



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 22, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Llano National Bank
Charter Number 17606

1001 Ford Street
Llano, Texas 78643

Office of the Comptroller of the Currency

10001 Reunion Place Blvd Suite 250 San Antonio, TX 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 Outstanding].

Llano National Bank's (LNB) lending performance meets the standards for outstanding performance in meeting the known credit needs of its community.

- The bank's quarterly loan-to-deposit (LTD) ratio of 69% is above average. LNB's LTD is outstanding considering the rural location, lending opportunities, and asset size of the bank.
- The vast majority of loans were made within the bank's assessment area (AA). Approximately 90% of the dollar volume of loans was to borrowers within the AA.
- LNB demonstrates a willingness to lend to businesses of different sizes and families of different income levels. According to the sample, 87% of the dollar volume of loans to businesses is made to those with revenues below \$1MM. Penetration exceeds standards and is considered excellent performance. Additionally, the bank meets standards regarding their penetration of residential real estate loans to LMI families.

SCOPE OF EXAMINATION

LNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The bank's two largest loan products as of March 31, 2011 were commercial and residential real estate. The two products represent 70% of the banks total lending.

The commercial and residential real estate lending test for LNB cover its performance from January 1, 2008 through December 31, 2010, and is representative of its lending strategy since the last CRA exam dated November 27, 2006. The current year was not included in the evaluation. CRA examination guidelines state at least two quarters of information must be present to use the current year. The CRA exam was conducted before the second quarter's conclusion.

DESCRIPTION OF INSTITUTION

LNB is an intrastate bank headquartered in Llano, Texas. Assets totaled approximately \$119 million as of March 31, 2011. The bank is owned by independent shareholders. The majority of shareholders live in Llano County. LNB has four locations offering standard banking services Monday through Friday with limited hours on Saturday. In addition to the main bank in Llano, branch locations include:

- Super S Branch in Llano, TX
- Buchanan Dam Branch in Buchanan Dam, TX
- Hill Country National Bank in Burnet, TX (a branch of LNB)

Automated teller machines (ATMs) are available at all branch locations. Drive-through banking

services are offered at all branches with the exception of the in-store branch located inside the Llano Super S.

There are no legal, financial, or other factors hindering the bank’s ability to help meet the credit needs in its AA. The previous CRA examination is dated November 27, 2006, and LNB was rated “Satisfactory” under the small bank criteria.

As of March 31, 2011, loans totaled approximately \$73 millions which is 61% of total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Summary by Loan Product March 31, 2011		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial (Including Real Estate)	33,439	46.24%
Residential	17,364	23.87%
Consumer	9,560	13.22%
Agricultural/Farm	11,414	15.78
Other Loans	541	0.75%
Total	72,318	100%

LNB offers standard deposit and loan products. Personal account options include regular checking, NOW, and money market accounts. In addition, LNB offers Texas Rose Club Checking which provides customers with \$10 thousand in accidental death and dismemberment insurance. A monthly fee is associated with this product. The bank also offers standard savings and time accounts including an Individual Retirement Account (IRA). Other products and services available include debit and ATM cards, safe deposit boxes, coin counting, and internet banking. Internet banking gives customers instant access to their account balances, funds transfers, and bill pay. Loan products include various types of real estate lending, various types of consumer lending, agricultural lending, commercial lines of credit, and Small Business Association (SBA) loans.

DESCRIPTION OF ASSESSMENT AREA(S)

The Community Reinvestment Act requires a financial institution to define the AA in which it will be evaluated. LNB has one AA consisting of Llano and Burnet counties. The AA includes fourteen census tracts ranging from middle to high income. Burnet County is more densely populated with 43M residents according to the 2010 census information. Populations of both counties have increased significantly since the 2000 census. See table below for demographic information.

Demographic Information for Llano National Bank AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	14	0	0	7	7
Population by Geography	51,191	0	0	56.26%	43.74%
Owner Occupied Housing Units by	16,670	0	0	52.39%	47.61%

Geography					
Businesses by Geography	5554	0	0	60.91	39.09
Farms by Geography	257	0	0	40.08	59.92
Family Distribution by Income Level	15,111	13.82	16.26	21.04	48.88
Household Distribution by Income Level	21,056	17.16	15.08	18.38	49.38
Census Median Family Income (MFI)	43,995	Median Housing Value			93,341
HUD – Adjusted MFI: 2010	43,995	Households Below the Poverty Level			9.89%
HUD – Adjusted MFI: 2009	43,995	Unemployment Rate			1.57%
HUD – Adjusted MFI: 2008	43,995				

The AA is located in close proximity to the Austin, Texas metropolitan statistical area. The area is home to several lakes, and is a popular vacation and retirement destination. LNB operates in a rural area with a fair amount of competition. Economic conditions within the AA are better than the national economy as it is home to many affluent families. According to 2009 statistics, 14% of Americas lived in poverty while 10% of households in the AA are below the poverty level. The majority of the 21M households are considered part of the upper income level.

According to the US Bureau of Labor Statistics, the May 2011 unemployment rate for the nation was 9.1%, and unemployment for the state of Texas was 8%. Unemployment rates in the AA are well below national and state averages at 1.6%.

The main employers in the area include the two counties, City of Burnet, City of Llano, Llano ISD, Burnet Consolidated ISD, Llano Healthcare and Memorial, Seton Highland Lakes, and BATTERY Hardware. Farming, ranching, and granite mining continue to be the main industries for the area as well. Of the 5,811 business, 94% are single location businesses with their sole operations located within the AA. The majority of businesses (81.5%) have revenues below \$1 million.

In conducting the assessment of the bank's performance, we contacted a member of the community within each county. The contact from the Llano Chamber of Commerce stated the area's economy has remained steady despite the Nation's recession. The contact's perception of the bank's involvement in the community was positive, and noted exceptional involvement within the school district with projects such as Project Graduation and booster clubs. The contact from the Burnet Chamber of Commerce stated that the bank is active in the community and responsive to credit needs. The bank does not have any formalized LMI housing programs, but does a good job of working with borrowers to meet their needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending Test

CB’s performance under the lending test is outstanding considering the performance context and needs of its AA.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) has been averaged over the past eighteen quarters since the last CRA exam. The LTD for LNB averaged 68.9%, and has remained fairly steady over the previous quarters. To assess LNB’s performance, we compared it with three other similarly situated banks. LTD ratios ranged from 54.7% to 66.9% with the average of all four institutions being 63%. First State Bank of Burnet represents the lowest LTD ration. LNB is most similar to size with Arrowhead Bank whose ratio is also similar. LNB’s LTD is more than reasonable considering the rural location, lending opportunities, and asset size. The bank is meeting the needs of their community, and therefore displaying outstanding performance in regards to CRA standards.

INSTITUTION	ASSETS (000s) As of 3/31/2011	AVERAGE QUARTERLY LTD RATIO As of 3/31/2011
First State Bank of Burnet	\$186,549	54.67%
Arrowhead Bank	\$126,496	66.91%
Cattleman’s National Bank	\$76,751	61.35%
Llano National Bank	\$117,934	68.92%

Lending in Assessment Area

The majority of the number and dollar amount of loans were made within the assessment area. Out of the first twenty loans reviewed in the commercial sample, only two were found to be outside of the bank’s AA. The residential real estate sample also resulted in a penetration of 90% inside the AA. A total dollar volume of \$2.5 million in loans were reviewed in both samples. About 90% or \$2.2 million of the total dollar amount of loans was inside the AA. Overall, a substantial majority of the sample was located inside the AA. The bank is doing an exceptional job of allocating their lending with in their AA. The following table illustrates the results of our analysis.

Table 1 - Lending in Llano and Burnet County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	18	90%	2	10%	20	\$867,353	95.64%	\$39,550	4.36%	\$906,903
Residential RE	18	90%	2	10%	20	\$1,367,209	86.37%	\$215,719	13.63%	\$1,582,928
Totals	36	90%	4	10%	40	\$2,234,562	89.75%	\$255,269	10.25%	\$2,489,831

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

[Residential Real Estate]

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels. Based on our loan sample, loans originated to low-income borrowers are slightly below demographic data. Low income borrowers represent 14% of the AA, and 10% of loans in the sample were made to low-income borrowers. Loans originated to moderate-income borrowers are considerable higher than demographic data. The sample showed that 30% of LNB’s loans were made to moderate-income borrowers while only 16% of the families in the AA were moderate-income families. The bank is satisfactorily meeting the credit needs for residential real estate within the AA.

The following table details the bank’s performance as compared to the percentage of households in each census tract income level:

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 RE	13.82%	10%	16.26%	30%	21.04%	10%	48.88%	50%

[Commercial Loans]

The distribution of loans to businesses exceeds the standards set forth by CRA regulations. Based on our sample, the vast majority of the number and dollar volume of loans were made to businesses with revenues below \$1MM. Demographic data showed that about 80% of businesses in the AA had revenues below \$1MM. Only 15% of loans were made to business with revenues over \$1MM while 85% of the loans were originated to small businesses. This exceeds demographic data which indicates excellent penetration among small businesses.

The following table details the bank’s performance as compared to the percentage of businesses below the \$1MM threshold:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	80.64%	2.38%	16.98%	100%
% of Bank Loans in AA by #	85%	15%	0	100%
% of Bank Loans in AA by \$	86.77%	13.23%	0	100%

Geographic Distribution of Loans

LNB’s AA has no LMI census tracts. Therefore, a meaningful geographic distribution analysis could not be performed.

Responses to Complaints

LNB has received no complaints in response to their CRA performance.

Fair Lending or Other Illegal Credit Practices Review

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