



PUBLIC DISCLOSURE

October 16, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Kansas
Charter Number 6101

600 N. 4th Street
Burlington, KS 66839

Office of the Comptroller of the Currency

2959 N. Rock Road
Suite 510
Wichita, KS 67226

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

Summarize the major factors supporting the institution's rating.

- The First National Bank of Kansas's (FNBK) average loan-to-deposit (LTD) ratio of 43% reflects reasonable responsiveness to the credit needs of the assessment areas (AA).
- The bank extended a majority of its primary loan products to borrowers located in the two AAs. FNBK extended 80% of the number and 90% of the dollar amount of loans to borrowers within the AAs.
- FNBK demonstrated excellent penetration in lending to farms of different sizes in the Coffey County AA and reasonable penetration in lending to businesses of different sizes in the Osage County AA. The loan samples indicated FNBK granted 100% and 53% of the loans by number to farms and businesses, respectively, with revenues less than or equal to \$1 million.
- FNBK demonstrated excellent dispersion in lending to borrowers in the Osage County AA's one moderate-income census tract. The commercial loan sample indicated FNB granted 74% of the loans by number and 51% by dollar volume to borrowers in the moderate-income tract.

SCOPE OF EXAMINATION

We performed an evaluation of FNBK's Community Reinvestment Act (CRA) performance, focusing upon the bank's designated assessment areas. In November 2012, the lending strategy at the Osage City branch shifted from commercial lending toward residential real estate (RRE) lending. We will not evaluate RRE products at this examination.

Because of the lending strategy change in Osage County and due to the minimal volume of loans originated in 2012 that would be considered in an evaluation against the 2010 U.S. Census demographics, we adjusted the evaluation period for the lending test to January 1, 2010 through December 31, 2011. Based on conversations with management, lending in this period is representative of all lending through December 31, 2012. To assess the bank's performance, examiners selected a sample of loans determined to be the primary lending products in each assessment area during the evaluation period. FNBK's primary loan products were determined to be agricultural loans for the Coffey County AA and commercial loans for the Osage County AA.

On June 30, 2012, the Federal Deposit Insurance Corporation's (FDIC) Summary of Deposits report reflected that the Coffey County AA held 83% of the bank's total

deposits. Therefore, the Coffey County AA will receive the most weight in this evaluation.

DESCRIPTION OF INSTITUTION

First National Bank of Kansas is a \$72 million dollar financial institution headquartered in Burlington, Kansas. The bank is a wholly owned subsidiary of Meader Insurance Agency, Incorporated, of Waverly, Kansas, a holding company with \$9.8 million in total assets. The bank has no affiliates requiring consideration for CRA activities.

FNBK is a full-service banking institution that offers commercial, agricultural, residential real estate, and consumer credit products; however, the bank's primary lending activities focus on commercial and agricultural loans. On June 30, 2013, net loans and leases represent 22% of the bank's total assets. The bank's \$16 million loan portfolio consisted of 37% commercial loans; 19% agricultural loans; 34% residential real estate loans; 7% consumer loans; and 3% other. Tier One Capital totaled \$6.6 million.

First National Bank of Kansas has two assessment areas within the State of Kansas. The AAs are Coffey County and Osage County. The bank acquired the branch in Osage County in 2009. Osage County is one of the five counties contained in the Topeka Metropolitan Statistical Area (MSA) #45820. FNBK has three branches, each with a drive-through facility and an automated teller machine (ATM). An additional ATM was installed November 2012 at the Coffey County Hospital in Burlington. There are no deposit taking ATMs.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its AAs. The Office of the Comptroller of Currency last evaluated FNBK's CRA performance on June 6, 2008. The bank received an overall rating of "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA(S)

Coffey County AA

FNBK's primary assessment area is Coffey County, Kansas. The AA contains three middle-income census tracts. The AA does not contain any low-, moderate-, or upper-income census tracts. The county is not in an MSA. Coffey County's census tracts were designated as distressed middle-income non-metropolitan tracts due to population loss for both 2010 and 2011. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 2000 U.S. Census population of the AA was 8,865. The Weighted Average of HUD Updated MSA Median Family Income for 2011 was \$53,700. The income distribution for families in the AA is 16% low-income; 19% moderate-income; 24% middle-income; and 41% upper-income. Of the 3,505 households in the AA, 32% receive social

security, 9% have income below the poverty level, and 2% receive public assistance. Thirty-two percent (32%) of the population are not in the work force and 16% are over the age of 65. The Weighted Average of Median housing value is \$63,277 and 70% of the housing units are owner-occupied.

The local economy is stable. The major employer in the area is Wolf Creek Nuclear Operating Corporation, which operates the Wolf Creek Generating Station near Burlington, Kansas. Other significant employers include three school districts, Coffey County Hospital and satellites, and Coffey County. Coffey County is also within a commutable distance to the cities of Ottawa and Emporia, and the state capital of Topeka. Several major companies, such as Wal-Mart, Goodyear, and Frito-Lay have facilities located in these cities. Although farm loans are the primary loan product in the AA, the economics of local agriculture have driven a significant number of farm operators to rely on these commutable employers for a secondary source of income.

The Kansas Department of Labor reports the Coffey County unemployment rate at 5.8% as of August 2013. The Kansas unemployment rate is similar at 5.9%. These rates are favorable when compared to the national unemployment rate of 7.3% for the same date.

Two of the bank's three branches are located in Coffey County. These branches hold 83% of the bank's total deposits. The level of competition in the AA is strong. There are three other institutions with offices located in the AA. The FDIC's June 30, 2012 Deposit Market Share Report reflects that the bank ranks 3rd in market share with 18% of the AA deposits.

We contacted one community professional in the Coffey County AA. The contact indicated that there were multiple lending opportunities in Coffey County. These opportunities would be for financing the various infrastructure, services, and retail needs of both permanent and temporary employees at the Wolf Creek Generating Station. The county particularly needs housing. Currently, the contact's organization has a lending partnership with a bank located in the county. The contact stated that local banks are satisfactorily meeting the primary credit needs in the community.

Osage County AA

The AA includes all of Osage County, Kansas. This AA contains four middle-income tracts and one moderate-income tract. Osage County lies in the southern part of the Topeka MSA; however, Osage County does not emulate the characteristics of an MSA. The county is rural with a few small towns. FNBK's branch is located in Osage City, the largest city in the county with approximately 3,000 residents. The city is located in the center of the county approximately 30 miles south of Topeka. All of the smaller surrounding communities are rural in nature and have economic characteristics similar to Osage City. The AA complies with the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 U.S. Census population of the AA was 16,712. The Weighted Average of HUD Updated 2011 MSA Median Family Income is \$63,300. The income distribution

for families in the AA is 16% low-income; 18% moderate-income; 26% middle-income; and 40% upper-income. Of the 6,471 households in the AA, 33% receive social security, 10% have income below the poverty level, and 3% receive public assistance. Approximately 16% of the AA population is over the age of 65 and 34% of the population consists of civilians not in the workforce. The median housing value is \$71,294 and 74% of the units are owner occupied.

The AA economy is primarily dependent on agriculture. KanBuild Homes was the largest employer in the area for over 30 years prior to closing its doors in February 2011. Primary employers in the area now include ORBIS plastics and the public school system, comprised of Unified School District (USD) 420 in Osage City, and USD 454 in Burlingame. The Kansas State Capitol of Topeka provides significant employment diversity for the residents of rural Osage County.

When compared to the August 2013 unemployment rates of Coffey County and the State of Kansas (5.8% and 5.9%, respectively), the Osage County unemployment rate of 6.8% is more consistent with the Topeka MSA unemployment rate of 6.4%, and the national unemployment rate of 7.3%.

The Osage City branch accounts for 17% of total bank deposits. FNBK faces strong competition within the Osage County AA. The FDIC report reflects that the bank ranks 9th in market share with 4% of the AA deposits. The report identifies nine other institutions that maintain eleven offices in the AA. Management identified the primary competitors in the AA as the Bank of Osage (Flint Hills Bank of Eskridge), Flint Hills Bank (First State Bank of Burlingame), and Landmark National Bank. These institutions have 14%, 10%, and 8% of the deposit market share, respectively.

Examiners contacted one community professional from the AA. The contact indicated that there is not a single primary credit need, but rather there is an even distribution across agricultural, commercial, and residential real estate lending needs in the AA. The contact stated that all of the financial institutions do an excellent job of meeting the credit needs of the community and each is actively involved in community development activities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBK's level of lending is satisfactory. The bank's average quarterly loan-to-deposit ratio since the last CRA exam is 43%, with a range from 25% to 65%. The average quarterly LTD ratio for the six primary competitor banks located in the AAs is 73%. The average quarterly LTD ratio for the peer banks range from 63% to 86%.

While FNB Kansas's quarterly average LTD ratio is below that of peer banks, the ratio is considered reasonable. The bank routinely is the benefactor of significant public fund

deposits. The bank also participates in the Federal Home Loan Bank’s (FHLB) Mortgage Partnership Finance (MPF) program and retains loan servicing. Loans originated in the MPF program are not reflected in the LTD figures. Bank records indicate an average LTD ratio of approximately 61% when considering these detractors.

External factors have also influenced the LTD ratio. Consistent with industry trends, the economic downturn has caused the bank’s balance sheet to transform, reflecting increased deposits and decreased loan demand. Additionally, two of the peer competitor banks have the ability to lend in areas outside the AA, each having 20 or more locations located outside the AA.

Lending in Assessment Area

FNBK’s lending in the AA is rated satisfactory. The bank extended 80% of the number and 90% of the dollar amount of loans to borrowers located within the AA. The sample included 20 loans originated, purchased, or committed during 2010 and 2011. The loan sample included loans from each of the two primary products.

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

FNBK’s lending to farms and businesses of different sizes is rated satisfactory. To assess the bank’s performance, we selected a sample of 20 agricultural loans originated in the Coffey County AA. In Osage County, we reviewed all (19) of the commercial loans originated in the AA. These products represent the majority of the loans originated from January 1, 2010 through December 31, 2011.

Coffey County AA

FNBK’s lending penetration to farms of different sizes in the Coffey County AA is excellent. The agricultural loan sample shows 100% of the number and 100% of the dollar amount of loans were granted to farms with revenues less than \$1 million. FNBK’s performance is above the farm demographic data that shows 99% of the farms have annual gross revenues of \$1 million or less.

Borrower Distribution of Loans to Farms in Coffey County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample and 2000 U.S. Census

Osage County AA

FNB demonstrated reasonable penetration in lending to businesses of different sizes. The loan sample reflected the bank granted 53% of the number of loans to businesses with annual revenues less than or equal to \$1 million. Businesses of this size represent 74% of all businesses within the AA. Further demonstrating the bank’s commitment to assist small businesses, management collaborates with the Osage County Economic Development Group and the East Central Kansas Opportunity Corporation (ECKAN) to provide lending services and business development guidance for existing and potential small business owners in the area.

Borrower Distribution of Loans to Businesses in Osage County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	74%	2%	24%	100%
% of Bank Loans in AA by #	53%	42%	5%	100%
% of Bank Loans in AA by \$	24%	74%	2%	100%

Source: Loan sample and 2000 U.S. Census

Geographic Distribution of Loans

FNBK’s lending to businesses located in low- or moderate-income geographies is rated outstanding.

Coffey County AA

An analysis of the geographic distribution of loans originated in the AA during the evaluation period would not be meaningful. The AA does not contain low- or moderate-income tracts.

Osage County AA

FNB’s demonstrated excellent dispersion in lending to businesses located in the AA’s one moderate-income census tract. FNB granted 74% of the commercial loan sample to borrowers in this moderate-income tract. This significantly exceeds the demographic data, as just 20% of businesses in the AA are located within the moderate-income tract.

Geographic Distribution of Loans to Businesses in Osage County								
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
Business Loans	0%	0	20%	74%	80%	26%	0%	0

Source: Loan sample and 2000 U.S. Census

Community Development Loans

Coffey County has been designated a distressed nonmetropolitan middle-income geography. Recognition for community development occurs when an institution engages in activities that revitalize or stabilize these geographies. An activity revitalizes or stabilizes a distressed nonmetropolitan middle-income geography if it helps to attract new, or retain existing businesses or residents. Examples include financing the construction, expansion, improvement, maintenance or operation of essential infrastructure or facilities for health services, education, public safety, public services, and industrial parks.

FNBK has demonstrated a commitment to community development by providing funds for capital improvements to the rural water department and by providing funds for medical equipment at the county's only hospital. The bank also works in partnership with the FHLB offering the Mortgage Partnership Financing real estate loan program. The FHLB program allows the bank to provide home financing at a reasonable cost to the residents of the AA.

Responses to Complaints

FNB Kansas has not received any CRA-related complaints since the previous CRA examination.

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 AA 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.