



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 29, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples National Bank of Mora
Charter Number 15161

45 North Union Street
Mora, MN 55051

Office of the Comptroller of the Currency

MINNEAPOLIS NORTH
302 West Superior Street The Lonsdale Building, Suite 307
Duluth, MN 55802

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.

- Peoples National Bank originates a majority of its loans within its assessment area.
- Lending to residential real estate borrowers of different income levels is more than reasonable and lending to businesses of different sizes is reasonable.
- The bank's average loan-to-deposit ratio is reasonable.
- The geographic distribution of loans throughout the assessment area is reasonable.

DESCRIPTION OF INSTITUTION

Peoples National Bank (PNB) is a \$159 million institution with five offices located in east central Minnesota. The main office is located in Mora, Minnesota with branches located in Aitkin, Brainerd, Crosby, and Mora, Minnesota. All locations are full service, offer traditional banking products, and maintain standard banking hours. The bank operates three cash-dispensing automated teller machines located within the bank's assessment area. PNB's main office and branches are located in middle-income geographies.

PNB is 82% owned by Peoples Bankshares, Incorporated, with the remaining 18% of shares widely held. Peoples Bankshares, Incorporated is a \$159 million one-bank holding company headquartered in Mora, Minnesota. PNB's corporate structure has not changed since the last CRA evaluation.

PNB's primary lending products include business and residential real estate loans. Based on the bank's June 30, 2008 Report of Condition and Income, the bank's \$97 million loan portfolio consisted of the following outstanding loan types by dollar volume: commercial and commercial real estate (62%), residential real estate (27%), consumer (6%), agricultural (3%), and other (2%). Net loans represent 60% of total assets.

PNB received a satisfactory rating at its July 7, 2003 CRA evaluation. There are no legal or financial constraints on PNB that would inhibit its CRA performance.

DESCRIPTION OF ASSESSMENT AREA

PNB's assessment area (AA) consists of 27 census tracts in five counties. The census tracts are contiguous and surround the bank's five office locations. The AA includes all of Aitkin, Crow Wing, and Kanabec Counties, the northern half Mille Lacs County, and two southwestern census tracts in Pine County. The AA contains mostly small towns surrounded by undeveloped and non-agricultural areas. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income geographies. The AA is comprised of five moderate and twenty-two middle-income geographies based on 2000 U.S Census Data. See tables below for census tract and family income details.

Income Distribution of Geographies and Families

Percentage of Census Tracts in AA				Percentage of Families in Census Tracts			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
0%	19%	81%	0%	0%	16%	84%	0%

Percentage of Families by Income Level	
Family Income Level	Percent of Families
Low-Income	19%
Moderate-Income	21%
Middle-Income	25%
Upper-Income	35%

The population of the AA is estimated at 101,000 and there are 28,164 families located within the AA according to 2000 U.S. Census Data. The U.S. Department of Housing and Urban Development’s 2008 updated statewide non-metropolitan statistical area median family income estimate for Minnesota is \$56,700. The 2000 U.S. Census Data indicates that 10.6% of households and 7.0% of families in the AA are below the poverty level.

According to 2000 U.S. Census data, the median housing value for the State of Minnesota is \$118,100. The same data indicates the median housing value of the AA is \$101,132 and the median age of a home is 28 years. Owner-occupied units comprise 53% of all housing units in the AA. Rental units have an average gross rent of \$445 per month.

The economic condition of the bank’s assessment area is declining, which is consistent with the condition of the state and nation. The AA’s economy includes a unique mix of retail, service, county government, medical industries, and tourism. Major employers in Kanabec County include Kanabec County Hospital, Mora School District, and several other public sector jobs. The Aitkin, Brainerd, and Crosby locations also provide similar public and private job opportunities. The unemployment rate of the AA is in line with both the State of Minnesota at 6.2% and the U.S. at 6.1% as of August 2008. Historically the unemployment rate in the AA has exceeded the unemployment rates for both the state and nation.

Competition from other financial institutions in the AA is strong. Competing institutions range in asset size from \$75 million to \$300 million for community banks. Large regional bank branches also reside in the AA and compete for market share.

We did not identify any unmet credit needs in PNB’s AA through our community contact. Our contact stated that there are future opportunities for the local financial institutions involving the construction of local community projects and residential developments. The contact indicated that PNB is ever present in the community and participates in local events.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

PNB’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and AA credit needs. From September 30, 2003 to June 30, 2008, the bank’s quarterly LTD ratio ranged from 62% to 78% and averaged 73%. This ratio is higher than past performance and ranks last among similarly situated banks. Similarly situated banks include financial institutions with main offices or branches located in the AA and total assets between \$80 million and \$180 million. PNB sells residential real estate loans on the secondary market; the volume of loans originated and subsequently sold is not reflected in the quarterly LTD ratio. See table below for average LTD ratios for PNB and similarly situated banks.

Institution	Assets (000s) (As of 6/30/08)	Average Loan-to-Deposit Ratio (9Q03 – 2Q08)
Peoples National Bank	\$159,239	73%
Pine River State Bank	\$83,123	74%
Kanabec State Bank	\$128,428	75%
The First National Bank of Milaca	\$154,612	76%
Woodlands National Bank	\$116,351	84%
Security State Bank of Aitkin	\$86,849	87%
Woodland Bank	\$101,610	88%
Northern National Bank	\$152,670	99%

Lending in Assessment Area

Peoples National Bank originates a majority of its loans to borrowers located within its assessment area. Based on a sample of 20 residential real estate and 20 business loans originated between January 1, 2006 and June 30, 2008, the bank originated 85 percent by number and 87 percent by dollar amount of its loans within its assessment area. The following table shows loans originated inside the assessment area by number and dollar amount:

Lending in Assessment Area By Number and Dollar Amount

Type of Loan	Number	Percent of Number	Dollar of Loans (000s)	Percent of Dollars
Commercial	16	80%	\$1,336	84%
Residential RE	18	90%	\$1,206	90%
Total	34	85%	\$2,542	87%

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

PNB’s residential real estate lending to borrowers of different income levels in the AA is more than reasonable. By number, loan originations to low- or moderate-income borrowers exceed the demographics of the AA. The following table compares the actual percentage of families based on income level located within the assessment area to loans made by the bank from the selected loan sample of 20 residential real estate loans that originated between January 1, 2006 and June 30, 2008.

Borrowing Distribution of Residential Real Estate Loans by Income Level			
Borrower Income Level	Number	Percent of Number	Percent of Families in Assessment Area*
Low	7	35%	19%
Moderate	6	30%	21%
Middle	3	15%	25%
High	4	20%	35%
Total	20	100%	100%

*Per 2000 US Census Data

PNB’s record of lending to businesses of different sizes is reasonable and meets the demographics of the AA. Contextual research and community contact information indicate that 90% to 95% of businesses in the AA have revenues of less than \$1 million. Based on a sample of 20 business loans originated in the AA between January 1, 2006 and June 30, 2008, the bank originated 80% of its loans to businesses with revenues less than \$1 million. The business revenue of sampled loans ranged from \$24,000 to \$4.6 million.

Borrower Distribution of Business Loans by Income Level			
Borrower Income Level	Number	Percent of	Percent of Businesses in

		Number	Assessment Area*
Less than or equal to \$1MM	16	80%	60%
Above \$1MM	4	20%	3%
Revenue Not Reported	0	0%	37%

*Per 2008 Business Geodemographic Data

Geographic Distribution of Loans

The geographic distribution of residential real estate and business loans among census tracts of different income levels is reasonable. To assess the bank’s performance in this area, a sample of 20 residential real estate and 20 business loans originated in the AA between January 1, 2006 and June 30, 2008 were selected. PNB’s AA does not have any low-income census tracts. Residential real estate lending in moderate-income tracts was 10% by number compared to the demographic of 15% of owner-occupied homes located in moderate-income tracts. Business lending in moderate-income tracts was 10% by number compared to a demographic of 16% of businesses located in moderate-income tracts.

The modest gaps in geographic distribution are primarily caused by the bank and its branches’ location in middle-income tracts, while competition in the AA is located in or close to moderate-income tracts. The majority of the bank’s loans were originated in or adjacent to the census tracts where the bank and its branches are located. In addition, the AA’s moderate-income tracts are home to branches of several financial institutions resulting in a competitive advantage.

Geographic Distribution of Residential Real Estate Loans in the AA					
Census Tract Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category*
Low	0	0%	\$0	0%	0%
Moderate	2	10%	\$85	5%	15%
Middle	18	90%	\$1,521	95%	85%
Upper	0	0%	\$0	0%	0%
Total	20	100%	\$1,606	100%	100%

*Per 2000 US Census Data

Geographic Distribution of Business Loans in the AA					
			Dollar		Percent of

Census Tract Income Level	Number	Percent of Number	Amount (000s)	Percent of Amount	Businesses by Tract Category*
Low	0	0%	\$0	0%	0%
Moderate	2	10%	\$100	6%	16%
Middle	18	90%	\$1,590	94%	84%
Upper	0	0%	\$0	0%	0%
Total	20	100%	\$1,690	100%	100%

*Per 2008 Business Geodemographic Data

Response to Complaints

Peoples National Bank has not received any CRA-related complaints since the last CRA evaluation dated July 7, 2003.

Fair Lending Review

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