



PUBLIC DISCLOSURE

October 07, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Brooksville
Charter Number 8830

Locust Street
Brooksville, KY 41004

Office of the Comptroller of the Currency

West Lake Center
4555 Lake Forest Drive, Suite 610
Blue Ash, OH 45242-3760

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.

- Factors supporting the bank's rating should be briefly summarized in bullet format. The summary should highlight only the primary reasons for the rating. It is not necessary to address all five performance criteria in the summary.
- When evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs has been identified in the supervisory process, the conclusion must include a statement if the rating was influenced by this evidence. The conclusion should not mention any technical violations.
- This performance evaluation (PE) format is for EV purposes and does not include detailed guidance. Refer to the Small Bank Training and Tool Kit for guidance on writing the performance evaluation. The kit is available on the Compliance Policy intranet page under CRA.

SCOPE OF EXAMINATION

Write a short description of the scope of the examination. Discuss how CRA activities were reviewed (using full-scope or limited-scope reviews). At a minimum, discuss the time period covered in the review, the specific lending products reviewed, the names of (any) affiliates reviewed and their corresponding lending products, and how they were considered in the evaluation. Include a description of loan samples used in your analysis and discuss any applicable data integrity review.

DESCRIPTION OF INSTITUTION

Write a brief description of the institution's ability to meet various credit needs based on its financial condition and size, product offerings, prior performance, legal impediments and other factors. Information that may be important to consider includes relationships with a holding company or affiliates, total assets, asset/loan portfolio mix, primary business focus, branching network, and any merger or acquisition activity. Information included in the bank's Public File need not be repeated here; instead, you may refer to the Public File.

DESCRIPTION OF ASSESSMENT AREA(S)

Briefly describe the assessment area(s) under review by providing appropriate information (and any trends) on local economic conditions, including community credit needs and business opportunities identified through outreach activities. Include a discussion of the number and kinds of CRA-related community contacts that were consulted and relevant information obtained and used, if any, in the CRA evaluation.

Information included in the bank's Public File need not be repeated here; instead, you may refer to the Public File.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Discuss the institution's CRA performance. The facts and data that support your conclusions must be included in the PE. The PE should clearly demonstrate how the core performance criteria were considered in order to rate the institution. The PE should include information on qualified investments and services **only** when they help raise a bank's rating to Outstanding.

In order to make it easier for the reader to find the support for the rating, describe the bank's performance using the following headings:

Loan-to-Deposit Ratio

[Conclusion]

Lending in Assessment Area

[Conclusion]

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

[Conclusion for full-scope AA(s)]

[Conclusion for limited-scope AA(s)]

Geographic Distribution of Loans

[Conclusion for full-scope AA(s)]

[Conclusion for limited-scope AA(s)]

Qualified Investments and CD Services (Optional)

[Conclusion]

Responses to Complaints

[Conclusion]

Fair Lending or Other Illegal Credit Practices Review

Write a paragraph about the institution's record of complying with the laws relating to discrimination and other illegal credit practices inconsistent with helping to meet community credit needs using the following guidelines:

If no substantive violations are found, the PE must state: "We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs."

OR

When substantive violations involving discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs have been identified in the supervisory process and were taken into account in the CRA evaluation, state that substantive violations were found, the nature and scope of the violations, whether they caused the CRA rating to be adjusted downward, and why the rating was or was not adjusted. Identify the law(s) and regulations(s) violated, the extent of the violation(s) (e.g., widespread or limited to a particular office, division, subsidiary, or affiliate) and characterize management's response in acting upon the violation(s)

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Office of the Comptroller of the Currency

Westlake Center
4555 Lake Forest Drive, Suite 610
Cincinnati, OH 45242

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INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

First National Bank of Brooksville ("FNB" or "bank") exhibits a **SATISFACTORY** record of meeting its community credit needs. This rating is primarily based on the following:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- FNB's lending inside the AA is reasonable as a majority of their primary loan products are inside their AA.
- The bank's overall penetration of lending to borrowers of different income levels and farms of different sizes is excellent.

SCOPE OF EXAMINATION

We conducted a full scope CRA examination of FNB to assess its record of meeting the credit needs of its community. We used the small bank examination procedures to evaluate the bank's performance.

The bank's primary loan products based on our discussions with management and review of loan originations during the evaluation period are residential real estate and farm loans. The evaluation period is January 1, 2011 through June 30, 2013. We reviewed the bank's quarterly LTD ratio from June 30, 2007 through June 30, 2013.

Primary Loan Types		
Loans originated/purchased from January 1, 2011 through June 30, 2013		
Loan Type	% by Number of Loans Originated/Purchased during evaluation period	% by Dollars of Loans Originated/Purchased during evaluation period
Residential Real Estate Loans	40%	56%
Farm Loans	19%	22%
Individual Consumer Loans	34%	14%
Business Loans: Commercial and Commercial Real Estate Loans	6%	7%
All Other Loans	1%	1%
Total	100%	100%

Source: Internal bank reports of loans originated from January 1, 2011 through June 30, 2013.

To perform our analysis of lending inside the bank's AA, we used all of the bank's residential real estate loans reported on the Home Mortgage Disclosure Act (HMDA) loan application register from January 1, 2011 through June 30, 2013. Additionally, we randomly sampled 40 farm loans (20 farm loans sampled for each census period) originated during the lending evaluation period to assess the bank's performance in farm lending.

For the borrower distribution analysis, we used 2000 U.S. Census data for loans originated in 2011 and 2010 U.S. Census data for loans originated in 2012 through June 30, 2013. We removed any farm loans originated outside the bank's AA in our original sample and added farm loans originated inside the AA as necessary to ensure the sample included at least twenty farm loans inside the AA per census period.

DESCRIPTION OF INSTITUTION

FNB is a full-service intrastate bank headquartered in Brooksville, Kentucky. As of June 30, 2013, the bank had \$63.43 million in total assets and \$6.8 million in Tier 1 capital. FNB is wholly owned by its holding company, FNB Bancshares Inc. The bank provides traditional banking products and services from its main office and drive-through branch. As of June 30, 2013, net loans represented 61.05 percent of total assets and 77.29 percent of total deposits.

The main office is located at 105 Locust Street, Brooksville, KY and the drive-through branch is located at 107 East Miami Street, Brooksville, KY. The bank has one Automated Teller Machine, which is located at the drive-through branch. No offices have opened, closed, or changed locations since the last CRA evaluation.

There are no financial or legal impediments that would affect the bank's ability to serve the credit needs of its community. FNB's previous CRA public disclosure dated June 5, 2007 disclosed a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

FNB's AA is Bracken County, KY. The AA is part of the Cincinnati-Middletown, Ohio-Kentucky-Indiana Metropolitan Statistical Area (MSA). The AA does not arbitrarily exclude any low- or moderate-income census tracts (CT) and meets the requirements of the CRA.

As of June 30, 2013, Bracken County has an unemployment rate of 9.8 percent according to the U.S. Bureau of Labor Statistics. Bracken County's unemployment rate is above the statewide unemployment rate of 8.9 percent, as well as the national average unemployment rate of 7.8 percent. Bracken County remains comprised of rural communities. Beef and dairy cattle, tobacco, and silage crops continue to contribute a significant amount of income to the local economy. All farms with operations in the AA reported annual revenues less than \$1 million.

Competition in Bracken County is moderate. As of June 30, 2013, FNB maintains 57.97 percent of the deposit market share in Bracken County. Three commercial banks, including FNB, maintain office locations in Bracken County. FNB also experiences

competition from banks located in surrounding counties, mortgage brokers, and internet-based lenders.

Our evaluation of the bank's CRA performance included discussion with one community contact. The community contact indicated that FNB is meeting the credit needs of the community.

Information as of 2000 U.S. Census Data

As of the 2000 U.S. Census, the AA had three moderate-income CTs with a population of 8,279. There were 3,223 households and 2,343 families living in the AA. Based on total families in the AA, 29 percent are low-income, 27 percent are moderate-income, 23 percent are middle-income, and 21 percent are upper-income. The weighted average median family income in the AA was \$40,581. Comparatively, the estimated weighted average median family income for the MSA was \$70,400 according to the U.S. Department of Housing and Urban Development (HUD).

The AA has 3,715 total housing units, of which, 86.89 percent are occupied and 13.11 percent are vacant. Of total housing units in the AA, 66.78 percent are owner occupied and 20.11 percent are rental units. Based on total households in the AA, 13.25 percent live below the poverty level and 2.76 percent receive public assistance. Additionally, 16.54 percent of households are living in retirement and 30.07 percent receive social security benefits.

Information as of 2010 U.S. Census Data

As of the 2010 U.S. Census, the AA had three moderate-income CTs with a population of 8,488. There were 3,177 households and 2,244 families living in the AA. Based on total families in the AA, 23 percent are low-income, 16 percent are moderate-income, 18 percent are middle-income, and 43 percent are upper-income. The weighted average median family income in the AA was \$45,940. Comparatively, the estimated weighted average median family income for the MSA was \$71,300 according to HUD.

The AA has 3,848 total housing units, of which, 82.56 percent are occupied and 17.44 percent are vacant. Of total housing units in the AA, 64.89 percent are owner occupied and 17.67 percent are rental units. Based on total households in the AA, 18.32 percent live below the poverty level and 2.46 percent receive public assistance. Additionally, 18.79 percent of households are living in retirement and 36.32 percent receive social security benefits.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on the criteria for the CRA lending test, the bank's lending performance is satisfactory.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the bank's size, financial condition, and assessment area's credit needs.

FNB's quarterly average LTD ratio over twenty-five quarters since the prior CRA examination is 77.98 percent (June 30, 2007 to June 30, 2013). The bank's LTD ratio ranged from a high of 85.51 percent to a low of 68.96 percent during this period. We compared the bank's LTD ratio to six similarly situated financial institutions operating in northern Kentucky with total asset sizes ranging from \$29.63 million to \$158.37 million. The quarterly average LTD ratio of the six similarly situated financial institutions ranged from 108.08 percent to 78.40 percent. The quarterly average loan-to-deposit ratio of these similar institutions is 92.85 percent.

Lending in Assessment Area

FNB's lending inside the AA is reasonable as a majority of their primary loan products are inside their AA.

Based on our sample of farm loans and review of HMDA data, FNB made 76 percent of its primary loan products inside its AA. Our farm loan sample consisted of twenty farms loans originated in 2011 and twenty farm loans originated from 2012 through June 30, 2013, representing forty farm loans in total. Additionally, we used bank reported HMDA data for residential real estate loans from 2011 through June 30, 2013. FNB's lending activity in the AA for each primary product is outlined in the table below by number and dollar volume.

Lending in Bracken County AA										
Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	220	74%	76	26%	296	11,228	72%	4,259	28%	15,487
Farm Loans	34	85%	6	15%	40	639	92%	58	8%	697
Total	254	76%	82	24%	336	11,867	73%	4,317	27%	16,184

Source: farm loan sample; data reported under HMDA from January 1, 2011 – June 30, 2013.

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

The bank's overall penetration of lending to borrowers of different income levels and farms of different sizes is excellent.

Information as of the 2000 U.S. Census Data, Loans originated in 2011

FNB's penetration of home loans originated in 2011 made to low- and moderate-income borrowers is excellent. The percentage of FNB's residential real estate loans either met or exceeded the 29 percent of low-income families living in the AA. Additionally, 7.6

percent of families in the AA live below the poverty level and may not qualify for a home loan.

The percentage of FNB's home refinance and home improvement loans to moderate-income borrowers slightly exceeded the 27 percent of moderate-income families living in the AA. The percentage of home purchase loans to moderate-income borrowers was in line with the demographic comparator. Refer to the following table for details.

Borrower Distribution of Residential Real Estate Loans in Bracken County AA in 2011										
Borrower Income Level	Low		Moderate		Middle		Upper		NA	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase		29%		24%		28%		19%		0%
Refinancing	29%	33%	27%	28%	23%	11%	21%	22%	0%	6%
Home Improvement		29%		29%		32%		10%		0%

Source: 2011 data reported under HMDA; 2000 U.S. Census data.

Information as of the 2010 U.S. Census Data, Loans originated in 2012 – June 30, 2013

FNB's distribution of home loans originated in 2012 through June 30, 2013 reflects excellent penetration to borrowers of different income levels. FNB originated 34 percent of home improvement loans to low income borrowers, which exceeds the demographic comparator. The percentage of FNB's home purchase and home refinance loans made to low-income borrowers was below the 23 percent of low-income families in the AA. However, 15.95 percent of families in the AA live below the poverty level and may not qualify for a home loan. The percentage of FNB's home purchase and home improvement loans made to moderate-income borrowers significantly exceeds the 16 percent of moderate-income families in the AA. FNB made 18 percent of its home refinance loans to moderate-income borrowers, which exceeds the demographic comparator. Refer to the following table for details.

Borrower Distribution of Residential Real Estate Loans in Bracken County AA from January 1, 2012 – June 30, 2013										
Borrower Income Level	Low		Moderate		Middle		Upper		NA	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase		12%		36%		28%		20%		4%
Refinancing	23%	10%	16%	18%	18%	28%	43%	38%	0%	5%
Home Improvement		34%		36%		21%		8%		0%

Source: 2012-13 data reported under HMDA; 2010 U.S. Census data.

FNB's performance of lending to farms of different sizes is excellent. Our entire sample of forty farm loans originated by FNB from 2011 through June 30, 2013 were made to farms earning less than \$1 million in annual gross revenue.

Geographic Distribution of Loans

We did not perform a geographic distribution of loans analysis as part of this review. The bank's AA is comprised entirely of moderate-income census tracts. A geographic distribution of credit review would not be meaningful.

Responses to Complaints

The bank has not received any complaints about its performance in helping to meet the credit needs of its AA 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 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.