



## PUBLIC DISCLOSURE

November 18, 2014

## COMMUNITY REINVESTMENT ACT (CRA) PERFORMANCE EVALUATION

First Southern National Bank  
Charter Number 1493

27 Public Square  
Lancaster, Kentucky 40444

Office of the Comptroller of the Currency

10200 Forest Green Boulevard, Suite 501  
Louisville, Kentucky 40223

**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: Satisfactory.**

**The lending test rating: Satisfactory.**

**The community development test rating: Satisfactory.**

First Southern National Bank's (FSNB or Bank) has a satisfactory record of meeting its community's credit needs. This conclusion is based on the following:

- FSNB's average loan-to-deposit (LTD) ratio is reasonable given FSNB's size, financial condition, and the credit needs of its AAs.
- A majority of FSNB's loans originated during this assessment period were within its Assessment Areas (AA).
- Overall, FSNB's distribution of loans reflects reasonable penetration to low- and moderate-income individuals and business entities of different sizes.
- Overall, FSNB's geographic distribution of loans reflects reasonable dispersion throughout its AAs.
- FSNB's community development (CD) performance demonstrates adequate responsiveness to the CD needs of its AAs.

## **Scope of the Examination**

FSNB was evaluated under the Office of the Comptroller of the Currency's (OCC) Intermediate Small Bank Examination Procedures, which include a lending test and a CD test. The lending test evaluated the Bank's record of meeting the credit needs of its AAs through its lending activities. The CD test evaluated the Bank's responsiveness to CD needs in its AAs through CD lending, qualified investments, and CD services.

The evaluation covers the time period between February 14, 2012 and November 18, 2014. The scope of the lending test included an assessment of the Bank's primary loan types: residential real estate and business purpose loans. The residential real estate lending analysis was based on the loans FSNB reported on its Home Mortgage Disclosure Act Loan Application Register (HMDA LAR) from January 1, 2012 through September 30, 2014. The OCC performed a data integrity review to verify the accuracy of the Bank's HMDA data and concluded it was reliable. The business purpose loan analysis was performed using internal bank reports and a random sample of business loans originated or purchased between January 1, 2012 and September 30, 2014.<sup>1</sup> The OCC also performed a review to verify the accuracy of the Bank's internal reports and concluded they were reliable.

Our analysis of the borrower and geographic distribution of loans compared those originated during the testing period to the 2010 United States Census (U.S. Census) demographic information. The income level designations used in the analysis of home mortgage loans are based on the Federal Financial Institutions Examination Counsel's

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<sup>1</sup> FSNB is not required to report business purpose loans on its HMDA LAR

(FFIEC) estimate of the 2012, 2013, and 2014 Kentucky Median Family Incomes for a Metropolitan Statistical Area (MSA) and nonmetropolitan area. Data collection requirements were impacted by the Office of Management and Budget's (OMB) revised Metropolitan Area (MA) and census tract (CT) geographic definitions and boundaries in February 2013. Those revisions became effective for CRA purposes on January 1, 2014. Based on 2014 OMB MA changes, FSNB's borrower and geographic distributions were evaluated using 2013 and 2014 demographics.<sup>2</sup> A change was reflected within the makeup of one of FSNB's AAs (AA1).<sup>3</sup> The change did not appear to have an impact on the Bank's AA delineation, HMDA and CRA reportable data geocoding, and CRA program implementation. The overall rating under each lending test is the consolidation of conclusions reached for each full-scope AA. When determining conclusions for the lending tests, performance in the nonmetropolitan AA was given more weight, as this is FSNB's primary business area.

Conclusions regarding the Bank's CD tests are based on the Bank's level of CD lending, qualified investments, and CD services performed from February 14 2012 through November 18, 2014.

## Description of the Institution

FSNB is a full-service, intrastate bank headquartered in Lancaster, Kentucky. FSNB is wholly owned by First Southern Bancorp, a one-bank holding company, located in Stanford, Kentucky. As of September 30, 2014, FSNB had \$664 million in total assets, \$578 million in deposits, \$424 million in loans, and \$77 million in equity capital.

FSNB offers traditional banking products and services. These include conventional and government guaranteed home mortgage, home improvement, and consumer loans. FSNB also offers a full range of business loans, including loans through the Kentucky Housing Corporation (KHC) and Small Business Administration (SBA). FSNB operates out of 16 locations in 10 Kentucky counties. The Bank has 16 automated teller machines (ATMs) and 15 drive-thru locations.

The Bank's main office is located in downtown Stanford, Kentucky (Lincoln County). FSNB also has

- two other branches in Lincoln County in Stanford, Kentucky and Hustonville, Kentucky.
- two branches in Jessamine County in Nicholasville, Kentucky and Wilmore, Kentucky.
- an office in Fayette County in Lexington, Kentucky.

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<sup>2</sup> The term Metropolitan Area includes Consolidated Statistical Areas, Metropolitan Statistical Areas, Metropolitan Divisions, and Micropolitan areas. The Office of Management and Budget revises the boundaries of those areas and the number, delineation, and income levels of census tracts within those areas as appropriate based on each decennial census.

<sup>3</sup> See "Description of the Assessment Area(s)."

- an office in Warren County in Bowling Green, Kentucky.
- two branches in Logan County in Russellville, Kentucky.
- two branches in Caldwell County in Princeton, Kentucky.
- two branches in Wayne County in Monticello, Kentucky.
- an office in Garrard County in Lancaster, Kentucky.
- an office in Pulaski County in Somerset, Kentucky.
- an office in Madison County in Richmond, Kentucky.

All branches have a drive thru except the main office in Stanford, Kentucky. All branches have an ATM except the main offices in Stanford, Kentucky and Monticello, Kentucky, and the branch in Hustonville, Kentucky. There are three additional ATMs with one located in Lincoln County, one in Wayne County, and one in Logan County. The Bank’s locations are accessible to all segments of the communities it serves. Since the last CRA evaluation, FSNB closed three branches in Ballard County, eliminating that county from its AA; none of the closures were in low- or moderate-income CTs.

As of September 30, 2014, net loans represented 63 percent of FSNB’s assets. The following table reflects the composition of FSNB’s loan portfolio based on the September 30, 2014 Consolidated Report of Condition and Income (call report).

Loan Type	Dollars (000's)	Percentage %
Residential Mortgage Loans	196,418	47
Commercial & Industrial Including Commercial Real Estate	154,172	37
Agricultural and Agricultural Real Estate	41,752	10
Loans to Individuals	16,255	4
Municipal Loans	9,241	2
<b>TOTAL</b>	<b>417,838</b>	<b>100</b>

Source(s): September 30, 2014 call report.

FSNB was rated “Satisfactory” at the last CRA evaluation, dated February 13, 2012. There were no legal or financial impediments affecting FSNB’s ability to meet the credit needs of the communities it serves.

## Description of the Assessment Area(s)

FSNB has delineated three AAs for CRA purposes. Two AAs are located in MSAs and one is located in a non-MSA area. The first AA, AA1, is Warren County, Kentucky located in the Bowling Green, Kentucky MSA. The second AA, AA2, is Fayette and Jessamine Counties, located in the Lexington-Fayette, Kentucky MSA. The third AA, AA3, is a non-MSA area located in south-central and south-western Kentucky and includes seven counties: Garrard, Lincoln, Madison, Pulaski, Wayne, Caldwell, and Logan.

The AAs delineation is in conformance with the regulatory requirements and is appropriate in relation to the location of FSNB's offices. The delineation of the AAs does not arbitrarily exclude any low- or moderate-income areas.

Five community contacts familiar with the area's credit needs indicated all local banks are active in the community and willing to provide financing for potential projects. The contacts identified affordable housing for low- and moderate-income families as a major credit need. In addition, the contacts indicated a need for small business loans to continue recruiting industry to the area and further reduce local unemployment rates.

### **Description of Assessment Area One (AA1): Bowling Green, Kentucky MSA (Warren County)**

FSNB's AA1 is located in south-central Kentucky. It consists of all CTs in Warren County, Kentucky in the Bowling Green, Kentucky MSA.<sup>4</sup> The 2010 U.S. Census divided the AA into 24 CTs: four low-income, one moderate-income, 11 middle-income, and eight upper-income tracts. FSNB has one branch with a full-service ATM and drive-thru facility located in the city of Bowling Green, Kentucky. The branch is located in a middle-income CT.

Warren County has a total population of 113,792 according to the 2010 U.S. Census. The population is comprised of 41,979 households, of which, 4,101 (9.8 percent) are considered to have low-incomes and 1,522 (3.6 percent) have moderate-incomes. Additionally, 7,057 (16.8 percent) households live below the poverty level and 872 (2.1 percent) receive public assistance.

Manufacturing, service, healthcare, and education remain the area's primary industries. Major employers include Houchens Industries, Inc.; Commonwealth Health Corporation (The Medical Center at Bowling Green); Western Kentucky University; Warren County Public Schools; Fruit of the Loom, Inc.; and R. R. Donnelley & Sons, Inc. Combined, these workforces total 11,632 employees.

According to the Bureau of Labor Statistics, as of September 30, 2014, the unemployment rates for the Bowling Green, Kentucky MSA and Warren County were 5.7 percent and 4.8 percent, respectively. Both rates were below the average unemployment rate for the Commonwealth of Kentucky of 6 percent and the national average of 5.9 percent.

Competition in the AA is strong, as many financial institutions service the Bowling Green, Kentucky MSA. According to the Federal Deposit Insurance Corporation (FDIC) website, 20 banks, with 55 offices, operate in Warren County. The competition includes five large banks and three regional banks. As of June 30, 2014, these offices held a combined total of \$1.9 billion in deposits. FSNB's rank is 18<sup>th</sup> with deposits of \$6.3 million or 0.33 percent.

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<sup>4</sup> AA1 does not include Edmonson County, as the Bank does not have branches within it.

2014 Demographic Information for AA1: Bowling Green, Kentucky MSA (Warren County)					
Demographic Characteristics	#	Low (% of #)	Moderate (% of #)	Middle (% of #)	Upper (% of #)
Geographies (Census Tracts/BNAs)*	24	16.67%	4.17%	45.83%	33.33%
Population by Geography	113,792	13.02%	3.86%	47.97%	35.15%
Families by Income Levels	26,879	19.81%	15.59%	18.46%	46.14%
Owner-Occupied Housing by Geography	26,033	3.93%	3.32%	48.42%	44.33%
Businesses by Geography	8,513	12.06%	1.96%	47.40%	38.58%
Farms by Geography	561	3.57%	1.43%	51.87%	43.13%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	9,515	16.89%	7.26%	51.78%	24.07%
Median Family Income 2014 2013 2012	\$54,200 \$58,300 \$57,400	Median Housing Value		\$134,540	
Households Below the Poverty Level	16.81%	Unemployment Rate		See narrative	

Source(s): 2010 U.S. Census and 2012-2014 FFIEC estimated Median Family Income (MFI). \*One CT in the MSA changed from moderate- to upper-income in 2014. This did not have an impact on our analysis.

An AA community contact stated local housing needs were being met by area financial institutions.

### Description of Assessment Area Two (AA2): Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)

FSNB’s AA2 is located in central Kentucky. It consists of all CTs in Fayette and Jessamine counties in the Lexington-Fayette, Kentucky MSA.<sup>5</sup> The 2010 U.S. Census divided the AA into 91 CTs: 12 low-income, 21 moderate-income, 29 middle-income, and 29 upper-income tracts. FSNB has three branches in the AA, each with a full-service ATM and drive-thru facility. One branch is located in a moderate-income CT in Jessamine County, one in a middle-income tract in Jessamine County, and the last in an upper-income tract in Fayette County.

Fayette and Jessamine counties have a total population of 344,389 according to the 2010 U.S. Census. The population is comprised of 138,399 households, of which, 35,985 (26 percent) are considered to have low-incomes and 22,062 (15.9 percent) have moderate-incomes. Additionally, 7,057 (17 percent) households live below the poverty level and 872 (2 percent) receive public assistance.

The local economy is primarily comprised of entities dedicated to education, medicine, retail trade, manufacturing, and service. Major employers for Fayette County include

<sup>5</sup> Note: AA2 does not include Bourbon, Clark, Scott, or Woodford counties, as the Bank does not have any branches within them.

The University of Kentucky; Fayette County Public Schools; KentuckyOne Health; Xerox Corporation; Lexmark International, Inc.; Baptist Health Care System, Inc.; Lockheed Martin Corporation; The Kroger Company; and Amazon.com, Inc. These companies collectively employ over 35,000 individuals. Major employers for Jessamine County include Alltech; McLane Company, Inc. (Cumberland); McKechnie Vehicle Components; R.J. Corman Railroad Group, LLC; AmCor Limited (Rigid Plastics); RockTenn Company; and the Donaldson Company, Inc. These companies employ approximately 2,200 individuals combined. The majority of Jessamine County residents (approximately 70 percent) commute outside of the county for employment.

According to the Bureau of Labor Statistics, as of September 30, 2014, the unemployment rate for the Lexington-Fayette, Kentucky MSA was 5 percent. The unemployment rates for Fayette and Jessamine counties were 4.9 and 5 percent, respectively. Both rates were below the aforementioned average unemployment rates for the Commonwealth of Kentucky and the nation.

Competition in the AA is strong, as many financial institutions service the Lexington-Fayette, Kentucky MSA. According to the FDIC website, 30 banks, with 133 offices, operate in these counties. The competition includes six large banks and 10 regional banks. As of June 30, 2014, these offices held a combined total of \$6.8 billion in deposits. FSNB’s rank is 19<sup>th</sup> with deposits of \$67.2 million or 0.98 percent.

2014 Demographic Information for AA2: Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)					
Demographic Characteristics	#	Low (% of #)	Moderate (% of #)	Middle (% of #)	Upper (% of #)
Geographies (Census Tracts/BNAs)*	91	13.19%	23.08%	31.87%	31.86%
Population by Geography	344,389	11.83%	24.16%	33.27%	30.74%
Families by Income Levels	82,883	23.17%	15.79%	19.55%	41.49%
Owner-Occupied Housing by Geography	80,308	5.61%	19.54%	36.71%	38.14%
Businesses by Geography	29,226	8.93%	21.84%	35.25%	33.98%
Farms by Geography	1,181	5.67%	13.55%	39.54%	41.24%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	32,286	16.04%	34.36%	34.16%	15.44%
Median Family Income		Median Housing Value		\$174,636	
2014	\$67,800	Unemployment Rate		See narrative	
2013	\$63,800				
2012	\$67,100				
Households Below the Poverty Level	15.80%				

Source(s): 2010 U.S. Census and 2012-2014 FFIEC estimated MFI.

Two AA community contacts stated local housing needs were being met by area financial institutions.

**Description of Assessment Area Three (AA3): Non-MSA Kentucky Counties of Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne.**

FSNB's AA3 consists of all CTs in Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne counties. Ballard County was part of the AA until 2014, when the Bank closed three branches in the County. The AA includes five contiguous counties in central Kentucky (Madison, Garrard, Lincoln, Pulaski, and Wayne) and two non-contiguous counties in western Kentucky (Caldwell and Logan).<sup>6</sup> The counties of Lincoln, Madison, Pulaski, and Wayne are designated as distressed counties. The 2010 U.S. Census divided the AA into 57 CTs: one low-income, eight moderate-income, 32 middle-income, and 16 upper-income tracts. FSNB has 12 branches in the AA. All have an ATM except the main offices in Stanford, Kentucky and Monticello, Kentucky and the branch in Hustonville, Kentucky. There are three additional ATMs in the AA. One is located in Lincoln County, one in Wayne County, and one in Logan County. All have drive-thru facilities, except the main office in Stanford, Kentucky. One branch is located in a moderate-income CT in Logan County and the remaining in middle-income tracts.

AA3 has a total population of 248,265 according to the 2010 U.S. Census. The population is comprised of 97,467 households, of which, 24,307 (25 percent) are considered to have low-incomes and 14,640 (15 percent) have moderate-incomes. Additionally, 20,538 (21.1 percent) households live below the poverty level and 2,237 (2.3 percent) receive public assistance.

The local economies are primarily supported by service industries. The largest employers in the AA are Hitachi Automotive Systems, Ltd.; Logan Aluminum, Inc.; and Toyotetu America, Inc. These companies employ over 3,000 individuals collectively.

According to the Bureau of Labor Statistics, as of September 30, 2014, the unemployment rates in the AA ranged from 4.9 percent to 8.1 percent. Only Caldwell, Logan, and Madison counties have unemployment rates below the aforementioned average unemployment rates for the Commonwealth of Kentucky and the nation.

Competition in the AA is strong, as many financial institutions service these non-MSA counties. According to the FDIC website, 30 banks, with 107 offices, operate in these counties. The competition includes six large banks and 10 regional banks. As of June 30, 2014, these offices held a combined total of \$3.3 billion in deposits. FSNB had the largest market share in the AA with deposits of \$508.8 million or 15.4 percent.

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<sup>6</sup> 12 CFR 25.41(c)(1) states, "banks must delineate AAs that consist *generally* of one or more contiguous political subdivisions, such as counties, in the case of the nonmetropolitan area (non-MSA) within a state." The regulation allows exceptions to this rule for "geographically proximate" counties. Geographically proximate may mean counties that have similar performance contexts (e.g., counties within a same state, within the bank's lending area, etc.). The performance context for each county is sufficient for combining the non-contiguous, non-MSAs counties into one AA.

2014 Demographic Information for AA3: Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)					
Demographic Characteristics	#	Low (% of #)	Moderate (% of #)	Middle (% of #)	Upper (% of #)
Geographies (Census Tracts/BNAs)*	57	1.75%	14.04%	56.14%	28.07%
Population by Geography	248,265	1.68%	12.91%	57.49%	27.92%
Families by Income Levels	65,977	0.01%	13.88%	58.68%	27.43%
Owner-Occupied Housing by Geography	68,828	0.01%	13.88%	58.68%	27.43%
Businesses by Geography	15,389	0.18%	10.79%	61.52%	27.51%
Farms by Geography	1,381	0.00%	8.76%	67.27%	23.97%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	24,953	20.80%	17.02%	18.89%	43.28%
Median Family Income		Median Housing Value		\$104,603	
2014	\$45,900	Unemployment Rate		See narrative	
2013	\$44,700				
2012	\$43,600				
Households Below the Poverty Level	21.07%				

Source(s): 2010 U.S. Census and 2012-2014 FFIEC estimated MFI.

A community contact familiar with the area’s credit needs indicated local banks are active in the community and are willing to provide financing for potential projects. The contact did not identify any credit needs in the AA not being addressed by the banks or through other sources.

## Conclusions with Respect to Performance Tests

FSNB’s performance under the lending test is satisfactory.

FSNB’s LTD ratio is reasonable and a majority of loan originations were inside the AA. FSNB’s borrower distribution reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. The geographic distribution of FSNB’s residential and business loans reflects reasonable dispersion among geographies.

The most weight and consideration was given to the non-MSA AA, as the majority of loans and deposits are derived from this AA.

Less weight and consideration was given to the Bowling Green, Kentucky MSA AA due to the length of time the Bank has been in this AA. Less than 1 percent of the deposits and only 2 percent of the Bank’s originated loans are in this AA.

## LENDING TEST

### Loan-to-Deposit Ratio

FSNB's net LTD ratio is reasonable given the Bank's size, financial condition, and AA credit needs. FSNB's net LTD ratio averaged 68.75 percent over the last 11 quarters since the last CRA evaluation. The Bank's LTD ratio ranged from a quarterly low of 62.70 percent to a quarterly high of 72.25 percent. The average net LTD ratio was comparable to that of community banks of similar size, locations, and products offered within FSNB's AAs.

Institution	Average LTD Ratio
First Southern National Bank	68.75%
Forcht Bank, National Association	70.60%
The Monticello Banking Company	69.43%

### Lending in the Assessment Area(s)

FSNB originated a majority of its loans inside its AAs. The following table details FSNB's lending within the AAs by number and dollar amount of loans originated during the evaluation period. FSNB originated 84.02 percent of its primary loan products, by number, in the AAs.

Lending in AA1 - Bowling Green, Kentucky MSA (Warren County), AA2 - Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties), and AA3 - Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)										
	Inside Assessment Area				Outside Assessment Area				Total	
	#	%	\$ (000's)	%	#	%	\$ (000's)	%	#	\$ (000's)
Home Purchase	452	84.49%	\$40,550	58.27%	83	15.51%	\$29,035	41.73%	535	\$69,585
Refinancing	497	88.12%	\$37,675	83.04%	67	11.88%	\$7,697	16.96%	564	\$45,372
Home Improvement	374	90.12%	\$9,287	87.21%	41	9.88%	\$1,362	12.79%	415	\$10,649
<b>Total Home</b>	1,323	87.38%	\$87,512	69.67%	191	12.62%	\$38,094	30.33%	1,514	\$125,606
<b>Total Business</b>	1,007	79.98%	\$65,088	35.76%	252	20.02%	\$116,925	64.24%	1,259	\$182,013
<b>Total All Res. RE and Business Purpose Loans</b>	2,330	84.02%	\$152,600	49.61%	443	15.98%	\$155,019	50.39%	2773	\$307,619

Source(s): All Home Mortgage Disclosure Act (HMDA) reportable residential loans originated between January 1, 2012 and September 30, 2014. Business loans originated between March 30, 2012 and September 30, 2014. No 2010 U.S. Census information used in this table.

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

The distribution of loans, given FSNB's performance context, reflects reasonable penetration among low- and moderate-income individuals and business entities with annual revenue of less than \$1 million.

### **AA1 - Bowling Green, Kentucky MSA (Warren County)**

The overall distribution of residential real estate loans to borrowers of different incomes and businesses of different sizes reflects reasonable penetration within AA1.

The distribution of residential real estate loans originated in 2013 to low-income borrowers represented 4.35 percent of total loan originations, which is below the demographic comparator of 21.50 percent of low-income families in the AA. Home loan originations to moderate-income borrowers were 8.70 percent, and also below the demographic comparator of 16.44 percent of moderate-income families in the AA.

The distribution of loans originated in 2014 to low-income borrowers represented 3.57 percent of total loan originations, which is below the demographic comparator of 19.81 percent of low-income families in the AA. Home loan originations to moderate-income borrowers were 7.14 percent, below the demographic comparator of 15.59 percent.

Although these percentages do not meet the standards for reasonable penetration, certain loan products met or exceeded their comparator. During the 2013 assessment period, the penetration levels for home purchase and home improvement loans to moderate-income borrowers exceeded their comparators. In 2014, the penetration levels for home improvement loans to low-income borrowers and refinance loans to moderate-income borrowers exceeded their comparators.

Several reasons exist why FSNB's performance did not mirror the demographic comparators for lending to low- or moderate-income borrowers. Seventeen percent of the population lives below the poverty level and 26 percent are on fixed incomes. It is difficult for low income individuals to afford to purchase or maintain a home. Other barriers include the unavailability of private mortgage insurance for potential borrowers without strong credit scores and lack of a sufficient down payment to qualify for Bank products. The AA has a moderate percentage of rental units available to meet the housing needs of low- and moderate-income borrowers. As these individuals turn to rental housing, opportunities for banks to originate home loans are reduced. Also, this is the Bank's newest market. Only a few deposits have been taken and loans made in this MSA.

The following tables show the distribution of home loan products among borrowers of different income levels compared to the percentage of families in each income level for 2013 and 2014.

2013 Borrower Distribution of Residential Real Estate Loans in AA1- Bowling Green, Kentucky MSA (Warren County)									
Borrower Income Level	Low		Moderate		Middle		Upper		NA*
	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% Number of Loans
Home Purchase	21.50%	6.67%	16.44%	8.89%	18.94%	13.33%	43.12%	46.67%	24.44%
Home Improvement	21.50%	0.00%	16.44%	10.00%	18.94%	30.00%	43.12%	60.00%	0.00%
Refinance	21.50%	2.70%	16.44%	8.11%	18.94%	16.22%	43.12%	48.65%	24.32%
Total	21.50%	4.35%	16.44%	8.70%	18.94%	16.30%	43.12%	48.91%	21.74%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2012 and 2013.

\*NA = The percentage of loans originated that did not use income as a basis for approval.

2014 Borrower Distribution of Residential Real Estate Loans in AA1- Bowling Green, Kentucky MSA (Warren County)									
Borrower Income Level	Low		Moderate		Middle		Upper		NA*
	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% Number of Loans
Home Purchase	19.81%	6.67%	15.59%	13.33%	18.46%	13.33%	46.14%	46.67%	20.00%
Home Improvement	19.81%	0.00%	15.59%	0.00%	18.46%	0.00%	46.14%	0.00%	0.00%
Refinance	19.81%	0.00%	15.59%	0.00%	18.46%	15.38%	46.14%	53.85%	30.77%
Total	19.81%	3.57%	15.59%	7.14%	18.46%	14.29%	46.14%	50.00%	25.00%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2014.

\*NA = The percentage of loans originated that did not use income as a basis for approval.

The business loan distribution during the 2013 evaluation period did not meet the comparators among small businesses with revenues of less than \$1 million. FSNB originated 55 percent of its business loans to small business entities. When compared to the percentage of businesses in each income level, the percentage falls short of the demographic comparator of 70 percent, especially when considering 25 percent of the businesses did not report their revenues. The majority of these businesses are more likely to have annual revenues under \$1 million given 66 percent of the businesses in AA1 have revenues under \$500,000.

In 2014, the distribution of business loans reflects reasonable penetration among small businesses with revenues of less than \$1 million. FSNB originated 70 percent (nearly 88 percent by dollar) of its business loans to small business entities meeting the standards when compared to the demographic comparator of 69 percent, especially when considering 26 percent of the businesses did not report their revenues. The majority of these businesses are more likely to have annual revenues under \$1 million given 70 percent of the businesses in AA1 have revenues under \$500,000. In addition, FSNB originated 15 percent of its loans without taking the business' revenue into consideration. These loans were mostly repeat business customers or start-up businesses with very little income. The 2014 assessment period also shows a dramatic

increase in the percentage of dollars lent in the AA compared to the 2012-2013 assessment period.

The following tables show the distribution of business loans among businesses of different income levels compared to the percentage of businesses in each income level for 2013 and 2014.

2013 Borrower Distribution of Loans to Businesses in AA1 - Bowling Green, Kentucky MSA (Warren County)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not Reported/Unknown	Total
% of AA Businesses	70.38%	4.16%	25.46%	100%
% of Bank Loans in AA by #	55.00%	45.00%	0.00%	100%
% of Bank Loans in AA by \$	35.54%	64.46%	0.00%	100%

Source(s): 2013 Business Geodemographic Data and business loans originated in 2012 and 2013.

2014 Borrower Distribution of Loans to Businesses in AA1 - Bowling Green, Kentucky MSA (Warren County)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not Reported/Unknown	Total
% of AA Businesses	69.04%	4.78%	26.18%	100%
% of Bank Loans in AA by #	70.00%	15.00%	15.00%	100%
% of Bank Loans in AA by \$	87.68%	10.71%	1.61%	100%

Source(s): 2014 Business Geodemographic Data and business loans originated in 2014.

### AA2 - Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)

The overall distribution of residential real estate loans reflects reasonable penetration among low- and moderate-income borrowers and excellent penetration among small businesses in AA2.

The distribution of loans originated in 2013 to low-income borrowers represented 8.25 percent of total loan originations, which is below the demographic comparator of 23.17 percent of low-income families in the AA. Home loan originations to moderate-income borrowers were 12.37 percent, which is slightly below the demographic comparator of 15.79 percent of moderate-income families in the AA.

The distribution of loans originated in 2014 to low-income borrowers represented 14.29 percent of total loan originations, which is below the demographic comparator of 23.17 percent of low-income families in the AA. Home loan originations to moderate-income borrowers were 12.37 percent, which is below the demographic comparator of 15.59 percent.

Although these percentages do not meet the standards for reasonable penetration, certain loan products met or exceeded their comparator. During the 2013 assessment period, the penetration levels for home purchase and home improvement loans to moderate-income borrowers exceeded their comparators. In 2014, the penetration levels for home improvement loans to low-income borrowers and refinance

loans to moderate-income borrowers exceeded their comparators.

In addition, several reasons exist for FSNB’s performance against demographic data for lending to low- or moderate-income borrowers. Sixteen percent of the population lives below the poverty level, and 26 percent are on fixed incomes. As previously stated, lower incomes provide impediments for home ownership. The AA has a moderate percentage of rental units available to meet the housing needs of low- and moderate-income borrowers.

The following tables show the distribution of home loan products among borrowers of different income levels compared to the percentage of families in each income level for 2013 and 2014.

2013 Borrower Distribution of Residential Real Estate Loans in AA2 - Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)									
Borrower Income Level	Low		Moderate		Middle		Upper		NA*
	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% Number of Loans
Home Purchase	23.17%	4.76%	15.79%	16.67%	19.55%	23.81%	41.49%	35.71%	19.05%
Home Improvement	23.17%	7.14%	15.79%	21.43%	19.55%	21.43%	41.49%	35.71%	14.29%
Refinance	23.17%	12.20%	15.79%	4.88%	19.55%	31.71%	41.49%	46.33%	4.88%
Total	23.17%	8.25%	15.79%	12.37%	19.55%	26.80%	41.49%	40.21%	12.37%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2012 and 2013.

\*NA = The percentage of loans originated that did not use income as a basis for approval.

2014 Borrower Distribution of Residential Real Estate Loans in AA2 - Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)									
Borrower Income Level	Low		Moderate		Middle		Upper		NA*
	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% Number of Loans
Home Purchase	23.17%	11.11%	15.79%	0.00%	19.55%	22.22%	41.49%	33.34%	33.33%
Home Improvement	23.17%	50.00%	15.79%	0.00%	19.55%	50.00%	41.49%	0.00%	0.00%
Refinance	23.17%	0.00%	15.79%	33.33%	19.55%	0.00%	41.49%	66.67%	0.00%
Total	23.17%	14.29%	15.79%	7.14%	19.55%	21.43%	41.49%	35.71%	21.43%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2014.

\*NA = The percentage of loans originated that did not use income as a basis for approval.

The business loan distribution during the 2013 evaluation period reflects reasonable penetration among small businesses with revenues of less than \$1 million. FSNB originated 80 percent of its business loans to small business entities with annual revenues of less than \$1 million. When compared to the percentage of businesses in each income level, the percentage meets the demographic comparator of 71 percent. Twenty-four percent of the businesses did not report their revenues. Seventy percent of the businesses in AA2 have revenues under \$500,000.

In 2014, the distribution of business loans reflects excellent penetration among small businesses with revenues of less than \$1 million. FSNB originated 95 percent of its business loans (nearly 99 percent by dollar) to small business entities exceeding the standards when compared to the demographic comparator of 71 percent. Twenty-six percent of the businesses did not report their revenues. The 2014 assessment period shows a dramatic increase in the percentage of dollars lent in the AA compared to the 2012-2013 assessment period.

The following tables show the distribution of business loans among businesses of different income levels compared to the percentage of businesses in each income level for 2013 and 2014.

<b>2013 Borrower Distribution of Loans to Businesses in AA2 - Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	71.43%	4.37%	24.20%	100%
% of Bank Loans in AA by #	80.00%	20.00%	0.00%	100%
% of Bank Loans in AA by \$	54.54%	45.46%	0.00%	100%

Source(s): 2013 Business Geodemographic Data and business loans originated in 2012 and 2013.

<b>2014 Borrower Distribution of Loans to Businesses in AA2 - Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.68%	4.91%	24.41%	100%
% of Bank Loans in AA by #	95.00%	5.00%	0.00%	100%
% of Bank Loans in AA by \$	98.75%	1.25%	0.00%	100%

Source(s): 2014 Business Geodemographic Data and business loans originated in 2014.

### **AA3 – Non-MSA Counties of Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne Counties**

The distribution of residential real estate loans reflects reasonable penetration among low- and moderate-income borrowers and excellent penetration among small businesses in AA3.

The distribution of loans originated in 2013 to low-income borrowers represented 10.05 percent of total loan originations, which is below the demographic comparator of 20.40 percent of low-income families in the AA. Home loan originations to moderate-income borrowers were 15.96 percent, which is near the demographic comparator of 16.91 percent.

The distribution of loans originated in 2014 to low-income borrowers represented 8.52 percent of total loan originations, which is below the demographic comparator of 20.80 percent of low-income families in the AA. Home loan originations to moderate-income borrowers were 14.43 percent, which is near the demographic comparator of 17.02 percent.

There are several reasons for the Bank’s performance being lower than the demographic data. As with the Bank’s other two AA, this AA had barriers to lending to low- or moderate-income borrowers. Twenty-one percent of AA households lived below the poverty level and 30 percent were on fixed incomes. As previously stated, low incomes make home ownership a challenge. The moderate percentage of rental units available in the AA meets the housing needs of low- and moderate-income borrowers but inhibits opportunities for banks to originate home loans.

The following tables show the distribution of home loan products among borrowers of different income levels compared to the percentage of families in each income level for 2013 and 2014.

2013 Borrower Distribution of Residential Real Estate Loans in AA3 – Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)									
Borrower Income Level	Low		Moderate		Middle		Upper		NA*
	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% Number of Loans
Home Purchase	20.40%	6.58%	16.91%	16.44%	19.10%	21.92%	43.59%	47.94%	7.12%
Home Improvement	20.40%	13.71%	16.91%	18.29%	19.10%	28.29%	43.59%	33.71%	6.00%
Refinance	20.40%	10.02%	16.91%	13.60%	19.10%	26.25%	43.59%	46.55%	3.58%
Total	20.40%	10.05%	16.91%	15.96%	19.10%	25.49%	43.59%	43.03%	5.47%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2012 and 2013.

\*NA = The percentage of loans originated that did not use income as a basis for approval.

2014 Borrower Distribution of Residential Real Estate Loans in AA3 – Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)									
Borrower Income Level	Low		Moderate		Middle		Upper		NA*
	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% AA Families	% Number of Loans	% Number of Loans
Home Purchase	20.80%	6.14%	17.02%	13.16%	18.89%	21.93%	43.28%	50.00%	8.77%
Home Improvement	20.80%	14.61%	17.02%	15.73%	18.89%	21.35%	43.28%	35.96%	12.36%
Refinance	20.80%	5.88%	17.02%	14.71%	18.89%	23.53%	43.28%	53.92%	1.96%
Total	20.80%	8.52%	17.02%	14.43%	18.89%	22.30%	43.28%	47.21%	7.54%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2014.

\*NA = The percentage of loans originated that did not use income as a basis for approval.

The business loan distribution, during the 2013 evaluation period, reflects reasonable penetration among small businesses with revenues of less than \$1 million. FSNB originated 95 percent of its business loans to small business entities with annual revenues of less than \$1 million. When compared to the percentage of businesses in each income level, the percentage exceeds the demographic comparator of 73 percent, especially when considering 24 percent of the businesses did not report their revenues. The majority of these businesses are more likely to have annual revenues under \$1 million given 72 percent of the businesses in AA3 have revenues under \$500,000.

In 2014, the distribution of business loans reflects excellent penetration among small businesses with revenues of less than \$1 million. FSNB originated 85 percent of its business loans to small business entities exceeding the standards when compared to the demographic comparator of 72 percent. This success of this result is magnified by the fact that 25 percent of the businesses did not report their revenues. The majority of these businesses are more likely to have annual revenues under \$1 million given 70 percent of the businesses in AA3 have revenues under \$500,000. In addition, the 2014 assessment period shows a dramatic increase in the percentage of dollars lent in the AA compared to the 2013 assessment period.

The following tables show the distribution of business loans among businesses of different income levels compared to the percentage of businesses in each income level for 2013 and 2014.

2013 Borrower Distribution of Business Loans in AA3 – Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.71%	3.08%	24.21%	100%
% of Bank Loans in AA by #	95.00%	0.00%	5.00%	100%
% of Bank Loans in AA by \$	91.45%	0.00%	8.55%	100%

Source(s): 2013 Business Geodemographic Data and business loans originated in 2012 and 2013.

2014 Borrower Distribution of Loans to Businesses in AA3 – Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.69%	3.46%	24.85%	100%
% of Bank Loans in AA by #	85.00%	10.00%	5.00%	100%
% of Bank Loans in AA by \$	69.59%	28.65%	1.76%	100%

Source(s): 2014 Business Geodemographic Data and business loans originated in 2014.

## Geographic Distribution of Loans

### AA1 - Bowling Green, Kentucky MSA (Warren County)

Overall, lending to geographies of different income levels for residential real estate and business loans in AA1 reflects reasonable dispersion.

FSNB’s distribution of home loans in the AA reflects reasonable dispersion. The Bank did not originate any home loans in low-income CTs in 2013. FSNB originated 2.17 percent to borrowers within the moderate-income CTs. Both fall below the demographic comparators of 3.93 percent and 3.32 percent, respectively. However, the Bank originated home improvement loans of 10 percent to borrowers within the moderate-income CTs, almost tripling the comparator of 3.32 percent.

In 2014, FSNB did not originate any home loans in low-income CTs. The Bank originated 3.57 percent to borrowers within the moderate-income CTs. This compares

unfavorably to the demographic comparator of 3.93 percent for low-income CTs, but favorably to the demographic comparator of 3.32 percent for moderate-income CTs. By loan type, the Bank’s refinanced home loans were 7.62 percent to borrowers in the moderate-income CTs nearly doubled the demographic comparator of 3.32 percent.

The following tables detail the Bank’s performance as compared to the percentage of owner-occupied housing units in each CT income level.

2013 Geographic Distribution of Residential Real Estate Loans in AA1 – Bowling Green, Kentucky MSA (Warren County)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	3.93%	0.00%	3.32%	2.22%	48.42%	48.89%	44.33%	48.89%
Home Improvement	3.93%	0.00%	3.32%	10.00%	48.42%	30.00%	44.33%	60.00%
Refinance	3.93%	0.00%	3.32%	0.00%	48.42%	62.16%	44.33%	37.84%
Total	3.93%	0.00%	3.32%	2.17%	48.42%	52.17%	44.33%	45.66%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2012 and 2013.

2014 Geographic Distribution of Residential Real Estate Loans in AA1 – Bowling Green, Kentucky MSA (Warren County)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	3.93%	0.00%	3.32%	0.00%	45.18%	46.67%	47.57%	53.33%
Home Improvement	3.93%	0.00%	3.32%	0.00%	45.18%	0.00%	47.57%	0.00%
Refinance	3.93%	0.00%	3.32%	7.69%	45.18%	38.46%	47.57%	53.85%
Total	3.93%	0.00%	3.32%	3.57%	45.18%	42.86%	47.57%	53.57%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2014.

FSNB’s distribution of business loans in the AA reflects poor dispersion into the low- and moderate-income CTs. FSNB’s business loan originations within the low-income tracts did not meet the demographic comparators for the 2013 or the 2014 comparison periods. The Bank originated 5 percent of its loans in 2013 and 10 percent in 2014 to entities in low-income geographies falling short of the comparators of 13.34 percent and 12.06 percent, respectively. FSNB did not originate any business loans to entities located in moderate-income CTs.

The lack of penetration within the AA’s low- and moderate-income CTs is due to strong competition and FSNB’s relatively small presence in the market area. In addition to FSNB, there are 19 other financial institutions in the AA. These include branches of four large and three regional banks.

The location of FSNB’s branch is another barrier to originating loans in low- and moderate-income CTs. The branch is located in a middle-income CT and separated from the low- and moderate-income CTs by an upper-income CT.

The following tables detail the Bank’s performance as compared to the percentage of businesses in each CT income level.

2013 Geographic Distribution of Loans to Businesses in AA1 – Bowling Green, Kentucky MSA (Warren County)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Business Loans	% 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
Total	13.34%	5.00%	2.04%	0.00%	49.12%	30.00%	35.50%	65.00%

Source(s): 2010 U.S. Census data, 2012-2013 Business Geodemographic Data, and a sample of business loans originated in 2012 and 2013.

2014 Geographic Distribution of Loans to Businesses in AA1 – Bowling Green, Kentucky MSA (Warren County)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Business Loans	% 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
Total	12.06%	10.00%	1.96%	0.00%	47.40%	35.00%	38.58%	55.00%

Source(s): 2010 U.S. Census data, 2012-2013 Business Geodemographic Data, and a sample of business loans originated in 2012 and 2013.

**AA2 - Lexington-Fayette MSA (Fayette and Jessamine Counties)**

Overall, lending to geographies of different income levels for residential real estate and business loans in AA2 reflects reasonable dispersion.

FSNB’s distribution of home loans in the AA reflects excellent dispersion. In 2013, the Bank originated 3.09 percent of their home loans to borrowers within low-income CTs and 27.84 percent to borrowers within the moderate-income CTs. Lending in low-income CTs fell slightly below the comparator of 5.61 percent but exceeded the comparator of 19.54 percent for moderate-income CTs.

In 2014, FSNB did not originate any home loans in low-income CTs. However, the Bank originated 57.14 percent to borrowers within the moderate-income CTs. This is nearly three times the demographic comparator of 19.54 percent for moderate-income CTs.

The following tables detail the Bank’s performance as compared to the percentage of owner-occupied housing units in each CT income level.

2013 Geographic Distribution of Residential Real Estate Loans in AA2 - Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	5.61%	4.76%	19.54%	28.57%	36.71%	45.24%	38.14%	21.43%
Home Improvement	5.61%	0.00%	19.54%	28.57%	36.71%	57.14%	38.14%	14.29%
Refinance	5.61%	2.44%	19.54%	26.83%	36.71%	48.78%	38.14%	21.95%
Total	5.61%	3.09%	19.54%	27.84%	36.71%	48.45%	38.14%	20.62%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2012 and 2013.

2014 Geographic Distribution of Residential Real Estate Loans in AA2 - Lexington-Fayette, Kentucky MSA (Fayette and Jessamine Counties)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	5.61%	0.00%	19.54%	44.44%	36.71%	33.33%	38.14%	22.23%
Home Improvement	5.61%	0.00%	19.54%	100.00%	36.71%	0.00%	38.14%	0.00%
Refinance	5.61%	0.00%	19.54%	66.67%	36.71%	33.33%	38.14%	0.00%
Total	5.61%	0.00%	19.54%	57.14%	36.71%	28.57%	38.14%	14.29%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2014.

FSNB’s distribution of business loans in the AA reflects poor dispersion within the low- and moderate-income CTs. In 2013 and 2014, FSNB did not originate any loans to businesses within low-income CTs. In 2013, FSNB originated 5 percent of its business loans within moderate-income CT’s, falling well short of the comparator of 21.64 percent. In 2014, FSNB also fell short of the comparator for lending to businesses in moderate-income CTs. The Bank originated 10 percent of its business loans compared to the demographic comparator of 21.84 percent.

The lack of penetration within the AA’s low- and moderate-income census tracts is due to strong competition in these market areas. In addition to FSNB, there are 29 other financial institutions in the area. These include branches of five large and seven regional banks.

The low-income tracts are located in central Fayette County away from the Bank’s Fayette County branch. One of the branches in Jessamine County is located in a middle-income CT and the other is located in a moderate-income CT. The Bank had success originating home loan products in the moderate-income CT but fell short for business loans.

The following tables detail the Bank’s performance as compared to the percentage of businesses in each CT income level.

2013 Geographic Distribution of Loans to Businesses in AA2 – Lexington-Fayette MSA (Fayette and Jessamine Counties)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Total	8.43%	0.00%	21.64%	5.00%	35.18%	55.00%	34.75%	40.00%

Source(s): 2010 U.S. Census data, 2012-2013 Business Geodemographic Data, and a sample of business loans originated in 2012 and 2013.

2014 Geographic Distribution of Loans to Businesses in AA2 – Lexington-Fayette MSA (Fayette and Jessamine Counties)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Total	8.93%	0.00%	21.84%	10.00%	35.25%	50.00%	33.98%	40.00%

Source(s): 2010 U.S. Census data, 2012-2013 Business Geodemographic Data, and a sample of business loans originated in 2012 and 2013.

### AA3 – Non-MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne Counties)

Lending to geographies of different income levels for residential real estate and business loans in AA3 reflects reasonable dispersion.

FSNB’s distribution of home loans in the AA reflects excellent dispersion. The Bank did not originate any loans in the one low-income census tract in 2013. FSNB originated 17.64 percent to borrowers within the moderate-income census tracts. This compares favorably to the demographic comparators of less than one percent and 13.33 percent, respectively.

FSNB did not originate any loans in the one low-income CT in 2014. The Bank originated 18.03 percent to borrowers within the moderate-income CTs. This compares favorably to the demographic comparators of less than one percent and 13.88 percent, respectively.

The following tables detail the Bank’s performance as compared to the percentage of owner-occupied housing units in each CT income level.

2013 Geographic Distribution of Residential Real Estate Loans in AA3 – Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.01%	0.00%	11.33%	16.71%	59.59%	62.74%	27.06%	20.55%
Home Improvement	0.01%	0.00%	11.33%	18.00%	59.59%	66.86%	27.06%	15.14%
Refinance	0.01%	0.00%	11.33%	18.14%	59.59%	63.48%	27.06%	18.38%
Total	0.01%	0.00%	11.33%	17.64%	59.59%	64.29%	27.06%	18.08%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2012 and 2013.

2014 Geographic Distribution of Residential Real Estate Loans in AA3 – Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.01%	0.00%	13.88%	15.79%	58.68%	62.28%	27.44%	21.93%
Home Improvement	0.01%	0.00%	13.88%	19.10%	58.68%	68.54%	27.44%	12.36%
Refinance	0.01%	0.00%	13.88%	19.61%	58.68%	58.82%	27.44%	21.57%
Total	0.01%	0.00%	13.38%	18.03%	58.68%	62.95%	27.44%	19.02%

Source(s): 2010 U.S. Census data and all HMDA reportable residential loans originated in 2014.

FSNB’s distribution of business loans in the AA reflects reasonable dispersion within the low- and moderate-income CTs. The Bank did not originate any loans in the AA’s one low-income CT in 2013. Approximately 15 percent of business loans were originated to entities located in moderate-income tracts, which exceeds the demographic comparator of 10.31 percent.

FSNB did not originate any loans in 2014 in the AA’s one low-income CT. FSNB originated approximately 5 percent of their business loans to entities located in moderate-income tracts, which is significantly lower than the demographic comparator of 10.79 percent.

The lack of penetration into the AA’s low- and moderate-income CTs is due to strong competition in these areas. The low-income tract is located in central Madison County and is surrounded by middle- and upper-income tracts. In addition to FSNB, there are 29 other financial institutions in the area. These include branches of four large and two regional institutions. The moderate-income tract is located at the southern end of the county. FSNB has no branch in this area. There are, however, 10 other financial institutions in the area, including a branch of one large bank and three regional institutions.

The following tables detail the Bank’s performance as compared to the percentage of businesses in each CT income level.

2013 Geographic Distribution of Loans to Businesses in AA3 – Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Total	0.19%	0.00%	10.31%	15.00%	62.34%	65.00%	27.16%	20.00%

Source(s): 2010 U.S. Census data, 2012-2013 Business Geodemographic Data, and a sample of business loans originated in 2012 and 2013.

2014 Geographic Distribution of Loans to Businesses in AA3 – Non MSA Counties (Caldwell, Garrard, Lincoln, Logan, Madison, Pulaski, and Wayne)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Total	0.18%	0.00%	10.79%	5.00%	61.52%	70.00%	27.51%	25.00%

Source(s): 2010 U.S. Census data, 2012-2013 Business Geodemographic Data, and a sample of business loans originated in 2012 and 2013.

In evaluating FSNB’s lending, we considered the Bank’s size in relation to its AA sizes and to its lack of low-income CTs. We also took into consideration AA3 having 32 middle-income CTs located in distressed areas.

**Responses to Complaints**

FSNB has not received any CRA complaints during this evaluation period.

**COMMUNITY DEVELOPMENT TEST**

FSNB’s performance under the CD test is satisfactory.

FSNB’s overall CD performance through its record of CD loans, qualified investments, and retail services demonstrates adequate responsiveness to CD needs in its AAs.

**Number and Amount of Community Development Loans**

FSNB’s CD lending reflects adequate responsiveness to CD needs within its AAs. FSNB originated five CD loans totaling approximately \$2.35 million during the evaluation period. These loans were distributed among various projects including affordable housing project financing, community service, and revitalization and stabilization efforts towards low- and moderate-income communities.

Loans in AA1 reflect poor responsiveness to CD needs within the AA. FSNB did not make any CD loans in the AA during the evaluation period.

Loans in AA2 reflect poor responsiveness to CD needs within the AA. FSNB originated one loan totaling \$250,000 for community service.

Loans in AA3 reflect adequate responsiveness to CD needs within the Non-MSA Counties AA. FSNB originated four loans totaling \$2.1 million. These included \$1.25 million for revitalization efforts towards the City of Somerset, Kentucky; \$606,000 for community services; and \$243,000 for affordable housing.

### **Number and Amount of Qualified Investments**

FSNB's CD investing demonstrates adequate responsiveness to the opportunities in the Bank's AAs.

Investments in AA1 reflect poor responsiveness to CD needs within the AA. FSNB did not purchase any investments in the AA.

Investments in AA2 reflect poor responsiveness to CD needs within the AA. FSNB did not purchase any investments in the AA.

Investments in AA3 reflect adequate responsiveness to CD needs within the AA. Management purchased \$1.65 million in school revenue bonds during the evaluation period. One bond for \$100,000 was from the Science Hill Kentucky Independent School District Finance Corporation for the remodeling of an elementary school; one bond for \$675,000 was from the Pulaski County Kentucky School District Finance Corporation to renovate local high schools; one bond for \$880,000 bond was from the Somerset Kentucky Independent School District Finance Corporation for remodeling various schools; and one \$20,000 bond was for the Caldwell County Kentucky School District Finance Corporation. Management also purchased six Kentucky State Housing Corporation bonds for \$4.5 million to provide affordable housing in various areas.

### **Extent to Which the Bank Provides Community Development Services**

The Bank shows an adequate responsiveness to meeting community needs through qualified community services. In evaluating FSNB's services, we considered the Bank's size in relation to the size of the AAs and the needs within the communities. FSNB provided CD services targeting low- to moderate-income individuals during the assessment period.

General Services reflect adequate responsiveness to CD needs within the AA. FSNB offers on-line banking to provide customers with additional access to their consumer and business accounts. Through on-line banking, customers can

- access real-time account balances and track transaction history for all accounts.
- view account statements and check images.
- transfer funds between existing accounts and eligible loans (including credit lines).
- make loan payments.
- pay bills.
- locate the nearest branch or ATM.
- activate cash-back offers with the Purchase Rewards Program.

- track spending with the FinanceWorks Tool.
- receive budget counseling through the True Balance program.
- download account information to Quicken or Microsoft Money.
- submit stop payment requests on checks.
- schedule recurring transfers.
- set-up reminders and alerts.
- re-order checks.
- track their stock portfolio.

With First Southern Mobile Banking, the Bank's mobile banking service, customers can perform these same functions using a web-enabled mobile device. FSNB gives customers three secure options for Mobile Banking - Text Message Banking, Mobile Web Banking, and Mobile Apps. First Southern Mobile Banking is available to all personal online banking customers.

FinanceWorks, powered by Quicken, is a new addition to FSNB's online banking suite. FinanceWorks is a free budgeting program that provides online banking customers with their complete financial picture all in one place.

True Balance is another new addition to FSNB's online banking services. True Balance is a financial health initiative created to help others make wise financial decisions. The program offers free one-on-one budget coaching, books, articles, videos, and financial calculators. Budget Coaches work with customers by encouraging customers to adopt the three basic principles of True Balance – Give Generously, Save Regularly, and Spend Wisely.

FSNB participated in the Kentucky Housing Corporation's Unemployment Bridge Loan Program (UBP), which is a new forgivable loan option for eligible homeowners to assist them in making their mortgage payments. To be eligible, the homeowner must have experienced a job loss or reduction in income due to changing economic conditions through no fault of their own and demonstrate a need for assistance. The maximum amount of assistance is \$25,000 or 12 months, whichever occurs first.

Through the Bank's officers and employees, FSNB is involved in a variety of CD services in each of the AAs. One officer serves as the treasurer and another as a board member for Habitat for Humanity. This organization uses donations to build affordable housing. These houses help families break the cycle of poverty and build long-term financial security. Five bank employees give financial literacy presentations to students of Providence School, a non-traditional school serving all of Jessamine County. One officer serves as the treasurer and another as a board member for the Lincoln County Education Fund. This organization supplies scholarships to lower income high school seniors wanting to go to college. Three employees participate in Junior Achievement. This organization goes into schools to educate youths about economic, financial, and real world situations through special hands-on curriculums. One officer serves as a board member on the financial committee for the Logan County Adult Education Council.

In evaluating FSNB's services, we considered the Bank's size in relation to its AA sizes and to its lack of low-income CTs. We also took into consideration AA3 having 32 middle-income CTs located in distressed areas.

### **Responsiveness to Community Development Needs**

FSNB's CD activities, as a whole, demonstrate an adequate responsiveness to the needs and opportunities in the AAs. Several Bank CD loans promoted economic development for low- and moderate-income individuals. The Bank invested in local education bonds, which promoted school redevelopment located in distressed or underserved areas. FSNB employees provided numerous community services to organizations offering services to low- and moderate-income individuals.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c) in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.