTION OF INSTITUTION

As of June 30, 2014, First National Bank Northwest Florida (FNB) is a \$107 million community bank located in Panama City, Florida. The bank is wholly owned by First Northwest Florida Holding Company, a one-bank holding company. The institution operates two full-service offices in Panama City, Florida. Both locations include drive-up facilities and automated teller machines. FNB's primary business focus is loans to small businesses. The bank does originate other types of loans, such as 1-4 family, retail and construction. As of June 30, 2014, the composition of the loan portfolio provides further indication of the bank's role as primarily a small business lender.

Loan Portfolio Summary by Product 30-Jun-14		
Loan Category	Dollar Volume \$ (000)	% of Outstanding Dollars
Commercial Real Estate	\$40,294	64%
RE Residential (1-4 Family)	\$15,800	25%
Construction and Land Development	\$2,773	5%
Commercial and Industrial	\$2,523	4%
Farmland	\$1,220	2%
Consumer	\$80	0%
Gross Loan Portfolio	\$62,690	100%

Source: Call Report data as of June 30, 2014

As of June 30, 2014, net loans as a percentage of average assets are 58%, and total equity is \$15.0 million. FNB's financial position enables it to meet the credit needs of the community. Furthermore, the institution has no legal impediment that affects its ability to lend and meet the credit needs of the community. FNB's most recent CRA examination was performed on December 15, 2008. The bank received a "Satisfactory" CRA rating.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's AA consists of Bay County, Florida. Bay County is located in the Panama City Metropolitan Statistical Area (MSA) and consists of one low, nine moderate, fourteen middle and five upper-income census tract areas. The AA complies with regulatory requirements and does not arbitrarily exclude low-or moderate-income geographies.

According to the 2010 U.S. Census Bureau, the estimated population of Bay County was 168,852. The 2012 and 2013 estimated median family income for Bay County was \$58,300 and \$57, 800, respectively.

Quick Facts	Bay County	Florida
Population, 2013 estimate	174,987	19,552,860
Population, 2010 (April 1) estimates base	168,852	18,802,690
Population, percent change, April 1, 2010 to July 1, 2013	3.6%	4.0%
Population, 2010	168,852	18,801,310
Living in same house 1 year & over, percent, 2008-2012	78.6%	83.7%
High school graduate or higher, percent of persons age 25+, 2008-2012	87.4%	85.8%
Bachelor's degree or higher, percent of persons age 25+, 2008-2012	21.3%	26.2%
Veterans, 2008-2012	22,294	1,606,758
Mean travel time to work (minutes), workers age 16+, 2008-2012	20.9	25.8
Housing units, 2013	99,575	9,047,612
Homeownership rate, 2008-2012	63.8%	68.1%
Housing units in multi-unit structures, percent, 2008-2012	30.8%	30.1%
Median value of owner-occupied housing units, 2008-2012	\$163,000	\$170,800
Households, 2008-2012	68,862	7,147,013
Persons per household, 2008-2012	2.39	2.58
Per capita money income in past 12 months (2012 dollars), 2008-2012	\$24,859	\$26,451
Median household income, 2008-2012	\$47,364	\$47,309
Persons below poverty level, percent, 2008-2012	13.3%	15.6%
Building permits, 2012	440	64,810
Land area in square miles, 2010	758.46	53,624.76
Persons per square mile, 2010	222.6	350.6

Source: U.S. Census Bureau State & County QuickFacts.

Labor force and demographics indicate a 4% population growth in Bay County over the past three years. New housing construction has been slow with only a 1.7% increase in housing permits. Multifamily saw a 27.4% increase. The unemployment rate of 6.0% is lower than the state of Florida unemployment rate of 6.3%.

County	Labor Force	Employed	Unemployed	Rate
Bay	95,000	89,326	5,674	6.0
Florida	9,609,893	9,007,502	602,391	6.3
United States	155,959,000	146,368,000	9,591,000	6.1

Source: State of Florida Labor Force; United States Labor Force Statistics

The bank operates in a competitive environment. The FDIC Market-Share Deposit Report indicates that in Bay County, Florida there are sixteen (16) banks and fifty-five (55) offices with deposits of \$2.7 billion. As of June 30, 2014, FNB's deposits total \$91.6 million, which ranks ninth amongst the fifteen FDIC- insured institutions. As of June 30, 2014, the bank's deposit market share was 3.41%.

The military and tourism industry are an essential component of Bay County's economy. The Bay County Tourist Development Council (TDC) reported that 10.8 million visitors spent more than \$1 billion in Bay County on lodging, food and entertainment. Tyndall Air Force Base is the major employer.

A representative at Gulf Coast Community College Small Business Development Center was contacted to discuss community credit needs and involvement by local institutions. The contact mention the local economy continues to recover from both the economic decline beginning in 2008 and the 2010 BP oil spill, which caused a decline in tourism and caused many of the small businesses in the area to go out of business. According to the contact, the businesses that survived are doing very well; however, new small businesses that have come in are poorly funded, and contracting out their services rather than hiring employees. There is a lot of opportunity for local banks to assist small businesses by participating in the SBA Express program for start-up businesses. Furthermore, the contact noted that the most significant challenge continues to be federal lending restrictions that are too tight and lenders do not feel they are able to take as much risk funding start-up businesses. However, sub-contracting is growing rapidly.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB Northwest Florida's performance of meeting the community credit needs is satisfactory. This review concentrated on the bank's primary loan product, small business lending. A majority of loans originated are within the AA. Both borrower and geographic distribution of business loans reflect reasonable dispersion and penetration. FNB's lending to borrowers of different sizes and to geographies designated as low-and moderate-income reflect satisfactory performance.

Loan-to-Deposit Ratio

The institutions loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance, given the bank's size, financial condition and lending opportunities in the assessment area (AA). The bank's LTD is compared to ten (10) peer institutions in the Bay County and surrounding market area. During the evaluation period (January 2009 to June 2014), the bank's quarterly average LTD ratio was 71.95%, while peer institutions averaged 53.07% during the same period.

Lending in Assessment Area

The majority of the bank's lending activity is located within its AA. Lending levels reflect satisfactory responsiveness to community credit needs. As detailed in Table 1, the bank originated the majority of its loans (70.97%) inside its AA. The dollar amount of loans is slightly above 50%. We based this analysis on a sample of 31 business loans originated and renewed in 2012 and 2013.

Table 1 - Lending in Panama City MSA AA										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	22	70.97%	9	29.03%	31	\$5,479	51.30%	\$5,201	48.70%	\$10,680
Totals	22	70.97%	9	29.03%	31	\$5,479	51.30%	\$5,201	48.70%	\$10,680

Source: Sample of 31 business loans originations, renewals and purchase reports for 2012 and 2013.

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

The institution reflects satisfactory performance lending standards to business of different sizes. The distribution of lending to businesses of different sizes reflects reasonable penetration. A majority of the sampled loans were commercial real estate loans which typically have larger loan amounts compared to small non-real estate business loans. As detailed in Table 2, the bank originated 59.09% of its business loans within its AA, compared to 71.81% of area business being classified as small business under CRA.

Table 2 - Borrower Distribution to Businesses in Panama City MSA AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	71.81%	2.63%	25.56%	100.00%
% of Bank Loans in AA by #	59.09%	40.91%	0.00%	100.00%
% of Bank Loans in AA by \$	28.85%	71.15%	0.00%	100.00%

Source: Sample of 31 business loans originations, renewals and purchase reports for 2012 and 2013

Geographic Distribution of Loans

The institution’s geographic distribution of business loans reflects reasonable dispersion throughout the assessment area. As shown in Table 3, the bank made 31.82% of its business loans in moderate-income census tracts, compared to 20.82% of those businesses in moderate-income census tract.

Table 3 - Geographic Distribution of Commercial Loans in Panama City MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
% of Total	4.15%	0.00%	20.82%	31.82%	49.29%	50.00%	25.73%	18.18%

Source: Sample of 31 business loan originations and purchases for 2012 and 2013

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.