



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 28, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 18339**

**841 Illinois Street
Sidney, NE 69162**

Office of the Comptroller of the Currency

**Denver Field Office
1225 17th Street, Suite 450
Denver, CO 80202**

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”.

The Lending Test is rated: “Satisfactory”.

The Community Development Test is rated: “Satisfactory”.

The bank’s rating is a blend of two state ratings. The following are the major factors supporting the rating for First National Bank of Sidney:

- The bank’s average loan-to-deposit ratio is reasonable and reflects a satisfactory level of response to the lending needs of the bank’s communities.
- The bank’s level of lending within its assessment areas is reasonable; a majority of the bank’s loans are in its assessment areas.
- The overall distribution of loans to borrowers of different incomes and farms of different sizes is good.
- The overall distribution of loans in moderate income census tracts is good.
- The bank’s responsiveness to community development needs in its assessment areas is satisfactory.

Scope of Examination

We performed a full scope review of the bank's three assessment areas (AAs) including one in Nebraska and two in Wyoming. For analysis purposes, we combined the two Wyoming AAs.

The evaluation period for this CRA examination focuses on loan originations from March 2003 through March 2008. To determine the bank's primary lending products, we reviewed both the dollar amount of loan and the number of loans originated during the evaluation period. We determined that FNB Sidney's (FNB) primary loan products are agricultural operating lines of credit and loans secured by farmland. We sampled 20 randomly selected agricultural operating lines originated in Nebraska and 20 randomly selected agricultural lines originated in Wyoming. We also sampled 20 randomly selected loans secured by farmland in each state. Our conclusions are based on these samples.

We also reviewed community development loans, investments, and services from March 3, 2003 through May 2008. Our review included contacting community representatives in both the Nebraska and Wyoming AAs.

Description of Institution

First National Bank of Sidney (FNB) is a \$291 million institution located in Sidney, Nebraska. FNB is 100 percent owned the holding company, First National Bancs, Inc. The holding company has total assets of \$380 million. Related organizations due to common ownership include 2 banks operating in Colorado and 3 banks in Nebraska.

The bank operates nine full-service facilities. The main office and one branch are located in Sidney, NE. FNB opened the branch in Sidney in August 2006. Three other branches are located in the neighboring communities of Kimball, Dalton, and Chappell in the counties of Kimball, Morrill, and Deuel, respectively. In September 2005, FNB Sidney merged with FNB Torrington, Wyoming. As part of the merger FNB assumed the branch offices located in Torrington, Lingle, Pine Bluffs, and Douglas, Wyoming. All branches have a drive-up facility and ATMs that do not accept deposits. FNB also operates four stand alone ATMs. Two ATMs are located in a Sidney sporting goods store, Cabela's. In addition, the bank has an ATM at Vince's Corner in Kimball, NE and another ATM in Bossleman's Pump & Pantry in Chappell, NE.

FNB Sidney offers a full range of credit products within its assessment areas including agricultural, commercial, commercial real estate, residential real estate, and consumer loans. Net loans represent 63 percent of total assets. The primary loan products by dollar volume are agricultural operating lines of credit and loans secured by farmland which represent 29 percent and 26 percent of gross loans, respectively. By dollar amount, FNB's loan portfolio consists of the following other types of credit: 22 percent commercial and industrial, 8 percent non-farm non-residential, 3 percent construction and development, and 1 percent multifamily. While the bank makes loans that fall under the guidelines of the Home Mortgage Disclosure Act, the volume of these loans is small at only 6 percent of gross loans. Our rating of the bank's CRA performance is based on an analysis of the bank's two primary products.

There are no legal, financial, or other impediments that would hamper FNB's ability to meet the credit and community development needs of its assessment areas. At the previous CRA examination, FNB Sidney received a "Satisfactory" rating under the small bank CRA examination procedures performed as of March 3, 2003. Please refer to the bank's CRA Public File for more information.

Conclusions with Respect to Performance Criteria

The ratings for the following three areas is bank-wide and represents the bank’s performance in all AAs based on information reported and maintained by FNB during the evaluation period.

Loan-to-Deposit (LTD) Ratio

The bank’s LTD ratio is satisfactory given area competition and credit needs of the community.

The bank’s average quarterly LTD ratio since the previous CRA exam is 81 percent. The average quarterly LTD ratio of similarly situated banks over the same time period ranged between 52 percent and 106 percent. Similarly situated banks are those banks of similar size and/or business lines operating within the same geography.

Lending in Assessment Area

The portion of lending in the bank’s AA both by number and dollar volume of loans is satisfactory.

We sampled 20 agricultural operating lines and 20 farmland loans within the defined Nebraska and Wyoming AAs. A majority of loans by number and dollar volume are originated within the bank’s combined AAs. Based on number and dollar volume, 80 percent and 72 percent, respectively, of FNB’s loans are inside the bank’s combined AAs.

Table 1 - Lending in the Combined Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural Operating Lines	27	68%	13	33%	40	4,062	57%	3,037	43%	7,100
Loans secured by Farmland	37	92%	3	8%	40	5,623	89%	685	11%	6,308
Totals	64	80%	16	20%	80	\$9,685	72%	3,722	28%	13,408

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.

CONCLUSIONS ABOUT PERFORMANCE IN NEBRASKA

CRA Rating for Nebraska: “Satisfactory”.

- **The Lending test is rated: “Satisfactory”.**
- **The Community Development test is rated: “Satisfactory”.**

Description of Nebraska Assessment Area (AA)

In Nebraska, management has designated a single AA which includes the following four rural counties: Cheyenne, Morrill, Kimball, and Deuel. The counties of Kimball, Cheyenne and Deuel border Colorado on the north. This AA includes the following cities in Nebraska: Sidney, Dalton, Kimball, Bridgeport, and Chappell. Based on 2000 census data, this AA is comprised of six census tracts which are all designated as middle-income. Total population of this AA is approximately 22,000 with over 70 percent of the AA population living in Cheyenne (9000+) and Morrill counties (5000+).

The Department of Housing and Urban Development (HUD) 2007 updated MSA median-family income for this AA is \$51,400. Based on 2000 US Census data, there are 5,937 families residing within this AA, of which 41.03 percent are deemed low- and moderate-income. Income designations are determined based on annual income as a percentage of the non-MSA median-family income.

The Nebraska economy is generally good with slow but stable growth and one of the lowest unemployment rates in the nation. Agriculture has historically been the backbone of Nebraska's economy, with cattle, corn, hogs, and soybeans leading the state's list of farm products. However, Nebraska is attempting to diversify its economy and has been successful in attracting new business, in large part because of its location near western coal and oil deposits. The largest portion of the state's labor force is employed in agriculture, either directly or indirectly—as farm workers, as factory workers in the food-processing and farm-equipment industries, or as providers of related services.

The economy in this rural AA is likewise largely tied to agriculture, both cattle and crops. Economic conditions in the four counties have benefited from good cattle and crop prices. AA unemployment rate is low at 1.5 percent. Cheyenne County and the city of Sidney have attracted a more diversified employment base that includes light manufacturing and retail services. The Sidney economy leads all western Nebraska communities in population growth. The largest employer in Sidney is Cabelas, a national sporting goods retailer. Located on the high traffic Interstate 80 corridor, Cabelas has also attracted other retail companies to the area including numerous hotels and restaurants. This results in more economic stability to the Sidney area. Other major employers include ADC Digital Communications, Memorial Health Center, Commercial Resins, The Egging Company, Sidney Public Schools and local city government.

Business demographic data shows 2,951 businesses (including 492 farms) of which 54 percent are considered small businesses with revenues less than \$1 million. Ninety-six percent of farms are small farms with revenues less than \$1MM.

We made one community contact in this AA. Our contact indicated that FNB actively supports economic development lending activity in this assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NEBRASKA

LENDING TEST

Overall, the bank’s performance under the Lending Test is rated “Satisfactory”. This is based on FNB’s good lending performance in the Cheyenne, Morrill, Kimball and Deuel Counties AA. The bank’s primary lending focus is agricultural operating lines and loans secured by farmland.

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

The combined distribution of FNB’s ag operating lines and farmland loans indicates excellent performance in lending to small farms (farms with gross annual revenues of \$1 million or less) in the Nebraska assessment area.

All of the loans in our sample of ag operating lines were originated to small farms. This performance exceeds area demographics which show that 96 percent of farms in the Nebraska AA have revenues less than \$1,000,000. Furthermore, our analysis showed that 90 percent by number and 85 percent by dollar of ag operating lines were originated to very small farms (gross annual revenues of less than \$500M).

For farmland loans, FNB originated 95 percent by number and 92 percent by dollar to small farms. This also compares favorably to area demographics which show that 96 percent of farms in the Nebraska assessment area have revenues less than \$1,000,000. Further analysis shows that 91 percent by number and 77 percent by dollar of farmland loans were originated to very small farms (gross annual revenues of less than \$500M).

Borrower Distribution of Agricultural Loans				
Gross Annual Farm Revenue	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	96%	2%	2%	100%
% of Ag Operating Lines in AA by #	100%	0%	0%	100%
% of Ag Operating Lines in AA by \$	100%	0%	0%	100%
% of Farmland Loans in AA by #	95%	5%	0%	100%
% of Farmland Loans in AA by \$	92%	8%	0%	100%

Source: Loan Sample; U.S. Census data

Geographic Distribution of Loans

The Nebraska assessment area consists of only middle-income census tracts. Accordingly, a geographic analysis was not performed as it would not be meaningful.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

COMMUNITY DEVELOPMENT TEST IN NEBRASKA

The bank's performance under the community development (CD) test in Nebraska is rated "Satisfactory".

Number and Amount of Community Development Loans

FNB provided a satisfactory level of community development (CD) lending in its Nebraska assessment area during this review period.

In November 2007, the bank made a \$5 million loan commitment to construct an ethanol production plant near Bridgeport, Nebraska in Morrill County. This loan represents 20 percent of the bank's Tier One Capital. Morrill County has been identified as a remote rural underserved nonmetropolitan middle-income geography. To support this \$5 million loan commitment, FNB negotiated loan participation agreements with two affiliated financial institutions. The construction of this ethanol plant has been identified by Morrill County as part of the county's economic development plan and Morrill County has issued tax incremental financing (TIF) bonds to support the financing of this project. In addition to providing employment for low- and moderate-income individuals, this ethanol plant will provide revitalization and stabilization for this underserved middle-income geography.

Number and Amount of Qualified Investments

FNB provided a satisfactory level of community development (CD) investment in its Nebraska assessment area. In May of 2008 the bank purchased \$300,000 in tax incremental financing (TIF) bonds to support the construction of an ethanol plant near Bridgeport, Nebraska in Morrill County. Morrill County is a remote rural underserved nonmetropolitan middle-income geography.

Extent to Which the Bank Provides Community Development Services

FNB provides a satisfactory level of community development services in its Nebraska assessment area. While the bank does not offer any services specifically tailored to low- and moderate-income individuals, the bank offers a full range of consumer and commercial banking products at all of its branches. FNB's retail banking services are reasonably accessible to individuals of different income levels.

CONCLUSIONS ABOUT PERFORMANCE IN WYOMING

CRA Rating for WYOMING: “Satisfactory”.

- **The Lending test is rated: “Satisfactory”.**
- **The Community Development test is rated: “Satisfactory”.**

Description of Wyoming Assessment Area (AA)

Bank management has designated two AAs in Wyoming. One AA consists of Converse County which includes the city of Douglas, Wyoming. The other AA is comprised of Goshen County and tract 20 in southeast Laramie County which includes the towns of Torrington, Lingle, Hawk Springs, and Pine Bluffs. For analysis purposes, we combined the two AAs since they are both non-MSA rural areas. While these two AAs are not geographically contiguous, they have similar performance contexts. Based on 2000 census data, the Wyoming AA is comprised of nine census tracts of which only 1 tract (11 percent) is moderate-income and the rest (89 percent) are designated as middle-income.

The Wyoming economy is largely sustained by mining, including petroleum and gas production, and agriculture —chiefly feed grains and livestock. Bolstered by a booming energy industry, the Wyoming economy continues to expand rapidly. Although mining produces a larger amount of the state’s income, the majority of the state’s residents make their living in farming or ranching. The state has more than 1.5 million cattle. Large grazing lands are required because the grass is sparse in Wyoming, and the average ranch in the state is larger than in any other state except Arizona. Crops grown in the state include wheat, oats, sugar beets, corn, barley and alfalfa.

The Wyoming AA is largely rural with agriculture as the economic backbone. Total population is 29,773 with the cities of Torrington and Douglas, in Goshen and Converse County, respectively, representing the population centers. Each city has a population of roughly 5,500. The Department of Housing and Urban Development (HUD) 2007 updated MSA median-family income for this AA is \$58,656. Based on 2000 US Census data, there are 8407 families residing within this AA of which 41 percent are deemed low- and moderate-income. Income designations are determined based on annual income as a percentage of the non-MSA median-family income.

Business demographic data shows 3434 businesses (including 359 farms), of which 52 percent are considered small businesses with revenues less than \$1 million. Ninety-six percent of farms are small farms with revenues less than \$1MM.

We made one community contact in this AA. Our contact indicated that FNB actively supports economic development lending activity in this AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN WYOMING

LENDING TEST

Overall, the bank’s performance under the Lending Test is rated “Satisfactory”. This is based on FNB’s good lending performance in the Goshen, Converse, and Laramie Counties AA. The bank’s primary lending focus is agricultural operating lines and loans secured by farmland.

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

The combined distribution of FNB’s ag operating lines and loans secured by farmland indicates excellent performance in lending to small farms in Wyoming.

All of the loans in our sample of ag operating lines and farmland loans were originated to small farms. This performance exceeds area demographics which show that 96 percent of farms in the Wyoming AA have revenues less than \$1,000,000. Furthermore, our analysis showed that 95 percent by number and 70 percent by dollar of ag operating lines were originated to very small farms with gross annual revenues of less than \$500M. And 95 percent by number and 94 percent by dollar of farmland loans were originated to very small farms with gross annual revenues of less than \$500M.

Borrower Distribution of Agricultural Loans				
Gross Annual Farm Revenue	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	96%	2%	2%	100%
% of Ag Operating Lines in AA by #	100%	0%	0%	100%
% of Ag Operating Lines in AA by \$	100%	0%	0%	100%
% of Farmland Loans in AA by #	100%	0%	0%	100%
% of Farmland Loans in AA by \$	100%	0%	0%	100%

Source: Loan Sample; U.S. Census Data

Geographic Distribution of Loans

The geographic distribution of loans to farms in the AA is excellent. The portion of agricultural loans in moderate-income CTs is significantly above the demographic comparator.

Geographic Distribution of Loans to Businesses/Farms in Wyoming								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Agricultural Operating Lines	0%	0%	9%	50%	91%	50%	0%	0%
Loans secured by farmland	0%	0%	9%	40%	91%	60%	0%	0%

Source: Loan sample; U.S. Census data.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development (CD) test in Wyoming is rated "Satisfactory".

Number and Amount of Community Development Loans

FNB provided a satisfactory level of community development (CD) lending in its Wyoming AA. The bank originated 2 CD loans in Wyoming representing 18.4 percent of Tier One Capital.

- In May 2008, the bank made a \$4.1 million loan commitment to construct a sixty three unit motel in Douglas, Wyoming. The town of Douglas is located in Converse County, Wyoming, which is a distressed nonmetropolitan middle-income geography. In addition to providing employment for low- and moderate-income individuals in Converse County, the North East Wyoming Economic Development Coalition has identified this project as providing revitalization and stabilization of this distressed middle-income geography.

- During our review period, FNB also provided a \$500,000 loan to finance a portion of the construction of a biocomposite plant in a moderate-income census tract near Torrington, Wyoming. In addition to providing employment for low- and moderate-income individuals, this loan provides revitalization and stabilization in a moderate-income geography.

Number and Amount of Qualified Investments

FNB identified no qualified investments in their Wyoming AA.

Extent to Which the Bank Provides Community Development Services

FNB provides a satisfactory level of community development services in its Wyoming AA. While the bank does not offer services specifically tailored to low- and moderate-income individuals, the bank offers a full range of consumer and commercial banking products at all of its branches. FNB's retail banking services are reasonably accessible to individuals of different income levels.