



PUBLIC DISCLOSURE

February 24, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Sonora
Charter Number 5466

102 East Main
Sonora, TX 76950

Office of the Comptroller of the Currency

San Antonio South Field Office
10001 Reunion Place, Suite 250,
San Antonio, Texas 78216

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 bank's loan-to-deposit (LTD) ratio is satisfactory. The LTD ratio is reasonable in relation to peer institutions, averaging 71% since the prior evaluation.
- Lending in the Assessment Area (AA) is satisfactory as a majority of the bank's loans are inside the AAs.
- The bank's loan portfolio overall reflects a reasonable penetration of residential loans among families of various income levels and loans to businesses of different sizes.
- The geographic distribution of the bank's residential loans and business loans, within the San Angelo Texas MSA AA, reflects a reasonable dispersion. The two other AAs did not provide a meaningful analysis, as they did not have any low- or moderate-income tracts.
- The bank's community development (CD) performance demonstrates adequate responsiveness to CD needs in its AAs, through CD loans, investments, and services.

Scope of Examination

We evaluated First National Bank of Sonora (Sonora Bank) CRA performance using Intermediate Small Bank (ISB) examination procedures, which include lending and community development test. The lending test evaluates the bank's record of meeting the credit needs of its AA through lending activities. The community development test evaluates the bank's responsiveness to the identified needs in its AA through lending, qualified investments, and services.

Our examination focused on the bank's primary loan products, which were residential real estate and commercial loans originated or purchased during the evaluation period. The review included all residential real estate loans submitted on the Home Mortgage Disclosure Act – Loan/Application Register (HMDA-LAR) in the years 2012 and 2013. We performed a data integrity review of the HMDA-LAR data prior to the examination to confirm the reliability of the information. We selected a sample of 20 commercial loans originated or purchased during 2012 and 2013. We used the original sample to determine lending inside the AA. We sampled 20 commercial loans per AA (originated or purchased in the AA) to determine borrower distribution and geographic distribution for a total of 60 loans. We analyzed the loan data against the 2010 U.S Census Data.

The evaluation period for the community development test covers the period from January 1, 2012, to December 31, 2013. Community development loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

Description of Institution

Sonora Bank is a full-service community bank headquartered in Sonora, Texas chartered in 1900. Sonora Bank is a wholly owned subsidiary of First Sonora Bancshares, Inc., a one-bank holding company. As of December 31, 2013, the bank had total assets of \$340 million and Tier 1 leverage capital of \$34 million, representing 10 percent of total assets.

The bank has four branches. In May 2010, the bank expanded the loan production office (LPO) in Boerne, Texas to a full-service branch. The main branch is located in Sonora, Texas with the remaining two branches located in San Angelo, Texas. All four branches have a walk-in teller lobby, a drive-up motor bank, and an automated teller machine (ATM).

The bank offers a full range of consumer and commercial banking products and services. The bank offers its customers Online Banking through www.sonorabank.com, which allows the customer to obtain up to the minute account activity, transfer funds between accounts, pay bills, receive E-statements, send and receive secure electronic messages concerning your accounts, and reorder checks. Customers also have the option of mobile banking with a personal smartphone device. Mobile banking allows the customer to check balances, transfer funds between accounts, and make payments. The bank also offers 24-hour telephone access.

As of December 31, 2013, Sonora Bank reported total loans of \$211 million, or 62 percent of total assets. The bank's primary focus is consumers and small and medium size businesses. The bank provides a wide variety of lending products, but its primary loans are for residential real estate, commercial real estate, and commercial purposes. The table below details the bank's loan portfolio composition.

| Loan Portfolio Composition | | |
|-----------------------------------|-------------------------------|-------------------------|
| Loan Type | DOLLAR AMOUNT \$ (000) | % of TOTAL LOANS |
| Residential Real Estate | \$68,700 | 32.6 |
| Commercial | \$23,026 | 10.9 |
| Commercial Real Estate | \$62,682 | 29.8 |
| Construction & Land Development | \$16,244 | 7.7 |
| Agricultural/ Farmland | \$25,173 | 12.0 |
| Consumer | \$14,777 | 7.0 |
| Total | \$210,602 | 100 |

Source: Consolidated Reports of Condition as of December 31, 2013.

There are no legal, financial, or other factors impeding Sonora Bank's ability to help meet the credit needs in its AA. Sonora Bank received a "Satisfactory" rating on its last Performance Evaluation, using small bank procedures, dated December 8, 2008.

Description of Assessment Area(s)

Sonora Bank has three AAs: the Sutton-Schleicher-Crockett Counties AA, the San Angelo Texas Metropolitan Statistical Area (MSA) (Tom Green-Irion Counties), and the Kendall County AA. We performed a full-scope review for each AA.

Description of Sutton County-Schleicher County-Crockett County AA

The AA includes three contiguous counties that are not part of a MSA. Major cities include Sonora (Sutton County), Eldorado (Schleicher), and Ozona (Crockett). Sonora Bank operates one banking center with an ATM in the AA and reports 21 percent of its loans and 36 percent of its deposits originate in this AA.

The AA consists of three census tracts (one per county), one middle-income and two upper-income geographies, and meets the requirements of the regulation. It does not arbitrarily exclude low- or moderate-income (LMI) geographies, as there are no LMI geographies in the AA. The following table provides pertinent demographic data for the AA.

| Sutton-Schleicher-Crockett Counties AA | | | | | | |
|--|----------|-------------------|------------------------|----------------------|---------------------|--------------------|
| <i>Demographic Characteristics</i> | <i>#</i> | <i>Low % of #</i> | <i>Moderate % of #</i> | <i>Middle % of #</i> | <i>Upper % of #</i> | <i>N/A* % of #</i> |
| Geographies (CTs/BNAs) | 3 | 0 | 0 | 33 | 67 | 0 |
| Population by Geography | 11,308 | 0 | 0 | 33 | 67 | 0 |
| Owner-Occupied Housing by Geography | 2,551 | 0 | 0 | 30 | 70 | 0 |
| Business by Geography | 920 | 0 | 0 | 31 | 69 | 0 |
| Farms by Geography | 126 | 0 | 0 | 25 | 75 | 0 |
| Family Distribution by Income Level | 2,838 | 16 | 11 | 21 | 52 | 0 |
| Household Distribution by Income Level | 3,623 | 17 | 11 | 16 | 56 | 0 |
| Median Family Income (MFI) | | \$58,315 | | | | |
| HUD Adjusted MFI for 2012 | | \$49,300 | | | | \$69,134 |
| HUD Adjusted MFI for 2013 | | \$50,500 | | | | 3% |
| Households Below Poverty Level | | 14% | | | | |

(* The N/A category consists of geographies not assigned an income classification.

Source: 2010 US Census and 2013 HUD updated MFI

Competition within the AA comes from other community banks only. There are no multinational or regional banking companies located in the AA. The June 30, 2013 FDIC market share report reflects 5 institutions operate branches in the AA. Sonora Bank ranks 1st with a deposit market share of 29 percent. The bank holds 66 percent of the market share in Sutton County, which is where one branch is located.

As of December 2013, The US Bureau of Labor Statistics reports an unemployment rate of 2.6 percent for Sutton County, 3.7 percent for Schleicher County, and 3.6 percent for Crockett County. The rates compare favorably to the national and state unemployment rates of 6.7 percent and 6 percent, respectively. While the unemployment rate is lower

than the national and state rates, the 2010 census reported that 14 percent of the households in the AA lived below poverty levels.

In the AA, Schleicher County has experienced some sizeable job growth, primarily from oil and gas activities; however, the other two counties have had nominal job growth. Major sources of income remain sheep and goat ranching, along with hunting activities. In addition to oil and gas extraction, key regional industries include meat production and processing, and freight transportation.

We contacted a government organization that works with small businesses and provides for affordable housing. The contact indicated there is a need for affordable housing. The growth in the oil and gas industry created high demand for housing and resulted in purchase prices exceeding appraisals.

Description of San Angelo Texas MSA (Tom Green and Irion Counties) AA

The San Angelo Texas MSA includes Tom Green County and Irion County. The largest city in Tom Green County is San Angelo, home to Goodfellow Air Force Base. Mertzon is the largest city in Irion County. San Angelo is located about 215 miles northwest of San Antonio. Sonora Bank operates two banking centers with ATMs in San Angelo and reports 45 percent of its loans and 52 percent of its deposits originate in the AA.

The AA consists of 26 census tracts, one low-income, seven moderate-income, ten middle-income, seven upper-income, and one that does not have an income classification. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. The following table provides pertinent demographic data for the AA.

| San Angelo Texas MSA AA | | | | | | |
|--|----------|-------------------|------------------------|----------------------|---------------------|--------------------|
| <i>Demographic Characteristics</i> | <i>#</i> | <i>Low % of #</i> | <i>Moderate % of #</i> | <i>Middle % of #</i> | <i>Upper % of #</i> | <i>N/A* % of #</i> |
| Geographies (CTs/BNAs) | 26 | 4 | 27 | 38 | 27 | 4 |
| Population by Geography | 111,823 | 2 | 30 | 43 | 25 | 0 |
| Owner-Occupied Housing by Geography | 46,866 | 1 | 26 | 44 | 29 | 0 |
| Business by Geography | 9,006 | 11 | 16 | 43 | 29 | <1 |
| Farms by Geography | 623 | 5 | 8 | 36 | 51 | 0 |
| Family Distribution by Income Level | 28,202 | 22 | 18 | 19 | 41 | 0 |
| Household Distribution by Income Level | 42,084 | 23 | 17 | 17 | 43 | 0 |
| Median Family Income (MFI) | | \$56,404 | | | | |
| HUD Adjusted MFI for 2012 | | \$55,700 | | | | |
| HUD Adjusted MFI for 2013 | | \$55,300 | | | | |
| Households Below Poverty Level | | 15% | | | | |
| | | | | Median Housing Value | | \$97,465 |
| | | | | Unemployment Rate | | 4% |

(* The N/A category consists of geographies not assigned an income classification.
Source: 2010 US Census, 2012 and 2013 HUD updated MFI

The San Angelo Texas MSA has a competitive banking environment that includes multinational and regional banking companies such as Bank of America, Wells Fargo, Citibank, and Compass Bank. Several smaller community banks also have branches in the AA. The June 30, 2013 FDIC market share report reflects 16 institutions operate branches in the AA. Sonora ranks 6th with a deposit market share of 7 percent; Wells Fargo is 1st with a market share of 26 percent.

The US Bureau of Labor Statistics reports an unemployment rate of 4.4 percent for the San Angelo Texas MSA as of December 2013. The rate compares favorably to the national and state unemployment rates of 6.7 percent and 6 percent, respectively. While the unemployment rate is lower than the national and state rates, the 2010 census reported that 15 percent of the households in the AA lived below poverty levels.

The AA is experiencing economic growth as oil and gas industries, along with related services, move into the area. Other key industries in the area include agriculture, especially meat production and processing, telecommunications, and medical services. Goodfellow Air Force Base remains the largest employer in the area.

We contacted two government organizations; one provides affordable housing to LMI individuals, the other works with small businesses. One contact indicated there is a need for affordable housing. Families who rent spend 35 to 50 percent of their income on housing costs, which is much higher than the 25 to 30 percent seen in previous years. The contact also indicated they would like to see increased bank participation in the current city affordable housing program. . The second contact indicated there is a need for start-up financing, debt consolidation, and restructured business loans. However, the many banks have tightened underwriting requirements making it difficult for business owners. The contact also indicated a need to provide financial education.

Description of Kendall County AA

Kendall County is one of eight counties that comprise the San Antonio-New Braunfels Texas MSA. Sonora Bank operates one banking center with an ATM in the city of Boerne, the largest city in the county. Boerne is located about 30 miles north of San Antonio on Interstate 10. The bank reports 34 percent of its loans and 12 percent of its deposits originate in the AA.

The AA consists of six census tracts, two middle-income and four upper-income geographies, and meets the requirements of the regulation. It does not arbitrarily exclude LMI geographies, as there are no LMI geographies in the AA. The following table provides pertinent demographic data for the AA.

| Kendall County AA | | | | | | |
|--|--------|------------|-----------------|----------------------|--------------|-------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | N/A* % of # |
| Geographies (CTs/BNAs) | 6 | 0 | 0 | 33 | 67 | 0 |
| Population by Geography | 33,410 | 0 | 0 | 36 | 64 | 0 |
| Owner-Occupied Housing by Geography | 13,508 | 0 | 0 | 56 | 44 | 0 |
| Business by Geography | 4,883 | 0 | 0 | 40 | 60 | 0 |
| Farms by Geography | 264 | 0 | 0 | 39 | 61 | 0 |
| Family Distribution by Income Level | 9,277 | 12 | 13 | 16 | 59 | 0 |
| Household Distribution by Income Level | 12,055 | 17 | 14 | 13 | 56 | 0 |
| Median Family Income (MFI) | | \$85,399 | | | | |
| HUD Adjusted MFI for 2012 | | \$60,800 | | | | |
| HUD Adjusted MFI for 2013 | | \$61,300 | | | | |
| Households Below Poverty Level | | 8% | | | | |
| | | | | Median Housing Value | | \$245,196 |
| | | | | Unemployment Rate | | 3% |

(* The N/A category consists of geographies not assigned an income classification.
 Source: 2010 US Census, 2012 and 2013 HUD updated MFI

Kendall County has an extremely competitive banking environment that includes multinational and regional banking companies such as Bank of America, Wells Fargo, Frost Bank, and Broadway National Bank. In addition, several community banks operate branches in the AA. The June 30, 2013 FDIC market share report reflects 11 institutions operate branches in the AA. Sonora ranks 7th with a deposit market share of 5 percent; Frost Bank is 1st with a market share of 38 percent.

The US Bureau of Labor Statistics reports an unemployment rate of 4.5 percent as of December 31, 2013, for Kendall County. The rate is slightly lower than the 5.3 percent rate reported for the San Antonio-New Braunfels Texas MSA, but compares favorably to the national and state unemployment rates of 6.7 percent and 6 percent, respectively.

Kendall County experienced a 50 percent job growth rate in the past year according to the Office of the Governor Economic community profile. The largest employer is the school district and key industries in the county include insurance carriers, business support/call centers, engineering services, and retail services. Local economic conditions continue to improve as businesses and individuals move into the county.

We contacted a local organization that provides community services to low-income families within the county. The contact indicated that even though there are families with considerable wealth, especially in the city of Boerne, many lower income individuals who work in Boerne are not able to afford housing in the city. The contact indicated there is a need for affordable housing in the county and noted the housing authority has a three- to five-year waiting period.

Conclusions with Respect to Performance Tests

LENDING TEST

Sonora Bank's performance under the lending test is Satisfactory. The loan-to-deposit (LTD) ratio is reasonable and a majority of the bank's primary loan products originated within its AA. Sonora Bank's distribution of residential loans to LMI borrowers and in LMI census tracts (CT) is below area demographics, but is explainable and discussed below. The bank's distribution of small business loans reflects a reasonable distribution to businesses of all sizes and in all CTs within the AAs.

Loan-to-Deposit Ratio

Sonora Bank's LTD ratio is reasonable given the bank's size, financial condition, economic condition, and AA credit needs. We reviewed the quarterly average LTD ratios for the quarters beginning December 2008 through December 2013. The bank's ratio averaged 70.52 percent over the last 21 quarters, with a high of 80 percent and a low of 59 percent. The bank's average LTD compares favorably among similarly situated banks.

| Institution | Total Assets (000's) as of December 31, 2013 | Avg. Quarterly LTD Ratio 12/31/2008 – 12/31/2013 |
|--|--|--|
| Crockett National Bank, Ozona, Texas | \$440,149 | 96.86% |
| First National Bank of Sonora, Sonora, Texas | \$339,642 | 70.52% |
| Bank & Trust, SSB, Del Rio, Texas | \$410,688 | 61.97% |
| Ozona National Bank, Ozona, Texas | \$218,655 | 59.38% |
| Texas State Bank, San Angelo, Texas | \$235,508 | 49.79% |
| First National Bank of Mertzon, Mertzon, Texas | \$362,464 | 20.86% |

Lending in Assessment Area

A majority of the residential and small business loans originated during the evaluation period were within the bank's AA. Sonora Bank meets the standard for satisfactory performance for lending in the AA. An analysis of the HMDA and commercial loan sample disclosed 86 percent of the residential and small business loans originated within the AA with 74 percent of the total loan dollars in the combined AAs.

| Lending in Assessment Area | | | | | | | | | | |
|-----------------------------------|-----------------|--------------|-----------|--------------|------------|------------------|--------------|-----------------|--------------|-----------------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Purchase | 178 | 84.36 | 33 | 15.64 | 211 | \$19,201 | 76.90 | \$5,768 | 23.10 | \$24,969 |
| Home Improvement | 96 | 87.27 | 14 | 12.73 | 110 | \$3,493 | 57.53 | \$2,579 | 42.47 | \$6,072 |
| Refinance | 127 | 88.19 | 17 | 11.81 | 144 | \$14,244 | 81.54 | \$3,225 | 18.46 | \$17,469 |
| Commercial | 17 | 85.00 | 3 | 15.00 | 20 | \$2,845 | 56.67 | \$2,175 | 43.33 | \$5,020 |
| Totals | 418 | 86.19 | 67 | 13.81 | 485 | \$39,783 | 74.32 | \$13,747 | 25.68 | \$53,530 |

Source: Data reported under HMDA and December 31, 2013 Loan Trial Balance

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

Although lending to some LMI borrowers is below area demographics, the overall distribution of the bank’s residential loans in the AAs is reasonable. Distribution of loans to small businesses reflects a reasonable penetration to businesses of all sizes.

Sutton County-Schleicher County-Crockett County AA

Residential Loans

Sonora Bank’s distribution of home purchase loans and refinancing among LMI borrowers is below comparative demographics. However, the bank does have a reasonable distribution of home improvement loans to LMI borrowers. Home improvement loans significantly exceed local demographic information to low-income borrowers.

We considered the AA as primarily rural with a population of 11,308. The weighted average of median year built is 1970, which explains the large percentage of home improvement loans to low-income borrowers. The moderate poverty level of 14 percent may make it more challenging for many of the individuals in the area to qualify for a home loan.

| Borrower Distribution of Residential Real Estate Loans in Sutton-Schleicher-Crockett Co Assessment Area | | | | | | | | | |
|--|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|--|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | | |
| Loan Type | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | |
| Home Purchase | 16.31 | 2.50 | 11.31 | 2.50 | 20.86 | 25.00 | 51.52 | 70.00 | |
| Home Improvement | 16.31 | 38.24 | 11.31 | 8.82 | 20.86 | 0.00 | 51.52 | 41.18 | |
| Refinance | 16.31 | 7.14 | 11.31 | 7.14 | 20.86 | 7.14 | 51.52 | 78.57 | |

Source: Data reported under HMDA; U.S. Census data.

Small Business Loans

Sonora Bank’s distribution of loans to small businesses reflects excellent penetration among businesses of different sizes. Our sample of 20 loans reflected the bank originated 100 percent of these loans to businesses with revenues less than \$1 million. This significantly exceeds the AA demographic information which reports 63 percent of the businesses have less than \$1 million in gross revenues.

| Borrower Distribution of Loans to Businesses in Sutton-Schleicher-Crockett Co Assessment Area | | | | |
|--|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 62.50% | 3.80% | 33.70% | 100% |
| % of Bank Loans in AA by # | 100% | 0% | 0% | 100% |
| % of Bank Loans in AA by \$ | 100% | 0% | 0% | 100% |

Source: Loan sample; Dunn and Bradstreet data.

San Angelo Texas MSA (Tom Green County and Irion County)

Residential Loans

Sonora Bank’s distribution of home purchase loans, home improvement loans and refinancing among low-income borrowers is below comparative demographics. The bank does have a reasonable distribution of home purchase loans and refinance loans to moderate-income borrowers. Home improvement loans are in line with local demographic information to moderate-income borrowers.

The AA is near significant oil and gas production, which has increased the price of housing. Residents are spending 35 – 50 percent of income on housing. Based on the 2013 weighted average of HUD updated MSA median family income, low-income families have an income level of \$27.7 thousand. The low level of income and the 2013 median housing value of \$97.5 thousand may inhibit low-income families from qualifying for a home. The weighted average of median housing value has increased 51 percent from 2008 (\$64.7 thousand) to 2013 while the low-income level has only increased 12.6 percent from \$24.6 thousand in 2008. In addition, the bank faces strong competition in the area. There are 16 banks with 33 branches in Tom Green County alone.

| Borrower Distribution of Residential Real Estate Loans in San Angelo Texas MSA Assessment Area | | | | | | | | |
|---|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans |
| Home Purchase | 21.88 | 2.99 | 18.37 | 14.18 | 19.36 | 14.93 | 40.39 | 50.75 |
| Home Improvement | 21.88 | 12.73 | 18.37 | 18.18 | 19.36 | 21.82 | 40.39 | 38.18 |
| Refinance | 21.88 | 3.67 | 18.37 | 13.76 | 19.36 | 18.35 | 40.39 | 57.80 |

Source: Data reported under HMDA; U.S. Census data.

Small Business Loans

Sonora Bank’s distribution of loans to small businesses reflects excellent penetration among businesses of different sizes. Our sample of 20 loans reflected the bank originated 100 percent of these loans to businesses with revenues less than \$1 million. This significantly exceeds the AA demographic information which reports 71 percent of the businesses have less than \$1 million in gross revenues.

| Borrower Distribution of Loans to Businesses in San Angelo Texas MSA Assessment Area | | | | |
|---|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 70.89% | 3.52% | 25.59% | 100% |
| % of Bank Loans in AA by # | 100% | 0% | 0% | 100% |
| % of Bank Loans in AA by \$ | 100% | 0% | 0% | 100% |

Source: Loan sample; Dunn and Bradstreet data.

Kendall County

Residential Loans

Sonora Bank’s distribution of home purchase loans, home improvement loans, and refinancing among LMI borrowers is below comparative demographics. Home improvement loans slightly exceed local demographic information to low-income borrowers. The bank originated the majority of the loans to upper-income families, which represent 59 percent of families in the AA.

The bank faces strong competition in the AA. There are 11 banks with 13 branches serving the county’s 33,410 residents. The 2013 weighted average of median housing value is \$245.2 thousand while the 2013 weighted average of HUD updated MSA median family income is \$61.3 thousand. The low-income level is \$30.7 thousand and moderate-income level is \$49 thousand, which may make it challenging to qualify for a home loan.

| Borrower Distribution of Residential Real Estate Loans in Kendall Co Assessment Area | | | | | | | | |
|---|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans |
| Home Purchase | 11.88 | 0.00 | 12.89 | 0.00 | 15.87 | 0.00 | 59.36 | 100.00 |
| Home Improvement | 11.88 | 14.29 | 12.89 | 0.00 | 15.87 | 0.00 | 59.36 | 85.71 |
| Refinance | 11.88 | 0.00 | 12.89 | 0.00 | 15.87 | 0.00 | 59.36 | 100.00 |

Source: Loan sample; Dunn and Bradstreet data.

Small Business Loans

Sonora Bank’s distribution of loans to small businesses reflects reasonable penetration among businesses of different sizes. Our sample identified the bank originated 95 percent of loans originated to businesses with revenues less than \$1 million and 83 percent of the loan dollar volume. This significantly exceeds the AA demographic information which reports 75 percent of the businesses have less than \$1 million in gross revenues.

| Borrower Distribution of Loans to Businesses in Kendall Co Assessment Area | | | | |
|---|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 75.12% | 2.60% | 22.28% | 100% |
| % of Bank Loans in AA by # | 95% | 5% | 0% | 100% |
| % of Bank Loans in AA by \$ | 83.14% | 16.86% | 0% | 100% |

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

The Sutton/Schleicher/Crockett Counties AA and Kendall County AA would not provide a meaningful analysis since there are no low- or moderate- income tracts within the AA. We analyzed geographic distribution within the San Angelo Texas MSA AA. Sonora Bank’s geographic distribution of residential loans and small business loans within the San Angelo Texas MSA AA is reasonable and meets the satisfactory standards when considering the performance context.

San Angelo Texas MSA

Residential Loans

Sonora Bank’s performance in LMI CTs is below comparative demographic information. However, there is only one low-income CT in the AA with less than two percent of the housing units. The low-income CT represents only 2.32 percent of the total population. Therefore, lending in the low-income CT reflects adequate dispersion. Lending in the moderate-income CTs reflects good dispersion with the percentage of loans in line or exceeding the area demographic information.

| Geographic Distribution of Residential Real Estate Loans in San Angelo Texas MSA Assessment Area | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Purchase | 1.31 | 0.00 | 25.73 | 26.87 | 44.47 | 49.25 | 28.49 | 23.13 |
| Home Improvement | 1.31 | 0.00 | 25.73 | 18.18 | 44.47 | 56.36 | 28.49 | 25.45 |
| Refinance | 1.31 | 0.92 | 25.73 | 18.35 | 44.47 | 55.96 | 28.49 | 24.77 |

Source: Data reported under HMDA; U.S. Census data.

Small Business Loans

Sonora Bank’s geographic distribution of business loans reflects reasonable dispersion of loans throughout the AA and meets the standard for satisfactory performance. The percentage of loans in moderate-income CT is below area demographic information while the percentage of loans in the low-income CT exceeds the area demographic information.

| Geographic Distribution of Loans to Businesses in San Angelo Texas MSA Assessment Area | | | | | | | | |
|--|----------------------------|-----------------|----------------------------|-----------------|----------------------------|-----------------|----------------------------|-----------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses / Farms | % of # of Loans | % of AA Businesses / Farms | % of # of Loans | % of AA Businesses / Farms | % of # of Loans | % of AA Businesses / Farms | % of # of Loans |
| Businesses | 10.96 | 15 | 15.76 | 10 | 43.50 | 60 | 29.42 | 15 |

Source: Loan sample; Dunn and Bradstreet data.

Responses to Complaints

Sonora Bank has not received any complaints pertaining to the bank’s performance under CRA.

COMMUNITY DEVELOPMENT TEST

Sonora Bank’s overall performance under the CD test is satisfactory.. The bank has an adequate level of CD loans, CD services, or qualified investments in its AAs and in the broader statewide regional area, which includes the AAs.

Number and Amount of Community Development Loans

Sonora Bank originated two loans totaling \$1 million, which qualified as CD loans during this evaluation period. These included loans for housing/care for disabled individuals and a charter school.

The bank did not originate any CD loans in the Sonora/Schleicher/Crockett County AA and the Kendall County AA; however, the bank originated one loan in the broader statewide regional area to entities located in communities where there is a need. In 2013, the bank made a loan commitment of \$956 thousand (\$432 thousand funded) to provide funds for improvements to a charter school located in a moderate-income tract that targets disadvantaged children, including low-income. The school is located in Bexar County, which is adjacent to the bank's Kendall County AA.

Based on a full-scope review, performance in the San Angelo Texas MSA AA is adequate. In 2013, the bank made one \$70 thousand loan to a company that provides housing/care to intellectually challenged individuals. This company is located in San Angelo, Texas.

Number and Amount of Qualified Investments

Sonora Bank made adequate investments, grants, and donations to organizations providing community services to LMI individuals and families in each AA.

Sonora Bank invested \$1 million in a small business investment company (SBIC), which serves a broader southern region area of the United States, including the bank's AAs. This Dallas based SBIC raises capital to provide needed long-term subordinated debt and equity capital to growth-oriented small- and lower-middle market businesses located primarily in the South Central U.S.

Based on a full-scope review, performance in the Sonora/Schleicher/Crockett County AA is adequate. In 2012 and 2013, the bank made five donations totaling \$2.5 thousand for qualifying CD services, such as Good Samaritan Community Services and the West Texas Rehabilitation Center.

Based on a full-scope review, performance in the San Angelo Texas MSA AA is adequate. In 2012 and 2013, the bank made 18 donations totaling \$6.3 thousand for qualifying CD services such as the United Way of the Concho Valley, Meals for the Elderly, West Texas Boys Ranch, and the West Texas Rehabilitation Center.

Based on a full-scope review, performance in the Kendall County AA is adequate. In 2012 and 2013, the bank made five donations totaling \$3.5 thousand for qualifying CD services such as Hill Country Family Services, the United Way of Kendall County, and Rebuilding Together.

Extent to Which the Bank Provides Community Development Services

Sonora Bank provided a satisfactory level of CD services in its AAs during the evaluation period. Based on full-scope reviews, performance in the

Sutton/Schleicher/Crockett County AA, San Angelo Texas MSA AA, and Kendall County AA the is adequate.

Several bank officers provide financial technical assistance through leadership roles as Board members, directors, or committee chairpersons to organizations whose primary purpose is community development.

Examples of these organizations, include, but are not limited to:

- United Way - A 501C3 non-profit organization with a mission to improve lives by mobilizing the caring power of communities. Part of their initiative is to cut in half the number of lower-income families who are financially unstable.
- Rebuilding Together - A 501C3 charity, which is dedicated to the repair and rehabilitation of homes of military veterans and their families, the poor, elderly and handicapped.

Other CD services Sonora Bank is involved in include:

- Junior Achievement and financial education - These programs help prepare young individuals for the real world by teaching them how to generate and effectively manage wealth, how to create jobs in their communities, and how to apply entrepreneurial thinking in the work place. Sonora Bank employees volunteered to provide this program to students at various schools in Kendall County. These schools had a moderate number of students on free or reduced price lunch programs.
- Meals on Wheels Association - Provides meals to seniors who are in need. Sonora Bank employees in Sutton and Tom Green Counties volunteered to help deliver meals to seniors in need. Ninety percent of the seniors are in the low and moderate income groups.
- Hill Country Daily Bread - Part of their mission is to provide food, resources and training to low income families. Sonora Bank in Kendall County volunteered to deliver food to five area families.
- Toys for Tots - Sponsored by the U.S. Marine Corps. The primary goal of Toys for Tots is to deliver, through a new toy at Christmas, a message of hope to less fortunate youngsters that will assist them in becoming responsible, productive, patriotic citizens. At all Sonora Bank locations, collection boxes are placed where employees as well as customers donate toys.

Responsiveness to Community Development Needs

Responsiveness to community development needs is satisfactory. Sonora Bank has demonstrated adequate responsiveness to credit and community economic development needs in its AAs. The bank's CD activities have been primarily in CD loans, community services and in a SBIC investment.

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.