



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

November 27, 2006

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Llano National Bank
Charter Number 17606**

**1001 Ford Street
Llano, TX 78643**

**Office of the Comptroller of the Currency
San Antonio – North Field Office
10101 Reunion Place Blvd., Suite 402
San Antonio, Texas 78216-4165**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated "Satisfactory."

- Llano National Bank's (LNB) lending performance is good given its size, financial condition, and the known credit needs in its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio exceeded the lending performance of other similarly sized and situated peer competitors, and has averaged 64% for this evaluation period. Peer banks averaged 60% for this evaluation period.
- A substantial majority of LNB's loans are within its AA.
- Given the demographic characteristics of the bank's AA, LNB has met the standard for satisfactory distribution of loans to individuals of varying incomes and businesses of different sizes.
- LNB has demonstrated an excellent willingness to extend loans to borrowers with low to moderate incomes (LMI).
- There have been no complaints with respect to LNB's CRA performance.

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DESCRIPTION OF INSTITUTION

LNB is headquartered in the city of Llano, Llano County, Texas, which is approximately 70 miles northwest of Austin. The bank has not opened nor closed any branches since the last examination. LNB maintains the following branches in addition to its main location in Llano:

- Branch located inside of the local Super S grocery store in Llano, Texas (Llano County).
- Lake Buchanan branch located at Buchanan Dam, Texas (Llano County).
- The Hill Country National Bank branch located in Burnet, Texas (Burnet County).

LNB maintains an automatic teller machine (ATM) in the Super S grocery store and at the Lake Buchanan branch. LNB also has drive-through facilities located behind the main bank branch in Llano, the full service branch in Lake Buchanan and the Hill Country National Bank branch in Burnet County.

About four years ago, the bank had a voluntary buyback of shares. The number of shareholders reduced from 350 to 300. However, the bank is still 100% owned by independent shareholders, a majority of which reside in Llano County.

The bank's primary lending products include residential, consumer, commercial and agricultural

loans. Total loans as of September 30, 2006, amounted to \$47.5 million, comprising 57% of total assets. The bank promotes economic development in its AA through its lending programs. The following table reflects a detailed breakdown of LNB's loan portfolio as of September 30, 2006.

Loan Type	Dollar Amount (\$000's)	% of Total Loans
Real Estate (RE) Construction	\$4,428	9.2%
RE Farmland	\$217	0.4%
RE Residential (1-4)	\$7,732	16.0%
RE Multifamily Residential	\$0	0.0%
RE Non-Farm Non-Residential	\$20,533	42.5%
Agricultural Production	\$3,929	8.1%
Commercial and Industrial	\$5,106	10.6%
Consumer	\$6,065	12.6%
States and Political Subdivisions	\$0	0.0%
Other	\$277	0.6%
Less: Any unearned income	-\$2	0.0%
Total	\$48,285	100.0%

Bank lobby services are provided Monday through Friday in all of the bank's branches, and the Super S grocery store branch offers lobby services on Saturday as well. The branches at the main bank, Lake Buchanan, and the Hill Country National Bank all offer drive-through services Monday through Saturday.

LNB faces competition from other banks located within its AA as well as those located outside of the AA. The following is a listing of some of the banks that compete directly against LNB.

Bank Name	Average Assets
Mason National Bank	\$67,647
Cattleman's National Bank	\$71,599
Arrowhead Bank	\$105,621
Security State Bank and Trust	\$548,975
Franklin Bank, SSB	4,930,533

**Average assets are in 000's; data based on 9/30/2006 UBPR.

These financial institutions either are based out of the city of Llano or have branches located within LNB's AA.

LNB has the ability to meet the credit needs of its community. This is based on its prior CRA performance, financial condition, the products offered and the competition it faces.

At the last CRA examination (with a report date of October 28, 2002), LNB received a "Satisfactory" rating. No other legal impediments or other factors hinder its ability to provide credit in its AA.

DESCRIPTION OF LLANO AND BURNET COUNTIES

LNB has designated Llano and Burnet Counties as its AA, which includes the cities of Llano and Burnet and Kingsland, Horseshoe Bay, Valley Springs, and Marble Falls. Specific demographic and economic data for this area is listed in the following table.

Demographic and Economic Characteristics of AA	
Population	
Number of Families	15,111
Number of Households	21,056
Geographies	
Number of Census Tracts/Block Numbering Area (BNA)	14
% Low-Income Census Tracts/BNA	0.0%
% Moderate-Income Census Tracts/BNA	0.0%
% Middle-Income Census Tracts/BNA	50.0%
% Upper-Income Census Tracts/BNA	50.0%
Median Family Income (MFI)	
2000 MFI for AA	\$36,380
2004 HUD-Adjusted MFI	\$42,000
2005 HUD-Adjusted MFI	\$42,000
2006 HUD-Adjusted MFI	\$43,100
Economic Indicators	
Unemployment Rate	1.27%
2006 Median Housing Value	\$93,341
% of Households Below Poverty Level	10.00%

This AA meets the requirements of the regulation. There are no LMI geographies within the bank's AA. However, in our analysis of LNB's lending performance, we noted that the bank does a good job of lending to LMI borrowers.

Based on 2000 Census data, the AA has a combined population of 51,191, with 27,762 housing units. Of this number, 60% are owner-occupied, 16% are renter-occupied, and 24% are vacant. Approximately 14% of families in the AA are considered low-income. Moderate-income families comprise approximately 16%. Middle- and upper-income families comprise the remaining 70%. The local economy is considered good with an unemployment rate of 1.27%. Major employers include the City of Llano, Llano County, Llano Independent School District, Llano Memorial Hospital, Llano Cabinets, Buttery Hardware, and Central Texas Coop (local electric company).

As part of our assessment, we contacted one community leader during this examination - First Vice President Morrison Smith of the Llano Chamber of Commerce. He was pleased with LNB's performance within the local economy. Mr. Smith stated the bank is active in the community and responsive to its credit needs. While the bank does not have any formalized LMI housing programs, it has done a good job of working with borrowers to meet their needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has satisfactorily met the credit needs of its AA, according to the random sampling we performed. While there are no identified LMI census tracts for this examination, there are LMI individuals within the bank's AA. The bank has done a good job of lending to individuals of different income levels. The bank's loan distributions compare favorably to AA demographics.

Loan-to-Deposit Ratio

The bank's LTD ratio exceeds the lending performance of other similarly sized and situated competitors. We averaged the LTD from the date of the last CRA examination. This time frame included the fourth quarter 2002 to the third quarter 2006. The LTD for the competitor banks used as part of this assessment averaged 60% overall (averaging the LTDs of the 3 competitors used as part of the assessment). LNB's LTD ratio averaged 64% over the same time period. The bank's LTD ratio is reasonable based on the institution's size, financial condition, and the credit needs of the AA.

Loan-to-Deposit Ratios		
<i>Banks</i>	<i>Average Assets (\$000s)</i>	<i>**LTD Ratios</i>
Mason National Bank	\$ 67,647	85.03%
Llano National Bank	\$ 76,788	64.08%
Arrowhead Bank	\$ 105,621	50.23%
Cattleman's National Bank	\$ 71,599	45.92%

***Based on quarterly averages from 4Q02 through 3Q06*

Lending in Assessment Area

A substantial majority of the bank's loans were made within its AA. In order to assess performance for these criteria, we reviewed a sample of 20 commercial real estate loans, 24 consumer loans, and 21 residential loans originated since our last CRA evaluation. The following table provides a breakdown of the total loans that we reviewed. Of the loans reviewed, 89% were made within the bank's AA.

Total Loans Reviewed				
<i>Loan Type</i>	<i>In AA</i>		<i>Out of AA</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Consumer	24	96	1	4
1-4 Family	21	88	3	12
Commercial Real Estate	20	83	4	17
Total Reviewed	65	89	8	12

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

The distribution of loans reflects very good penetration of lending to LMI borrowers and businesses of different sizes, given the demographics of the AA. The tables below reflect the distribution of the 24 consumer and 21 residential loans from our sample. LNB continues to provide a necessary service to residents of its AA by not implementing minimum loan limits for its borrowers.

Residential Real Estate								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	14		16		21		49	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	43	41	29	22	19	24	10	13

Consumer								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Households	17		15		18		49	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	50	41	25	38	17	12	8	9

As part of our sampling, we reviewed 20 commercial real estate loans. The majority of these type loans have been made to small businesses with revenues of less than \$1 million. Management continues to focus on providing loans that will enhance the local economy. The following table shows our analysis of the 20 commercial real estate loans that we sampled.

Borrower Distribution of Small Loans to Businesses		
Business Revenues	<=\$1,000,000	>\$1,000,000
% of AA Businesses	95	5
% of Bank Loans in AA #	85	15
% of Bank Loans in AA \$	92	8

From our analysis, 85% of the total amount of loans reviewed was made in the AA, with 92% of the dollar amount of the loans being made in the AA.

Geographic Distribution of Loans

There were no LMI census tracts for this evaluation period.

Responses to Complaints

LNB has received no complaints related to its CRA performance.

Fair Lending or Other Illegal Credit Practices Review

An analysis of the bank's compliance with Fair Lending requirements was conducted during this examination period. We found no evidence of disparate treatment. LNB does a good job of providing access to lending to all of its borrowers.