



PUBLIC DISCLOSURE

December 15, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Chester National Bank
Charter Number 23158

1112 State Street
Chester, IL 62233

Office of the Comptroller of the Currency

500 N. Broadway
Suite 1700
St. Louis, MO 63102

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.

Illinois Rating: Satisfactory

Missouri Rating: Outstanding

The bank's overall rating is a blend of the State of Illinois (IL) rating and the State of Missouri (MO) rating. The major factors that support this rating of Satisfactory are as follows:

- The overall distribution of loans to borrowers of different income levels reflects reasonable penetration in the assessment areas (AAs).
- A majority of the bank's loans were made within the AAs.
- The quarterly average loan-to-deposit (LTD) ratio is reasonable.

Scope of Evaluation

This Performance Evaluation of Chester National Bank (CNB) assesses its record of meeting the credit needs of the communities in which it operates. We evaluated CNB under the Small Bank performance criteria. CNB has two AAs, both of which received a full-scope review.

The evaluation period is from May 12, 2008 through December 15, 2014. Conclusions regarding CNB's lending performance are based on the bank's primary product, residential real estate (RRE) loans. We based our review on a sample of twenty RRE loans originated or purchased from January 1, 2012 through December 31, 2013, in each AA.

Description of Institution

CNB is a nationally chartered, interstate bank headquartered in Chester, Illinois. Chester Bancorp, Inc., a one-bank holding company, wholly owns CNB. CNB merged with its affiliated bank, Chester National Bank of Missouri, on January 27, 2011. Chester National Bank of Missouri now operates as a branch of CNB. Thus, CNB operates three offices in two states. Two offices are in Randolph County, Illinois; they are located in Chester and Sparta. CNB also operates one office in Perry County, Missouri, located in Perryville. The Randolph County offices have a deposit-taking automated teller machine (ATM) on the premises. There is an additional deposit-taking ATM located in Perryville, MO, offsite from bank premises.

CNB closed its Red Bud office in Illinois on August 15, 2013, and also closed two cash-withdrawal only ATMs (Sparta, IL and Herculaneum, MO) on December 31, 2011.

There are no legal, financial, or other factors impeding CNB's ability to help meet the credit needs of the AAs it serves.

As of September 30, 2014, CNB reported total assets of \$88 million and Net Tier One Capital of \$9 million. CNB's business strategy focuses on the origination and purchase of RRE loans. As of September 30, 2014, net loans and leases represented 42% of total assets and consisted of RRE loans (81%), commercial and commercial real estate loans (14.5%), and consumer loans (4.5%). CNB received a "Satisfactory" rating at its last CRA evaluation dated May 12, 2008.

Ratings

The bank's overall rating is a blend of the Illinois rating and the Missouri rating. We placed significantly more weight on the State of Illinois rating due to the substantial amount of deposits (90%) from this area. See the respective sections for a full description of each AA.

Conclusions with Respect to Performance Criteria

CNB does a reasonable job of meeting the credit needs in its AAs, including low- and moderate-income borrowers, given the demographics, economic factors, and competitive pressures faced by the bank.

Loan-to-Deposit Ratio

CNB's LTD ratio is reasonable given the bank's size, financial condition, competition, and AA credit needs.

The bank's quarterly average of LTD ratios since the last CRA evaluation was 48%. This ratio is lower than five comparable institutions. The average LTD ratios of these financial institutions, which are comparable in size and location, range from 53% to 80%, and average 62% for the same period. A contributing factor to CNB's lower LTD ratio is a large non-core deposit that must remain liquid. This deposit had an average balance of \$14 million during the evaluation period. When recalculating the bank's average LTD ratio without this large deposit, the ratio improves from 48% to 60%.

Lending in Assessment Area

CNB originated a majority of loans inside its AAs. Based on our sample of 20 RRE loans in each AA, CNB originated 75% of loans by number and 72% by dollar volume within its AAs.

Lending In AA's										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total (\$)
	#	%	#	%		\$	%	\$	%	
RRE IL	17	85%	3	15%	20	\$770	88%	\$105	12%	\$875
RRE MO	13	65%	7	35%	20	\$728	61%	\$470	39%	\$1,198
Total	30	75%	10	25%	40	\$1,498	72%	\$575	28%	\$2,073

Source: Sample of 40 RRE loans originated or purchased in IL and MO in 2012-2013

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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

State Rating

State of Illinois

CRA Rating for the State of Illinois: Satisfactory

The major factor that supports this rating is:

- The distribution of RRE loans to borrowers of different income levels reflects reasonable penetration.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN ILLINOIS

CNB's Illinois AA consists entirely of Randolph County in southwest Illinois. The AA consists of nine middle-income census tracts (CTs). The 2013 Federal Financial Institutions Examination Council (FFIEC) estimated non-metropolitan area median family income for the AA is \$56,200. Based on 2010 Census data, 16% of families are low-income and 20% are moderate-income. The same data indicates 7% of families live below the poverty level. The median housing value for the AA in 2010 was \$89,462.

In the AA, the unemployment rate was 6% as of May 2008. Unemployment during the recent recession hit a high of 11% (February 2010), but returned to pre-recession levels and is now 7% (June 2014). The state of Illinois unemployment rate was 7% as of June 2014. Major industries include manufacturing, followed by the public sector. Major employers in the AA include Gilster-Mary Lee Corporation, Spartan Light Metals, Prairie State Generating Company, Menard Correctional Center, and Chester Mental Health.

CNB's deposits in this AA totaled \$70 million as of June 30, 2014, representing 90% of total deposits. CNB is the sixth largest deposit-taking institution with a 9% market share, based on FDIC deposit data. Competition within the AA is strong with 21 branches of nine financial institutions serving Randolph County. The three largest financial institutions are Buena Vista National Bank, First National Bank of Steeleville, and First Bank.

We contacted a community group to further our understanding of the community's credit and noncredit needs. The contact noted low- and moderate-income individuals could benefit from flexible underwriting on RRE loans.

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

CNB’s lending distribution of RRE loans to borrowers of different income levels reflects reasonable penetration.

Residential Real Estate Loans

The borrower distribution of RRE loans is reasonable. The percentage of loans to low-income borrowers (10%) is lower than the percentage of AA low-income families (16%). The percentage of loans to moderate-income borrowers (30%) significantly exceeds the percentage of AA moderate-income families (20%).

Borrower Distribution of Residential Real Estate Loans in IL 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**
RRE	16%	10%	20%	30%	24%	30%	40%	30%

* Percentage of Families is based on 2010 U.S. Census data.

**Source: Sample of 20 RRE loans from 2012-2013.

Geographic Distribution of Loans

CNB’s Illinois AA does not include any low- or moderate-income geographies. Therefore, an analysis would not be meaningful.

Responses to Complaints

No CRA-related complaints have been received by the bank or the OCC since the prior CRA evaluation.

State Rating

State of Missouri

CRA Rating for the State of Missouri: Outstanding

The major factor that supports this rating is:

- The distribution of RRE loans to borrowers of different income levels reflects excellent penetration.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MISSOURI

CNB's Missouri AA consists entirely of Perry County in southeast Missouri. The AA consists of three middle-income and two upper-income CTs. The 2013 FFIEC estimated non-metropolitan area median family income for the AA is \$48,200. Based on 2010 Census data, 13% of families are low-income and 16% are moderate-income. The same data indicates 6% of families live below the poverty level. The median housing value for the AA in 2010 was \$123,986.

In the AA, the unemployment rate was 4% as of May 2008. Unemployment during the recent recession hit a high of 8% (March 2009), but returned to pre-recession levels and is now 5% (June 2014). The state of Missouri unemployment rate was near 7% as of June 2014. Major industries include manufacturing, followed by healthcare and the public sector. Major employers in the AA include Gilster-Mary Lee Corporation, TG Missouri Corporation, Robinson Construction, Perry County Memorial Hospital, and Perry County School District.

CNB's deposits in this AA totaled \$7 million as of June 30, 2014, representing 10% of total deposits. CNB is the seventh largest deposit-taking institution with a 2% market share, based on FDIC deposit data. Competition within the AA is strong with 9 offices of seven financial institutions serving Perry County. The three largest financial institutions are The Bank of Missouri, Eagle Bank and Trust Company of Missouri, and First State Community Bank.

We contacted the local chamber of commerce to further our understanding of the community's credit and noncredit needs. The contact noted financial institutions could assist in providing classes or seminars to help local businesses with money management.

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

CNB’s lending distribution of RRE loans to borrowers of different income levels reflects excellent penetration.

Residential Real Estate Loans

The borrower distribution of RRE loans is more than reasonable. The percentage of loans to low-income borrowers (15%) exceeds the percentage of AA low-income families (13%). The percentage of loans to moderate-income borrowers (30%) significantly exceeds the percentage of AA moderate-income families (16%).

Borrower Distribution of Residential Real Estate Loans in MO 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**
RRE	13%	15%	16%	30%	20%	15%	51%	40%

* Percentage of Families is based on 2010 U.S. Census data.

**Source: Sample of 20 RRE loans from 2012-2013.

Geographic Distribution of Loans

CNB’s Missouri AA does not include any low- or moderate-income geographies. Therefore, an analysis would not be meaningful.

Responses to Complaints

No CRA-related complaints have been received by the bank or the OCC since the prior CRA evaluation.