



PUBLIC DISCLOSURE

May 19, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Johnson
Charter Number 8161

125 Main Street
Johnson, Nebraska 68378

Office of the Comptroller of the Currency

Omaha Field Office
13710 FNB Parkway Suite 110
Omaha, Nebraska 68154

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.

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Overall CRA Rating: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory

- The First National Bank of Johnson's (FNB) loan-to-deposit ratio is less than reasonable when considering the bank's size, financial condition, and the credit needs of its assessment area (AA).
- Management originates a substantial majority of its loans by number and dollar to customers located in the bank's AA.
- The income distribution of loans to borrowers of different farm sizes has reasonable penetration within the AA.
- The income distribution of loans to consumers of different household income levels has reasonable penetration within the AA.
- There was no geographic distribution test because all census tracts in the AA are middle income.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout 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. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: 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; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, 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, home equity 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 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), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

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 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 income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

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 MA/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. 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 it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

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.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Rated Area: A rated area is a state or multi-state metropolitan 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 area, the institution will receive a rating for the multi-state metropolitan 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 One 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.

Description of Institution

FNB is located in Nemaha County and has two branches: a main office in Johnson, Nebraska and one branch in Auburn, Nebraska. The bank has two automated teller machines (ATMs), one located at each branch, which do not accept deposits. As of March 31, 2018, FNB's total assets were \$74 million. The bank is 100 percent owned by a one-bank holding company, First National Johnson Bancshares, Inc. The bank has one AA, the Nemaha County and Johnson County AA.

FNB offers traditional loan and deposit products. Net loans as of March 31, 2018 totaled \$22 million, which represents 30 percent of total assets. The majority of the loan portfolio consists of agricultural loans representing 58 percent of net loans and leases. Consumer and commercial loans represent a smaller portion of the portfolio at seven percent and three percent, respectively.

FNB's strategy is primarily focused on serving the agricultural sector and local communities in the AA. This has resulted in a high dollar volume of agricultural loans and a high number of consumer loans originated. There is a moderate level of competition to the bank, especially in the Auburn community.

As of the June 30, 2016 FDIC deposit market share report, FNB ranks second in market share with \$56 million in deposits and a 16 percent market share. There has been no openings or closings of branches since our previous CRA exam.

FNB has no legal or financial impediments preventing it from meeting the credit needs of its community. The bank was rated "Satisfactory" at the last CRA examination dated October 15, 2012.

Loan Origination by Loan Type 2016				
Loan Category	#	%	\$ (000)	%
Commercial Loans	45	8.5%	\$ 2,190	13.8%
Agricultural Loans	128	24.2%	\$ 9,997	62.9%
Consumer Loans	348	65.7%	\$ 2,799	17.6%
Residential Loans	9	1.7%	\$ 919	5.8%
Total Originations	530	100.0%	\$ 15,905	100.0%

Source: Bank records from January 1, 2016 – December 31, 2016

Loan Origination by Loan Type 2017				
Loan Category	#	%	\$ (000)	%
Commercial Loans	46	8.7%	\$ 3,424	19.4%
Agricultural Loans	119	22.5%	\$ 8,868	50.3%
Consumer Loans	344	65.0%	\$ 2,838	16.1%
Residential Loans	20	3.8%	\$ 2,494	14.1%
Total Originations	529	100.0%	\$ 17,623	100.0%

Source: Bank records from January 1, 2017 – December 31, 2017

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated FNB using the small bank examination procedures, which include a lending test. We determined the primary products for the lending test to be agricultural loans by dollar amount and consumer loans by number. To evaluate FNB's performance under the lending test, we randomly selected a sample of 20 agricultural loans and 20 consumer loan originations for each year. We based our conclusions on this sample.

The evaluation period for this examination is October 16, 2012 through May 19, 2018. The lending test covers the period from January 1, 2016 through December 31, 2017. There was a change to the AA census tracts from 2016 to 2017. Because of this change, we elected to complete a loan sample for each year.

Data Integrity

The loan information was determined to be accurate. We randomly selected loans to test and based our conclusions from these samples.

Selection of Areas for Full-Scope Review

FNB has one AA, the Johnson and Nemaha County AA. We conducted a full-scope review of this AA.

Ratings

The overall rating is based on the bank's only AA, which received a full-scope review. The rating is a combination of the borrower distribution, lending in the AA and the loan-to-deposit ratio tests.

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 Consumer Financial Protection Bureau, 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.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the lending test is "Satisfactory." The bank's loan-to-deposit ratio is less than reasonable. However, the bank makes a substantial majority of loans inside the AA. The distribution of loans to farms of different sizes reflects reasonable penetration. The distribution of loans to consumers of different income levels reflects reasonable penetration within the AA.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is less than reasonable given its size, financial condition, and comparable banks. FNB's average quarterly loan-to-deposit ratio was 32 percent for the previous 20 quarters, from June 3, 2013 to March 31, 2018. The loan-to-deposit ratio ranged from a quarterly low of 25 percent to a quarterly high of 41 percent.

FNB's average loan-to-deposit ratio is significantly lower than the average loan-to-deposit ratio of other banks of similar size and strategy. The average of six similarly-situated banks had an average quarterly loan-to-deposit ratio of 66 percent during the same 20 quarters. The ratio ranged from an average quarterly low of 55 percent to an average quarterly high of 87 percent. Management attributes the low loan-to-deposit ratio to competition and local demographic characteristics. The local demographics reflect an increasing older population, for which loan demand is lower.

FNB's loan-to-deposit ratio exhibits an increasing trend during the evaluation period. The loan-to-deposit ratio was 39 percent as of March 31, 2018. The loan-to-deposit ratio increased 13 percent from June 30, 2013 to March 31, 2018. This increase was largely due to net loans increasing 44 percent from \$15 million to \$22 million during this time period.

Lending in Assessment Area

FNB originates a substantial majority of agricultural loans and consumer loans by number and by dollar volume inside its AA. Our random sample of 40 agricultural loans and 40 consumer loans determined FNB's lending performance. Seventy-eight percent of loans by number and 88 percent of loans by dollar were to borrowers within the AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	33	82.5%	7	17.5%	40	\$2,617	88.6%	\$336	11.4%	\$2,953
Consumer	29	72.5%	11	27.5%	40	\$148	81.8%	\$33	18.2%	\$181
Totals	62	77.5%	18	22.5%	80	\$2,765	88.2%	\$369	11.8%	\$3,134

Source: Loan sample.

Lending to Farms of Different Sizes

FNB's performance in lending to farms of different sizes demonstrates reasonable penetration. The distribution of loans to farms within the AA is at a reasonable level. Penetration of lending to farms of different sizes is comparable by number of loans. All loans in the 2017 sample were to borrowers with less than \$1 million in gross annual revenue. The 2016 sample of dollar amount found 53 percent were to farms over \$1 million in gross revenue. However, this sample is distorted as the sample included only one borrower with gross revenue over \$1 million. The loan to this borrower was \$600 thousand, making up the entire 53 percent.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	99.0%	0.5%	0.5%	100%
% of Bank Loans in AA by #	95.0%	5.0%	0.0%	100%
% of Bank Loans in AA by \$	46.7%	53.3%	0.0%	100%

Source: Farm loan data sampled from January 1, 2016 – December 31, 2016 and 2010 U.S. Census Data

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	99.0%	0.5%	0.5%	100%
% of Bank Loans in AA by #	100.0%	0.0%	0.0%	100%
% of Bank Loans in AA by \$	100.0%	0.0%	0.0%	100%

Source: Farm loan data sampled from January 1, 2017 – December 31, 2017 and 2010 U.S. Census Data

Lending to Borrowers of Different Incomes

FNB's performance in lending to consumers of different household income levels reflects reasonable penetration. The 2016 and 2017 sample of loans showed a greater number of loans to moderate income households than the percentage of moderate income households in the AA. For low income households, our sample distribution was greater in 2016 and slightly less in 2017 compared to the actual percentage of low income households according to the census data.

Table 2B - Borrower Distribution of Consumer Loans in Johnson and Nemaha County AA 2016								
	Low		Moderate		Middle		Upper	
Borrower Income Level	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.9%	40.0%	16.4%	25.0%	17.9%	25.0%	40.8%	10.0%

Source: Consumer loan data sampled from January 1, 2016 – December 31, 2016 and 2010 U.S. Census Data

Table 2B - Borrower Distribution of Consumer Loans in Johnson and Nemaha County AA 2017								
	Low		Moderate		Middle		Upper	
Borrower Income Level	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.9%	20.0%	16.4%	40.0%	17.9%	30.0%	40.8%	10.0%

Source: Consumer loan data sampled from January 1, 2017 – December 31, 2017 and 2010 U.S. Census Data

Geographic Distribution of Loans

An analysis of the geographic distribution of loans was not meaningful as the AA did not have any low- or moderate-income geographies.

Responses to Complaints

The bank has not received any CRA related complaints since the last Performance Evaluation.

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 metropolitan and nonmetropolitan areas 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	Lending Test: (1/1/2016 to 12/31/2017) Investment and Service Tests and CD Loans: Was not performed	
Financial Institution	Products Reviewed	
First National Bank of Johnson (FNB) Johnson, Nebraska	Agricultural loans Consumer loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Johnson and Nemaha County: #9981 #9982 #9975 #9976	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

State of Nebraska

Johnson & Nemaha County AA

Demographic Information for Full-Scope Area: (Johnson and Nemaha County)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4	0%	0%	100%	0%	0%
Population by Geography	12,465	0%	0%	100%	0%	0%
Owner-Occupied Housing by Geography	3,467	0%	0%	100%	0%	0%
Businesses by Geography	808	0%	0%	100%	0%	0%
Farms by Geography	210	0%	0%	100%	0%	0%
Family Distribution by Income Level	3,146	18%	18%	25%	39%	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,144	0%	0%	100%	0%	0%
Median Family Income	= \$54,221	Median Housing Value		=		
HUD Adjusted Median Family Income for 2016	= \$60,500	Unemployment Rate		=	\$77,324	
Households Below the Poverty Level	= 16%			=	2.77%	

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2010 U.S. Census, and 2016 HUD updated MFI.

The bank operates in Johnson and Nemaha Counties which is comprised of four census tracts. FNB has the second largest deposit share of any bank in the counties, comprising of 16 percent of all deposits. FNB has two branches, one in Johnson and one in Auburn with an ATM at each branch. A community contact interview was performed with an individual involved in the USDA Rural Development Office. This organization provides community services for farmers within the AA. The organization is focused on southeastern Nebraska and has a strong presence in Johnson and Nemaha Counties. The community contact noted that economic conditions are stable and that there have not been any significant changes in major employers in the area. The community contact believes that local financial institutions are involved in the communities and are meeting the credit needs of the communities. This community contact has not received any complaints regarding the local financial institutions.