



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 28, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Llano National Bank
Charter Number 17606**

**1001 Ford Street
Llano, TX 78643**

**Comptroller of the Currency
ADC - Austin
8310 Capital of Texas Highway North, Suite 250
Austin, TX 78731**

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 the 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.

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INSTITUTION'S CRA RATING

This institution is rated "Satisfactory."

- Llano National Bank's (LNB) lending performance is good given its size, financial condition, and the known credit needs in its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio exceeds the lending performance of other similarly sized and situated peer competitors, and has averaged 45% for this evaluation period. Peer banks averaged 37% for this period.
- A substantial majority of LNB's loans are within its AA.
- Given the demographic characteristics of the bank's AA, LNB has exceeded the standard for satisfactory distribution of loans to individuals of varying incomes and businesses of different sizes.
- The geographic distribution of the bank's loans within the AA compares favorably to low- to moderate-income (LMI) area demographics.
- There have been no complaints with respect to LNB's CRA performance.

DESCRIPTION OF INSTITUTION

LNB is headquartered in the city of Llano, Llano County, Texas, which is approximately 70 miles northwest of Austin. On March 30, 1998, the bank opened its second branch located inside of the Super S grocery store on the north side of the city of the Llano. The branch is known as the "Super S Branch." This branch does not have facilities to make loans. On September 16, 2002, LNB opened a loan production office (LPO) in the city of Burnet, which is located 30 miles east of the city of Llano. LNB has one automated teller machine (ATM) that is located in Llano. The bank also has two drive-through facilities located behind the main bank in Llano and its full service branch near Lake Buchanan. LNB is 100% owned by independent shareholders, a majority of which resides in Llano County.

The institution's principal focus is to promote economic development in its AA through its lending programs. LNB's primary lending products include residential, consumer, commercial, and agricultural loans. The bank has no minimum loan limits. Total loans as of June 30, 2002, amounted to 25.5 million, which comprise 42% of total assets. The following table reflects a detailed breakdown of LNB's loan portfolio as of June 30, 2002.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	1,762	6.9
RE Farmland	413	1.6
RE Residential (1-4)	4,869	19.1
RE Multifamily Residential	0	0
RE Nonfarm Nonresidential	6,469	25.3
Agricultural Production	4,173	16.3
Commercial and Industrial	3,188	12.5
Consumer	4,433	17.4
States and Political Subdivisions	0	0
Other	225	0*
Total	25,532	100

Bank lobby and drive-through services are provided Monday through Friday at the main bank and at the Lake Buchanan branch, while only drive-through services are provided on Saturday. The Super S branch lobby and walk-up services are open on Saturday as well. LNB faces strong competition from other banks in the AA as well as those located outside the AA. Based on its financial condition, the local economy, product offerings, competition, and prior performance, LNB has the ability to meet the various credit needs in its community. At our last CRA examination held on June 15, 1998, LNB's CRA rating was "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

DESCRIPTION OF LLANO COUNTY

LNB has designated Llano County as its assessment area. This area includes the city of Llano and smaller communities such as Kingsland, Lake Buchanan, Sunrise Beach, Horseshoe Bay, Valley Springs, and Village City. Specific demographic and economic data for this area is listed in the table on the following page.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	3,732
Number of Households	5,295
<i>Geographies</i>	
Number of Census Tracts/Block Numbering Area (BNA)	6
% Low-Income Census Tracts/BNA	0.0
% Moderate-Income Census Tracts/BNA	16.7
% Middle-Income Census Tracts/BNA	50.0
% Upper-Income Census Tracts/BNA	33.3
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	23,635
2001 HUD-Adjusted MFI	35,800
2002 HUD-Adjusted MFI	36,100
<i>Economic Indicators</i>	
Unemployment Rate	1.74
2001 Median Housing Value	82,699
% of Households Below Poverty Level	2.85

This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. A further description of the AA is presented below.

Based on 1990 Census data, the AA has a combined population of 11,631. There are 9,773 housing units in the AA, of which 43% are owner-occupied, 11% renter-occupied and 46% are vacant. Approximately 23% of the families in the AA are considered low-income. Moderate-income families approximate 18% of the population, while middle- and upper-income families comprise the remaining 59%. The local economy is considered good with an unemployment rate of 1.74%. The largest single industry is agricultural-related, yet commercial business has begun to prosper over the past few years. Major employers in the assessment area include the City of Llano, Llano County, Llano School District, Llano Memorial Hospital, and Buttery Hardware.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. The contact is the Mayor of the City of Llano. He stressed the need for affordable housing and rental properties for LMI families within the AA. The contact stated that economic conditions were stable and that LNB is active in the community and responsive to the credit needs in the county it serves.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has been successful in meeting the credit needs of its AA, including LMI individuals, with loan distributions comparing very favorably to AA demographics.

Loan-to-Deposit Ratio

The bank's LTD ratio exceeds the lending performance of other similarly sized and situated competitors. The LTD ratio for these competitors averaged 37%. LNB's LTD ratio as June 30, 2002 was 47% and has averaged 45% for this evaluation period. LNB continues to provide a necessary service to residents of its AA by not implementing loan limits for borrowers. The following table is comprised of similarly situated institutions within LNB's market area and comparable competitors.

Institution	Assets as of 09/30/02	Average LTD Ratio % (**)
Arrowhead Bank	100,000	34.0
Highland Lakes Bank	76,000	45.11
Pioneer NB	70,000	33.17
Llano NB	61,000	45.37

***The average LTD ratio for the four banks is for the period from January 1998 through June 2002.*

Lending in Assessment Area

A substantial majority of the bank's loans were made within its AA. In order to assess performance for these criteria, we reviewed a sample of 30 commercial, 22 consumer, and 20 residential loans originated since our last evaluation. Our analysis determined that 92% of the number and 94% of the dollar amount of the loans sampled were made within the AA. Internal reports provided by management for all loans originated in 2001 indicated 91% of the number and 94% of the dollar amount loans were made within the AA. Our analysis also validates management's procedures in evaluating the bank's lending performance within its AA. The following table provides a detailed breakdown of our findings.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	20	91	98	91	2	9	10	9
Real Estate	22	100	708	100	0	0	0	0
Commercial	26	87	601	88	4	13	82	12
Total Reviewed	66	92	1,407	94	6	8	92	6

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

Lending to LMI families in the AA is excellent and significantly exceeds demographic characteristics. A sample of consumer and real estate loans was reviewed to assess the distribution of loans to borrowers of different income levels in the AA. The table below reflects the distribution of 20 consumer and 20 residential loans from our sample. LNB continues to provide a necessary service to residents of its AA by not implementing minimum loan limits for borrowers.

RESIDENTIAL REAL ESTATE								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
% of AA Families	22.9		18.3		19.3		39.6	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	20	15	25	20	15	18	40	47

CONSUMER								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
% of AA Households	26.1		16.5		18.9		38.6	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	35	30	20	31	10	10	35	29

LNB originates a substantial number of commercial and agricultural loans, the vast majority of which have been made to “small businesses with revenues less than \$1 million.” Management continues to focus on providing loans that will enhance the local economy. The following chart reflects our analysis of a sample of 20 commercial loans made since the last CRA Performance Evaluation (PE).

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96	4
% of Bank Loans in AA #	95	5
% of Bank Loans in AA \$	94	6

Geographic Distribution of Loans

The geographic distribution of the bank's loans within the AA is excellent and exceeds area demographics. Our analysis included 20 residential, 20 consumer, and 26 commercial loans originated since the last evaluation. The tables on this page reflect the results of our geographic distribution test for residential, consumer, and commercial loans.

RESIDENTIAL REAL ESTATE								
<i>Census Tract Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
%of AA Owner Occupied ⁴	0.0		18		58		24	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0.0	0.0	35	32	65	68	0.0	0.0

CONSUMER								
<i>Census Tract Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
%of AA Households			16		62		22	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0.0	0.0	20	27	75	72	5	1

BUSINESS LOANS								
<i>Census Tract Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
% of AA Businesses	0.0		8.5		74.8		16.7	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0.0	0.0	8	3	88	96	4	1

Responses to Complaints

LNB has received no complaints relating to its CRA performance.

Fair Lending Review

An analysis of non-business-related loans, public file comments, and consumer complaint information was performed in conjunction with the prior evaluation, in accordance with the OCC's risk-based fair lending examination standards. Those examinations revealed no basis for the OCC to conduct a comprehensive fair

lending examination in connection with this CRA evaluation.