



PUBLIC DISCLOSURE

September 19, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of North Arkansas
Charter Number 10406

305 Public Square
Berryville, AR 72616

Office of the Comptroller of the Currency

Victory Building
1401 West Capitol Avenue
Suite 350
Little Rock, AR 72201

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

A summary of the major factors supporting the institution's rating:

- The First National Bank of North Arkansas (FNBNA) loan-to-deposit (LTD) ratio is more than reasonable.
- A substantial majority of FNBNA's loans were made within the bank's assessment areas (AAs).
- FNBNA's distribution of loans to low- and moderate-income (LMI) borrowers and small businesses and small farms within its AAs is reasonable.
- FNBNA's geographic distribution of loans within its AAs is reasonable.

SCOPE OF EXAMINATION

FNBNA was examined using the small bank examination procedures. The evaluation period for this Community Reinvestment Act (CRA) Performance Evaluation (PE) was January 9, 2007 through September 19, 2013. Loan products used to assess the bank's performance under the Lending Test include residential real estate, commercial real estate (CRE), and agriculture real estate (farmland). The loans were originated between January 1, 2009 and December 31, 2011.

Data Integrity

The bank's internal auditors review the adequacy of Home Mortgage Disclosure Act (HMDA) data reporting annually. The most recent review, dated February 2013, indicates that HMDA data for 2012 and early 2013 are accurate.

Selection of Areas for Full-Scope Review

As of June 30, 2013, FNBNA has two AAs: a portion on the Fayetteville-Springdale-Rogers Metropolitan Statistical Area (MSA), more specifically Madison County, Arkansas, and six contiguous Non-MSA counties in North-Central to Northwest Arkansas. The specific counties are Baxter, Boone, Carroll, Marion, Newton, and Searcy.

The Non-MSA Arkansas Counties AA was selected for a full-scope review. Approximately 86.5% of all HMDA reportable transactions from January 1, 2009 through December 31, 2011, were originated within the full-scope AA. In addition, as of June 30, 2012, the full scope AA included 92.7% of total deposit. The Fayetteville-Springdale-Rogers MSA AA was selected for a limited scope review.

DESCRIPTION OF INSTITUTION

The First National Bank of North Arkansas (FNBNA) is 100% owned by First Carroll Bankshares Inc. As of June 30, 2013, the bank has operating branches in Berryville, Green Forest, Eureka Springs, Holiday Island, Huntsville, Harrison, Marshall and Yellville. As of September 23, 2013, the bank opened a new branch location in Harrison. All of the offices have drive-in facilities, there are automated teller machines (ATM's) in all the branches, and there is a stand-alone ATM at the Williams Shopping Center in Berryville.

Since the previous CRA exam, Management and the Board have acquired a branch location in Marshall, AR and opened two new branches in Harrison and Yellville, AR. The bank changed its name in the third quarter of 2011 from FNB Berryville to FNB North Arkansas. Management and the Board changed the name to reflect the expansion in market territory.

The primary lending focus shows to be 1-4 family residential real estate loans, commercial real estate loans, and farmland (primarily poultry and cattle related) lending. FNBNA offers convenient banking hours and a variety of loan and deposit products to meet the needs of the assessment area. The loan portfolio composition as of June 30, 2013, is as follows:

Loan Portfolio Composition as of June 30, 2013 (in 000s)		
Loan Type	Amount (000s)	Percent of Portfolio
Construction and Land Development	\$3,567	2.47%
Farmland	\$24,793	17.18%
1-4 Family Residential	\$60,544	41.96%
Multifamily (5 or more) Residential	\$673	0.47%
Commercial (nonfarm, nonresidential)	\$24,808	17.19%
Total Real Estate Loans	\$114,385	79.27%
Agriculture	\$5,184	3.59%
Commercial and Industrial	\$13,382	9.27%
Consumer and Other Loans	\$11,346	7.87%
Total Gross Loans	\$144,297	100.00%

Source: June 30, 2013 Report of Condition and Income (Call Report)

FNBNA does not have any legal or financial impediments that would limit its ability to meet the credit needs within its AAs. As of June 30, 2013, the bank reported total assets of \$171 million including \$142 million in net loans (83% of total assets). Deposits totaled \$144 million and Tier 1 Capital was \$18.7 million, or 11.02% of adjusted average assets. FNBNA's prior CRA Performance Evaluation was dated January 08, 2007, and the institution was rated Satisfactory.

DESCRIPTION OF FULL SCOPE ASSESSMENT AREA

Non-MSA Arkansas Counties: (Baxter, Boon, Carroll, Marion, Newton, and Searcy)

FNB North Arkansas' Non-MSA AA includes the entirety of Baxter, Boone, Carroll, Marion, Newton, and Searcy counties. The 2000 Census data shows the population of the AA was 121,348 persons. There are 26 census tracts (CT) total, five of which overlap in Baxter and Carroll counties. Tract characteristics are distributed into two moderate-income CT and 24 middle-income CT in the AA. Local employment for the area is centered in retail trade and services. The table below reflects the demographic statistics for the AA based on the 2000 Census data.

Demographic and Economic Characteristics	
	2000 Census
Population	
Number of Families	35,815
Number of Households	50,817
Geographies	
Number of Census Tracts/BNA	26
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	7.69%
% Middle-Income Census Tracts/BNA	92.31%
% Upper-Income Census Tracts/BNA	0.00%
Not Applicable	0.00%
Median Family Income (MFI)	
MFI for AA	\$33,218
2011 HUD-Adjusted MFI	\$43,300
Economic Indicators	
Median Housing Value	\$73,810
% of Households Below Poverty Level	16.02%

Source: 2000 US Census Data; US Department of Housing and Urban Development (HUD) Data

The chart at the top of the following page references the annual unemployment rates for each county in the AA from 2009 to 2012. In addition, the chart reflects unemployment rates for the United States and Arkansas for comparison purposes.

	2012 Unemployment Rate	2011 Unemployment Rate	2010 Unemployment Rate	2009 Unemployment Rate
United States	7.80%	8.50%	9.30%	9.90%
Arkansas	7.30%	7.90%	7.90%	7.50%
Baxter County	8.80%	10.00%	10.40%	9.00%
Boone County	9.30%	9.40%	7.60%	7.70%
Carroll County	7.20%	8.40%	9.20%	7.90%
Marion County	9.60%	11.00%	12.10%	11.80%
Newton County	7.10%	7.80%	8.20%	7.70%
Searcy County	8.60%	10.10%	10.10%	8.30%

Source: Bureau of Labor Statistics

Banking Competition within the Assessment Area:

Banking competition within the AA is high. There are currently 19 banks operating in the six counties that make up the AA which include five local community banks, four multi-state regional banks, and two nationwide banking institutions. The following table illustrates the significant deposit market share within the AA as of June 30, 2012:

Bank	Market Share
First Federal Bank	14.32%
Community First Bank	12.80%
Arvest Bank	11.64%
First National Bank in Green Forest	10.72%
First Security	10.11%
First National Bank & Trust Company	7.31%
Bank of the Ozarks	5.38%
Liberty Bank of Arkansas	4.99%
First National Bank of North Arkansas	4.77%
Ten Other Banks in Deposit Market	17.96%
Total	100.00%

Source: June 30, 2012 FDIC Deposit Market Share Data

Community Contacts

Two community contacts were conducted during the examination. The contacts work to provide affordable housing options to low- and moderate-income residents and to provide economic development opportunities for the region. The contacts indicated that economic conditions in the area are weaker than the state of Arkansas as a whole, primarily due to the rural nature of the area. It was also indicated that there are opportunities for financial institutions to meet the credit needs of the community and assist in economic development. Further, it was noted that local banks as a whole are helpful and have partnered with the contacts on several efforts. The key needs

identified by the contacts were for a larger supply of quality, affordable housing options and improved job skills to foster economic growth.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Loan-to-Deposit Ratio

FNBNA's average LTD ratio of 101.82% is more than reasonable given its size, financial condition, funding sources, and credit needs of its AA. The average LTD ratio was derived from a twenty-six-quarter average taken from March 2007 to June 2013. For purposes of this analysis, six banks, with comparable asset sizes, conducting business within the bank's AA were reviewed to determine the bank's performance relative to its competition. These banks include Community First Bank in Harrison, First National Bank of Green Forest in Green Forest, Cornerstone Bank in Eureka Springs, First Federal Bank in Harrison, Integrity First Bank in Mountain Home, and Twin Lakes Community Bank in Flippin. In addition, four regional banks and two nationwide banking institutions operate within FNB North Arkansas' AA; however, they are not considered direct competitors in this analysis. The six institutions had an overall average LTD ratio of 81.60% during the same period. These institutions had average LTDs ranging from a high of 97.90% percent to a low of 70.98%. FNB North Arkansas had the highest LTD ratio of 101.82%.

The following table illustrates FNB North Arkansas' average LTD ratio and that of similarly situated institutions:

Financial Institution	Assets (000s) as of 6/30/2013	Average LTD Ratio
First National Bank of North Arkansas	\$170,866	101.82%
Community First Bank	\$473,614	97.90%
Twin Lakes Community Bank	\$ 86,797	95.82%
Cornerstone Bank	\$155,852	78.26%
The First National Bank in Green Forest	\$390,958	74.44%
First Federal Bank	\$515,823	72.16%
Integrity First Bank, National Association	\$399,863	70.98%

Source: Uniform Bank Performance Reports (UBPR)

Lending in Assessment Area

A substantial majority of loans, 94% of the number and 88.34% of the dollar volume, originated by FNBNA are located inside the AA. Approximately 94% of the number and dollar volume of residential real estate loans were originated inside the AA. In addition, a sample of 20 loans was selected from each of the bank's primary loan product types (excluding residential real estate loans): CRE and agricultural real estate (farmland).

A substantial majority, 80.0% of the number and 71.87% of the dollar volume, of CRE loans were originated within the AA. In addition, a substantial majority, 90.0% of the number and 70.93% of the dollar volume, of farmland loans were originated within the AA.

Table 1 - Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(in 000s)		(in 000s)		
Home Purchase	159	93.53	11	6.47	170	\$11,567	91.77	\$1,037	8.23	\$12,604.00
Home Improvement	77	96.25	3	3.75	80	\$1,825	95.85	\$79	4.15	\$1904.00
Refinance	134	94.37	8	5.63	142	\$9,998	95.25	\$499	4.75	\$10,497.00
CRE	16	80.00	4	20.00	20	\$3,317	71.87	\$1,298	28.13	\$4,615
Farmland	18	90.00	2	10.00	20	\$2,197	70.94	\$900	29.06	\$3,097
Total	404	94.00	28	6.00	432	\$28,904	88.34	\$3,813	11.65	\$32,717

Source: 2009 – 2011 Home Mortgage Disclosure Act (HMDA) Data; Loan Sample

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

Non-MSA Arkansas Counties: (Baxter, Boone, Carroll, Marion, Newton, and Searcy)

FNBNA has reasonable penetration of loans to LMI borrowers for residential real estate products within the AA. The loan distribution for home improvement is somewhat lower and home purchase and refinance are lower than the percentage of low-income families within the AA. Loan distribution for home purchase, home improvement, and refinance is somewhat lower than the percentage of moderate-income families within the AA. Baxter, Boone, Marion, and Searcy County combined population accounts for 74.0% of the total population of the AA. Each of these counties had 2012 annual unemployment rates that were higher than the national and state unemployment rates of 7.8% and 7.3%, respectively. Furthermore, Baxter and Boone County account for 55.3% of the total population of the AA and have 2012 annual unemployment rates of 8.8% and 9.3%, respectively. This elevated unemployment rate in the AA most populous

counties, along with a poverty rate of 16.0% for the AA as a whole, makes it more difficult to qualify low- and moderate-income borrowers for residential real estate loans. The table below reflects the percentage of loans by borrower income level.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
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
<i>Full Scope AA</i>								
Home Purchase	18.99	5.97	19.80	11.94	24.33	16.42	36.88	57.46
Home Improvement	18.99	14.29	19.80	11.43	24.33	21.43	36.88	52.86
Refinance	18.99	8.04	19.80	15.18	24.33	24.11	36.88	52.68
<i>Limited Scope AA</i>								
Home Purchase	28.43	21.42	24.00	25.01	24.69	35.70	22.88	17.87
Home Improvement	28.43	21.48	24.00	25.02	24.69	35.67	22.88	17.83
Refinance	28.43	21.43	24.00	25.00	24.69	35.71	22.88	17.86

Source: 2009-2011 HMDA data; 2000 U.S. Census data

The following table reflects that FNBNA has an excellent penetration of loans to business with revenues of \$1 million or less within the AA. The number and dollar volume of loans to business with revenues of \$1 million or less exceeds the percentage of businesses in the AA that reported revenues of \$1 million or less. Loans to non-farm businesses are not a primary product within the limited scope AA and therefore are not included in the table below.

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
<i>Full Scope AA</i>				
% of AA Businesses	71.89	1.90	26.21	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	72.27	27.23	0.00	100%

Source: Loan sample; 2011 Dunn and Bradstreet data.

The following table reflects the FNBNA has a reasonable penetration of loans to farms with revenues of \$1 million or less within the AA. The number of loans to farms with revenues of \$1 million or less is near the percentage of farms in the AA that reported revenues of \$1 million or less. The dollar volume of loans to farms with revenues of \$1 million or less is somewhat lower than the average.

Table 2B - Borrower Distribution of Loans to Farms in AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
<i>Full Scope AA</i>				
% of AA Farms	98.87	0.38	0.76	100%
% of Bank Loans in AA by #	90.00	5.00	5.00	100%
% of Bank Loans in AA by \$	75.76	19.37	4.87	100%
<i>Limited Scope AA</i>				
% of AA Farms	100	0	0	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Source: Loan sample; 2011 Dunn and Bradstreet data

Fayetteville-Springdale-Rogers MSA: Madison County

Based on a limited scope review, the bank's performance under the Lending Test in the Madison County AA is not inconsistent with the bank's overall satisfactory performance under the lending test. This is due to an overall reasonable distribution for residential real estate loans and reasonable distribution of loans to small farms. Based on low lending volumes relative to the bank's overall lending volume, this AA is considered part of a limited review and does not have a significant impact on the overall conclusion.

Geographic Distribution of Loans

The analysis indicates that FNB North Arkansas originated loans in the moderate-income and middle-income CT within the AA during the evaluation period. A review of the distribution of the loan sample by CT does not indicate any significant material gaps in lending coverage.

Non-MSA Arkansas Counties: (Baxter, Boone, Carroll, Marion, Newton, and Searcy)

FNBNA's geographic dispersion for residential real estate loans within the AA is poor. The level of lending within moderate-income CT is lower than the level of owner-occupied housing within moderate-income CT for home purchase and refinance loans. The level of lending within moderate-income CT is significantly lower than the overall level for home improvement loans. However, lending levels within moderate-income census tracts are narrow due to the low number (2) of moderate-income census tracts available in FNB North Arkansas' assessment areas. There are no low-income census tracts within the bank's assessment areas.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
<i>Full Scope AA</i>								
Home Purchasing	0.00	0.00	6.33	0.75	93.67	99.25	0.00	0.00
Home Improvement	0.00	0.00	6.33	0.00	93.67	100.00	0.00	0.00
Refinancing	0.00	0.00	6.33	1.79	93.67	98.21	0.00	0.00
<i>Limited Scope AA</i>								
Home Purchasing	0.00	0.00	50.00	50.01	50.00	49.99	0.00	0.00
Home Improvement	0.00	0.00	50.00	50.05	50.00	49.95	0.00	0.00
Refinancing	0.00	0.00	50.00	50.00	50.00	50.00	0.00	0.00

Source: 2009 – 2001 Home Mortgage Disclosure Act (HMDA) Data; 2000 US Census Data

The geographic distribution of business and farm loans reflects excellent dispersion within the AA. The percentage of loans to farms located within a moderate income CT exceeds the percentage of AA farms located within a moderate-income CT. Loans to non-farm businesses are not a primary product within the limited scope AA and therefore are not included in the table below.

Table 3A - Geographic Distribution of Loans to Businesses and Farms in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
<i>Full Scope AA</i>								
Businesses	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00
Farms	0.00	0.00	10.00	10.49	90.00	89.59	0.00	0.00
<i>Limited Scope AA</i>								
Farms	0.00	0.00	62.50	43.70	37.50	56.30	0.00	0.00

Source: Loan Sample; 2011 Dun & Bradstreet Data

Fayetteville- Springdale-Rogers MSA: Madison County

Based on a limited-scope review, the bank's performance under the Lending Test in the Madison County AA is not inconsistent with the bank's overall satisfactory performance

under the lending test. This is due to an overall reasonable dispersion for residential real estate loans within the AA. Based on low lending volume relative to the bank's overall lending volume, this AA is considered part of a limited review and does not have a significant impact on the overall conclusion.

Responses to Complaints

FNBNA has not had any complaints made relating to the Community Reinvestment Act since the prior examination dated January 08, 2007.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.