



PUBLIC DISCLOSURE

November 18, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Atascosa National Bank
Charter Number 17434

1525 W. Oaklawn
Pleasanton, TX 78064

Office of the Comptroller of the Currency

San Antonio South Field Office
10001 Reunion Place, Suite 250
San Antonio, TX 78216-4133

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.

Atascosa National Bank (ANB) reflects reasonable lending performance in its efforts to meet community credit needs in its assessment area (AA). Factors that support the rating:

- The average loan-to-deposit (LTD) ratio of 21.8 percent is reasonable given the bank's strategy, competition, lending opportunities, and financial condition.
- A majority of loans originated within the AA.
- The distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- The geographical distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

We evaluated ANB's lending activities using Small Bank CRA Examination Procedures. The examination scope included two evaluation periods, January 1, 2011 through December 31, 2011 (compared to 2000 Census Data) and January 1, 2012 through September 30, 2013 (compared to 2010 Census Data). We identified consumer loans as the bank's primary loan product for both evaluation periods. We selected a sample of 20 consumer loans for each evaluation period, for a total of 40 consumer loans. We used the original sample to determine lending inside the AA and then replaced loans that originated outside the AA with loans originating inside the AA to determine borrower distribution and geographic distribution. Therefore, we based our testing on 20 loans for each evaluation period.

DESCRIPTION OF INSTITUTION

ANB is an independently owned community bank headquartered in Pleasanton, Atascosa County, Texas. ANB offers traditional loan and deposit products and services. The bank has an on-site ATM machine and drive-up facility. ANB sold their second branch located in China Grove in January 2013. Competition is strong in Atascosa County and has increased over the last five years. The competition includes several branches of other community banks, large multi-national banks, credit unions, and finance companies. As of September 30, 2013, net loans of \$10.2 million represented 11.2 percent of total assets. A summary of the bank's lending activity is reflected in the following table.

Loan Portfolio Composition As of September 30, 2013		
Loan Category	\$(000s)	%
Residential Real Estate	1,031	10.1
Commercial Real Estate	3,310	32.4
Construction and Land Dev.	406	4.0
Commercial & Industrial	969	9.5
Consumer	1,659	16.2
Agricultural and Farmland	2,834	27.7
Other Loans	7	0.1
Total Loans	10,216	100

Source: September 30, 2013 Call Report

Although the percentage of consumer loans is less than commercial real estate and agricultural and farmland, the number of commercial real estate and agricultural and farmland loans originated were significantly less. As of November 10, 2013, the bank originated 152 loans of which 60 percent were consumer loans, 2 percent were residential loans, 22 percent were commercial loans, 3 percent were commercial real estate loans, and 14 percent were agricultural/farmland loans.

There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its AA. ANB's previous CRA rating, dated May 5, 2008, was "Satisfactory".

DESCRIPTION OF ASSESSMENT AREA(S)

ANB designated all of Atascosa County and a few census tracts out of Bexar County as its AA. All census tracts are part of the San Antonio Metropolitan Statistical Area (MSA). The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income tracts. Demographic data exhibited Atascosa County had eight census tracts at the 2000 and 2010 Census; however, two tracts switched income-level designation. Atascosa County had three moderate-income census tracts and five middle-income census tracts with the 2000 and 2010 Census. The census tracts in Bexar County increased from three tracts to four tracts with the 2010 Census. The 2000 Census had one moderate-income tract, one middle-income tract, and one upper-income tract, while the 2010 Census has one moderate-income tract and three middle-income tracts.

As per the 2000 Census, the total population in the AA was 53,699 of which 20 percent lived in the moderate-income tracts, 66 percent lived in the middle-income tracts, and 14 percent lived in the upper-income tract. Moderate-income tracts make up 19 percent of total households (18,158). As per the 2010 Census, the total population in the AA increased to 61,008. Atascosa County has a population of 44,911. Thirty percent of the population resides in the moderate-income tracts and the remaining 70 percent resides in the middle-income tracts. The total number of households was 20,262 and 29 percent were located in the moderate-income tracts.

Pleasanton is the largest city in Atascosa County. As per the 2010 US Census, the population totaled 8,934, which represents 20 percent of the county population. Other cities include Jourdanton, Poteet, Lytle, and Charlotte. Atascosa County is within the area of the Eagle Ford Shale and the economy has experienced significant growth in the past three years. The oilfield leases and royalties have provided additional income to residents in the AA. This also brought numerous jobs to the area, as well as, new chain restaurants, chain hotels, retail businesses, and an apartment complex. The city is highly concentrated with financial institutions of varying sizes, therefore, providing robust competition. Two financial institutions opened branches in the city; making the total number of banks in the market share 10 with 12 branches. Other major employers include the independent school district, Wal-Mart, and H-E-B Grocery Company.

We conducted one community contact with a local community organization located in the AA. The contact indicated housing is a primary credit need within the community.

The following table summarizes demographic data from the 2000 and 2010 Census for the AA.

Demographic and Economic Characteristics of Assessment Area		
	2000 Census	2010 Census
Population		
Number of Families	14,322	15,862
Number of Households	18,158	20,262
Number of Owner Occupied Household Units as a % of total Household Units	70.43%	66.95%
Geographies		
Number of Census Tracts	11	12
% Low Income Census Tracts	0%	0%
% Moderate Income Census Tracts	36.36%	33.33%
% Middle Income Census Tracts	54.55%	66.67%
% Upper Income Census Tracts	9.09%	0%
Median Family Income (MFI)		
Weighted Average MFI	\$40,556	\$53,061
2010 HUD updated Statewide MFI	\$57,800	
2011 HUD updated Statewide MFI	\$59,900	
2012 HUD updated Statewide MFI		\$60,800
2013 HUD updated Statewide MFI		\$61,300
Economic Indicators		
Unemployment Rate	3.56%	5.30%
Weighted Average Median Housing Value	\$57,341	\$91,381
% of Households Below Poverty Level	17.42%	15.70%

Source: U.S. Census Data

The table reflects an increase in the unemployment rate; however, this includes unemployment for the census tracts in Bexar County. As per the US Bureau of Labor Statistics, the unemployment rate for Atascosa County was 7.7 percent as of December

31, 2010. As of August 30, 2013, the unemployment rate decreased to 6.3 percent. This is reflective of the economic growth.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

ANB demonstrated satisfactory performance in meeting the identified credit needs of its AA. The loan sample determined the extent of lending within the AA, distribution of loans by borrower income levels, and geographic distributions of loans within the AA.

Loan-to-Deposit Ratio

The quarterly average LTD ratio is reasonable. ANB had a quarterly average LTD ratio of 22 percent for the 22 quarters between March 2008 and June 2013. During this period, the ratio ranged from a low of 12 percent to a high of 33 percent. The LTD ratio compares unfavorably to the similarly situated banks within the AA. During the same period, the similarly situated banks had an average LTD ratio of 39.9 percent. The factors that have affected ANB's LTD ratio include: (1) substantial influx of deposits, and (2) significant and increased competition within the AA. Total deposits increased \$45 million from December 31, 2007 to June 30, 2013; which reached a high of \$95 million at the end of 2012. As previously mentioned, two financial institutions recently moved to the area. In addition, the similarly situated institutions have branches or remain headquartered in cities where there is limited competition from other financial institutions.

The following table reflects the average quarterly LTD ratio over the last 22 quarters.

Institution	Total Assets (000's) As of 6/30/13	Average Quarterly LTD Ratio
Jourdanton State Bank Jourdanton, Atascosa County, Texas	\$145,688	34.41
Atascosa National Bank Pleasanton, Atascosa County, Texas	\$91,086	21.76
Nixon State Bank Nixon, Gonzales County, Texas	\$87,181	39.96
The Lytle State Bank of Lytle, Texas Lytle, Atascosa County, Texas	\$79,797	45.57

The following table shows the total assets and LTD for ANB since the last CRA exam. The table reflects a declining trend in LTD as total assets increased.

	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	6/30/13
Total Assets (000s)	\$48,852	\$51,064	\$65,505	\$75,604	\$102,198	\$91,086
Total Deposits (000s)	\$42,447	\$44,661	\$59,238	\$68,621	\$95,268	\$84,220
LTD Ratio	26.28%	24.48%	19.14%	17.54%	12.18%	11.79%

Lending in Assessment Area

ANB meets the standards for satisfactory performance with the majority of loans originated inside the AA. The following tables reflect the percentages, by number and dollar volume, of loans that originated inside the AA.

2011 Evaluation Period

In this evaluation period, 95 percent of the number, and 97 percent of the dollar volume of loans originated within the AA.

Lending in Assessment Area January 1, 2011 to December 31, 2011										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	19	95	1	5	20	109,726	97	3,117	3	112,843
Totals	19	95	1	5	20	109,726	97	3,117	3	112,843

Source: Loan Sample.

2012-2013 Evaluation Period

In this evaluation period, 85 percent of the number, and 92 percent of the dollar volume, of loans originated within the AA.

Lending in Assessment Area January 1, 2012 to September 30, 2013										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	17	85	3	15	20	271,024	92	22,477	8	293,501
Totals	17	85	3	15	20	271,024	92	22,477	8	293,501

Source: Loan Sample.

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

Overall, ANB meets the standards for satisfactory performance with reasonable penetration of loans to borrowers of difference incomes.

2011 Evaluation Period

Consumer lending activity reflects reasonable penetration of loans originated to borrowers with low- or moderate-income levels. The loan distribution exceeds the percentage of low- and moderate-income levels within the AA.

Borrower Distribution of Consumer Loans in Assessment Area January 1, 2011 to December 31, 2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	23.12	35.00	14.03	25.00	17.90	10.00	44.94	30.00

Source: Loan sample; U.S. Census data.

2012-2013 Evaluation Period

Consumer lending activity reflects reasonable penetration of loans originated to borrowers with low- or moderate-income levels. The loan distribution exceeds the percentage of low- and moderate-income levels within the AA.

Borrower Distribution of Consumer Loans in Assessment Area January 1, 2012 to September 30, 2013								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	26.56	40.00	16.71	35.00	18.94	10.00	37.79	15.00

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans

Overall, ANB meets the standards for adequate performance with reasonable distribution of loans to borrowers in different income levels within the AA.

2011 Evaluation Period

The bank’s AA consists of four moderate-income tracts, six middle-income tracts, and one upper-income tract. The following table reflects the geographic distribution of consumer loans is somewhat lower than the percentage of AA households. The 2000 Census demographic data shows 20 percent of the AA population resides in moderate-income tracts.

Geographic Distribution of Consumer Loans in Assessment Area January 1, 2011 to December 31, 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0.00	0	19.20	15.00	66.03	85.00	14.76	0

Source: Loan sample; U.S. Census data.

2012-2013 Evaluation Period

The bank’s AA consists of four moderate-income tracts and eight middle-income tracts. The following table reflects the geographic distribution of consumer loans is somewhat lower than the percentage of AA households. The 2010 Census demographic data shows 30 percent of the AA population resides in moderate-income tracts.

Geographic Distribution of Consumer Loans in Assessment Area January 1, 2012 to September 30, 2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0.00	0	29.22	20.00	80.00	70.59	0.00	0

Source: Loan sample; U.S. Census data.

Responses to Complaints

ANB did not receive any consumer complaints related to its CRA performance between May 5, 2008 (date of the previous CRA examination) and November 18, 2013 (date of current examination).

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.