PUBLIC DISCLOSURE

April 23, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

FIRST SENTINEL BANK

RICHLANDS, VIRGINIA

Federal Reserve Bank of Richmond
Richmond, Virginia

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.

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920975

P.O. Box 1050

Richlands, Virginia 24641

Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261

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INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered more than reasonable in relation to bank capacity and demand for credit in the bank's assessment area.
- Overall, a majority of the institution's sampled indirect motor vehicle and small business loans were originated to borrowers within the assessment area.
- Lending to borrowers of different income levels and to businesses of different sizes is reasonable when considering the various proxies for demand.
- The bank's geographic distribution performance for both consumer and small business lending is considered reasonable.
- The institution has not received any complaints regarding its Community Reinvestment Act (CRA) performance since the previous evaluation.

SCOPE OF EXAMINATION

First Sentinel Bank (FSB) was evaluated using the interagency small bank examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures and based upon recent loans originated by the institution, small business loans and indirect motor vehicle loans were identified as the primary credit products for the bank. The analysis was based on a sample of 93 small business loans out of a universe of 173 totaling $14.6 million and a sample of 186 consumer, motor vehicle loans out of a universe of 2,168 totaling $41.9 million originated by the bank during calendar year 2017. FSB is not a Home Mortgage Disclosure Act (HMDA) reporter and the bank does not originate a large number of consumer purpose residential real-estate loans; therefore, residential real-estate lending was not reviewed as a part of the evaluation.

DESCRIPTION OF INSTITUTION

FSB is headquartered in Richlands, Virginia, and operates six full-service branches and two loan production offices in southwest Virginia. The bank is a subsidiary of First Region Bancshares, Inc., a single-bank holding company also located in Richlands, Virginia. The institution's previous CRA rating dated December 2, 2013, was Satisfactory. No known legal impediments exist that would restrain the bank from meeting the credit needs of its assessment area.

As of December 31, 2017, the bank held total assets of $226.9 million, of which 82.4 % were net loans. As of the same time period, deposits totaled $189.9 million. Various deposit and loan products are available through the institution including loans for business, consumer, and residential mortgage purposes. The composition of the loan portfolio (using gross loans) as of December 31, 2017, is depicted in the following table.

Composition of Loan Portfolio

Loan Type	12/31/2017	
	$(000s)	%
Secured by 1-4 Family dwellings	67,482	35.6
Multifamily	7,198	3.8
Construction and Development	4,040	2.1
Commercial & Industrial/ NonFarm NonResidential	41,472	21.9
Consumer Loans and Credit Cards	65,883	34.8
Agricultural Loans/ Farmland	2,632	1.4
All Other	668	0.4
Total	*189,375*	*100.0*

As indicated in the preceding table, the bank portfolio is comprised of residential mortgage, consumer, and commercial/small business loans. The bank also offers other loans, such as farm loans; however, the volume of such lending is relatively small in comparison to the residential mortgage, consumer, and commercial/small business lending.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN TAZEWELL, VA NON-MSA ASSESSMENT AREA

FSB has delineated one assessment area, and it includes the entirety of Bland, Buchanan, Smyth, Tazewell, Russell, and Wythe counties in the Commonwealth of Virginia. According to recent (June 30, 2017) data from the Federal Deposit Insurance Corporation, FSB ranked 10th out of 17 institutions in local deposit market share with 6% of area deposits (credit union deposits are not reflected in the deposit market share).

According to 2015 American Community Survey data, the assessment area has a population of 163,187 and a median housing value of $92,198. The owner-occupancy rate for the assessment area equals 62.2% and is slightly higher than the nonmetropolitan areas of Virginia (57.3%) as well as the entire commonwealth (59.2%). Within the assessment area, 14.5% of families are below the poverty level, which is comparable to nonmetropolitan areas of Virginia (13.4%), but exceeds the rate within the commonwealth (8.2%). The 2016 and 2017 HUD estimated median family incomes for nonmetropolitan areas of Virginia equal $52,300 and $53,300, respectively. The following table provides additional pertinent demographic data for the assessment area.

Assessment Area Demographics

Tazewell County, VA NonMSA (Based on 2015 ACS Data and 2016 D&B Information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	10,310	23.3
Moderate	11	26.2	12,519	28.2	2,792	22.3	8,478	19.1
Middle	29	69.0	29,390	66.3	3,476	11.8	9,005	20.3
Upper	2	4.8	2,427	5.5	162	6.7	16,543	37.3
NA	0	0.0	0	0.0	0	0.0		
Total	*42*	*100.0*	*44,336*	*100.0*	*6,430*	*14.5*	*44,336*	*100.0*
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	18,460	28.1
Moderate	14,882	30.5	18,889	28.8	4,759	25.2	10,781	16.4
Middle	31,344	64.2	43,146	65.8	7,368	17.1	11,184	17.1
Upper	2,576	5.3	3,556	5.4	624	17.5	25,166	38.4
NA	0	0.0	0	0.0	0	0.0		
Total	*48,802*	*100.0*	*65,591*	*100.0*	*12,751*	*19.4*	*65,591*	*100.0*
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = $1 Million		Over $1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	1,016	19.5	907	19.3	92	22.4	17	20.2
Middle	3,749	72.1	3,411	72.5	279	67.9	59	70.2
Upper	434	8.4	386	8.2	40	9.7	8	9.6
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	*5,199*	*100.0*	*4,704*	*100.0*	*411*	*100.0*	*84*	*100.0*
Percentage of Total Businesses:				90.5		7.9		1.6

**NA-Tracts without household or family income as applicable*

As indicated in the preceding table, the assessment area contains no low-income census tracts and 11 moderate-income tracts. According to data published by the FFIEC, 23 of the 29 assessment area middle-income census tracts have been classified as being distressed and/or underserved during 2017. A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that has experienced a high rate of unemployment and/or poverty or population loss. Specifically, three census tracts in Buchanan County are designated as being distressed due to high rates of unemployment, population loss, and poverty. These same tracts are also classified as underserved. Four tracts in Russell County are classified as distressed due to high poverty rates and seven tracts in Tazewell County are classified as distressed due to high rates of unemployment. Finally, seven tracts in Smyth County and two tracts in Bland County are classified as underserved.

During 2016, 14 of the 29 middle-income census tracts were classified as being distressed and/or underserved. Specifically, eight tracts in Smyth County and two tracts in Bland County were classified as underserved. Four middle-income tracts in Buchanan County were both classified as underserved and distressed due to high unemployment rates, poverty, and population loss.

The local economy is diverse and supported by manufacturing, health care, retail, transportation and warehousing industries. In addition, federal, state, and local governments also employ a significant number of area residents. Major local employers include: Utility Trailer Manufacturing, Wal-Mart stores, Honeywell International (manufacturing), health care facilities (i.e. Clinch Valley Community Hospital and Southwest Virginia Mental Health Center), and various local government and area school systems. Recent and historical unemployment rates are detailed in the following table.

Geographic Area	December 2013	December 2014	December 2015	December 2016	December 2017
Bland County	6.4%	5.6%	4.7%	4.6%	3.7%
Buchanan County	9.9%	9.5%	10.7%	8.9%	6.5%
Russell County	7.4%	6.8%	6.3%	6%	4.7%
Smyth County	8.3%	6.9%	5.5%	5.8%	4.5%
Tazewell County	7.9%	7.5%	6.9%	6.7%	5.3%
Wythe County	7.6%	5.9%	4.7%	5.6%	4.1%
Commonwealth of Virginia	5.1%	4.6%	3.9%	3.8%	3.3%

As indicated in the previous table, area unemployment rates decreased since 2013, but are consistently higher than the rate in Virginia. While the economy has seen some improvement, the impact of the declining coal industry has slowed the economic growth which has been experienced in other parts of the state.

An economic development official was contacted during the evaluation to discuss area economic conditions and community credit needs. The contact identified that the local economy has shown some improvement, but is still affected by the reduction in mining. The increase in the number of foreclosures and bankruptcies has negatively affected the housing market, as fewer creditworthy individuals are in the marketplace. The contact also noted that additional financial education programs would be beneficial to the community. Despite these challenges, the contact stated that the area financial institutions are reasonably servicing the banking needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

When evaluating the bank's performance, relevant area demographic data from the 2015 American Community Survey (ACS) is used as a proxy for demand. While ACS data is collected and published by the U.S. Census Bureau on an annual basis, the demographic data relied upon in this performance evaluation is based on ACS data that is updated once every five years. Dun & Bradstreet (D&B) business demographic data is current as of 2016, as 2017 data was not available at the time of the evaluation. Aggregate small business lending data are also used as a proxy for demand in the evaluation. Because FSB is not required to collect or report small business lending data, its small business loans are not part of the aggregate data. The aggregate data includes all activity reported by lenders that originated or purchased such loans within the bank's assessment area. Because aggregate data from 2017 is not yet available, 2016 aggregate data was used as an element of performance context.

Within the bank's assessment area, a high level of small business lending activity has been reported by specialized lenders, who often originate small business loans in the form of credit cards. These loans, however, tend to be much smaller in size than traditional small business bank loans, and a substantial majority of such loans do not have revenue data reported. The presence of these lenders is reflected in a smaller market share for traditional lenders and tends to understate the percentage of aggregate lending to businesses with annual revenues of $1 million or less. Consequently, the presence of these lenders was considered as an aspect of performance context when evaluating the level and distribution of bank lending. Therefore, to better gauge performance, FSB's lending is also compared to a group of traditional small business lenders that excludes these high-volume, small dollar lenders.

Loan-To-Deposit Ratio

FSB's loan-to-deposit ratio as of December 31, 2017, equaled 98.5% and averaged 92.5% for the 17-quarter period ending December 31, 2017. In comparison, the quarterly average loan-to-deposit ratios for six similarly situated institutions that operate in FSB's assessment area ranged from 49.7% to 83.7% during the same 17-quarter period. Since September 30, 2013, FSB's assets, net loans, and deposits have increased by 35.7%, 54%, and 26.2% respectively. The bank's level of lending activity as measured by its loan-to-deposit ratio is considered more than reasonable given the institution's size, financial condition, market conditions, and local credit needs.

Lending In Assessment Area

To determine the institution's volume of lending within its assessment area, the geographic location of the bank's sampled small business loans and consumer loans originated during 2017 were considered. The lending distribution inside and outside of the bank's assessment area is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	$(000)	%	#	%	$(000)	%
Small Business*	66	71.0	3,814	58.1	27	29.0	2,750	41.9
Consumer Loans*	96	51.6	1,597	42.8	90	48.4	2,134	57.2
TOTAL LOANS	**162**	**58.1**	**5,411**	**52.6**	**117**	**41.9**	**4,884**	**47.4**

**The number and dollar amount of loans reflects a sample of such loans originated during the evaluation period and does not reflect loan data collected or reported by the institution.*

As indicated in the preceding table, a majority of the samples of small business and consumer loans considered in the evaluation were extended to residents in the bank's assessment area. Overall, the institution's level of lending within its assessment area is considered responsive to community credit needs.

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

FSB's borrower distribution performance is reasonable for each loan product included in the analysis.

Distribution of Lending by Loan Amount and Size of Business

Tazewell County, VA NonMSA (2017)								
	Bank				Aggregate*			
by Revenue	#	%	$(000s)	% $	#	%	$(000s)	% $
$1 Million or Less	30	45.5	2,091	54.8	NA	NA	NA	NA
Over $1 Million	36	54.5	1,722	45.1	NA	NA	NA	NA
Unknown	*0*	*0.0*	*0*	*0.0*	*NA*	*NA*	*NA*	*NA*
by Loan Size								
$100,000 or less	57	86.4	1,786	46.8	NA	NA	NA	NA
$100,001-$250,000	6	9.1	877	23.0	NA	NA	NA	NA
$250,001-$1 Million	3	4.5	1,151	30.2	NA	NA	NA	NA
Total	***66***	***100.0***	***3,814***	***100.0***	***NA***	***NA***	***NA***	***NA***

** No data is available for Aggregate loans with Revenues over $1 million and those with Unknown revenues*

As previously stated, the D&B demographic data and aggregate small business lending data from 2017 are not yet available, so the data from 2016 is considered as an element of performance context. D&B data from 2016 indicates that 90.5% of all local businesses have revenues that do not exceed $1 million per year. According to 2016 aggregate small business data, 53.6% of reported loans were extended to businesses with annual revenues of $1 million or less. The remaining loans were extended to businesses that either had revenues exceeding $1 million or the revenue was not known. Of the small business loans considered in this evaluation and located in the bank's assessment area, 45.5% were to businesses having annual revenues of $1 million or less. As a part of the performance context, the aggregate data was also considered after excluding certain specialty lenders. Of the remaining small business loans originated by traditional bank lenders, 67.9% of reported small business loans were to businesses having revenues of $1 million or less. When considering that 2016 D&B data most likely overstates the demand for small business lending within the assessment area, FBS's performance is considered reasonable.

Distribution of Consumer Loans by Income Level of Borrower

Tazewell County, VA NonMSA (2017)				
Income Categories	**Consumer Loans**			
	#	**%**	**$(000s)**	**% $**
Low	25	26.0	227	14.2
Moderate	19	19.8	254	15.9
Middle	24	25.0	458	28.7
Upper	28	29.2	658	41.2
Total	***96***	***100.0***	***1,597***	***100.0***
Unknown	*0*		*0*	

Percentage's (%) are calculated on all loans where incomes are known

The bank's level of consumer lending to low-income borrowers (26%) lagged the percentage of low-income households (28.1%) in the assessment area. Conversely, the bank's lending to moderate-income borrowers (19.8%) exceeded the percentage of moderate-income households (16.4%) in the assessment area. Given the bank's level of lending to low-and moderate- income borrowers, the bank's consumer lending performance is considered reasonable.

Geographic Distribution of Loans

Since the bank's assessment area does not contain any low-income census tracts, the geographic conclusion is based on the bank's performance in the 11 moderate-income tracts in the area. FSB's geographic distribution performance is reasonable for both small business and consumer lending.

Distribution of Small Business Loans by Income Level of Census Tract

Tazewell County, VA NonMSA (2017)								
Income Categories	**Bank**				**Aggregate**			
	#	**%**	**$(000s)**	**% $**	**#**	**%**	**$(000s)**	**% $**
Low	0	0.0	0	0.0	NA	NA	NA	NA
Moderate	10	15.2	399	10.5	NA	NA	NA	NA
Middle	53	80.3	3,244	85.1	NA	NA	NA	NA
Upper	3	4.5	171	4.4	NA	NA	NA	NA
*NA**	0	0.0	0	0.0	NA	NA	NA	NA
Total	***66***	***100.0***	***3,814***	***100.0***	***NA***	***NA***	***NA***	***NA***

**NA-Tracts without household or family income as applicable*
Loans where the geographic location is unknown are excluded from this table.

As previously mentioned, D&B and aggregate small business data from 2017 are not yet available. As such, D&B and aggregate data from 2016 were considered as an element of performance context. According to D&B data from 2016, 19.5% of all businesses are located in moderate-income census tracts. The bank originated 15.2% of its loans in moderate-income areas. In comparison, aggregate lenders extended 12.3% of small business loans in moderate-income tracts during 2016. When considering the bank's level of lending, proxies for credit demand, and other contextual elements, FSB's level of lending is considered reasonable.

Distribution of Consumer Loans by Income Level of Census Tract

Tazewell County, VA NonMSA (2017)				
Income Categories	**Consumer Loans**			
	#	**%**	**$(000s)**	**% $**
Low	NA	NA	NA	NA
Moderate	32	33.3	499	31.3
Middle	57	59.4	995	62.3
Upper	7	7.3	103	6.4
*NA**	*NA*	*NA*	*NA*	*NA*
Total	***96***	***100.0***	***1,597***	***100.0***

**NA-Tracts without household or family income as applicable*
Loans where the geographic location is unknown are excluded from this table.

The bank's level of consumer lending in moderate-income tracts (33.3%) slightly exceeded the percentage of households within such tracts (28.8%) in the assessment area, and is considered reasonable.

ASSESSMENT AREA DELINEATION

A review of the bank's assessment area found that its delineation complied with the requirements of Regulation BB. The assessment area delineation includes all of the bank's branches and deposit taking automated teller machines. As delineated, FSB's assessment area includes whole political subdivisions, did not reflect illegal discrimination (e.g. through the exclusion of majority-minority census tracts), and did not arbitrarily exclude low- or moderate-income census tracts.

Fair Lending or Other Illegal Credit Practices Review

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - (A) Rates of poverty, unemployment, and population loss; or
  - (B) Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending Test (and if applicable, consideration of investments and services) is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending Test (and if applicable, consideration of investments and services) is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of $1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.