



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 16, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 13830

1 Cedar Street
Ronceverte, West Virginia 24970

Office of the Comptroller of the Currency
Virginia Field Office
Jeffery B. King, ADC
4419 Pheasant Ridge Road, Suite 300
Roanoke, Virginia 24014

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.

State Name: West Virginia Rating: Satisfactory

State Name: Virginia Rating: Satisfactory

The bank's overall rating is based on its state ratings and its bank-wide performance under the loan-to-deposit and lending in assessment area criteria, along with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

This institution is rated Satisfactory based on the following information:

- The loan-to-deposit ratio is more than reasonable.
- The bank made a substantial majority of its loans within its assessment areas (AAs).
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels, given the demographics of the AAs.
- Loans to businesses of different sizes reflect reasonable penetration among businesses of different sizes.
- A majority of the small loans to businesses were for amounts less than \$100,000.

Scope of Examination

This Performance Evaluation for First National Bank assesses the institution's performance under the Lending Tests for Small Banks. The Lending Test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The evaluation period under the Lending Test covers the bank's performance from January 1, 2009 through December 31, 2011.

For the Lending Test, we took into consideration FNB's business strategy and types of credit offered. We reviewed a sample of 79 residential mortgage loans and 61 business loans originated during the evaluation period. We selected these samples using the numerical sampling process from bank reports listing loans originated during the evaluation period.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, a sample of AAs within that state were selected for full-scope reviews. The bank has an AA in West Virginia and an AA in Virginia which were selected for full scope review. Alleghany County, Bath County, and the City of Covington make up the Virginia non-metropolitan assessment area. Greenbrier County and Monroe County make up the West Virginia non-metropolitan assessment area. Descriptions of each AA are contained in the respective State section of this evaluation.

Description of Institution

First National Bank (FNB) is a \$260 million interstate bank headquartered in Ronceverte, West Virginia and a subsidiary of First National Bancshares Corporation, a one bank holding company. FNB has six branches - two in Virginia and four in West Virginia. During this evaluation period the bank opened a branch in Lewisburg, West Virginia in December 2009 and did not close any branches. There are no low or moderate income census tracts in either of the bank's AAs.

The eight middle income census tracts in Greenbrier and Monroe counties and the one middle income tract in Bath County were identified as Middle-Income Nonmetropolitan Underserved Geographies for 2011 due to remote rural geography. All three middle income tracts in Alleghany County were identified as Middle-Income Nonmetropolitan Distressed Geographies for 2011 due to population loss.

FNB offers basic deposit and lending products with the addition of on-line banking and 24-hour telephone banking. The bank serves the cities of Hot Springs and Covington in the state of Virginia and the cities of Lewisburg, Ronceverte and White Sulphur Springs in the state of West Virginia. FNB has depository automated teller machines at each of its six branches. The bank's Internet website, <http://www.fnbwwa.com>, provides detailed information on products and services for both consumers and businesses.

FNB's business strategy focuses on residential mortgage loans, loans to businesses, and consumer loans. The bank's gross loan portfolio, totaling approximately \$142 million as of March 31, 2012, is comprised of loans to businesses, including loans secured by non-farm non-residential property totaling 53.5 percent, residential mortgages totaling 37.3 percent, and loans to individuals totaling 9.2 percent. We considered loans to businesses and residential mortgage loans as primary products based on the volume of originations and balances outstanding. Loans to individuals are a primary product in terms of volume, but not dollars outstanding.

Tier One Capital totaled \$25.2 million, the Tier One Risk-based Capital to Risk-Weighted Assets ratio equaled 16.24 percent, and the Tier One Leverage Capital ratio equaled 9.71 percent as of March 31, 2012.

There are no legal, financial, or other factors impeding FNB's ability to help meet the credit needs in its AAs. FNB received a "Satisfactory" rating on its November 2007 CRA Performance Evaluation.

Conclusions with Respect to Performance Criteria

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered FNB's business strategy, the volume of originations, and community credit needs identified through discussions with community contacts.

Small loans to businesses and residential mortgage loan types combined received equal weight in the evaluation process.

Loan-to-Deposit Ratio

FNB’s average loan-to-deposit ratio is more than reasonable when compared to similarly situated institutions. The bank’s quarterly average loan-to-deposit (LTD) ratio since the last CRA examination is 77.75 percent, which is slightly higher than the peer’s quarterly average LTD ratio. FNB’s ratio is also higher than that of similarly situated banks in the FNB AAs, as illustrated in the table below.

A review of bank data reveals that FNB is similarly situated to Highlands Community Bank, The Bank of Monroe, First National Bank of Peterstown, and First and Citizens Bank. These institutions are similar in asset size, offer similar credit products, operate in at least one of the same assessment areas as FNB, and are considered small banks under CRA guidelines.

Institution Name	City	St	Average Loan to Deposit Ratio
First and Citizens Bank	Monterey	VA	77.29
FNB of Peterstown	Peterstown	WV	69.63
The Bank of Monroe	Lewisburg	WV	67.06
Highlands Community Bank	Covington	VA	59.88

Source: Uniform Performance Bank Reports for quarters ended March 31, 2007 through March 31, 2012.

Lending in Assessment Area

To evaluate the bank’s performance in this area, we reviewed a sample of 61 small business loans and 79 real estate mortgage loans from Virginia and West Virginia. All loans in the sample were originated between January 1, 2009 and December 31, 2011. A substantial majority of loans were originated within the bank’s assessment areas as indicated in Table 1. For the evaluation period, 91 percent of small business and real estate mortgage loans sampled were made inside the bank’s AAs. There were no conspicuous gaps in the bank’s lending patterns.

Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Loans to small businesses	52	85.25	9	14.75	61	7,506	85.97	1,877	21.50	8,731
Home Mortgage Loans	75	94.94	4	5.06	79	6,326	86.12	1,019	13.88	7,345
Totals	127	90.71	13	9.29	140	13,832	86.04	2,896	18.01	16,076

Source: Sample of residential mortgage loans from January 1, 2007 - December 31, 2009 and a sample of business purpose loans for the same period.

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.

State Rating

State of West Virginia

CRA Rating for West Virginia: Satisfactory

The major factors that support this rating include:

- The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) given the demographics of the AAs.
- Loans to businesses of different sizes reflect reasonable penetration among businesses of different sizes.
- A majority of the small loans to businesses were for amounts less than \$100,000.

Description of Assessment Area(s)

The Greenbrier/Monroe County West Virginia non MSA AA consists of these two contiguous counties in West Virginia in their entirety. Greenbrier County has five middle income census tracts and two upper income census tracts. Monroe has three middle income census tracts. All middle income census tracts in Greenbrier and Monroe counties were identified as Middle-Income Nonmetropolitan Underserved Geographies for 2011 due to remote rural geography. This AA meets the regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. FNB operates four bank branches located in this non-MSA assessment area.

The Greenbrier and Monroe non-MSA AA is situated in the Greenbrier River Valley, West Virginia. The area population determined by the 2000 U.S. Census is 49,036. The Greenbrier River Valley is within easy reach of a number of major metropolitan centers, and is well-served by highway, rail, and air transport. It is also home to world-class golfing and skiing and is convenient to a variety of other outdoor attractions, including West Virginia's famous whitewater rafting. The AA's largest industries are centered in accommodation, food services, retail trade, manufacturing, construction, health care, and social assistance.

Greenbrier County is the second largest county in West Virginia, created in March of 1778 from portions of Montgomery and Botetourt Counties (Virginia) and was named for its primary river. The leading industries in the county are coal, timber and agricultural operations, including livestock, dairy products, hay, grain, poultry and fruit. Nestled in the Alleghany Mountains, the area offers many recreational opportunities and considers outdoor recreation and tourism one of its most important resources. White Sulphur Springs is home of the world renowned Greenbrier Resort and Spa, which continues a tradition of more than a century as the top employer in Greenbrier County. Other top employers in the county are Greenbrier VMC LLC, Wal-Mart Stores, Inc., and West Virginia Department of Highways.

Monroe County, secluded in the Allegheny Highlands, separated from Greenbrier County in 1799. The new county was named for James Monroe, Virginia's governor at the time. Monroe's economic basis has always been farming and timber harvesting. The railroads came nearby, but bypassed Monroe County except at more accessible edges. Lacking suitable coal deposits, Monroe County lies outside the area which encompasses most of West Virginia. For these reasons, "Old Monroe" relies largely on agriculture and retains its pastoral character. In recent times tranquil landscapes have attracted a number of artisans and retirees. Top employers in the county are Goodrich Corporation, and U. S. Department of Defense.

The 2000 US Census demographic data reported the total population of the Greenbrier and Monroe non-MSA AA was 49,036. Within the population are 13,935 families and 20,081 households. The number of families in each income category is as follows: 2,736 (19.63 percent) low-income; 2,481 (17.80 percent) moderate-income; 3,014 (21.63 percent) middle-income; and 5,704 (40.93 percent) upper-income. The percentage of households below the poverty level is 18.86 percent. The percentage of households below the poverty level is 18.86 percent. The 2011 HUD updated Median Family Income (MFI) is \$44,800. There are 24,911 total housing units in the AA, of which 63.23 percent are owner occupied, and 19.64 percent are vacant.

According to the 2000 U.S., Census, the unemployment rate was 3.86 percent. The unemployment rates for the AA were updated, using Bureau of Labor Statistics data, to reflect current economic conditions. As of May 31, 2012, the unemployment rate for Greenbrier County was 7.3 percent, which was above the average for the State of West Virginia of 6.9 percent, but below the national average of 8.2 percent. The unemployment rate for Monroe County was 6.2 percent, which was below the average for the State of West Virginia of 6.9 percent and below the national average of 8.2 percent.

The number of job losses were centered in the manufacturing sectors in the counties. However, there has been significant growth in the construction industry which caused a positive shift in employment in the counties as well as the state of West Virginia as a whole.

FNB had deposits of \$179.6 million, which represented 22 percent of the market share for institutions in Greenbrier and Monroe Counties in West Virginia as of June 30, 2011, which is the most recent FDIC Deposit Market Share Report. FNB ranked first of eight institutions in the AA. The primary competitors in the Greenbrier and Monroe AA are City National Bank, Branch Banking and Trust Company, The Bank of Monroe, and Summit Community Bank, Inc.

COMMUNITY CONTACTS

We conducted one community contact during this examination. The organization addresses affordable housing needs in the AA. The focus is to provide safe, affordable housing to low and moderate income families in Greenbrier, Monroe, and Pocahontas

Counties in West Virginia. This non-profit organization helps families look for existing homes with guidance through loan program requirements and setting priorities for home specs. They also help families pick out floor plans they can afford, help them choose a reputable home builder, and help families identify the best source of financing to purchase a home. The organization identified the need for financial literacy training for first time home buyers. FNB has a program for basic financial literacy focused at local Greenbrier County High School seniors.

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

The borrower distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes and meets the standard for satisfactory performance.

Residential Mortgage Loans

Table 2A shows the percentage of loans that were made to borrowers of different income levels as based on our sample of home mortgage loans made during the evaluation period.

Table 2A - Borrower Distribution of Home Mortgage Loans in the Greenbrier and Monroe County WV non MSA 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
Home Mortgage	19.63	7.27	17.80	25.45	21.63	29.09	40.93	38.18

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

The data derived from the sample of residential mortgage loans originated by FNB in the AA over the evaluation period revealed that the volume of home mortgages originated by FNB to low- and moderate-income AA borrowers represented 7.27 percent and 25.45 percent of the sample respectively. This level of residential mortgage lending to borrowers of different income levels is reasonable considering the demographic context in which the FNB operates.

FNB’s ability to extend residential mortgage loans to low-income borrowers is hampered by AA demographics. Specifically, of households in the bank’s AA, 17 percent of the AA population is age 65 or older and 22 percent of AA households are comprised of retired residents. In addition, 36 percent of area households derive income from social security and 19 percent are considered to be at or below poverty level.

Low credit demand is also being impacted by the level of creditworthy applicants, the lack of demand and the lack of turnover of houses. The 2000 U.S. Census data reports

that owner occupied housing represents 63 percent of housing, the median housing value equals \$67,961 and the median year built for AA housing is 1970. Limited residential mortgage loan demand from low-income families can be attributed to many low-income families consisting of more senior, long time residents who have already owned and occupied residences in the area for many years.

Business Loans

The bank has reasonable penetration of loan to businesses of different sizes. Table 2B below shows the percentage of loans made to businesses of different sizes based on our sample of small business loans.

Table 2B - Borrower Distribution of Loans to Businesses in the Greenbrier and Monroe County non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	61.09	2.35	36.56	100
% of Bank Loans in AA by #	59.38	21.88	18.75	100
% of Bank Loans in AA by \$	35.03	64.97	0	100

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

The institution’s commercial lending is targeted to small and medium-sized businesses. As shown in Table 2C below, a majority of the small loans to businesses were for amounts less than \$100,000.

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in the Greenbrier and Monroe County WV non-MSA AA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000s)	Percent of Dollar Volume
\$0 - \$100,000	19	59.37	790	21.10
\$100,001 - \$250,000	11	34.38	1,840	49.15
\$250,000+	2	6.25	1,114	29.75

Source: Loan Sample.

Geographic Distribution of Loans

There are no low- or moderate-income geographies in the bank’s assessment area. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

FNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.

State Rating

State of Virginia

CRA Rating for Virginia: Satisfactory

The major factors that support this rating include:

- The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) given the demographics of the AAs.
- Loans to businesses of different sizes reflect reasonable penetration among businesses of different sizes.
- A majority of the small loans to businesses were for amounts less than \$100,000.

Description of Assessment Area(s)

The Alleghany/Bath County Virginia non MSA AA consists of the two contiguous counties in Virginia in their entirety. Alleghany County has three middle income census tracts and three upper income census tracts. Bath County has one middle income census tract. All three middle income tracts in Alleghany County were identified as Middle-Income Nonmetropolitan Distressed Geographies for 2011 due to population loss. The one middle income tract in Bath County was identified as Middle-Income Nonmetropolitan Underserved Geography in 2011 due to remote rural geography. This AA meets the regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. FNB operates two bank branches located in this non-MSA assessment area.

The AA is located in the Western part of Virginia known as the Alleghany Highlands. This area was formed from parts of Bath, Botetourt, and Monroe Counties by an act of the Virginia Legislature in 1822. There have been significant efforts to economically improve areas of the Alleghany Highlands. Bath County is home to The Homestead, Virginia's premier mountain resort. Located on 3,000 acres, the resort is ranked among the world's finest golf and spa destinations and it is the largest employer in the county. Other major employers are Bath County Community Hospital and Dominion Virginia Power. Alleghany Highlands Public School Board is the largest employer in Alleghany County followed by Alleghany Regional Hospital and the County of Alleghany.

The 2000 U.S. Census demographic data reported the total population of the Alleghany and Bath non-MSA AA was 28,566. Within the population are 8,259 families and 11,871 households. The number of families in each income category is as follows: 1,420 (17.19 percent) low-income; 1,524 (18.45 percent) moderate-income; 1,830 (22.16 percent) middle-income; and 3,485 (42.20 percent) upper-income. The percentage of households below the poverty level is 10.60 percent. The 2011 HUD updated Median Family Income (MFI) is \$51,900. There are 13,972 total housing units in the AA, of which 65.42 percent are owner occupied, and 14.99 percent are vacant.

According to the 2000 U.S. Census, the unemployment rate was 3.00 percent. The unemployment rates for the AA were updated, using the most recent data from the Bureau of Labor Statistics, to reflect current economic conditions. As of May 31, 2012, the unemployment rate for Alleghany County was 7.1 percent, which was above the average for the State of Virginia of 5.6 percent, but below the national average of 8.2 percent. The unemployment rate for Bath County was 4.6 percent, which was below the average for the State of Virginia of 5.6 percent, and below the national average of 8.2 percent.

FNB had deposits of \$7.1 million in the state of Virginia, which represented 1.98 percent of the market share for institutions in Alleghany and Bath Counties in Virginia as of June 30, 2011, which is the most recent FDIC Deposit Market Share Report. FNB ranked seventh out of eight financial institutions in the AA. FNB’s primary competitors in the Virginia non-MSA AA are Highlands Community Bank, Branch Banking and Trust Company, First-Citizens Bank & Trust Company, StellarOne Bank, SONABANK, and First and Citizens Bank.

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

The borrower distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes and meets the standard for satisfactory performance.

Residential Mortgage Loans

Table 3A shows the percentage of loans that were made to borrowers of different income levels as based on our sample of twenty home mortgage loans made during the evaluation period.

Table 3A - Borrower Distribution of Home Mortgage Loans in the Alleghany and Bath County VA non MSA 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
Home Mortgage	17.19	5.00	18.45	25.00	22.16	30.00	42.20	40.00

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

As indicated above in Table 3A, data derived from the sample of residential mortgage loans originated by FNB in the AA over the evaluation period revealed that the volume of home mortgages originated by FNB to low- and moderate-income AA borrowers represented 5.00 percent and 25.00 percent of the sample respectively. This level of residential mortgage lending to borrowers of different income levels is reasonable considering the demographic context in which the FNB operates.

FNB's ability to extend residential mortgage loans to low-income borrowers is hampered by AA demographics. Specifically, of households in the bank's AA, 18 percent of the AA population is age 65 or older and 22 percent of AA households are comprised of retired residents. In addition, 36 percent of area households derive income from social security and 11 percent are considered to be at or below poverty level.

Limited residential mortgage loan demand from low-income families can be attributed to many low-income families consisting of more senior, long time residents who have already owned and occupied residences in the area for many years. The 2000 U.S. Census data reported that the median year built for AA housing was 1959.

Low credit demand is also being impacted by the level of creditworthy applicants, the lack of demand and the lack of turnover of houses. Demographic data indicates that many people within the assessment area rent, as opposed to owning their own home. According to the 2000 U.S. Census, there were 3,222 rental units within the assessment area and a substantial portion, 2,737 or 85 percent, of these units were occupied. Rental units accounted for 21percent of the 13,972 total housing units in the assessment area.

Business Loans

The bank has a reasonable penetration of loan to businesses of different sizes. Table 3B below shows the percentage of loans made to businesses of different sizes based on our sample of small business loans.

Table 3B - Borrower Distribution of Loans to Businesses in the Alleghany and Bath County VA non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65.89	2.42	31.69	100
% of Bank Loans in AA by #	50.00	50.00	0	100
% of Bank Loans in AA by \$	4.28	95.72	0	100

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

The institution's commercial lending is targeted to small and medium-sized businesses. A majority of the small loans to businesses were for amounts less than \$100,000 as shown in Table 3C below.

Table 3C - Borrower Distribution of Loans to Businesses by Loan Size in the Alleghany and Bath County VA non-MSA AA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000s)	Percent of Dollar Volume
\$0 - \$100,000	13	65.00	620	19.93
\$100,001 - \$250,000	4	20.00	679	21.83
\$250,000+	3	15.00	1,812	58.24

Source: Loan Sample

Geographic Distribution of Loans

There are no low- or moderate-income geographies in the bank's assessment area. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

FNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.