



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 19, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Manchester
Charter Number 7605**

**120 Town Square
Manchester, KY 40962**

**Comptroller of the Currency
Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, KY 40222**

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.

TABLE OF CONTENTS

<i>INSTITUTION'S CRA RATING</i>	<i>1</i>
<i>DESCRIPTION OF INSTITUTION</i>	<i>2</i>
<i>DESCRIPTION OF CLAY AND LAUREL COUNTIES.....</i>	<i>3</i>
<i>CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....</i>	<i>6</i>

INSTITUTION'S CRA RATING

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank of Manchester, Manchester, Kentucky** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 19, 2003**. The agency rates CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

This institution is rated Satisfactory.

Major Conclusions:

- The average loan-to-deposit ratio is satisfactory, considering the bank's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects satisfactory penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans is considered excellent, considering the community's credit needs and demographics in relation to the bank's location and capacity to lend. There were no conspicuous gaps in lending.

DESCRIPTION OF INSTITUTION

First National Bank of Manchester (FNBM) is a \$150 million intrastate institution located in Manchester, Kentucky, approximately 20 miles east of London. FNBM is wholly-owned by First National Financial Corporation of Manchester, Kentucky, a single bank holding company. The bank has a main office and four full-service branches. Three of the branches are located in Clay County and one is located in Laurel County. Every branch, except for the London branch and the main office, has drive-thru facilities. FNBM has two Automated Teller Machines (ATM) and one cash dispenser. The Manchester Square branch and the North Manchester branch each include one ATM. A cash dispenser is located at the Hometown Chevron station.

As of March 31, 2003, the bank's net loan portfolio totaled approximately \$70 million, or 47% of average assets. Tier One capital was \$19 million. The loan mix at March 31, 2003 was as follows: 1-4 family residential mortgages 30%, commercial and industrial loans 22%, commercial real estate loans 33%, consumer loans 14%, and other loans 1%.

The bank offers traditional banking services and lending products including many government-sponsored loan programs such as Farmers Home Administration (FmHA), Small Business Administration (SBA), Federal Home Loan Bank (FHLB) and Kentucky Mortgage Corporation (KMC). FNBM continues to be community oriented and offers a wide variety of loan products including residential real estate, commercial real estate, agricultural, and consumer.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. The last CRA evaluation was performed January 30, 1997. The bank received a rating of Outstanding. The coverage period for this evaluation is from February 1, 1997 to April 30, 2003.

DESCRIPTION OF CLAY AND LAUREL COUNTIES

FNBM's assessment area is all of Clay and Laurel Counties. The assessment area appears appropriate in relation to the location of the bank's offices and does not arbitrarily exclude any low- or moderate-income areas.

Clay County is located in the southern portion of Kentucky's Eastern Coal Fields Region. The county lies almost entirely within the Daniel Boone National Forest. The population of Clay County is approximately 22,000 persons. The county is located in a non-metropolitan statistical area and consists of six Block Numbering Areas (BNAs), with one low-income and five moderate-income geographies. There are no middle- or upper-income BNAs in Clay County. Low-income families comprise a large portion, 40%, or 2,403 of the 6,081 families in the county. The 1990 U.S. Census median family income for a non-MSA in Kentucky is \$36,300. However, the median family income for Clay County is \$14,712. Approximately 39% of the county residents live below the poverty level. Recent unemployment figures reflect the county unemployment rate of 9.7% is above both state and national averages. Local businesses are tied mainly to the coal industry, with the County Board of Education also employing a significant portion of the population. The bank's major competition in the Clay County area consists of finance companies.

Laurel County, a non-metropolitan statistical area, is adjacent to Clay County and has a population of approximately 44,000 persons. Recent unemployment figures reflect the county unemployment rate of 6.2% is above both state and national averages. The county consists of eleven BNAs, with ten middle-income and one upper-income geographies. There are no low-income or moderate-income BNAs in Laurel County. The 1990 U.S. Census median family income for the county is \$21,574, or 59% of the state median income. Upper-income families comprise a significant portion of the 12,603 families in the county. Approximately 37%, or 4,713 families, are considered upper-income, with low-, moderate-, and middle-income families constituting 26%, 17%, and 20%, respectively. Three national banks and one state-chartered bank, all located in London, provide strong competition in the area.

The combined assessment area of Clay and Laurel Counties consists of 17 BNAs: one low-income, five moderate-income, ten middle-income, and one upper-income.

We performed one community contact interview during our evaluation. We contacted a member of the Clay County business and labor group. The contact indicated the overall credit needs of the community are being met by local banks.

The following demographic information on the bank's AA in Clay County is based on 1990

census data, unless otherwise indicated.

Type of Information	Clay County	
Population	21,746	
Kentucky HUD Adjusted MSA/Non-MSA Median Family Income – 2002	\$36,300	
Families in AA:		
Income Levels of Families	#	%
Low	2,403	40%
Moderate	1,216	20%
Middle	978	16%
Upper	1,484	24%
Total Families within AA	6,081	100%
Median Home Value:	\$27,865	
Median Year Built:	1973	
Businesses in the Assessment Area:	#	%
Under \$1 Million Revenue	570	73%
Over \$1 Million Revenue	38	5%
Revenue not reported	171	22%
Total	779	100%

The following demographic information on the bank's AA in Laurel County is based on 1990

census data, unless otherwise indicated.

Type of Information	Laurel County	
Population	43,438	
Kentucky HUD Adjusted MSA/Non-MSA Median Family Income – 2002	\$36,300	
Families in AA:		
Income Levels of Families	#	%
Low	3,255	26%
Moderate	2,108	17%
Middle	2,527	20%
Upper	4,713	37%
Total Families within AA	12,603	100%
Median Home Value:	\$45,884	
Median Year Built:	1975	
Businesses in the Assessment Area:	#	%
Under \$1 Million Revenue	1,998	72%
Over \$1 Million Revenue	165	6%
Revenue not reported	613	22%
Total	2,776	100%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given FNBM's size, financial condition, and assessment area credit needs. The bank's average net loan-to-deposit ratio for the twenty-five quarters since the last CRA evaluation is 63%. Currently, FNBM's net loan-to-deposit ratio is 55%. This is lower than the ratio of the one bank considered similarly situated and operating in the assessment area. It is comparable to FNBM in asset size, market and major lending products. FNBM's ratio is also lower than its national peer group, which is 75%.

Lending in Assessment Area

A majority of loans and other lending-related activities are in FNBM's assessment area. The analysis shows 91% of the number and 82% of the dollar amount of loan originations were to borrowers inside the assessment area. To reach this conclusion, the OCC analyzed the bank's lending activity by using a bank computer-generated report of loans originated in 2001 and 2002. See table below for details.

LOAN ORIGINATIONS BETWEEN JAN 1, 2001 AND DEC 31, 2002				
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Loans
Within the Assessment Area	1774	91%	\$46,223	82%
Outside the Assessment Area	181	9%	\$10,043	18%
Totals	1955	100%	\$56,266	100%

* Source: Computer-generated bank reports of originated residential real estate, consumer and commercial loans.

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

The distribution of loans, given the demographics of the assessment area, reflects satisfactory penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. To reach this conclusion, the OCC analyzed the bank's lending activity of loans for each of the bank's primary loan types. The primary loan types for this analysis included 1-4 family residential mortgages, consumer, and business loans. See the tables below for details.

Table INC-1 1-4 Family Residential Loans shows the percentage of FNBM’s home purchase and refinance loans to low- and moderate-income borrowers is lower than the percentage of families in the assessment area with low and moderate income. Together, low- and moderate-income borrowers still received more than 29% of the number of 1-4 family residential loans. FNBM’s mortgage lending for the purpose of purchasing or refinancing a home is reasonable considering the identified home mortgage credit needs in the community.

Table INC-2 Consumer Loans shows the overall percentage of FNBM’s consumer loans to low- and moderate-income borrowers exceeds the percentage of families in the assessment area with low and moderate income. Low-income borrowers received 39% of the number of consumer loans and moderate-income borrowers received 27% of the number of consumer loans.

Table INC-3 Business Loans indicates the percentage of FNBM’s business loans extended to companies considered small in size (revenues under \$1 million) exceeds the percentage of businesses in the assessment area with revenues under \$1 million. Of the total number of business loans sampled, 96% were to small businesses. Demographics indicate 72% of all businesses in the assessment area have revenues less than \$1 million. FNBM’s business lending performance is excellent considering the demographics of the area.

Table INC-1 1-4 Family Residential Loans

1-4 FAMILY RESIDENTIAL LOANS					
Borrower Income Level	Loan Originations Between Jan 1, 2001 and Dec 31, 2002				Percentage of Families within each Income Category
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$ (000's)	Percentage of Dollars	
Low	21	10%	\$ 333	3%	30%
Moderate	38	19%	\$ 1,909	18%	18%
Middle	48	24%	\$ 1,703	16%	19%
Upper	95	47%	\$ 6,769	63%	33%
Total	202	100%	\$10,714	100%	100%

* Source: Computer-generated bank reports of 1-4 family residential loans originated within the bank’s assessment area.

** Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.

Table INC-2 Consumer Loans

CONSUMER LOANS					
Borrower Income Level	Loan Originations Between Jan 1, 2001 and Dec 31, 2002				Percentage of Families within each Income Category
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$ (000's)	Percentage of Dollars	
Low	374	39%	\$2,461	29%	30%
Moderate	257	27%	\$2,818	34%	18%
Middle	152	16%	\$1,224	14%	19%
Upper	176	18%	\$1,961	23%	33%
Total	959	100%	\$8,464	100%	100%

* Source: Computer-generated bank reports of consumer loans originated within the bank's assessment area.

Table INC-3 Business Loans

BUSINESS LOANS					
Business Income Level in Revenues	Loan Originations Between Jan 1, 2001 and Dec 31, 2002				Percentage of Businesses in the AA
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars	
< \$1 Million	589	96%	\$22,786	84%	72%
> \$1 Million	24	4%	\$ 4,258	16%	6%
Not Reported	0	0%	\$ 0	0%	22%
Total	613	100%	\$27,044	100%	100%

* Source: Computer-generated bank reports of commercial loans originated within the bank's assessment area.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects satisfactory dispersion throughout the assessment area. FNBM's lending activity extends throughout the assessment area. Based on internal reports, management has originated loans in all 17 of the BNA's that comprise the assessment area. We did not note any conspicuous gaps in lending. To reach this conclusion, the OCC analyzed the bank's lending activity of loans for each of the bank's primary loan types. The primary loan types for this analysis included 1-4 family residential mortgages (both purchase and refinance), consumer, and business loans. See the tables below for details.

Table GEO-1 1-4 Family Residential Loans shows FNBM has excellent penetration in making home purchase and refinance loans in the low- and moderate-income census tracts. These geographies contain 31% of all owner-occupied housing in the assessment area. The loans reviewed for FNBM showed 85% of the number and 83% of the dollar amount of the 1-4 family residential loans were made to borrowers located in the low- and moderate-income census tracts.

Table GEO-2 Consumer Loans shows FNBM has excellent penetration in making consumer loans in the low- and moderate-income census tracts. These geographies contain 32% of all households in the assessment area. The loans reviewed for FNBM showed 87% of the number and 86% of the dollar amount of the consumer loans were made to borrowers located in the low- and moderate-income census tracts.

Table GEO-3 Business Loans shows FNBM has excellent penetration in making business loans in the low- and moderate-income census tracts. These geographies contain 23% of all businesses in the assessment area. The loans reviewed for FNBM showed 78% of the number and 56% of the dollar amount of the business loans were made to borrowers located in the low- and moderate-income census tracts.

Table GEO-1 1-4 Family Residential Loans

**Geographic Distribution of 1-4 Family Residential Loans
By Geography Income Designation
Originated Between January 1, 2001 – December 31, 2002**

Income Level of Census Tracts	1-4 Family Residential Loans				Distribution of Owner Occupied Housing
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Low	15	7%	\$ 501	5%	2%
Moderate	158	78%	\$ 8,455	78%	29%
Middle	28	14%	\$ 1,717	16%	65%
Upper	1	1%	\$ 42	1%	4%
Total	202	100%	\$10,715	100%	100%

* Source: Computer-generated bank reports of 1-4 family residential loans originated within the bank's assessment area.

** Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.

Table GEO-2 Consumer Loans

Geographic Distribution of Consumer Loans By Geography Income Designation Originated Between January 1, 2001 – December 31, 2002					
Income Level of Census Tracts	Consumer Loans				Distribution of Households
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Low	63	7%	\$ 459	5%	2%
Moderate	776	80%	\$6,888	81%	30%
Middle	116	12%	\$1,099	13%	64%
Upper	4	1%	\$ 18	1%	4%
Total	959	100%	\$8,464	100%	100%

* Source: Computer-generated bank reports of consumer loans originated within the bank's assessment area.

Table GEO-3 Business Loans

Geographic Distribution of Business Loans By Geography Income Designation Originated Between January 1, 2001 – December 31, 2002					
Income Level of Census Tracts	Business Loans				Distribution of Businesses in the AA
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Low	5	1%	\$ 542	2%	1%
Moderate	475	77%	\$14,535	54%	22%
Middle	130	21%	\$11,798	43%	72%
Upper	3	1%	\$ 169	1%	5%
Total	613	100%	\$27,044	100%	100%

* Source: Computer-generated bank reports of commercial loans originated within the bank's assessment area.

Responses to Complaints

The First National Bank of Manchester has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending Review

An analysis of recent years' public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed as of March 2, 2000.