



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 16579

341 Military Street South
Hamilton, AL 35570-0000

Office of the Comptroller of the Currency

Birmingham Field Office
3595 Grandview Parkway, Suite 655
Birmingham, AL. 35243

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 Outstanding.

- The level and trend of the bank’s loan-to-deposit (LTD) ratio is reasonable.
- The substantial majority of loans are made within the bank’s assessment area (AA).
- The distribution of loans to businesses of different sizes is excellent.
- The geographic distribution of loans across different income census tracts is excellent.
- Management has made a significant level of community development loans over the evaluation period.

SCOPE OF EXAMINATION

First National Bank (FNB) was evaluated under the Small Bank examination procedures, which is comprised of a lending test. The lending test evaluates the bank’s record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The bank’s previous CRA rating dated May 3, 2010 was “Satisfactory”. The evaluation period for this performance report is May 4, 2010 through July 29, 2013.

FNB’s primary loan products are home and business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The HMDA data for years 2010 and 2011 were evaluated and errors were noted. As a result, residential lending was not included in this evaluation. To evaluate the bank’s business lending performance, we selected a sample of business loans made from January 1, 2010 through December 31, 2012. Management also provided community development activities for review. The evaluation period for those activities is May 4, 2010 through July 29, 2013.

DESCRIPTION OF INSTITUTION

FNB is a \$278 million intrastate bank headquartered in Hamilton, AL, with branch locations in Marion, Winston, Fayette, Franklin, Lamar, and Walker Counties, AL. In addition to the main office, one other branch is located in Marion County, AL. The bank has two branches in Lamar County, three in Winston County, one in Fayette County, and two in Walker County. Since the last CRA examination, the bank has not opened or closed any branches. The majority of the full-service branches have deposit-taking ATMs. All branches in Fayette, Franklin, Marion, Lamar, and Winston Counties are located in Distressed or Underserved Non-metropolitan Middle-Income Geographies. There has not been any significant changes to FNB’s corporate structure, including merger or acquisition activities, since the last CRA examination. FNB is wholly owned by Marion County Bancshares, Inc., a one-bank holding company. FNB provides traditional banking services, including business, agricultural, residential, and personal lending, as well as deposit, funds transfer, and safe deposit services. No legal or financial factors impede FNB’s ability to meet the credit needs within the assessment area.

The bank’s loan mix based on the June 30, 2013 Call Report is as follows:

Loan Type	Percentage of Total Loans
1-4 Family Mortgages	30.66%
Commercial Loans	29.23%
Consumer Loans	20.69%

Source: 6/30/13 Uniform Bank Performance Report

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has two assessment areas located in Alabama: Marion, Winston, Fayette, Lamar, and Franklin Counties (Non MSA AA) and Walker County (MSA AA). Walker County is located within the Birmingham-Hoover MSA. Both AAs meet regulatory requirements and consist of complete political subdivisions that do not arbitrarily exclude low- and moderate- income geographies. Each AA is described below.

Marion, Winston, Fayette, Franklin, and Lamar Counties (Non-MSA) Assessment Area

In 2011, the Non-MSA AA consisted of 21 census tracts with a total population of 98,308. Eight branches are located in this AA. As of 2012, two branches are located in moderate-income tracts, and the other six are in middle-income tracts. Due to the high percentage of branches and loan activity in this AA, it is considered the full-scope AA for this evaluation.

The HUD adjusted median family income for the Non-MSA AA in 2011 is \$47,000. For 2013, the HUD adjusted median family income for this AA was \$46,000. Table 1A below shows the demographic makeup of the AA by census tract and income level.

Non-MSA AA 2010-2011 Demographics				
Income Level	# of CTs	% of CTs	# of Families	% of Families
Low	0	0%	0	0%
Moderate	0	0%	0	0%
Middle	21	100%	26,524	100%
Upper	0	0%	0	0%
Total	21	100%	26,524	100.00%

Source: 2000 Census

In 2012, the assessment area was expanded to include an additional two census tracts in Franklin, County, AL. The total non-MSA AA now includes 25 census tracts with a total population of 94,756. The same eight branches are still located in this AA.

Non-MSA AA 2012 Demographics				
Income Level	# of CTs	% of CTs	# of Families	% of Families
Low	0	0%	0	0%
Moderate	2	8%	1,813	7%
Middle	23	92%	25,690	93%
Upper	0	0%	0	0%
Total	25	100%	27,503	100.00%

Source: 2010 Census

Employers in this AA are centered primarily in retail and manufacturing. Major employers include Marion County Board of Education, 3M, NTN Bower, Continental Conveyor and Walmart.

Local competition in the assessment area (AA) is strong. There are twenty-one banks located in the bank's AA. Larger banks include CB&S, a Synovus affiliate, Regions Bank, Cadence Bank, and Wells Fargo. Smaller community institutions include State Bank and Trust, The Citizens Bank of Fayette, The Citizens Bank of Winfield, The Bank of Vernon, and Traders & Farmer's Bank.

Local economic conditions are challenging with 19.46 percent of the households showing income below the poverty level. Approximately 18 percent of the AA or 16,641 persons are over the age of 65. As of August 2013, the average unemployment rate for all five counties was 8.18 percent, compared to 6.3 percent for Alabama statewide and 7.2 percent for the U.S.

We discussed community-lending needs with the administrative director of a local economic development agency who identified small business loans as the most prominent lending need in the AA. They also mentioned basic credit services such as home and auto lending and land loans. Our contact stated that there are no specific community development projects or loan funds where local financial institutions could get involved.

Walker County (MSA) Assessment Area

The Walker County, AL (MSA) AA consists of seven census tracts with a total population of 26,652. Two branches are located in this AA, a part of the Birmingham-Hoover MSA. As of 2012, one branch is located in a moderate-income tract and the other in a middle-income tract. This AA was considered as a limited-scope review during this evaluation.

The HUD adjusted median family income for the MSA AA in 2011 is \$62,000. For 2013, the HUD adjusted median family income for this AA was \$57,100. Table 1B below shows the demographic makeup of the AA by census tract (CT) and income level.

MSA AA 2010 - 2011 Demographics				
Income Level	# of CTs	% of CTs	# of Families	% of Families
Low	0	0	0	0
Moderate	6	85.71%	7,427	87.68%
Middle	1	14.29%	1,044	12.32%
Upper	0	0	0	0
Total	7	100.00%	8,471	100.00%

Source: 2000 Census

MSA AA 2012 Demographics				
Income Level	# of CTs	% of CTs	# of Families	% of Families
Low	0	0%	0	0%
Moderate	5	71%	5,339	74%
Middle	2	29%	1,904	26%
Upper	0	0%	0	0%
Total	7	100.00%	7,243	100.00%

Source: 2010 Census

The economy of Walker County is driven by the service industry. Major employers in the area are mostly centered in education and healthcare. Major employers in the area include Walker County Board of Education, Walker Baptist Medical Center, Beville State Community College, Marshall Durbin and Walmart.

Local economic conditions are challenging with 18.72 percent of the households showing income below the poverty level. Approximately 15 percent of the AA or 4,069 persons are over the age of 65. As of August 2013, unemployment for Walker County was 6.7 percent. This is above the Alabama statewide rate of 6.3 percent, but below the U.S. unemployment rate of 7.2 percent.

Local competition in the assessment area (AA) is moderate. There are several banks located in the bank's AA. Larger banks include Bank of Jasper, a Synovus affiliate, Compass Bank, Regions Bank, BB &T, and Wells Fargo. Smaller community institutions include Pinnacle Bank, Bank of Walker County, Security Federal Savings Bank, and Traders & Farmer's Bank, Winston County.

Community contacts were conducted with local agencies to determine the credit needs within the bank's AA. The immediate credit needs of the community are financial planning and credit counseling. Another need identified, was the need for more job opportunities in manufacturing and industrial type jobs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's LTD ratio averaged 48.74 percent over the 13 quarters since the last CRA examination, with a quarterly low of 45.33 percent and a quarterly high of 52.61 percent. The bank's LTD ratio is reasonable compared with other community banks of similar size, location, and product offerings. FNB ranks third among six banks of similar size serving its assessment areas.

Institution	Assets as of 2Q10 (in thousands)	Average LTD Ratio
Traders & Farmers Bank	\$ 358,494	59.69
Pinnacle Bank	\$ 217,410	57.24
First National Bank	\$ 278,283	48.74
The Citizens Bank of Fayette	\$ 196,091	46.60
State Bank & Trust	\$ 202,024	37.30
The Citizens Bank of Winfield	\$ 193,560	28.74

Source: Call Report Data

Lending in Assessment Area

FNB originates a substantial majority of its loans inside the AA. Over 90 percent of both the number and dollar volume of loans originated from January 1, 2010 to December 31, 2012 were to borrowers located within the AA. The following table details the bank's lending within the AA by number and dollar amount of sampled loans originated during the evaluation period.

Table 1 - Lending in First National Bank										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	41	93%	3	7%	44	4,358	89%	534	11%	4,892

Source: Sample

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

Lending performance to borrowers of different incomes and businesses of different sizes is excellent for both AAs.

Performance in the Non-MSA AA

The borrower distribution of loans in the Non-MSA AA is excellent. In 2010 and 2011, the distribution of loans to small businesses meets the percentage of businesses with less than \$1 million in revenues. For 2012, the bank's percentage of loans to small businesses is excellent and exceeds percentage of small businesses in the AA.

Business Loans- 2010 and 2011

The distribution of loans to businesses reflects an excellent penetration among businesses of different sizes. In the Non-MSA AA, 72.17 percent of businesses are small, generating gross revenues of less than \$1 million. FNB lending to small businesses meets the percentage of small businesses, with 67 percent of the number of loans, and 44 percent of the dollar volume of loans made to businesses with revenues less than \$1 million. Table 2A illustrates the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses- Non-MSA AA 2010-2011				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.17%	2.44%	25.39%	100%
% of Bank Loans in AA by #	67.00%	33.00%	0.00%	100%
% of Bank Loans in AA by \$	44.00%	56.00%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet data.

Business Loans- 2012

The distribution of loans to businesses reflects an excellent penetration among businesses of different sizes. In the Non MSA AA, 75.93 percent of businesses are small, generating gross revenues of less than \$1 million. FNB lending to small businesses correlates positively, with 96 percent of the number of loans, and 99 percent of the dollar volume of loans being made to businesses with revenues less than \$1 million. Table 2B illustrates the distribution of

commercial loans among different sized businesses in the AA.

Table 2B - Borrower Distribution of Loans to Businesses in Non MSA AA -2012				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.93%	3.35%	20.73%	100%
% of Bank Loans in AA by #	96%	4%	0%	100%
% of Bank Loans in AA by \$	99%	1%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Performance in the MSA AA

For 2010 and 2011, the borrower distribution of loans in this limited scope area is better than the lending performance noted in the full-scope AA. For 2012, the borrower distribution of loans in the limited scope area is consistent with the performance in the full scope area.

Geographic Distribution of Loans

The geographic distribution of loans in the MSA AA reflects an excellent dispersion throughout census tracts of different income levels. In 2011, the Non MSA AA was not considered in assessing the geographic distribution of loans, as all tracts were middle-income. For 2012, the census data changed and a geographic distribution analysis was meaningful. The analysis shows excellent distribution throughout the moderate- and middle-income geographies. Our analysis also indicated there is lending penetration in all geographies.

Performance in Non MSA AA

For 2010 and 2011, the Non MSA AA does not contain any low- or moderate-income census tracts. Therefore, an analysis would not be meaningful. This has a neutral impact on the CRA rating. For 2012, the geographic distribution of loans in low- or moderate-income census tracts is excellent.

Business Loans- 2010 - 2011

The Non MSA AA does not contain any low- or moderate-income census tracts. Therefore, an analysis would not be meaningful. This has a neutral impact on the CRA rating.

Business Loans- 2012

The geographic distribution of loans in low- or moderate-income census tracts is excellent. Table 3 shows the bank's percentage of loans to small businesses in moderate-income tracts significantly exceeds the overall percentage of businesses in those tracts.

Table 3 - Geographic Distribution of Loans to Businesses Non MSA AA - 2012								
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
Businesses	0.00	0.00	5.16	30.00	94.84	70.00	0.00	0.00

Source: Loan sample; Dunn and Bradstreet data.

Performance in MSA AA

The geographic distribution of loans in this AA is consistent with the performance in the full scope AA.

Community Development Activities

During the examination period, the bank made several community development loans within the community. This performance had a positive impact on the overall rating. During the evaluation period of May 4, 2010 to July 23, 2013, the bank made 20 new loans totaling \$4.5 million for community development purposes. In addition, management participated with 11 local schools and organizations to provide community development service. These services were primarily based in financial education.

Responses to Complaints

No complaints related to CRA lending performance were received during the evaluation period. This has a neutral impact on the overall CRA rating.

Fair Lending or Other Illegal Credit Practices Review

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