



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 31, 2008

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's lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following examination results:

- Overall, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and farms of different sizes.
- First National Bank originates a majority of its loans by number and dollar volume to borrowers located within its defined assessment area.
- The overall geographic distribution of agricultural and consumer loans reflects a reasonable dispersion within the bank's defined assessment area. There were no conspicuous gaps.
- First National Bank meets the credit needs of the community as demonstrated by its quarterly average loan-to-deposit ratio of 85.16 percent since the bank's last CRA examination.

SCOPE OF EXAMINATION

First National Bank 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 First National Bank's performance from February 25, 2003 through March 31, 2008. The First National Bank in Philip's primary loan products are agriculture and consumer loans.

DESCRIPTION OF INSTITUTION

First National Bank in Philip (FNB) is a \$121 million bank located in Philip, SD. The institution has a single location in south central Haakon County in western South Dakota. FNB is primarily owned by Philip Bancorporation, Inc. (85 percent) a \$121 million, one-bank holding company, also located in Philip, SD. There have not been any significant changes to FNB's corporate structure, including merger or acquisition activities, 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. According to the December 31, 2007 Report of Condition, the bank had approximately 82 percent of its loan portfolio dollar volume in agriculture and agricultural real estate loans. Consumer loans approximate 2.6 percent of the bank's loan portfolio dollar volume. However, consumer loans approximate 35 percent in number volume.

As of the March 31, 2008 Call Report, FNB reported net loans of \$82 million and had a net loans and leases to total assets ratio of 67 percent. The loan portfolio composition was as follows:

Loan Portfolio Summary by Loan Product		
Loan Category	% of Total Originations by #	% of Originated Dollars
Agriculture Loans	52.07%	86.40%
Commercial Loans	7.93%	10.30%
Consumer Loans	39.94%	2.73%
Other Loans	0.06%	0.57%

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 February 25, 2003.

DESCRIPTION OF ASSESSMENT AREA

FNB has one assessment area. It is comprised of two complete counties, Haakon and Jackson Counties. These counties are located in western South Dakota and are adjacent to the Rapid City Metropolitan Statistical Area. This assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

There are 5,126 persons within the assessment area. One-half of Jackson County is located on the Pine Ridge Indian Reservation. The assessment area’s unemployment rate is higher than the state average of 2.9 percent at 4.27 percent. This coincides more closely with national unemployment which is about 4.6 percent. Almost all residents live in 1-4 family dwellings, 96.69 percent. The other 3.31 percent live in multi-family units. The Department for Housing and Urban Development 2007 updated median family income is \$48 thousand.

Demographic Information for the Assessment Area						
	#	% Low	% Moderate	% Middle	% Upper	% Undefined
Geographies (Census Tracts)	7	14.29%	28.57%	28.57%	0%	28.57%
Population by Geography	5,126	26.41%	29.95%	43.64%	0%	0%
Owner-Occupied Housing by Geography	1,270	11.89%	34.17%	53.94%	0%	0%
Businesses	675	n/a	n/a	n/a	n/a	n/a
Farms	171	n/a	n/a	n/a	n/a	n/a
Family Distribution by Income Level	1,297	20.42%	30.69%	48.89%	0%	0%
Household Distribution by Income Level	1,810	19.06%	32.43%	48.51%	0%	0%
Census Median Family Income (MFI)		\$29,792	Median Housing Value		\$40,887	
HUD-Adjusted MFI: 2007		\$48,000	Families Below Poverty		22.38%	
HUD-Adjusted MFI: 2002		\$44,800	Unemployment Rate		4.27%	

Source: 2000 US Census

FNB faces moderate competition from financial institutions located outside of its assessment area. Within FNB's assessment area, there are three financial institutions including FNB. The other two financial institutions are considerably larger; however, FNB retains almost 78 percent of the deposit market share. FNB is the only financial institution in Philip.

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. The bank's quarterly net loan-to-deposit ratio averaged 85.16 percent for the 20 quarters beginning June 1, 2003 and ending March 1, 2008. This ratio ranged from a quarterly low of 76.96 percent to a quarterly high of 94.54 percent during the time period. As of March 31, 2008, FNB's net loan-to-deposit ratio was 80.02 percent which is representative of the agricultural cycle; less loan demand and higher deposit levels.

There are no other community banks of similar size in the assessment area to compare the bank.

Lending in Assessment Area

FNB originates a majority of its loans by number and dollar volume to borrowers located within its defined assessment area. Examiners sampled 60 consumer loans and 60 agricultural loans. Approximately 79 percent by number and 71 percent by dollar volume of loans sampled were made to borrowers within the bank's assessment area. The following table shows primary product loans originated inside the assessment area

by number and dollar volume:

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Consumer	54	90	6	10	60	288	88	40	12	328
Agricultural	41	68	19	32	60	4,771	70	2,076	30	6,847
Totals	95	79	25	21	120	5,059	71	2,115	29	7,174

Source: Bank records (verified by examiners)

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

Overall, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and farms of different sizes.

Agricultural

The distribution agricultural loans reflects reasonable penetration among farms of different sizes. One hundred percent of loans sampled were made to farms with gross revenues less than \$1 million. This is commensurate with the 2000 US Census data which shows there are no farms with gross revenues larger than \$1 million. It is noteworthy that FNB makes 79 percent of its agricultural loans to farms with gross revenues less than \$250 thousand. Examiners sampled 80 agricultural loans made in the assessment area, of which 19 reported revenue information. The following table compares the bank’s agricultural lending activity to community demographics:

Borrower Distribution of Agricultural Loans by Revenue				
Revenue \$(000)	Number	Percent of Number	2000 US Census	
<\$100	7	36.8%	Rev < \$1Million	100.0%
\$100 - \$249	8	42.1%		
\$250 - \$500	3	15.8%	Rev > \$1Million	00.0%
>\$500	1	5.3%		
Total	19	100.0%	100.0%	

Source: Bank records (verified by examiners) and 2000 US Census Data

In order to further stratify the above information, we referred to information contained in the 2002 US Ag Census. This data indicated 65.5% of farms had gross revenues of less than \$100 thousand.

Consumer

FNB’s lending activity to borrowers of different income levels reflects excellent penetration. Seventy percent of consumer loans are made to low-income households. Low-income households comprise only 28 percent of total households in the

assessment area. Examiners sampled 60 consumer loans that were originated in the assessment area of which 36 reported income. The following table shows the distribution of consumer loans among borrowers of different income levels as compared to the percent of households in each income category:

Borrower Distribution of Consumer Loans by Income Level			
Borrower Income Level	Number	Percent of Number	Percent of Households
Low	25	69.4%	28.4%
Moderate	8	22.2%	18.6%
Middle	1	2.8%	22.3%
Upper	2	5.6%	30.7%
Total	36	100.0%	100.0%

Source: Bank records (verified by examiners) and 2000 US Census Data

Geographic Distribution of Loans

Overall, the geographic distribution of agricultural and consumer loans reflects a more than reasonable dispersion within the bank’s defined assessment area. There were no conspicuous gaps.

Agricultural Loans

The bank’s geographic distribution of agricultural loans in the assessment area reflects excellent dispersion in the low-income tracts and good dispersion in the moderate-income tracts. Examiners sampled 40 agricultural loans originated to borrowers in the bank’s assessment area. Most notably, the bank generated 17 loans in the low- and moderate-income census tracts. In all, the low- and moderate-income tracts contain only 13 farms. The bank originated 50 percent of loans by dollar volume to farms located in the low- and moderate-income tracts. The following table depicts the bank’s performance in each census tract within the assessment area:

Geographic Distribution of Agricultural Loans					
Tract Income Level	Number	Percent of Number	Amount (000s)	Percent of Amount	Percent of Farms by Tract Category
Low-Income	8	20.0%	\$31	4.3%	7.6%
Moderate-Income	9	22.5%	\$331	45.5%	26.3%
Middle-Income	23	57.5%	\$366	50.2%	66.1%
Upper-Income	0	00.0%	\$00	00.0%	00.0%
Totals	40	100.0%	\$728	100.0%	100.0%

Source: Bank records (verified by examiners) and 2000 US Census Data

Consumer Loans

The bank's geographic distribution of consumer loans reflects excellent dispersion in the low-income tracts and good dispersion in the moderate-income tracts of the assessment area. Examiners sampled 54 consumer loans originated to borrowers in the bank's assessment area. Whether by number or dollar volume, the bank has successfully originated loans equivalent to the number of households in each census tract. The following table compares the bank's consumer lending activity to borrowers located in the assessment area to community demographics:

Geographic Distribution of Consumer Loans					
Tract Income Level	Number	Percent of Number	Amount (000s)	Percent of Amount	Percent of Households by Tract Category
Low-Income	12	22.2%	\$27	9.4%	19.1%
Moderate-Income	11	20.4%	\$88	30.7%	32.4%
Middle-Income	31	57.4%	\$172	59.9%	48.5%
Upper-Income	0	00.0%	\$00	00.0%	00.0%
Totals	54	100%	\$287	100%	100.0%

Source: Bank records (verified by examiners) and 2000 US Census Data

Responses to Complaints

The bank has not received any CRA-related complaints since the prior CRA examination.

Fair Lending or Other Illegal Credit Practices Review

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