



PUBLIC DISCLOSURE

June 17, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Russell Springs
Charter Number 11348

Highways 127 and 80
Russell Springs, Kentucky 42642

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, and should not 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.

Table of Contents

OVERALL CRA RATING 2

SCOPE OF THE EVALUATION 3

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW 4

STATE RATING 5

 STATE OF KENTUCKY..... 5

APPENDIX A: SCOPE OF EXAMINATIONA-1

APPENDIX B: SUMMARY OF STATE RATINGS.....B-1

APPENDIX C: DEFINITIONS AND COMMON ABBREVIATIONSC-1

APPENDIX D: TABLES OF PERFORMANCE DATAD-1

Overall CRA Rating

Institution's CRA Rating: This institution is rated Outstanding.

The lending test is rated: Outstanding.

The First National Bank of Russell Springs (FNB or Bank) has an outstanding record of meeting the credit needs of its community. The major factors that support this rating include:

- FNB's loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of FNB's loans were originated within its designated assessment area (AA).
- FNB's distribution of loans to small businesses reflects excellent penetration.
- The geographic distribution of loans reflects excellent dispersion, including within the AA's moderate-income census tract.

Loan-to-Deposit Ratio

Considering the Bank's size, financial condition, and credit needs of the AA, the Bank's LTD ratio is reasonable.

FNB's LTD ratio averaged 52.0 percent over the past 19 quarters with a quarterly high of 61.7 percent and a quarterly low of 45.2 percent. We compared this performance to four banks in the AA with similar asset size and product types. These banks had an average LTD of 77 percent, with a quarterly high of 92.8 percent and a quarterly low of 68.3 percent. FNB's performance is reasonable due to several factors:

- Three of the four comparator banks have locations outside of Russell County, where FNB has no physical presence. As a result, the comparator institutions have a larger geographical footprint to lend within.
- Russell County was designated as distressed during the evaluation period. Higher poverty rates reduce the pool of borrowers to which FNB can extend loans in a safe and sound manner.
- FNB's LTD ratio is also impacted by a consistently high volume of municipal or other governmental deposits. June 30, 2018 Federal Deposit Insurance Corporation (FDIC) data indicates FNB had the highest deposit market share in Russell County at 45.4 percent with \$181 million in deposits. Of these deposits, over \$18 million were deposits from governmental entities.

Lending in Assessment Area

A substantial majority of the Bank's loans are inside its AA.

Based on a random sample of small business loans originated over the assessment period, the Bank originated and purchased 90 percent of its total small business loans inside its AA during the evaluation period. This reflects strong performance in helping meet the credit needs of the communities in which FNB operates.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Business	18	90	2	10	20	908	64.4	503	43.3	1,411

Description of Institution

FNB is a full-service, \$222 million, intrastate institution headquartered in Russell Springs, Kentucky. FNB is wholly owned by First Bancorp, Inc., a two-bank holding company headquartered in Russell Springs, Kentucky. In addition to the main office, FNB operates two branches in the AA, both also located in Russell Springs. There are automated teller machines (ATMs) at FNB's main office and one branch location. FNB has not opened or closed any branches or made any significant changes to the corporate structure since the last CRA evaluation.

As of March 31, 2019, the Bank reported \$222 million in total assets, \$193 million in deposits, \$121 million in total loans, and \$29 million in tier 1 capital. Net loans represented 53.5 percent of average assets. The primary lending focus over the assessment period was business-related loans. This is best illustrated in FNB's loan portfolio mix. The Bank's March 31, 2019 loan portfolio consists of the following: commercial real estate, 46.9 percent; one-to-four family residential real estate, 14.6 percent; construction and development, 12.2 percent; farmland, 9.4 percent; commercial loans, 7.2 percent; consumer loans, 3.7 percent; and all other loans, 6.0 percent.

FNB offers traditional banking products and services for businesses and consumers. Primary business products include commercial real estate loans, other business-purpose loans, working capital lines of credit, agricultural-related loans, as well as business checking and time deposit products. FNB also originates loans through the Farmers Home Administration (FmHA) and Small Business Administration (SBA) programs. Retail products include 1-4 family residential real estate loans, construction loans, home equity lines of credit, other consumer-purpose loans, and various deposit products including demand, savings, money market, and time deposits. FNB also provides mobile banking and bill pay services.

FNB has delineated Russell County as its AA for CRA purposes. The AA delineation is in conformance with regulatory requirements and does not arbitrarily exclude low- or moderate-income (LMI) areas.

Competition in the AA is strong. There are seven financial institutions operating 11 branches in Russell County, including the three FNB offices. Based on June 30, 2018 FDIC deposit market share data, FNB ranks first in Russell County deposit market share at 45.4 percent. Other competitors are: Bank of Jamestown (3 offices, 36.9 percent market share), The Monticello Banking Company (one office, 6.1 percent market share), United Citizens Bank of Southern Kentucky (one office, 5.5 percent market share), and three other financial institutions, each with one office and a total deposit market share of 6.1 percent.

There are no legal or financial impediments affecting FNB's ability to meet the credit needs of its AA. The last CRA evaluation was performed by the Office of the Comptroller of the Currency (OCC) on August 18, 2015. The Bank received a Satisfactory rating.

Scope of the Evaluation

Evaluation Period/Products Evaluated

FNB was evaluated under the Small Bank Examination Procedures. These procedures evaluate the Bank's performance based upon a Lending Test. The evaluation period for the Lending Test is January 1, 2016 through December 31, 2018. Conclusions were based on a random sample of business loans, the Bank's primary lending focus during this period.

Selection of Areas for Full-Scope Review

In each state where the Bank has an office, one or more of AAs within that state was selected for a full-scope review. For purposes of this evaluation, Bank delineated assessment areas located within the same metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single AA. Similarly, Bank delineated non-MSA AAs within the same state are combined and evaluated as a single area. These combined AAs may be evaluated as full- or limited-scope. Refer to the "Scope" section under each State Rating for details regarding how full-scope AAs were selected. Refer to *Appendix A: Scope of Examination*, for a list of full- and limited-scope AAs. Please note that FNB only has one AA, Russell County, so that area was selected for a full-scope review.

Ratings

The Bank's overall rating is based solely on the full-scope review. More weight was given to the borrower distribution criterion than the geographic distribution as there are no low-income census tracts in the AA.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) 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. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Kentucky

CRA rating for the State of Kentucky¹: Outstanding

The Lending Test is rated: Outstanding

The major factors that support this rating include:

- FNB's LTD ratio was reasonable.
- A substantial majority of FNB's loans were originated within its designated AA.
- FNB's distribution of loans to small businesses reflects excellent penetration.
- The geographic distribution of loans reflects excellent dispersion, especially within the AA's moderate-income census tract.

Description of Institution's Operations in Kentucky

As indicated earlier, FNB has only one AA, designated as Russell County, Kentucky. A description of FNB and its operations in Kentucky can be found under *Description of Institution* and *Scope of Evaluation* on pages 3 and 4.

Based on a local community contact, primary AA needs include quality employment, transportation, and before/after work childcare.

¹ This rating reflects performance within the state. The statewide evaluations do not reflect performance in the parts of those states contained within a MMSA.

Russell County AA

Table A – Demographic Information of the Assessment Area

Assessment Area: Russell County - 2015 ACS Census

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of
Geographies (Census Tracts)	5	0.0	20.0	80.0	0.0	0.0
Population by Geography	17,669	0.0	19.4	80.6	0.0	0.0
Housing Units by Geography	9,942	0.0	16.0	84.0	0.0	0.0
Owner-Occupied Units by Geography	5,177	0.0	19.1	80.9	0.0	0.0
Occupied Rental Units by Geography	1,873	0.0	19.4	80.6	0.0	0.0
Vacant Units by Geography	2,892	0.0	8.0	92.0	0.0	0.0
Businesses by Geography	997	0.0	18.8	81.2	0.0	0.0
Farms by Geography	84	0.0	21.4	78.6	0.0	0.0
Family Distribution by Income Level	4,495	28.0	19.9	19.1	33.1	0.0
Household Distribution by Income Level	7,050	31.4	15.6	18.6	34.3	0.0
Median Family Income Non-MSAs - GA		\$45,920	Median Housing Value			\$88,415
			Median Gross Rent			\$508
			Families Below Poverty Level			19.8%

Source: 2015 U.S. Census and 2018 D&B Data Due to rounding, totals may not equal 100.0

(*) The NA category consists of geographies that have not been assigned an income classification.

Russell County is located in south-central Kentucky. The AA is divided into five CTs. There are no low-income CTs, one moderate-income, and four middle-income CTs. The Bank's three locations are within middle-income tracts.

The AA's annual unemployment rate for the years 2016-2018 was 8.5 percent, 7.2 percent, and 5.8 percent respectively. This was well above the statewide unemployment rates of 5.1 percent, 4.9 percent, and 4.3 percent for the same periods. Russell County was designated as distressed during the evaluation period. Nearly 20 percent of AA families live below the poverty level, exceeding the national average of 14 percent. The AA's 2017 median household income of \$34,660 was 40 percent lower than the national median household income of \$57,652.

Scope of Evaluation in Kentucky

The Bank's overall rating is based solely on the full-scope review of the Russell County AA. Please refer to *Appendix A: Scope of Examination* for a description of the AA.

Lending Test

The bank's performance under the Lending Test in Kentucky is rated Outstanding.

Based on a full-scope review, the Bank's lending performance in the state of Kentucky is Outstanding.

Distribution of Loans by Income Level of the Geography

The Bank exhibits excellent geographical distribution of loans in the AA.

Small Loans to Businesses

Refer to Table Q in *Appendix D* for the facts and data used to evaluate the geographic distribution of the Bank's originations and purchases of loans to small businesses.

FNB's geographic distribution of business loans reflects excellent dispersion within the AA. Although the AA has no low-income CTs, our sample showed the Bank originated 31.6 percent of loans to businesses in the one moderate-income CT. This compares very favorably to the CT's demographic which indicates 18.8 percent of the AA's businesses are located in the moderate-income CT. In addition, FNB's percentage of small business loans within the moderate-income CT is well above the percentage of small business loans originated and purchased by all reporting lenders (21.5 percent).

Distribution of Loans by Income Level of the Borrower

The Bank exhibits an excellent distribution of loans to businesses of different sizes, given the product lines offered by the bank.

Small Loans to Businesses

Refer to Table R in *Appendix D* for the facts and data used to evaluate the borrower distribution of the Bank's originations and purchases of loans to small businesses.

Results of our sample showed the Bank originated 100.0 percent of its small business loans to businesses with less than \$1 million in gross annual revenues. This compares favorably to the AA's demographics which indicate 82.4 percent of businesses have gross annual revenues less than \$1 million (revenue data was not available for 12.8 percent of AA businesses). In addition, FNB's percentage of loans to businesses with gross annual revenues less than \$1 million significantly exceeded the percentage reported by the aggregate (44.2 percent) within the AA.

Responses to Complaints

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

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

Time Period Reviewed:	January 1, 2016 through December 31, 2018	
Bank Products Reviewed:	Small loans to businesses in the AA.	
Affiliate(s)	Affiliate Relationship	Products Reviewed
Not Applicable		
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Kentucky		
Russell County	Full-scope	

Appendix B: Summary of MMSA and State Ratings

RATINGS	The First National Bank of Russell Springs
Overall Bank:	Lending Test Rating
FNB	Outstanding
State:	
Kentucky	Outstanding

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder’ and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rating Area: A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Appendix D: Tables of Performance Data

Content of Standardized Tables

The following is a listing and brief description of the tables included in each set:

Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because accurate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank's assessment area.

Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and, 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography																			2016-2018		
Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts				
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate		
Russell County	20	825	100	163	0.0	0.0	0.0	18.8	31.6	21.5	81.2	68.4	78.5	0.0	0.0	0.0	0.0	0.0	0.0		

*Source: 2018 D&B Data; 01/01/2016 - 12/31/2018 Bank Data; 2017 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0*

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues												2016-2018	
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available			
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans		
Russell County	20	825	100.0	163	82.4	100.0	44.2	5.5	0.0	12.8	0.0		

*Source: 2018 D&B Data; 01/01/2016 - 12/31/2018 Bank Data; 2017 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0*