



PUBLIC DISCLOSURE

September 8, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers National Bank
Charter Number 6375

114 West 3rd Street
Prophetstown, IL 61277

Office of the Comptroller of the Currency
Peoria Field Office
211 Fulton Street, Suite 604
Peoria, IL 61602

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.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support these ratings include:

- The distribution of loans to farms of different sizes is reasonable.
- The majority of the loans originated by Farmers National Bank (FNB) are to borrowers inside its assessment area (AA).
- FNB's quarterly average loan-to-deposit ratio of 59 percent over the evaluation period is reasonable.
- FNB's community development (CD) performance demonstrates adequate responsiveness to the community development needs of its AAs through CD loans, qualified investments, and community development services.

Scope of Examination

We evaluated FNB under the Intermediate Small Bank evaluation procedures, which include a lending test and a community development test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the bank's community development lending, qualified investments, and CD service activities.

- The evaluation period is from the previous CRA evaluation, July 30, 2012, through September 8, 2015. The community development test covers any activities occurring during this evaluation period.
- The lending test is based on FNB's primary loan product, which are agricultural loans. We evaluated loans originated from January 1, 2013, through July 1, 2015, under the lending test and compared them to 2010 census data.
- The Whiteside County AA and Henry County MSA AA received full scope reviews.

Description of Institution

Farmers National Bank is a \$541 million institution headquartered in Prophetstown, Illinois. Prophetstown is located in northwestern Illinois. FNB is wholly owned by Prophetstown Banking Co., a one-bank holding company. The bank has no affiliates or subsidiaries.

FNB's strategy is to build customer relationships by providing competitive banking products and services. There are no legal, financial, or other factors impeding FNB's ability to help meet the credit needs in the bank's assessment areas. There was no change in the bank's corporate structure since the previous CRA evaluation. The bank offers a full range of deposit and loan products and services. The bank's previous Intermediate Small Bank CRA rating was "Satisfactory" as detailed in the July 30, 2012, Performance Evaluation.

FNB is an intrastate financial institution with three offices serving Whiteside and Henry Counties. All locations are equipped with drive-up facilities. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. FNB also operates cash dispensing automated teller machines (ATMs) throughout the AA at all bank locations.

FNB's primary lending product is agricultural loans. This lending category accounts for 80 percent of loans originated and purchased from January 1, 2013, to July 1, 2015. We used this lending product for the analysis of this evaluation. Commercial, residential, and consumer lending are not a primary loan product, accounting for the remaining 20 percent of the loans originated and purchased during this period.

Table 1 - Loan Originations and Purchases by Loan Type from January 1, 2013 through July 1, 2015				
Loan Category	Dollars (000s)	% of Dollars	Number of Loans	% of Number of Loans
Agricultural Loans	\$385,146	80%	2,470	56%
Commercial Loans	\$ 45,675	9%	474	11%
Residential Loans	\$ 44,683	9%	513	12%
Consumer Loans	\$ 7,340	2%	943	21%
Total Loans	\$482,844	100%	4,400	100%

Source: Bank records from January 1, 2013 to July 1, 2015

As of June 30, 2015, FNB reported total loans of \$280 million and had a net loans and leases to total assets ratio of forty-nine percent. The loan portfolio composition is as follows:

Table 2 - Loan Portfolio Summary by Loan Product As of June 30, 2015		
Loan Category	Dollars Outstanding (000s)	% of Outstanding Dollars
Agricultural Loans	\$217,306	78%
Residential Loans	\$28,749	10%
Commercial Loans	\$27,888	10%
Consumer Loans	\$3,517	1%
Other Loans	\$2,675	1%
Total Loans	\$280,135	100%

Source: Call Report dated June 30, 2015

Description of Assessment Areas

FNB's assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. FNB has two assessment areas: Whiteside County AA and Henry County MSA AA. We performed a full-scope review of both AAs.

Whiteside County AA

The Whiteside County AA is not located in a Metropolitan Statistical Area (MSA). The Whiteside County AA consists of five census tracts (CT) in Whiteside County, Illinois. All CTs are designated middle-income. FNB ranks second in deposit market share of the sixteen financial institutions in Whiteside County according to the FDIC Market Share Report dated June 30, 2014.

The local economic condition is stable. According to the U.S. Department of Labor, the July 2015 unemployment rate for Whiteside County was 6.0 percent, which is above the State of Illinois' rate of 5.9 percent and the national rate of 5.3 percent. Major employers include: local school districts, local hospital and healthcare facilities, WalMart Distribution Center, and Wahl Clipper Corporation.

We made one community contact from the Whiteside County AA during the evaluation. The contact indicated the primary credit need of the AA is affordable housing and small business loans. The contact also stated there are no unmet credit needs or banking services not met or provided for by the local financial institutions. Overall, the contact felt FNB and the other local financial institutions met the credit needs of the area.

Two of FNB's branches (67 percent of locations) are located in the Whiteside County AA. The Whiteside County AA carried the most weight for our lending and community development test analysis. The following is demographic information for the Whiteside County AA:

Table 3 - Demographic Information for the Whiteside County AA					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	5	0%	0%	100%	0%
Population by Geography	15,730	0%	0%	100%	0%
Owner-Occupied Housing by Geography	4,931	0%	0%	100%	0%
Businesses by Geography	902	0%	0%	100%	0%
Farms by Geography	254	0%	0%	100%	0%
Family Distribution by Census Tract	4,162	0%	0%	100%	0%
Family Distribution by Income Level	4,162	16%	19%	23%	42%
Median Family Income	\$58,315	Median Housing Value		\$102,767	
2015 FFIEC Estimated Median Family Income	\$58,600	Average Monthly Gross Rent		\$562	
Households Below the Poverty Level	9%				

Source: 2010 U.S. Census Data

Henry County MSA AA

The Henry County MSA AA is located in the Davenport-Moline-Rock Island, IA-IL MSA and consists of three CTs in Henry County, Illinois. All CTs are designated middle-income. FNB ranks third in deposit market share of the thirteen financial institutions in Henry County according to the FDIC Market Share Report dated June 30, 2014.

The local economic condition is stable. According to the U.S. Department of Labor, the July 2015 unemployment rate for Henry County was 5.6 percent, which is better than the State of Illinois’ rate of 5.9 percent, but above the national rate of 5.3 percent. Major employers include: local school districts, city and county government, local hospitals and healthcare facilities.

We made one community contact from the Henry County MSA AA during the evaluation. The contact indicated the primary credit need of the AA is small business loans. The contact also stated there are no unmet credit needs or banking services not met or provided for by the local financial institutions. Overall, the contact felt FNB and the other local financial institutions do a great job meeting the credit needs of the area.

One of FNB’s three branches is located in the Henry County MSA AA (33 percent of locations). The following is demographic information for the Henry County MSA AA:

Table 4 - Demographic Information for the Henry County MSA AA					
Demographic Characteristics	#	Low % of #	Mod % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	3	0%	0%	100%	0%
Population by Geography	12,143	0%	0%	100%	0%
Owner-Occupied Housing by Geography	3,862	0%	0%	100%	0%
Businesses by Geography	957	0%	0%	100%	0%
Farms by Geography	263	0%	0%	100%	0%
Family Distribution by Census Tract	3,463	0%	0%	100%	0%
Family Distribution by Income Level	3,463	15%	18%	23%	44%
Median Family Income	\$66,519	Median Housing Value		\$129,345	
2015 FFIEC Estimated Median Family Income	\$62,800	Average Monthly Gross Rent		\$729	
Households Below the Poverty Level	7%				

Source: 2010 U.S. Census Data

Conclusions with Respect to Performance Tests

LENDING TEST

FNB meets the standards for satisfactory performance.

- The distribution of loans to farms of different sizes is reasonable.
- The majority of the loans originated by FNB are to customers within its AA.
- FNB’s quarterly average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the AA’s credit needs.
- FNB did not receive any complaints regarding its CRA performance.
- We conducted full-scope reviews of the Whiteside County and Henry County MSA AAs.

Loan-to-Deposit Ratio

FNB’s quarterly average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the AA credit needs. FNB’s quarterly average loan-to-deposit ratio for the period April 1, 2012, to June 30, 2015, is 59 percent. FNB had a quarterly low of 53 percent and a quarterly high of 67 percent. FNB’s 59 percent is down from

the prior CRA evaluation’s average loan-to-deposit ratio of 65 percent. We attribute this to sizable market competition and current economic conditions.

FNB’s quarterly average loan-to-deposit ratio is comparable to other community banks of similar size, location, and product offerings. FNB ranks third among six similarly situated banks serving its AA. The quarterly average loan-to-deposit ratio for the other five banks over the same period ranged from 46 to 73 percent. The other similarly situated banks used for comparison are community banks located in the AA and range in asset size from \$252 million to \$526 million.

Lending in Assessment Area

A majority of the loans originated by FNB are to borrowers inside its AA. FNB’s lending to customers within its AA for its primary loan type is reasonable. The following table details the bank’s lending within the AA by number of loan originations and dollar volume during the evaluation period:

Table 5 - Lending in the Assessment Area										
Loan Product	Number of Loans					Dollars of Loans \$(000)s				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture Loans	45	63%	27	37%	72	\$4,235	60%	\$2,874	40%	\$7,109

Source: Sample of 72 agriculture loans originated from January 1, 2013 to July 1, 2015

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

The distribution of loans, displays reasonable penetration among farms of different sizes, given the demographics of the AA. Loans to small farms are those with gross annual revenues of \$1 million or less. FNB originated eighty-seven percent of agriculture loans to small farms in the Whiteside County AA, which is reasonable compared to demographic data that shows 100 percent of farms in the AA are small farms. Likewise, FNB originated sixty-eight percent of agriculture loans to small farms in the Henry County MSA AA. This is reasonable compared to the demographic data showing 97 percent of farms in the AA are small farms. Higher commodity prices, increasing yields, and further consolidation in farming have resulted in an increase in the number of farms generating over one million dollars in annual revenues. The census data from 2010 indicates there are only a few farmers in the two AAs with annual revenues over \$1 million; however, FNB has nine customers in the sample with higher annual revenues.

The following tables display the distribution of loans among different-sized farms for each AA:

Table 6 - Borrower Distribution of Loans to Farms of Different Sizes in the Whiteside County AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farm	100%	0%	0%	100%
% of Bank Loans in AA by #	87%	13%	0%	100%
% of Bank Loans in AA by \$	87%	13%	0%	100%

Source: 23 agricultural loans sampled; 2014 Business Geodemographic data

Table 7 - Borrower Distribution of Loans to Farms of Different Sizes in the Henry County MSA AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farm	97%	1%	2%	100%
% of Bank Loans in AA by #	68%	27%	5%	100%
% of Bank Loans in AA by \$	42%	57%	1%	100%

Source: 22 agricultural loans sampled; 2014 Business Geodemographic data

Geographic Distribution of Loans

We did not perform a geographic distribution of loans at this evaluation. Since all of the geographies are middle-income, the analysis would not be meaningful.

Responses to Complaints

FNB did not receive any complaints about its performance in helping to meet the credit needs within its AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test is rated Satisfactory. FNB’s CD performance demonstrates an adequate responsiveness to the community development needs of its AA through CD loans, qualified investments, and CD services.

Number and Amount of Community Development Loans

FNB originated eight qualifying CD loans totaling \$8.8 million during the evaluation period. All loans originated in the Whiteside County AA. These CD loans were for operating costs and facilities construction for a not-for-profit agency that provides health and housing services to physically and mentally disabled individuals. The majority of the patients are low- and moderate-income individuals.

FNB did not originate any qualifying CD loans in the Henry County MSA AA during this evaluation period.

Number and Amount of Qualified Investments

FNB made a total of \$15 thousand in cash contributions and donations to several organizations assisting low- and moderate-income individuals and families in the bank's AA. The breakdown of contributions in the different AAs is below:

- Whiteside County AA - \$11 thousand in donations
- Henry County MSA AA - \$4 thousand in cash contributions

Extent to Which the Bank Provides Community Development Services

Delivery systems are reasonably accessible to individuals of different income levels. FNB operates three full-service locations and ATMs within the AAs. All offices are located in middle-income CTs. Extended hours are available at all drive-up locations on Fridays. FNB's loan and deposit products are available at all locations. The officers and employees of the bank are involved in a number of community service organizations in the AAs.

Responsiveness to Community Development Needs

The bank displays outstanding responsiveness to community development needs in the Whiteside County AA and poor responsiveness to CD needs in the Henry County MSA AA. The Whiteside County AA carried the most weight for our community development test analysis.

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.