



PUBLIC DISCLOSURE

June 12, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Prairie National Bank
Charter Number 13226

110 East Main Street
Stewardson, IL 62463

Office of the Comptroller of the Currency

Harris Center
3001 Research Road
Champaign, IL 61822-1089

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

Support for Prairie National Bank's (PNB) rating includes:

- The loan-to-deposit ratio is reasonable based on the size, financial condition, and assessment area (AA) credit needs.
- PNB originates the majority of primary loan products inside the AA.
- The bank's borrower distribution of loans reflects excellent penetration among businesses and farms of different sizes.

SCOPE OF EXAMINATION

We evaluated PNB's compliance with the Community Reinvestment Act ("CRA") using small bank examination procedures. The focus of the review is to determine PNB's performance in meeting the AA credit needs. The evaluation period is from June 17, 2008 to June 12, 2014. We used the bank's loan origination data to determine primary loan products based on dollar and volume and number of originations. Analysis of the bank's originations identified farm and business loans as the primary loan products. As the bank's business strategy had not changed significantly since the previous evaluation, we used January 1, 2012 through December 31, 2013, as the loan sample period. We selected a sample of 20 business and 20 farm loans originated during the loan sample period.

We used Federal Deposit Insurance Corporation information as of June 30, 2013 to determine PNB's market share. We also utilized 2010 U.S. Census data and 2013 Business Geographic data during this evaluation. There were no changes to the bank's AA or branch offices since the last examination. There is no affiliate activity considered in this evaluation.

DESCRIPTION OF INSTITUTION

PNB is a \$56 million institution located in Stewardson, IL. The bank is a wholly owned subsidiary of Prairie Financial Bancorp of Stewardson, a one-bank holding company. PNB has a branch office in Effingham, IL, and three automated teller machines (ATMs) located within the AA. ATMs do not accept deposits, and are limited to withdrawals or transfers between accounts.

The bank's business strategy is to serve primarily as an agricultural bank, while expanding market share for consumer and commercial lending. Product offerings include consumer, commercial real estate, conventional mortgage products, business, and agricultural loans. Deposit products include certificates of deposit, savings, money market, and NOW accounts. The bank also offers Internet and telephone banking as alternative delivery services.

Average assets are \$56 million as of March 31, 2014, as compared to \$54 million in the 2008 CRA examination. Total loans and leases are 55 percent of average assets, totaling \$27.84 million as of March 31, 2014. The following table represents the loan mix:

Loan Portfolio Summary by Loan Product	
Loan Category	% of Outstanding Dollars
Business Loans	41.9%
Home Loans	26.4%
Farm Loans	23.5%
Consumer Loans	4.5%
Other Loans & Leases	3.3%

Source: March 31, 2014 Uniform Bank Performance Report

There are no known impediments limiting the bank's ability to meet the credit needs of the AA. Tier 1 capital is \$5 million or 9.6 percent of adjusted average assets as of March 31, 2014. The bank received an "Outstanding" rating at the previous CRA examination dated June 16, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's AA consists of Effingham County, IL, and two census tracts in Shelby County, IL. The two census tracts in Shelby County are contiguous to Effingham County and both counties are in non-metropolitan areas. The Stewardson main office is located in the far southeast corner of Shelby County. It would be difficult for PNB to service all of Shelby County due to the location of bank offices and competition primarily in Shelbyville. The bank's AA is consistent with the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The AA consists of 10 census tracts, including seven designated middle-income and three designated upper-income. Effingham County had seven census tracts designated as distressed middle-income nonmetropolitan areas, due to population loss, on 2008 through 2011 government published lists.

The April 2014 unemployment rate in Effingham and Shelby Counties is 5.6 and 7.0 percent, respectively. This compares to the State of Illinois and national unemployment levels of 7.2 and 5.9 percent, respectively. Effingham's unemployment level benefits from strong agricultural and manufacturing opportunities. St. Anthony Memorial Hospital, Quad Graphics, and The Sherwin-Williams Company are the largest employers in the county. In addition, the two local medical clinics continue to experience growth.

Housing in the AA is composed of 85 percent 1-4 family housing. Seventy-three percent of the AA housing units are owner occupied. The 2013 HUD updated median

family income is \$56,200. Eight percent of families' incomes are below the poverty level.

The AA has 541 farms, with 98 percent reported as small farms. The AA also has 3,304 non-farm businesses, with 75 percent reported as small businesses. Another 22 percent of businesses in the AA do not report revenue.

Competition within Effingham County is strong, with eleven financial institutions present. There are six additional institutions within Shelby County. PNB has the twelfth largest deposit market share with 3 percent of deposits within these two counties.

We completed one community contact with a federal government official familiar with Effingham County. This contact stated that Effingham County's economic conditions are favorable with moderate growth. A network of business incubator spaces has been identified across the county to help entrepreneurs develop their new businesses. Therefore, small business loans are a need for this area. Shelby County is largely agricultural and has been subject to the consolidation of small farms. However, small farm loans remain a credit need. We also reviewed a community contact performed in May 2014 with a community action agency in Effingham. This contact noted primary needs for the community are affordable housing for low to moderate-income individuals, services to help restore credit history, and retail services for the unbanked.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the Lending Test is Satisfactory. The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and AA credit needs. PNB originated a majority of their primary product loans within the AA. PNB had excellent penetration to businesses and farms of different sizes.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and AA credit needs. PNB's average loan-to-deposit ratio over the past 24 quarters since the last evaluation was 66 percent. PNB's loan-to-deposit ratio has ranged from 55 percent to 86 percent, and was 60 percent on March 31, 2014.

PNB's loan-to-deposit ratio is comparable with similarly situated institutions in the AA which averaged 68 percent during the same timeframe. We used four other institutions located within Effingham and Shelby Counties with total assets between \$50 million and \$150 million as a comparison group. That group had average loan-to-deposit ratios ranging from 48 to 85 percent.

Lending in Assessment Area

PNB originates the majority of their primary loan products inside the AA. We sampled 20 business and 20 farm loans originated during our loan-sampling period. We noted that 78 percent of the loans sampled were originated within the AA. Sixty-one percent of the dollar amount of the loan sample was originated within AA.

Lending in the AA										
Type of Loans	Number of Loans					Dollar of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural Loans	17	85.00%	3	15.00%	20	\$1,435	92.85%	\$110	7.15%	\$1,546
Commercial Loans	14	70.00%	6	30.00%	20	\$1,780	48.08%	\$1,922	51.92%	\$3,702
Totals	31	77.50%	9	22.50%	40	\$3,215	61.27%	\$2,033	38.73%	\$5,248

Source: 20 business and 20 farm loans originated from 1/1/2012 to 12/31/2013.

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

The borrower distribution of loans reflects excellent penetration to businesses and farms of different sizes. We gave more weight to business loans than farm loans, due to the volume of originations.

Borrower Distribution for Business Loans in the AA				
Business Revenues (or Sales)	< = \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA businesses	71.55%	5.99%	22.46%	100.00%
% of bank loans in AA by #	90.00%	10.00%	0.00%	100.00%
% of bank loans in AA by \$	75.51%	24.49%	0.00%	100.00%

Sources: Sample of 20 business loans originated between 1/1/2012 and 12/31/2013 made within the AA and 2013 Business Geodemographic data.

Borrower Distribution for Agricultural Loans within AA				
Farm Revenues	< = \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA farms	98.34%	1.11%	0.55%	100.00%
% of bank loans in AA by #	95.00%	5.00%	0.00%	100.00%
% of bank loans in AA by \$	74.22%	25.78%	0.00%	100.00%

Sources: Sample of 20 agricultural loans originated between 1/1/2012 and 12/31/2013 made within the AA and 2013 Business Geodemographic data.

Business Loans

PNB's lending to businesses of different sizes reflects excellent penetration. Out of 20 business loans sampled from within the AA, 90 percent were to small businesses. Small businesses have gross annual revenues of \$1 million or less. Seventy-six percent of the dollar amount of business loans sampled was to small businesses. This ratio is favorable to demographic data that shows 72 percent of AA businesses are small businesses. It is important to recognize that 22 percent of businesses in the AA

did not report revenue size in the 2013 Business Geodemographic data. Generally, many of these businesses are likely also small businesses.

Farm Loans

Lending to farms of different sizes reflects reasonable penetration. A small farm has annual gross revenues of \$1 million or less. Out of 20 farm loans sampled from within the AA, 95 percent were to small farms. This ratio is comparable to 2013 Business Geodemographic data that shows 98 percent of the AA farms are small farms. Additionally, 98 percent of the dollar amount of farm loans sampled was originated to small farms. The 2013 Business Geodemographic data reflects less than 1 percent of farms did not report revenue size in the 2013 Business Geodemographic data.

Geographic Distribution of Loans

A geographic distribution analysis of the institution's loans would not be meaningful, as PNB's AA does not contain any low- or moderate-income geographies.

Responses to Complaints

PNB has not received any CRA complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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