



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 03, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Winona National Bank
Charter Number 10865**

**204 Main Street
Winona, MN 55987**

**Comptroller of the Currency
Minneapolis South
920 Second Avenue South Suite 800
Minneapolis, MN 55402**

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 Outstanding.

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans within its assessment area.
- The bank has an excellent distribution of credit among businesses of different sizes, an excellent distribution of credit among residential real estate borrowers of different income levels and an excellent distribution of credit among consumers of different income levels.

DESCRIPTION OF INSTITUTION

Winona National Bank (WNB) was a \$257 million institution as of September 30, 2004. WNB has three locations, all in Winona, Minnesota, and five ATMs. Deposit-taking ATMs are located at each bank location. There are two cash-out only ATMs, one located at a gas station in Winona and the other located near the Winona State University campus. Winona is the county seat of Winona County, MN and has a population of 27,069 persons according to the 2000 census. The Winona Convention and Visitor's Bureau describes Winona as "a small city with a big heart, nestled between the bluffs and the mighty Mississippi River".

WNB offers telephone and Internet banking services to its customers. These services provide customers with 24-hour access to deposit and loan account information. They also allow customers to make transfers between accounts, including making loan and bill payments.

WNB offers a wide range of loan and deposit products, which are designed to meet the community's needs. As of September 30, 2004, the bank's \$155 million loan portfolio consisted of 45% commercial loans, 27% residential real estate loans, 11% consumer loans, 9% leases and 8% other loans. Net loans made up 58.83% of total assets. The bank's primary lending focus is commercial lending and residential real estate lending, which accounts for 83% of the dollar volume in the bank's loan portfolio based on originations from 2003 and 2004. The bank originated consumer loans representing 70% by number during the same timeframe. Due to their large number of consumer loans, the bank has requested that we include these loans in our lending analysis.

Winona Banc Holding Co. is a one-bank holding company that had total assets of \$257 million as of September 30, 2004. Prior to October, 2001, Winona Banc Holding Co was a two-bank holding company which included Winona National Savings Bank and its state-chartered affiliate, Town and Country State Bank of Winona. On October 6, 2001, these two banks merged with Winona National Bank being the successor.

There are no financial, legal or other factors that impede WNB's ability to meet its CRA obligations. The last CRA rating for Winona National Savings Bank was "Satisfactory" dated May 24, 1999. The last CRA rating for Town and Country State Bank, issued by the Federal Deposit Insurance Corporation on June 1, 1998, was "Satisfactory".

DESCRIPTION OF ASSESSMENT AREA

WNB's assessment area (AA) includes nine Census Tracts (CTs) in Winona County, Minnesota (CTs 9701-9709), and two CTs in Wisconsin, one in Buffalo County (CT 9605) and the other in Trempealeau County (CT 9907). Based on 2000 census information, all CT's in the AA are middle-income tracts (100%). The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. The AA does not extend substantially beyond a boundary as 85% of the AA population is located in the Minnesota CTs. Total population in the AA is 53,280 persons.

Based on 2000 census information, 14% of the families within this AA are low income, 18% moderate income, 27% middle income and 41% upper income. The 2000 census median family income for the AA was \$46,353. Based on the Department of Housing and Urban Development's 2004 estimate, the updated median family income for the non-metro portion of Minnesota is \$53,000. The Department of Housing and Urban Development's 2004 estimate for the non-metro portion of Wisconsin is \$52,100. As the majority of the AA is located in the non-metro portion of Minnesota, we used that income information for analysis. The 2000 census data indicates that 2,361 households (11%) are below the poverty level.

The average median housing value for the AA per 2000 census data was \$97,697. 68.90% of the units are owner occupied and 28.30% are rental units. The average monthly gross rent for the AA is \$410. Our community contact indicated that lack of affordable housing has been identified as a need for the Winona area for both home ownership and rental units.

Unemployment levels in the AA are lower than the national average and lower than both the State of Minnesota and State of Wisconsin levels. Pursuant to the U.S. Department of Labor, Bureau of Labor Statistics, the unemployment rate for the State of Minnesota was 4.2%, the State of Wisconsin was 4.8% and the national unemployment rate was 5.4%. The unemployment rate for the AA was 3%.

The AA offers a wide mix of industry and businesses, which help to stabilize Winona's economy. There are five employers with more than 500 employees – Fastenal Company, Winona Health, Winona State University, Winona Public Schools, and TRW Automotive Electronics. There is substantial diversity in employers with more than 100 manufacturers in the area, yet 74% of the businesses in the AA employ less than 10 persons. Winona is also home to three institutions of higher learning, Winona State University, St. Mary's University and the Rochester Community and Technical College, which draw approximately 9,000 students to the area each year.

Bank competition in the AA is strong. There are 13 financial institutions in the AA. Based on 2002 deposit data obtained from the Federal Deposit Insurance Corporation, WNB is ranked 2nd with 27% of the deposit market share.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 22 quarters since the previous CRA exam is 80.14%. Similarly situated banks are those with a presence in the AA with total assets between \$85 and \$480 million. The loan-to-deposit ratio does not take into account loans sold by banks on the secondary market. In 2002 and 2003, WNB sold 884 loans on the secondary market, totaling \$99.7 million. WNB has retained servicing of all of these loans.

Institution	Total Assets (As of 9/30/2004)	Average Loan-to-Deposit Ratio 2Q99 – 3Q04
MERCHANTS BANK, Winona, MN	\$ 480 million	91.50%
EASTWOOD BANK, Kasson, MN	\$ 257 million	87.79%
SECURITY STATE BANK, Lewiston, MN	\$ 85 million	83.84%
WINONA NATIONAL BANK, Winona, MN	\$ 257 million	80.14%

Lending in Assessment Area

Based on a sample of 20 commercial, 20 residential real estate, and 20 consumer loans, WNB originates a majority of its loans to borrowers located within its defined AA. The sample determined that of loans originated from January 1, 2003 through December 31, 2004, 80% by number and 85.44% by dollar volume were made to borrowers located within the bank's AA. The following table shows loans originated inside and outside their AA by number and dollar volume:

	Number of Loans					Dollar of Loans				
	Inside		Outside		Total	Inside		Outside		Total
Loan Type	#	%	#	%		\$	%	\$	%	
Commercial Loans	18	90	2	10	100%	3,064,585	95.75	136,116	4.25	100%
Residential Real Estate	14	70	6	30	100%	1,038,317	64.50	571,600	35.50	100%
Consumer Loans	16	80	4	20	100%	152,522	89.64	17,630	10.36	100%
Totals:	48	80%	12	20%	100%	\$4,255,424	85.44%	\$725,346	14.56%	100%

Lending to Businesses of Different Revenue Sizes, Residential Real Estate Borrowers and Consumers of Different Income Levels

WNB has an excellent distribution of credit among businesses of different sizes. Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to more than a million dollars. A random sample of 20 commercial files indicates the following

breakdown of annual revenues.

Borrower Distribution of Loans to Business		
Business Revenues	< \$1,000,000	> \$1,000,000
% of AA Businesses*	66%	6%
% of Bank Loans in AA by #	65%	35%

*per 2003 Business Demographic Data;
28% of businesses did not report revenues

WNB has an excellent distribution of credit among residential real estate borrowers of different income levels based on 2000 census information. The following table compares the percentage of families based on income level located within the AA to those loans made by the bank from the selected loan sample of 20 residential real estate loans.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level*	Low (0 - \$26,499)		Moderate (\$26,500 - \$42,399)		Middle (\$42,400 - \$63,599)		Upper (\$63,600 and over)	
	% 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
Residential Real Estate	13.54%	20%	18.38%	15%	26.61%	30%	41.47%	35%

*per 2004 HUD Estimated Median Family Income for the non-metro portion of MN

WNB has an excellent distribution of credit among consumers of different income levels based on 2000 census information. The following table compares the percentage of households based on income level located within the AA to those loans made by the bank from the selected loan sample of 20 consumer loans from January 1, 2003 through December 31, 2004.

Borrower Distribution of Consumer Loans								
Borrower Income Level*	Low (0 - \$26,499)		Moderate (\$26,500 - \$42,399)		Middle (\$42,400 - \$63,599)		Upper (\$63,600 and over)	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	22.06%	35%	16.73%	20%	20.39%	35%	40.82%	10%

*per 2004 HUD Estimated Median Family Income for the non-metro portion of MN

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as none of the CTs in the bank's AA are defined as low or moderate-income CTs.

Responses to Complaints

WNB has not received any complaints about its performance in helping meet assessment area credit needs during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.