



PUBLIC DISCLOSURE

December 2, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Philip
Charter Number 10637

103 East Oak Street
Philip, SD 57567

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 S. Minnesota Avenue, Suite 300
Sioux Falls, SD 57108

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

First National Bank in Philip's (FNB) lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following examination results:

- The bank meets the credit needs of the community demonstrated by its quarterly net loan-to-deposit ratio averaging 83 percent.
- The bank originates a majority of its loans by number and dollar volume to borrowers located within its defined assessment area.
- Overall, the distribution of borrowers reflects reasonable penetration among farms of different sizes.
- The geographic distribution of agricultural loans for 2011 and 2012 reflects an excellent dispersion within the bank's defined assessment area. Our review noted no conspicuous gaps in the bank's lending patterns.

SCOPE OF EXAMINATION

FNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area through its lending activities. The lending test covers FNB's performance from January 1, 2011 through September 30, 2013. FNB's primary loan product is agriculture loans at 62 percent of total loans originated by number and 88 percent of total loans originated by dollars.

Loan Portfolio Summary by Loan Product		
Loan Category	% of Total Originations by #	% of Originated Dollars
Agricultural Loans	62%	88%
Commercial Loans	8%	9%
Consumer Loans	30%	3%

DESCRIPTION OF INSTITUTION

FNB is a \$200 million bank located in Philip, South Dakota. The institution has two locations; one in Philip in south central Haakon County and a recently acquired branch in Faith in northeast Meade County. FNB is wholly owned by Philip Bancorporation, Inc., a \$222 million one-bank holding company, also located in Philip, South Dakota. Since the last CRA examination, FNB acquired Farmer's State Bank in Faith, South Dakota in April. We did not include the Faith branch in the scope of this CRA examination because Faith's primary loan product is agriculture loans and the branch has not completed a full agricultural renewal cycle under the guidance of the new

management team and ownership. There have been no other significant changes to FNB's corporate structure since the last CRA examination.

The bank offers a variety of traditional deposit and loan products and services. Individuals can refer to the bank's CRA public file for a list of the specific products and services available from the bank. As of the September 30, 2013, FNB reported net loans of \$138. The bank had approximately 86 percent of its loan portfolio dollar volume in agriculture and agricultural real estate loans. The bank's business strategy is to provide agricultural loans to farmers and ranchers in rural western South Dakota.

There are no legal or financial impediments to FNB's ability to meet the credit needs of its assessment area. The bank was rated "Satisfactory" at its last CRA examination dated March 31, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has one assessment area. It includes Haakon and Jackson Counties located in western South Dakota. The assessment area is located in a non-metropolitan statistical area. Half of Jackson County is located on the Pine Ridge Reservation. It complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The bank has two branches located in Philip and Faith. The Philip branch is located in Haakon County. The Faith branch is located in Meade County, but we did not included in this assessment area due to the timing of the merger. The assessment area population is 4,968.

Economic conditions are generally good. The major industry in the area is agriculture. The assessment area's unemployment rate of 6.74 percent is higher than the state average of 3.4 percent, but is lower than the national unemployment rate. See the following table for additional assessment area demographic information.

Demographic Information for the Assessment Area						
	#	% Low	% Moderate	% Middle	% Upper	% Undefined
Geographies (Census Tracts)	3	0%	33%	67%	0%	0%
Population by Geography	4,968	0%	36%	64%	0%	0%
Owner-Occupied Housing by Geography	1,250	0%	21%	79%	0%	0%
Businesses	588	0%	10%	90%	0%	0%
Farms	185	0%	7%	93%	0%	0%
Family Distribution By Income Level	1,308	0%	33%	67%	0%	0%
Household Distribution by Income Level	1,733	0%	27%	73%	0%	0%
Census Median Family Income		\$50,159	Median Housing Value			\$64,966
HUD-Adjusted Median Family Income		\$56,400	Families Below Poverty			19.68%
Unemployment Rate		6.74%				

Source: 2010 US Census

Competition from other financial institutions is low. FNB is the only bank in Philip. However, there are two other financial institutions in FNB's assessment area including BankWest, Inc. and First National Bank (Pierre). FNB has the largest deposit market share at 82 percent.

We did not identify any unserved credit needs in FNB's assessment area. We contacted one local government official and concluded that the local financial institutions meet the financing needs in the assessment area, which are primarily agricultural lending.

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. As of September 30, 2013, FNB's net loan-to-deposit ratio was 74 percent, which is representative of the agricultural lending cycle. The bank's quarterly net loan-to-deposit ratio averaged 83 percent for the 22 quarters ending September 30, 2013. This ratio ranged from a quarterly low of 65 percent to a quarterly high of 97 percent during the time.

FNB serves Haakon and Jackson Counties in western South Dakota. The typical town in this area has a population of less than 1,000 and there are large areas of land, which are unpopulated. Ranching is the primary industry in this area of South Dakota. There are no banks in the local area of similar size that allow a loan-to-deposit comparison to be completed.

Lending in Assessment Area

FNB originates a majority of the loans inside the bank's assessment area. In total, examiners reviewed 40 loans to assess lending in the assessment area. Approximately 63 percent by number and dollars volume of loans sampled were made to borrowers within the bank's assessment area. The following table shows the totals for 2011 and 2012/2013 for primary product loans originated inside the assessment area by number and dollar volume:

Lending in the Assessment Area 2011 - 2013										
Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
Agricultural	#	%	#	%	#	(\$000)	%	(\$000)	%	(\$000)
2011	14	70	6	30	20	1,314	77	383	23	1,697
2012-2013	11	55	9	45	20	1,442	53	1,259	47	2,701
Total	25	63	15	37	40	2,756	63	1,642	37	4,398

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

Overall, the distribution of farm loans reflects reasonable penetration among farms of different sizes. Examiners sampled 20 agricultural loans made in the assessment area for 2010 and sampled 20 loans in 2012-2013.

Ninety five percent of loans sampled in 2011 and 2012-2013 were made to farms with gross revenues less than \$1 million. This is near the 2000 and 2010 Census data, which shows 100 percent of farms with gross revenues less than \$1 million.

Table 2A - Borrower Distribution of Loans to Farms in Philip AA in 2011

Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	100%	0%	<1%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	62%	38%	0%	100%

Source: 2000 U.S. Census data

Table 2B - Borrower Distribution of Loans to Farms in Philip AA in 2012-2013

Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	100%	0%	<1%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	65%	35%	0%	100%

Source: 2010 U.S. Census data

Geographic Distribution of Loans

The geographic distribution of agricultural loans for 2011 and 2012-2013 reflects an excellent dispersion within the bank’s defined assessment area. For the loans originated in 2011, 10 percent of the bank's agricultural loans were made in the low-income census tracts compared to 7 percent of the farms located in those tracts. In addition, 30 percent of the loans sampled were made in the moderate-income census tracts, compared to 23 percent of the farms located in those tracts. In 2012-2013, 25 percent of the bank's agricultural loans were made in the moderate-income census tracts, compared to 7 percent of the farms located in those tracts.

Within the FNB’s assessment area, Jackson County included one low-income census tract during the 2000 census. However, no low-income tracts were located in Jackson County during the 2010 census.

Table 3A - Geographic Distribution of Loans to Farms in Philip AA in 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	7%	10%	23%	30%	70%	60%	0%	0%

Source: 2000 U.S. Census data

Table 3B - Geographic Distribution of Loans to Farms in Philip AA in 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0%	0%	7%	25%	93%	75%	0%	0%

Source: 2010 U.S. Census data

Responses to Complaints

Neither the bank, nor the OCC, has not received any complaints regarding its CRA performance since the last CRA examination dated March 31, 2008.

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.