



PUBLIC DISCLOSURE

February 17, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 8280

414 Main Street
Milnor, ND 58060

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3393

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

The major factors supporting this rating include:

- The institution's loan-to-deposit ratio (LTD) is reasonable.
- Lending to individuals of different income levels and farms of different sizes is reasonable.
- The bank originated a substantial majority of loans inside the assessment area (AA).

SCOPE OF EXAMINATION

We assessed First National Bank's (FNB) record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA). The evaluation period covered from October 16, 2009 through February 17, 2015. We assessed FNB's lending performance using primary loan products. Based on loan originations and purchases during 2013 and 2014, we determined that agriculture and consumer loans are the bank's primary products. We randomly selected 20 consumer loans and 60 agriculture loans to conduct our analysis. The following table shows the bank's loan originations and purchases by loan type in 2013 and 2014.

Loan Originations and Purchases in 2013 and 2014		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Agriculture	34.64%	53.99%
Consumer	39.86%	6.39%
Real Estate	5.22%	16.82%
Commercial	20.28%	22.80%

Source: Bank Loan Origination Report for 2013 and 2014

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation to find similarly situated institutions. The most recent deposit information is as of June 30, 2014.

DESCRIPTION OF INSTITUTION

FNB is a \$74 million bank headquartered in Milnor, North Dakota. The main bank branch is located in Milnor and a second branch is located approximately 22 miles away in the city of Lisbon. No branches were opened or closed during the evaluation period. The bank operates five ATMs, none of which are deposit-taking. FNB is owned by a single bank holding company, FNB Bankshares, Inc. FNB Bankshares is not engaged in any other activities that would impact the bank's CRA performance.

FNB is a full service bank offering a variety of loan and deposit products. FNB's focus is on agricultural lending. As of December 31, 2014, the loan portfolio totaled \$40 million and consisted of 61.34 percent Agriculture, 6.54 percent consumer, 5.32 percent

residential real estate, and 26.80 percent commercial loans. Tier 1 leverage capital totaled 14.13 percent.

The bank received a rating of satisfactory on their previous CRA examination dated October 15, 2009. There are no legal actions or financial constraints that would affect the bank’s ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNB’s AA consists of Ransom and Sargent counties, which are located in the southeast corner of North Dakota. The AA includes five census-tracts, all of which are middle-income tracts. The AA meets the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Based on 2010 US census data, the population of the AA was 9,286. According to the Bureau of Labor Statistics, the average unemployment rate in 2014 for Ransom and Sargent Counties was 2.63 percent. The unemployment rate for the AA is comparable with the statewide unemployment rate of 2.8 percent and well below the national average. The table below shows the demographic and economic characteristics of the AA:

Demographic and Economic Characteristics of the AA		
<i>Population</i>		
Number of Families		2,714
Number of Households		4,115
% of Low-Income Families		17.21%
% of Moderate-Income Families		19.86%
% of Middle-Income Families		24.91%
% of Upper-Income Families		38.01%
<i>Geographies</i>		
Number of Census Tracts		5
% of Low-Income Census Tracts		0%
% Moderate-Income Census Tracts		0%
% Middle-Income Census Tracts		100%
% Upper-Income Census Tracts		0%
<i>Median Family Income (MFI)</i>		
2010 MFI for AA		\$58,592
2014 HUD-Adjusted MFI		\$64,200
<i>Economic Indicators</i>		
2014 Median Housing Value		\$83,914
% of Households Below Poverty Level		10.04%

Source: 2010 US Census Data

Competition from other institutions within the AA is moderate. According to the June 30, 2014 FDIC Deposit Market Share Report, FNB holds 18.76 percent market share within the AA, ranking fourth out of five deposit-taking institutions. The market share within the AA is fairly evenly distributed with no institution being a clear market

leader. FNB also competes with other non-bank financial institutions in the area, including First Community Credit Union in Milnor and AgCounty Farm Credit Services in Lisbon, which are not represented on the FDIC report.

We spoke with a local community contact specializing in economic development in Milnor to gain additional information about the local economy and community credit needs. Per the community contact and bank personnel, agricultural lending remains the leading loan source within the AA as farming remains the main source of income and employment. The contact indicated that they work with the city and a non-profit development group to attract new businesses and obtain growth. The contact stated that they feel the area banks are very involved in the community and meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The lending test is based on the following five factors: LTD ratio, lending within the AA, income distribution, geographic distribution, and responses to CRA related complaints.

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable given the bank's size and the credit needs of the AA. The bank's quarterly LTD ratio averaged 63.39 percent over the 22 quarters since the last CRA examination. The quarterly ratio ranged from a low of 49.74 percent (2Q13) to a high of 75.28 (3Q10) during this time.

We compared the bank's average LTD ratio to similarly situated institutions, defined as those banks with similar asset size and a present in the bank's AA. We identified one similarly situated institution. The similarly situated institution's LTD ratio averaged 58.35 percent during the same period. Although the bank's ratio would appear low, we considered performance context information in determining the reasonableness of the bank's ratio. We noted that during the evaluation period, there was a lack of demand for agricultural loans due to high crop prices, resulting in less loan demand given that farmers had excess cash. The following table demonstrates the LTD ratios of FNB and the similarly situated institution:

Loan-to-deposit Ratio Institution	Assets as of 12/31/14 (\$000s)	Average LTD Ratio (%)
First National Bank of Milnor	\$73,714	63.39%
Sargent County Bank	\$115,160	58.35%

Source: Call Report data as of December 31, 2014.

Lending in the Assessment Area

FNB originates a substantial majority of its loans to borrowers within its AA. The following table shows the bank's lending within its AA:

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Ag	14	70.00	6	30.00	20	1,992	89.41	236	10.59	2,228
Consumer	20	100.00	0	0.00	20	153	100.00	0	0.00	153
Totals	34	85.00	6	15.00	40	2,145	90.09	236	9.91	2,381

Source: OCC Loan Sample

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

Lending to individuals of different income levels and farms of different sizes is reasonable.

Agriculture Loans

The distribution of loans reflects reasonable penetration among farms of different sizes. FNBs lending to small farms is near the demographic comparative. The following table shows FNB's lending to farms of different sizes:

Borrower Distribution of Loans to Farms in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	98.23%	1.01%	.76%	100%
% of Bank Loans in AA by #	83.33%	16.67%	0.00%	100%
% of Bank Loans in AA by \$	57.42%	42.58%	0.00%	100%

Source: OCC Loan Sample & Dunn and Bradstreet Data 2014

Consumer Loans

The distribution of loans to borrowers of different income levels reflects excellent penetration. FNB's lending to moderate-income individuals significantly exceeds the demographic comparative, while lending to low-income individuals exceeds the demographic comparative. The following table shows FNB's lending to borrowers of different income levels:

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	20.27	25.00	17.16	35.00	19.54	25.00	43.04	15.00

Source: OCC Loan Sample & 2010 US Census Data

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as the bank’s AA does not contain any low- or moderate-income census tracts.

Responses to Complaints

There have not been any complaints related to CRA since the previous CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area 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.