

PUBLIC DISCLOSURE

June 21, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Southern National Bank
Charter #1493**

**27 Public Square Box 628
Lancaster, Kentucky 40444**

Office of the Comptroller of the Currency

**Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, KY 40222**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **First Southern National Bank (FSNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 21, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Asatisfactory record of meeting community credit needs.@

This overall rating is supported by the following:

- < FSNB's average, quarterly loan-to-deposit ratio since our last evaluation is reasonable.
- < FSNB's performance in lending to borrowers of different income levels, including low- and moderate-income individuals, and businesses of different sizes is reasonable.
- < FSNB's distribution of loan origination, including low- and moderate-income geographies, is reasonable.

DESCRIPTION OF INSTITUTION

The First Southern National Bank (hereafter referred to as FSNB) is a full-service commercial bank with its main office in Lancaster, Garrard County, Kentucky. FSNB's primary lending centers around business loans. FSNB reported \$358,369,000 in total assets as of March 31, 1999 and serves all of seven counties within the State of Kentucky. All offices (the main office plus 13 branches) are located within the seven counties served by the institution. FSNB also operates five, full-service automated teller machines (ATMs) that are located at select office locations. FSNB is a wholly-owned subsidiary of First Southern Bancorp, Inc., a one-bank holding company located in Stanford, Lincoln County, Kentucky. First Southern Bancorp, Inc. reported \$369,069,000 in total assets as of December 31, 1998.

Prior to December 17, 1998, First Southern Bancorp, Inc. was a multi-bank holding company with five, separately-chartered national banks. All five charters were merged to form a single institution with its charter located in Lancaster, Garrard County, Kentucky. This evaluation is being performed under the small bank procedures because at the time of this evaluation, FSNB still meets the definition of a small bank for CRA purposes (total bank assets of either of the prior two calendar years of less than \$250 million or total holding company banking and thrift assets of less than \$1 billion for this same prior two-year time period). This evaluation covers the period from October 28, 1997 through June 21, 1999. In addition, prior to the merger of the five charters, only one of the banks was subject to the Home Mortgage Disclosure Act (HMDA). Effective January 1, 1999, FSNB (the consolidated entity) began collecting HMDA data. At its last CRA examination dated October 28, 1997, this institution (charter #1493) received a rating of satisfactory record of meeting community credit needs.

Currently, there exists no legal impediments that would prevent FSNB from meeting its community reinvestment responsibilities. As of March 31, 1999, FSNB reported total equity capital of \$27,402,000, net income of \$1,165,000, a net loans and leases-to-assets ratio of 72 percent, and net loans and leases of \$257,767,000. A breakdown of the loan portfolio follows:

Loan Type	Dollar % of Average Gross Loans and Leases
Construction & Development	4%
1-4 Family Residential Secured	29%
Farmland	7%
Multi-Family	1%
Non-Farm, Non-Residential	41%
Farm Loans	1%
Commercial Loans	9%
Loans to Individuals & Other Loans	8%
Total	100%

DESCRIPTION OF ASSESSMENT AREAS

FSNB, an intrastate institution, has defined two assessment areas which will be evaluated during this review period. The first assessment area, the Lincoln/Garrard/Wayne/Pulaski County area (hereafter referred to as the Non-MSA Assessment Area), is a four-county, non-metropolitan region located in Central Kentucky composed of 25 block numbering areas (BNAs). The second assessment area, the Jessamine/Fayette/Madison County area (hereafter referred to as the MSA Assessment Area), consists of three counties from the Lexington, Kentucky MSA (#4280). This assessment area is composed of 77 census tracts. Following is a description along with demographics for each assessment area:

Lincoln/Garrard/Wayne/Pulaski Counties (Non-MSA Assessment Area)

Lincoln, Garrard, Wayne, and Pulaski Counties are located in South Central Kentucky. May 1999 preliminary estimates by the Kentucky Labor Force show unemployment rates for Lincoln, Garrard, Wayne, and Pulaski at 3.3 percent, 2.1 percent, 7.0 percent, and 5.0 percent, respectively. All, with the exception of Wayne and Pulaski, compare favorably to the Kentucky statewide unemployment rate of 4.3 percent for the same time period. The 1990 median family income for this assessment area was \$21,201, just slightly below the state, non-metropolitan median family income of \$22,543. The weighted-average monthly gross rent for the assessment area was \$246 with a weighted-average median housing value of \$39,887. The workforce in this assessment area is concentrated in the manufacturing (durable and non-durable goods), retail, construction, and agriculture industries. One contact we spoke with during the examination who represents a local government agency said that 1-4 family residential housing units were the greatest need within this assessment area. Competition in this assessment area is provided by eight commercial banks (six of which are headquartered in the assessment area) and three federal savings banks (two of which are headquartered in the assessment area). Asset sizes of these institutions (including those with headquarters outside the assessment area) range from \$49,000,000 to \$247,000,000. Additional demographic data for this assessment area is outlined in Table 2 below:

Table 2 Non-MSA Assessment Area Demographic Data								
TOTAL ASSESSMENT AREA POPULATION (1990 Census Data)			FAMILY INCOME CHARACTERISTICS (Based on 1990 HUD MFI)					
		98,581			#	%		
STATE NON-METRO MEDIAN FAMILY INCOME (MFI)								
1990 HUD Median Family Income		\$22,543						
1999 HUD Updated Median Family Income		\$32,200						
					4,530	19%		
							8,405	36%
							23,743	100%
BNA CHARACTERISTICS (Based on HUD Median Family Income)	TRACTS		OWNER OCCUP. HOUSING UNITS		FAMILIES		BUSINESSES	
	#	%	#	%	#	%	#	%
Low Income	1	4%	282	1%	331	1%	0	0%
Moderate Income	7	28%	6,206	22%	6,399	22%	333	13%
Middle Income	15	60%	18,900	67%	19,507	67%	1,740	67%
Upper Income	2	8%	2,821	10%	2,798	10%	508	20%
Total	25	100%	28,209	100%	29,035	100%	2,581	100%

Sources: 1990 Census Data, U.S. Bureau of the Census; 1998 Updated Median Family Income Figure as Provided by The Department of Housing and Urban Development (HUD).

Jessamine/Fayette/Madison Counties (MSA Assessment Area)

Jessamine, Fayette and Madison Counties are located in Central Kentucky and are all part of the Lexington, Kentucky MSA (#4280). FSNB only included these three counties of the Lexington, Kentucky MSA in its assessment area because it is this area that the bank can reasonably be expected to serve. May 1999 preliminary estimates by the Kentucky Labor Force show unemployment rates for Jessamine, Fayette, and Madison Counties at 1.3 percent, 1.9 percent, and 2.5 percent, respectively. The unemployment rate for all of these counties compares favorably to the Kentucky statewide unemployment rate of 4.3 percent for the same time period. The 1990 weighted-average monthly gross rent for the assessment area was \$276 with a weighted-average median housing cost was \$45,884. The workforce in this assessment area is concentrated in the manufacturing (durable goods), retail, and education industries. We spoke with a community contact from this assessment area in conjunction with another examination. This contact, who is in the real estate business, said that there is a need for 1-4 family residential housing. Competition in this assessment area is provided by 28 commercial banks (14 of which are headquartered in the assessment area) and two federal savings banks (one of which is headquartered in the assessment area). Asset sizes of these institutions (including those with headquarters outside the assessment area) range from \$50,000,000 to \$68,000,000,000. Additional demographic data for this assessment area is outlined in Table 3 below:

Table 3								
MSA Assessment Area Demographic Data								
TOTAL ASSESSMENT AREA POPULATION (1990 Census Data)			FAMILY INCOME CHARACTERISTICS (Based on 1990 HUD MFI)					
313,382			#		%			
MSA MEDIAN FAMILY INCOME (MFI)								
1990 HUD Median Family Income			\$32,687		Low Income Families			
1999 HUD Updated Median Family Income			\$48,800		Moderate Income Families			
					Middle Income Families			
					Upper Income Families			
					Total			
			80,071		100%			
CENSUS TRACT CHARACTERISTICS (Based on HUD Median Family Income)	TRACTS		OWNER OCCUP. HOUSING UNITS		FAMILIES		BUSINESSES	
	#	%	#	%	#	%	#	%
Low Income	6	8%	3,013	3%	4,259	5%	674	6%
Moderate Income	19	25%	13,426	20%	17,431	22%	3,082	28%
Middle Income	28	36%	26,180	39%	31,171	39%	3,928	36%
Upper Income	23	30%	25,509	38%	27,210	34%	3,292	30%
NA	1	1%	0	0%	0	0%	0	0%
Total	77	100%	67,128	100%	80,071	100%	10,976	100%

Sources: 1990 Census Data, U.S. Bureau of the Census; 1998 Updated Median Family Income Figure as Provided by The Department of Housing and Urban Development (HUD).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

FSNB's lending, as mentioned earlier, focuses on business loans. In addition, the bank originates many loans secured by 1-4 family residential mortgages. Therefore, we analyzed these two loan types to determine FSNB's CRA performance in each of the following categories.

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

The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. Table 4 below does; however, show that the combined volume of lending to low- and moderate-income borrowers is below the assessment area characteristics (7 percent and 11 percent versus 23 percent and 16 percent, respectively). It can also be noted that Non-MSA and MSA performance with respect to lending to low- and moderate-income borrowers mirrors that of the bank as a whole. Although community contacts stated that one need within the community is 1-4 family, residential mortgage loans, FSNB's low percentages can be explained by the fact that the bank, from a business strategy standpoint, portrays itself as a business lender.

Borrower Income as a Percent of HUD MSA Median Family Income	Non-MSA		Percent of Total		MSA		Percent of Total		Combined		Percent of Total		(A)
	# Loans	\$ (000s)	# Loans	\$ (000s)	# Loans	\$ Loans	# Loans	\$ Loans	# Loans	\$ Loans	# Loans	\$ (000s)	
Low Income	24	\$314	7%	3%	4	\$152	6%	4%	28	\$466	7%	3%	23%
Moderate Income	39	\$581	11%	5%	8	\$178	11%	4%	47	\$759	11%	5%	16%
Middle Income	82	\$2,311	23%	22%	10	\$553	14%	13%	92	\$2,864	22%	19%	21%
Upper Income	210	\$7,471	59%	70%	48	\$3,440	69%	80%	258	\$10,911	61%	73%	40%
TOTAL	355	\$10,677	100%	100%	70	\$4,323	100%	100%	425	\$15,000	100%	100%	100%

Source: FSNB Internal Records; U.S. Bureau of the Census; U.S. Department of Housing and Urban Development (HUD).

(A) - Assessment Area Characteristics (Number of Low, Moderate, Middle, and Upper Income Families Within the Bank's Combines Assessment Areas. Percentages for the Non-MSA Assessment Area are: Low - 26%, Moderate - 17%, Middle - 20%, and Upper - 21%; Percentages for the MSA Assessment Area are: Low - 22%, Moderate - 16%, Middle - 21%, and Upper - 41%.

Table 5 below shows that FSNB originates most all of its small business loans to businesses with gross annual revenues of less than \$1 million. From January 1998 through March 1999, FSNB originated 93 percent (by volume) and 83 percent (by dollar amount) to such business entities.

Loan Origination Size	Non-MSA				MSA				Combined				A
	Loans		% of Total		Loans		% of Total		Loans		% of Total		
	#	\$ (000s)	#	\$	#	\$ (000s)	#	\$	#	\$ (000s)	#	\$ (000s)	
\$100,000 and Less	292	\$7,323	87%	35%	122	\$4,714	70%	24%	414	\$12,037	81%	29%	
>\$100,000 to < \$250,000	24	\$3,716	7%	18%	33	\$5,736	19%	28%	57	\$9,452	11%	23%	
>\$250,000 to ≤ \$1,000,000	21	9,720	6%	47%	19	\$9,724	11%	48%	40	\$19,444	8%	48%	
Total Small Loans	337	\$20,759	100%	100%	174	\$20,174	100%	100%	511	\$40,933	100%	100%	
Total Small Loans to Businesses with Gross Annual Revenues of Less than \$1 million	324	\$16,870			160	\$16,890			484	\$33,760			
As a % of Total Small Loans	96%	81%			92%	84%			93%	83%			A

Sources: FSNB Internal Reports; U.S. Bureau of the Census.

(A) - Assessment Area Characteristics (Percentage of Businesses in the Assessment Area With Annual Sales of \$1 million or Less. Percentage for the Combined Assessment Area is 88%. Percentages for the Non-MSA and MSA Assessment Areas are 90% and 87%, Respectively).

Geographic Distribution of Loans

FSNB's geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment areas. As outlined in Table 6 below, the percentage of mortgage loans (by volume) originated in low- and moderate-income geographies, on a combined basis, approximates the assessment area characteristics (1 percent and 25 percent versus 3 percent and 20 percent, respectively). It should also be noted that performance in the Non-MSA and MSA assessment areas, with respect to lending in low- and moderate-income geographies, tends to mirror the bank as a whole. Table 7 displays similar results for FSNB's business lending; however, loans to businesses in moderate-income geographies is a little lower than the assessment area characteristics (17 percent versus 25 percent).

Geography Income Level	Non-MSA				MSA				Combined				(A)
	# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		
			# Loans	\$ (000s)			# Loans	\$ (000s)			# Loans	\$ (000s)	
Low	2	\$2	1%	0%	0	\$0	0%	0%	2	\$2	1%	0%	3%
Moderate	93	\$2,748	26%	26%	13	\$619	18%	14%	106	\$3,367	25%	23%	20%
Middle	219	\$6,323	62%	59%	33	\$1,966	46%	46%	252	\$8,289	59%	55%	47%
Upper	40	\$1,593	11%	15%	25	\$1,749	36%	40%	65	\$3,342	15%	22%	30%
TOTAL	354	\$10,666	100%	100%	71	\$4,334	100%	100%	425	\$15,000	100%	100%	100%

Source: FSNB Internal Reports; U.S. Bureau of the Census.

(A) - Assessment Area Characteristics (Number of Owner-Occupied Housing Units Within the Bank's Combined Assessment Areas. Percentages for the Non-MSA Assessment Area are: Low - 1%, Moderate - 22%, Middle - 67%, and Upper - 10%. Percentages for the MSA Assessment Area are: Low - 4%, Moderate - 20%, Middle - 39%, and Upper - 38%).

Table 7
Small Loans to Businesses Originated Within FSNB=s Assessment Areas by Census Tract Income Level
January 1, 1998 through March 31, 1999

Geography Income Level	Non-MSA				MSA				Combined				(A)
	# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		# Loans	\$ (000s)	Percent of Total		
			# Loans	\$ (000s)			# Loans	\$ (000s)			# Loans	\$ (000s)	
Low	8	\$63	2%	0%	11	\$1,561	6%	8%	19	\$1,624	4%	4%	5%
Moderate	55	\$4,655	17%	22%	31	\$2,356	18%	12%	86	\$7,011	17%	17%	25%
Middle	232	\$13,644	69%	64%	63	\$7,274	36%	36%	295	\$20,918	57%	51%	42%
Upper	42	\$2,861	12%	13%	69	\$8,961	40%	44%	111	\$11,822	22%	28%	28%
TOTAL	337	\$21,223	100%	100%	174	\$20,152	100%	100%	511	\$41,375	100%	100%	100%

Source: FSNB Internal Reports; U.S. Bureau of the Census.

(A) - Assessment Area Characteristics (Number of Businesses Within the Bank=s Combined Assessment Areas. Percentages for the Non-MSA Assessment Area are: Low - 0%, Moderate - 13%, Middle - 67%, and Upper - 20%. Percentages for the MSA Assessment Area are: Low - 6%, Moderate - 28%, Middle - 36%, and Upper - 30%).

FSNB has penetrated a high percentage of geographies within its defined assessment areas. As for low-income geographies, only 57 percent had lending activity. Two of the low-income geographies without business/1-4 family residential, mortgage secured loan activity are located in Fayette County, Kentucky. Bank internal reports show that FSNB has no lending of any sort (i.e. consumer secured/unsecured) in either of these geographies. The lack of lending activity in these two geographies can be explained by the location of the bank=s branch in this county in reference to the two, low-income geographies. The bank=s branch is located in the southwestern part of the county whereas the low-income geographies are located in the northeastern part of the county. In addition, as noted in the **A**Description of Assessment Areas@section of this evaluation (page 3), there is much competition provided by a number of financial institutions of various sizes within Fayette County, Kentucky.

Table 8									
Loan Penetration by Income Level of Geography									
Income Level of Geography	Non-MSA			MSA			Total		
	Total # of Geographies/ # Penetrated		% of Geographies Penetrated	Total # of Geographies/# Penetrated		% of Geographies Penetrated	Total # of Geographies/ # Penetrated		% of Geographies Penetrated
Low	1	1	100%	6	3	50%	7	4	57%
Moderate	7	7	100%	19	15	79%	26	22	85%
Middle	15	14	93%	28	21	75%	43	35	81%
Upper	2	2	100%	23	21	91%	25	23	92%

Source: FSNB Internal Reports; U.S. Bureau of the Census.

Lending in Assessment Areas

A majority of FSNB's loans (by volume) and other lending-related activities are in its assessment areas. As noted in Table 9 below, 68 percent of mortgage and small business loans by volume and 43 percent by dollar amount were originated within the bank's defined assessment areas.

Table 9 Loans Originated by Loan Type January 1, 1998 through March 31, 1999						
Loan Type	Total Loans Originated		Loans Originated within the Assessment Area			
	Number	Dollars (in 000s)	Number	Percent of Number Originated	Dollars (in 000s)	Percent of Dollars Originated
Mortgage	534	\$21,557	425	80%	\$15,000	70%
Small Business	845	\$135,976	511	60%	\$53,510	39%
Total	1,379	\$157,553	936	68%	\$68,510	43%

Source: FSNB Internal Reports.

Loan-to-Deposit Ratio

FSNB's average loan-to-deposit ratio of 80 percent, which covers a five-quarter period of time, is reasonable. This compares favorably to a national peer of 70 percent calculated over the same time period. In addition, we compared FSNB's loan-to-deposit ratio with two of its competitors. Over this same time period, one bank had an average loan-to-deposit ratio of 75 percent and the other had a 78 percent average ratio. FSNB's ratio compares favorably to both of these competitors. We selected these two competitors because each has locations within FSNB's assessment areas, each has total assets similar to FSNB, and each has a branching structure similar to that of FSNB (i.e. branches in both MSA and non-MSA areas).

Responses to Complaints

FSNB has not received any complaints during this evaluation period.

Record of Compliance with Antidiscrimination Laws

We performed a fair lending examination in conjunction with this CRA examination. Matched pair analysis was performed to determine if gender played a role in determining rates and conditions with respect to the originated, real estate secured loans. Our sample consisted of eight female approvals and 18 male approvals. We selected our sample of loans from the time period January 1999

through May 1999. In summary, our sample noted no evidence that gender played a role in determining the rate, terms, and/or conditions of real estate secured loans.

LEXINGTON, KENTUCKY MSA #4280
(Conclusions with Respect to FSNB=s Performance in this Assessment Area)

We performed a full-scope review of the MSA Assessment Area. FSNB=s performance in this assessment area with respect to the lending to borrowers of different incomes and to businesses of different size and the geographic distribution of loans is consistent with that of the bank as a whole.