



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 9, 2012

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

THE National Bank  
Charter Number: 24555

2040 1st Street A  
Moline, IL 61265

Office of the Comptroller of the Currency

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.

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## **INSTITUTION'S CRA RATING:**

**THE National Bank (“TNB”) is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the bank’s rating include:

- TNB’s distribution of loans to individuals of different income levels and to businesses of different sizes is reasonable. The distribution of loans by income level of the borrower is reasonable in all assessment areas (“AAs”).
- The geographic distribution of loans in low- and moderate-income census tracts (“CT”) is reasonable.
- A majority of the loans originated by TNB are to customers from within its AA.
- TNB’s average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the credit needs of the AAs.
- TNB’s community development performance demonstrates a reasonable responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

## **Scope of Examination**

This Performance Evaluation assesses TNB’s record of meeting the credit needs of the communities in which it operates. We evaluated TNB under the Intermediate Small Bank performance criterion, which includes a lending test and a community development test. The lending test evaluates a bank’s record of helping to meet the credit needs of its assessment area through its lending activities. The community development test evaluates a bank’s community development lending, qualified investment, and community development service activities.

- The evaluation period covers loans originated or purchased from June 15, 2009 through August 31, 2012. However, we will be excluding loans originated in 2012 from analysis for Geographic Distribution and for Lending to Borrowers of Different Incomes and to Businesses of Different Sizes. Loans originated in 2012 must be analyzed using 2010 census data. The 2010 census data had not been released as of this examination.
- TNB has five AAs, generating a majority of the bank’s loans and deposits. The Quad Cities AA and the Northwestern Illinois AA received a full-scope review, while

the Waukesha County AA, the Central Illinois AA, and the Kane/Kendall County AA received limited-scope reviews. The Quad Cities AA accounts for seventy-three percent of the bank's lending activity and sixty-five percent of the deposit activity, thus we weighed the performance from this AA more than performance in the other AAs. We based the lending test on TNB's primary loan products.

- We based conclusions regarding the bank's lending performance on residential mortgages and commercial loans originated or purchased from January 1, 2010 through August 31, 2012, utilizing 2000 census data. The performance of residential loans will receive more weight because they represent sixty-five percent of originations.
- We reviewed residential related loans reported under the Home Mortgage Disclosure Act ("HMDA") for the years 2010, 2011, and through August 31, 2012.
- We conducted Data Integrity reviews of the HMDA data by comparing information from the bank's loan application registers to actual loan files. We found the HMDA data to be accurate and reliable for use in this examination.
- TNB is not required to maintain CRA data on small business lending outside of the individual credit files. Thus, we reviewed a sample of commercial loans from the Quad Cities AA, while for the other AAs we reviewed the total population of commercial loans originated during the lending test period to assess the lending to businesses of different sizes.

## **Description of Institution**

TNB is a \$1 billion interstate financial institution located on Interstates 74 and 80, along the Mississippi River in the Quad Cities area of Northwestern Illinois and Eastern Iowa. The main office is located in Bettendorf, IA with a drive-up facility and automated teller machine ("ATM"). TNB has twenty-seven branches, nineteen are full-service facilities, and eight are limited service facilities. All full-service branches, except one, have a drive-up facility and ATM. TNB has thirty-five ATMs located throughout the AA and twenty-five are deposit taking machines.

TNB is a wholly-owned subsidiary of National Bancshares, Inc., a one-bank holding company headquartered in Bettendorf, Iowa. The holding company also owns National Bancshares Capital Trust II and III which are wholly-owned, non-consolidated subsidiaries. The bank's affiliates do not negatively impact the bank's ability to meet the credit needs of the community.

Since the previous CRA evaluation, TNB has opened, closed, and sold several branch offices. In the Quad Cities AA, TNB opened three limited services branches, closed three branches that were consolidated into nearby full-service branches, and sold the branch in Aledo, Illinois. TNB opened new branch offices in Elgin, Illinois and Pewaukee, Wisconsin to replace existing branch locations in those respective areas, and opened limited service branches in Yorkville and St. Charles, Illinois. Also, TNB

closed one of two branch offices in Mt. Carroll, Illinois, consolidating all accounts and activities into the remaining branch.

TNB's strategy is to remain an independent, community bank, while providing traditional, quality banking services and products with new, innovative and technology driven delivery systems to meet the needs of the customers in the communities they serve.

TNB's two primary lending products are commercial and residential real estate loans. These two lending categories account for ninety-five percent of all loan originations during the evaluation period and make up eighty-seven percent of the bank's total outstanding loan balance as of June 30, 2012. Thus, we used these two lending products for analysis in this evaluation. Agricultural and consumer lending are not primary loan products, accounting for five percent of all loan originations during the evaluation period and the remaining thirteen percent of the bank's total outstanding loan balance as of June 30, 2012.

<b>Table 1 – Loan Originations by Loan Type from January 1, 2010 through August 31, 2012</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>Percent</b>
Residential Loans	\$ 487,250	65%
Commercial Loans	\$ 223,555	30%
Consumer Loans	\$ 23,300	3%
Agricultural Loans	\$ 14,226	2%
<b>Total Originations</b>	<b>\$ 748,331</b>	<b>100%</b>

*Source: Bank Records from January 1, 2010 – August 31, 2012*

As of June 30, 2012, TNB reported \$579 million in outstanding loans and a net loans and leases to total assets ratio of 57 percent. The loan portfolio consists of:

<b>Table 2 – Loan Portfolio Summary by Loan Type June 30, 2012</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>Percent</b>
Commercial Loans	\$ 418,880	72%
Residential Loans	\$ 86,841	15%
Agricultural Loans	\$ 42,022	7%
Consumer Loans	\$ 31,462	6%
<b>Total Loans</b>	<b>\$ 579,205</b>	<b>100%</b>

*Source: June 30, 2012 Call Report*

TNB's performance for this evaluation period was hindered by the downturn in the local and national economies; incurring net losses in 2009, 2010, and 2011, and being placed under a regulatory enforcement action (Formal Agreement) by the Office of the Comptroller of the Currency from January 2011 to August 2012. These factors had a

greater impact on community development and commercial loan origination than on residential loan origination. The bank reported Tier 1 capital of \$94 million as of June 30, 2012. The bank's previous CRA rating as of June 15, 2009, was Outstanding.

## **Selection of Areas for Full-Scope Review**

TNB currently has operations in the Davenport-Moline-Rock Island Multistate MSA ("Quad Cities AA"), the State of Illinois and the State of Wisconsin. We performed a full-scope review on the Quad Cities AA because the bank has branch facilities in both the Iowa and Illinois portions of the Multistate MSA. The Quad Cities AA accounts for the majority of bank deposits - \$544 million, or sixty-five percent of total bank deposits as of September 30, 2012.

To assess performance in the State of Illinois, we also performed a full-scope review of the Northwestern Illinois AA. This AA has the next highest level of deposits - \$137 million, or seventeen percent of total bank deposits and seventy-four percent of all Illinois assessment area deposits as of September 30, 2012.

TNB's presence in Wisconsin consists of one branch and one ATM. TNB's market presence is negligible with 0.09 percent of the deposit market share or forty-eighth in the Milwaukee MSA. The Waukesha AA accounts for the lowest level of deposits - \$52 million, or six percent of total bank deposits as of September 30, 2012. The population of loans originated in the Waukesha AA was not sufficient to perform a statistically valid analysis. There were fifteen residential and eleven commercial loan originations during the evaluation period. Thus, a review of the Waukesha AA was not meaningful.

## **Ratings**

The bank's overall rating is a blend of the Quad Cities AA and State of Illinois ratings. The Quad Cities AA received the most weight in our assessment, as it accounts for sixty-five percent of TNB deposits by dollar as of September 30, 2012.

## **Conclusions with Respect to Performance Criteria**

### **Lending Test**

TNB meets the standards for satisfactory performance.

- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AAs, including the low- and moderate-income census tracts.

- A majority of the loans originated by TNB are to customers from within its AAs.
- TNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs.

### Loan-to-Deposit Ratio

TNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly loan-to-deposit ratio averaged sixty-seven percent over thirteen quarters from June 30, 2009 to June 30, 2012, with a low of sixty-one percent and a high of seventy-six percent.

The bank's loan-to-deposit ratio compares less favorably with other community banks of similar size in the AA. TNB ranks ninth out of ten similarly situated banks, which includes TNB. The nine other banks have an average loan-to-deposit ratio of eighty-two percent ranging from a low of fifty-six percent to a high of one-hundred percent.

### Lending in Assessment Area

A majority of the loans originated by TNB are to customers within its AA. TNB's lending to customers within the AA for commercial and residential real estate loans 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.

<b>Table 3 – Loans Originated within the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	845	60%	560	40%	1,405	\$103,733	46%	\$119,822	54%	\$223,555
Residential	2,016	68%	947	32%	2,963	\$276,246	57%	\$210,949	43%	\$487,175
Totals	2,861	66%	1,507	34%	4,368	\$379,979	53%	\$330,771	47%	\$710,730

*Source: Bank records on new loans originated from January 1, 2010 through June 30, 2012, and HMDA-LARs from January 1, 2010 through August 31, 2012.*

### 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.

## **Multistate Metropolitan Area Rating**

### **Davenport-Moline-Rock Island Multistate MSA #19340**

**CRA Rating for the Quad Cities AA<sup>1</sup>: Satisfactory.**

**The Lending test is rated: Satisfactory.**

**The Community development test is rated: Satisfactory.**

The major factors that support this rating include:

- The distribution of loans by income level of the borrower and to businesses of different sizes is reasonable. The performance for residential mortgage loans is reasonable and the performance for loans to businesses is reasonable.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA. The performance for commercial loans is reasonable and the performance for residential loans is reasonable.
- Community development activity reflects an adequate responsiveness to community needs.

## **DESCRIPTION OF OPERATIONS IN THE QUAD CITIES AA**

TNB operates six limited-service, ten full-service branch offices, and eighteen ATMs within the Quad Cities AA of Iowa and Illinois. The bank's Quad Cities AA consists of Scott County, Iowa, and Rock Island and Henry counties in Illinois. Sixty-five percent of the bank's deposits are attributed to the Quad Cities AA. The AA accounts for sixteen, or fifty-nine percent, of the bank's branches, eighteen, or fifty-one percent, of its ATMs, and \$544 million, or sixty-five percent, of total bank deposits as of September 30, 2012. Residential mortgage and commercial business loans are the primary credit products.

TNB ranks fifth in deposit market share among all financial institutions in the Quad Cities AA per the June 30, 2012, Deposit Market Share Report from the FDIC. Deposits in the AA total \$580 million and represent eight percent of the market. Major competitors include Wells Fargo Bank, Blackhawk State Bank, Quad City Bank and Trust, and U. S. Bank, with sixteen, eleven, ten, and eight percent of the deposit market share, respectively.

The local economy is considered stable. The September 2012 unemployment rates for the three counties within the AA are below the 7.8 percent national average. The September 2012 unemployment rates for the respective counties are: Rock Island County at 7.2 percent and Henry County at 6.4 percent. Both compare favorably to the

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<sup>1</sup>This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

8.8 percent average for the State of Illinois. Meanwhile, the September 2012 unemployment rate for Scott County of 5.8 percent is above the 5.2 percent average for the State of Iowa. The economy of the AA is concentrated in the retail, healthcare, manufacturing, and agricultural industries. Major employers include: Caterpillar, Inc., Deere & Company, Inc., Rock Island Arsenal, Tyson Fresh Meats, Inc., Alcoa, Inc., Genesis Health System, Trinity Regional Health System, the local school districts, and city, county, and state governmental entities.

During the examination, we contacted a local business promotional and development official. The contact stated the economy in the local area is modestly better than in other parts of Illinois and Iowa, and remains a good area for business expansion possibilities. The official indicated the primary credit needs in the assessment area are commercial and small business loans. She felt TNB and several other local financial institutions were actively meeting the credit needs of the area. The official indicated several area banks, including TNB are actively involved with affordable housing programs in the Quad Cities area. The contact indicated there are no credit needs or banking services not met or provided for by the local financial institutions. The contact stated that most of the financial institutions in the area are responsible corporate citizens.

Refer to Appendix A for more detailed information regarding the bank's AA in this Multistate Metropolitan Area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE QUAD CITIES AA**

### **LENDING TEST**

The bank's performance under the lending test in the Quad Cities AA is rated Satisfactory.

TNB meets the standards for satisfactory performance.

- The distribution of loans to individuals of different income levels and businesses of different sizes is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA, including low- and moderate-income CTs.

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

## **Commercial Loans**

The distribution of loans to businesses reflects, given the demographics of the AA, reasonable penetration among businesses of different sizes. Based on the number of commercial loan originations from our sample, sixty-nine percent of the loans in the AA were originated to small businesses. Meanwhile, forty-one percent of the dollar amount of commercial loans originated in the AA was to small businesses. The disparity between the number and the dollar amount of loans to small businesses in the AA sample is due to the size variation in the businesses. The average loan amount in the sample of loans to small businesses was \$237 thousand, while the average loan amount to businesses with annual gross revenues greater than one million dollars was \$764 thousand. Small businesses are businesses with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows sixty-six percent of businesses reporting revenue data have annual gross revenues equal to or less than one million dollars.

The following table shows the distribution of commercial loans among businesses of different sizes within the AA:

<b>Table 4 – Borrower Distribution of Loans to Businesses of Different Sizes in the Quad Cities AA</b>					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	20	69%	66%	\$ 4,731	41%
>\$1,000,000	9	31%	3%	\$ 6,874	59%
Total	29	100%	69%	\$11,605	100%

Source: Bank records on new loans originated from January 1, 2010 to December 31, 2011; 2000 Census Data.

\*\* 31 percent of AA businesses did not report revenue data.

## **Residential Real Estate Loans**

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels. The distribution of residential related loans based on the HMDA data is reasonable.

TNB's lending to low- and moderate-income borrowers is reasonable. TNB's lending to moderate-income borrowers is above the percentage of moderate-income families in the AA. Lending to low-income borrowers is below the percentage of low-income families in the AA. Although the lending to low-income borrowers is below the percentage of low-income families in the AA, this is considered reasonable given that eight percent of families in the AA are below the poverty level.

**Table 5 – Borrower Distribution of Residential Real Estate Loans  
in the Quad Cities AA**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number						
Residential	19%	12%	19%	22%	24%	22%	38%	44%

*Source: HMDA records on loans originated or purchased from January 1, 2010 to December 31, 2011; 2000 Census Data.*

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects a reasonable dispersion throughout the Quad Cities AA.

### **Commercial Loans**

TNB's geographic distribution of commercial lending reflects a reasonable dispersion in census tracts of different income levels, including in low- and moderate-income census tracts. Based on the commercial loans originated in the evaluation period, the percentage of commercial loans originated in the low-income CTs is reasonable and above the level of commercial businesses located in these CTs. Meanwhile, the percentage of commercial loans originated in the moderate-income CTs is reasonable and equal to the level of commercial businesses located in these CTs.

**Table 6 – Geographic Distribution of Loans to Businesses  
in the Quad Cities AA**

CT Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number						
Commercial	5%	6%	17%	17%	50%	51%	28%	26%

*Source: Bank records on new loans originated during 2010 through December 31, 2011; 2000 Census Data.*

## **Residential Real Estate Loans**

TNB's geographic distribution of residential lending reflects a reasonable dispersion throughout the census tracts of different income levels, including low- and moderate-income CTs. The percentage of residential loans originated in low-income CTs is equal to the level of owner-occupied housing located in low-income CTs, while the percentage originated in the moderate-income CTs is below the level of owner-occupied housing.

<b>Table 7 – Geographic Distribution of Residential Real Estate Loans in the Quad Cities AA</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	1%	1%	15%	10%	60%	50%	24%	39%

*Source: HMDA records on loans originated or purchased from January 1, 2010 to December 31, 2011; 2000 Census Data.*

## **Responses to Complaints**

TNB has received no 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 in the Quad Cities AA is rated Satisfactory. TNB's overall community development performance demonstrates adequate responsiveness to the community development needs in the Quad Cities AA through community development loans, qualified investments, and community development services.

## **Number and Amount of Community Development Loans**

TNB originated two community development loans totaling \$612 thousand over the evaluation period, including:

- TNB renewed a loan for \$162 thousand in 2012 to provide short-term funds to a local development organization. This organization develops affordable housing for low- and moderate-income individuals and creates permanent jobs in the Quad Cities AA.

- TNB made a \$450 thousand loan to a start-up business, which is redeveloping a former industrial site located in a moderate-income tract in the Quad Cities AA. The redevelopment will create a strip mall in this moderate-income census tract, which will create full-time and part-time job opportunities.

### **Number and Amount of Qualified Investments**

TNB has made a total of \$39,220 in cash contributions and donations to community development organizations assisting low- and moderate-income individuals and families within the Quad Cities AA. Some of the notable qualifying grants and donations are as follows:

- \$ 21,120 to Community Health Care
- \$ 11,075 to the Scott County Housing Council

### **Extent to Which the Bank Provides Community Development Services**

Delivery systems are reasonably accessible to individuals of different income levels. TNB operates ten full-service offices, six limited-service offices, and eighteen ATMs in the Quad Cities AA. TNB has four branch offices and six ATMs located in moderate-income CTs. The remaining locations are located in middle- or upper-income CTs. Extended hours are available at all drive up locations and three offices have Sunday hours. The bank's loan and deposit products are available at all branch locations. TNB employees also provided thirteen service activities, involving eleven different organizations, during the evaluation period. Bank personnel frequently share their financial expertise by serving as Board members and officers for organizations that promote revitalization, economic development, affordable housing, and social services targeted to low- and moderate-income persons.

### **Responsiveness to Community Development Needs**

TNB is responsive to community development opportunities throughout the Quad Cities AA. Community development activity addressed revitalization and economic development needs and provided services to low- and moderate-income individuals.

## State Rating

### State of Illinois

**CRA Rating for Illinois<sup>2</sup>: Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors that support this rating include:

- The distribution of loans by income level of the borrower and to businesses of different sizes is reasonable. The performance for residential mortgage loans is reasonable and the performance for loans to businesses is reasonable.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA. The performance for commercial loans is reasonable and the performance for residential loans is reasonable.
- Community development activity reflects an adequate responsiveness to community needs.

### DESCRIPTION OF OPERATIONS IN ILLINOIS

TNB has three assessment areas in the State of Illinois – two are non-metropolitan areas (Northwestern Illinois AA and the Central Illinois AA) and the third includes portions of the Chicago MSA (Kane/Kendall County AA). As of September 30, 2012, these assessment areas collectively accounted for ten, or thirty-seven percent, of the bank's branches, seventeen, or forty-seven percent, of the bank's ATMs, and \$239 million, or twenty-nine percent, of its deposit base. The Northwestern Illinois AA has the most deposits at \$137 million, representing fifty-eight percent of all Illinois assessment area deposits and sixteen percent of total bank deposits. Refer to Appendix A for a more detailed listing of the bank's Illinois assessment areas.

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<sup>2</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ILLINOIS**

### **LENDING TEST**

The bank's performance under the lending test in Illinois is rated Satisfactory.

TNB meets the standards for satisfactory performance.

- The distribution of loans to individuals of different income levels and businesses of different sizes is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA, including low- and moderate-income CTs.

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

#### **Commercial Loans**

The distribution of loans to businesses reflects, given the demographics of the AA, reasonable penetration among businesses of different sizes. Based on the number of commercial loan originations, seventy-three percent of the loans in the AA were originated to small businesses. Meanwhile, fifty-one percent of the dollar amount of commercial loans originated in the AA was to small businesses. The disparity between the number and the dollar amount of loans to small businesses in the AA sample is due to the size variation in the businesses. The average loan amount in the sample of loans to small businesses was \$44 thousand, while the average loan amount to businesses with annual gross revenues greater than one million dollars was \$115 thousand. Small businesses are businesses with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows seventy-one percent of the businesses reporting revenue data have annual gross revenues equal to or less than one million dollars.

The performance in the Kane/Kendall County AA is consistent with that of the Northwestern Illinois AA. There was an insufficient volume of loans originated in the Central Illinois AA to perform a statistically valid analysis. All loans originated were to small businesses.

The following table shows the distribution of commercial loans among businesses of different sizes within the AA:

**Table 8 – Borrower Distribution of Loans to Businesses of Different Sizes in the Northwestern Illinois AA**

Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	33	73%	71%	\$1,461	51%
>\$1,000,000	12	27%	3%	\$1,375	49%
Total	45	100%	74%	\$2,836	100%

Source: Bank records on new loans originated from January 1, 2010 to December 31, 2011; 2000 Census Data.

\*\* 26 percent of AA businesses did not report revenue data.

**Table 9 – Borrower Distribution of Loans to Businesses of Different Sizes in the Kane/Kendall County AA**

Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	25	78%	68%	\$10,821	91%
>\$1,000,000	7	22%	4%	\$ 1,073	9%
Total	32	100%	72%	\$11,894	100%

Source: Bank records on new loans originated from January 1, 2010 to December 31, 2011; 2000 Census Data.

\*\* 28 percent of AA businesses did not report revenue data.

### **Residential Real Estate Loans**

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels. The distribution of residential related loans based on the HMDA data is reasonable.

TNB's lending to low- and moderate-income borrowers is reasonable. TNB's lending to moderate-income borrowers is well above the percentage of moderate-income families in the AA. Lending to low-income borrowers is below the percentage of low-income families in the AA. Although the lending to low-income borrowers is below the percentage of low-income families in the AA, this is considered reasonable given that six percent of families in the AA are below the poverty level.

TNB's performance of lending to low- and moderate-income borrowers in the Kane/Kendall County AA and in the Central Illinois AA is consistent with that of the Northwestern Illinois AA. The poverty level for the Central Illinois AA is seven percent and for Kane/Kendall County is four percent.

**Table 10 – Borrower Distribution of Residential Real Estate Loans  
in the Northwestern Illinois AA**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number						
Residential	14%	10%	19%	27%	25%	23%	42%	40%

*Source: HMDA records on loans originated or purchased from January 1, 2010 to December 31, 2011; 2000 Census Data.*

**Table 11 – Borrower Distribution of Residential Real Estate Loans  
in the Kane/Kendall County AA**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number						
Residential	12%	12%	15%	20%	26%	23%	47%	45%

*Source: HMDA records on loans originated or purchased from January 1, 2010 to December 31, 2011; 2000 Census Data.*

**Table 12 – Borrower Distribution of Residential Real Estate Loans  
in the Central Illinois AA**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number						
Residential	18%	11%	22%	21%	24%	26%	36%	42%

*Source: HMDA records on loans originated or purchased from January 1, 2010 to December 31, 2011; 2000 Census Data.*

## Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA. The geographic distribution of loans was limited to the Northwestern Illinois and Kane/Kendall County AAs because there are no low- or moderate-income CTs in the Central Illinois AA; therefore the analysis would not be meaningful. Also, we took into consideration that the two moderate-income CTs in the Northwestern Illinois AA are located in Sterling, Illinois. TNB's presence in Sterling is limited, with one small branch office and a small, three percent market share of the deposits.

### Commercial Loans

TNB's geographic distribution of commercial lending reflects a reasonable dispersion in CTs of different income levels, including moderate-income CTs. Based on commercial loans originated in the evaluation period, the percentage of commercial loans originated in the moderate-income CTs in the Northwestern Illinois AA is well below the level of commercial businesses located in those CTs. Meanwhile, the percentage of commercial loans originated in the moderate-income CTs in the Kane/Kendall County AA is equal to the level of commercial businesses located in those CTs.

**Table 13 – Geographic Distribution of Loans to Businesses  
in the Northwestern Illinois AA**

CT Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number						
Commercial	0%	0%	6%	2%	82%	87%	12%	11%

*Source: Bank records on new loans originated during 2010 through December 31, 2011; 2000 Census Data.*

**Table 14 – Geographic Distribution of Loans to Businesses  
in the Kane/Kendall County AA**

CT Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number						
Commercial	0%	0%	6%	6%	44%	52%	50%	42%

*Source: Bank records on new loans originated during 2010 through December 31, 2011; 2000 Census Data.*

## **Residential Real Estate Loans**

TNB's geographic distribution of residential lending reflects a reasonable dispersion throughout the CTs of different income levels, including moderate-income CTs. The percentage of residential loans originated in moderate-income CTs is well below the level of owner-occupied housing located in the Northwestern Illinois AA, while the percentage of residential loans originated in moderate-income CTs in the Kane/Kendall County AA is above the level of owner-occupied housing.

<b>Table 15 – Geographic Distribution of Residential Real Estate Loans in the Northwestern Illinois AA</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	0%	0%	8%	3%	80%	81%	12%	16%

*Source: HMDA records on loans originated or purchased from January 1, 2010 to December 31, 2011; 2000 Census Data.*

<b>Table 16 – Geographic Distribution of Residential Real Estate Loans in the Kane/Kendall County AA</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number
Residential	0%	0%	3%	4%	49%	39%	48%	57%

*Source: HMDA records on loans originated or purchased from January 1, 2010 to December 31, 2011; 2000 Census Data.*

## **Responses to Complaints**

TNB has received no 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 in Illinois AAs is rated Satisfactory. TNB's overall community development performance demonstrates adequate responsiveness to the community development needs in the Illinois AAs through community development loans, qualified investments, and community development services.

### **Number and Amount of Community Development Loans**

TNB has four qualifying loans totaling \$615 thousand originated during the evaluation period.

- TNB originated a loan for \$382 thousand to a local business, located in a moderate-income CT. This business relocated to the bank's Northwestern Illinois AA and created permanent job opportunities.
- TNB renewed a loan for \$92 thousand to a start-up manufacturing business in the Northwestern Illinois AA. This loan allowed the business to continue to operate and created six permanent jobs.
- TNB renewed a loan to a local custom woodworking company for \$43 thousand. This business relocated to the bank's Northwestern Illinois AA and created one permanent job.
- TNB renewed a commercial real estate loan for \$98 thousand to a restaurant located in a moderate-income CT in the Northwestern Illinois AA. This restaurant supports several job opportunities for low- and moderate-income people.

### **Number and Amount of Qualified Investments**

TNB has two qualified investments, totaling \$1.52 million, which assist low- and moderate-income individuals.

- TNB purchased \$1.4 million in municipal bonds, which funded the rehabilitation of a moderate-income CT in the city of Canton, Illinois. The city built a medical center on this moderate-income census tract creating permanent job opportunities.
- TNB purchased \$120 thousand in bonds to fund the revitalization and improvement of a city park in Savanna, Illinois. This is located in a moderate-income CT and the money will be used for protecting and improving the park's land.

### **Extent to Which the Bank Provides Community Development Services**

Delivery systems are reasonably accessible to individuals of different income levels. TNB operates eight full-service offices, two limited-service offices, and seventeen ATMs

in the Illinois AAs. TNB has one branch office and four ATMs located in moderate-income CTs. The remaining locations are located in middle- or upper-income CTs. Extended hours are available at all drive up locations. The bank's loan and deposit products are available at all branch locations.

TNB employees also provided six service activities, involving six different organizations, during the evaluation period. Bank personnel frequently share their financial expertise by serving as Board members and officers for organizations that promote revitalization, economic development, affordable housing, and social services targeted to low- and moderate-income people.

### **Responsiveness to Community Development Needs**

TNB is responsive to community development opportunities throughout the Illinois AAs. Community development activity addressed revitalization and economic development needs and provided services to low- and moderate-income individuals.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received a comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: January 1, 2010 to August 31, 2012 Community Development Test: June 15, 2009 to October 9, 2012	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
THE National Bank 2040 1 <sup>st</sup> Street A, Moline, Illinois 61265	Residential mortgages, commercial loans, community development loans, qualified investments, and qualified services.	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
We did not consider any affiliate activity in this evaluation.		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
<u>Multi-State Metropolitan Areas:</u>  Davenport-Moline-Rock Island IA-IL MMA#19340 – Quad Cities AA	Full Scope	All of MMA#19340 except for Mercer County in Illinois. AA consists of two Illinois counties (Henry & Rock Island) and one Iowa county (Scott).
<u>State of Illinois:</u>  Northwestern Illinois AA	Full Scope	Carroll County and Whiteside County, Illinois.
Kane/Kendall County AA	Limited Scope	A portion of Kane County and all of Kendall County, Illinois, which are part of the Chicago MD#16974.
Central Illinois AA	Limited Scope	All of Fulton and Mason Counties, Illinois.
<u>State of Wisconsin:</u>  Waukesha County AA	Limited Scope	A portion of Waukesha County, WI, which is part of the Milwaukee MSA#33340.

## Market Profile Tables

### Quad Cities AA

The following is demographic information for the assessment area:

Table 17 - Demographic Information for the Quad Cities AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	99	4%	26%	51%	19%
Population by Geography	359,062	3%	18%	57%	22%
Owner-Occupied Housing by Geography	102,053	1%	15%	60%	24%
Businesses by Geography	32,851	5%	17%	50%	28%
Farms by Geography	1,880	1%	7%	67%	25%
Family Distribution by Income Level	95,869	19%	19%	24%	38%
Distribution of Low- and Moderate-Income Families throughout the AA	10,662	5%	25%	56%	14%
Median Family Income	\$50,823	Median Housing Value		\$85,605	
2011 HUD Adjusted Median Family Income for MSA	\$64,100	Median Year Built		1958	
Families Below the Poverty Level	8%	Average Monthly Gross Rent		\$463	

Source: 2000 U.S. Census Data

### Northwestern Illinois AA

The following is demographic information for the assessment area:

Table 18 - Demographic Information for the Northwestern Illinois AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	24	0%	8%	79%	13%
Population by Geography	77,327	0%	9%	80%	11%
Owner-Occupied Housing by Geography	22,844	0%	8%	80%	12%
Businesses by Geography	6,326	0%	6%	82%	12%
Farms by Geography	761	0%	1%	85%	14%
Family Distribution by Income Level	21,650	14%	19%	25%	42%

Distribution of Low- and Moderate-Income Families throughout the AA	928	0%	13%	79%	8%
Median Family Income	\$46,624	Median Housing Value			\$76,422
2011 HUD Adjusted Median Family Income for Illinois non- MSA	\$56,600	Median Year Built			1954
Families Below the Poverty Level	6%	Average Monthly Gross Rent			\$446

Source: 2000 U.S. Census Data

### Central Illinois AA

The following is demographic information for the assessment area:

Table 19 - Demographic Information for the Central Illinois AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	18	0%	0%	100%	0%
Population by Geography	54,288	0%	0%	100%	0%
Owner-Occupied Housing by Geography	16,253	0%	0%	100%	0%
Businesses by Geography	3,852	0%	0%	100%	0%
Farms by Geography	594	0%	0%	100%	0%
Family Distribution by Income Level	14,970	18%	22%	24%	36%
Distribution of Low- and Moderate-Income Families throughout the AA	0	0%	0%	100%	0%
Median Family Income	\$41,854	Median Housing Value			\$58,934
2011 HUD Adjusted Median Family Income for Illinois non- MSA	\$56,600	Median Year Built			1951
Families Below the Poverty Level	7%	Average Monthly Gross Rent			\$400

Source: 2000 U.S. Census Data

### Kane/Kendall County AA

The following is demographic information for the assessment area:

<b>Table 20 - Demographic Information for the Kane/Kendall County AA</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	28	0%	14%	54%	29%
Population by Geography	178,053	0%	8%	50%	42%
Owner-Occupied Housing by Geography	47,888	0%	3%	49%	48%
Businesses by Geography	18,012	0%	5%	44%	50%
Farms by Geography	571	0%	2%	59%	39%
Family Distribution by Income Level	46,197	12%	15%	26%	47%
Distribution of Low- and Moderate-Income Families throughout the AA	1,578	0%	13%	59%	28%
Median Family Income	\$70,908	Median Housing Value		\$167,053	
2011 HUD Adjusted Median Family Income for MSA	\$76,200	Median Year Built		1971	
Families Below the Poverty Level	4%	Average Monthly Gross Rent		\$685	

Source: 2000 U.S. Census Data

### Waukesha County AA

The following is demographic information for the assessment area:

<b>Table 21 - Demographic Information for the Waukesha County AA</b>					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	31	0%	3%	39%	58%
Population by Geography	152,259	0%	1%	40%	59%
Owner-Occupied Housing by Geography	41,288	0%	0%	34%	66%
Businesses by Geography	14,420	0%	3%	40%	57%
Farms by Geography	227	0%	1%	38%	61%
Family Distribution by Income Level	41,417	9%	14%	25%	52%
Distribution of Low- and Moderate-Income Families throughout the AA	162	0%	2%	54%	44%

Median Family Income	\$71,830	Median Housing Value	\$164,507
2011 HUD Adjusted Median Family Income for MSA	\$72,300	Median Year Built	1974
Families Below the Poverty Level	2%	Average Monthly Gross Rent	\$720

*Source: 2000 U.S. Census Data*

## Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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<b>RATINGS – THE National Bank</b>			
	<b>Lending Test Rating</b>	<b>Community Development Test Rating</b>	<b>Overall Bank/State/Multistate Rating</b>
<b>Overall Bank:</b>			
THE National Bank	Satisfactory	Satisfactory	Satisfactory
<b>Multi-State Metropolitan Area or State:</b>			
Quad City AA	Satisfactory	Satisfactory	Satisfactory
State of Illinois	Satisfactory	Satisfactory	Satisfactory