



SMALL BANK

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

PUBLIC DISCLOSURE

October 18, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The City National Bank of San Saba
Charter Number 10806**

**209 E. Brown
San Saba, TX 76877**

**Comptroller of the Currency
San Antonio North
10101 Reunion Place Boulevard Suite 402
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 Satisfactory.

- The City National Bank of San Saba's (CNB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio is satisfactory and averaged 23% during the evaluation period. Such performance is reasonable given the available loan demand in the AA.
- A substantial majority of CNB's loans are within its AA.
- CNB has demonstrated an excellent willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- There have been no complaints with respect to CNB's CRA performance.

DESCRIPTION OF INSTITUTION

CNB is headquartered in San Saba, Texas, which is approximately 100 miles northwest of Austin, Texas. CNB operates one main office with a drive-through facility. CNB is 100% owned by CNB Financial Corporation, a one-bank holding company (HC) also located in San Saba. Total assets of the HC as of September 30, 2005 were \$3.4 million.

As of September 30, 2005, CNB had total assets of \$45 million with 24% centered in the loan portfolio. The bank's primary loan products include consumer and agricultural-related loans. The following chart details a breakdown of CNB's loan portfolio as of September 30, 2005.

| Loan Type | Dollar Amount (000's) | % of Total Loans (* Less than 1% |
|-------------------------------|----------------------------------|---|
| Real Estate (RE) Construction | 350 | 3 |
| RE Farmland | 4,901 | 46 |
| RE Residential (1-4) | 298 | 3 |
| RE Nonfarm Nonresidential | 2,120 | 20 |
| Agricultural Production | 798 | 7 |
| Commercial and Industrial | 883 | 8 |
| Consumer | 1,340 | 13 |
| Other | 5 | 0 |
| Total | 52,250 | 100% |

Source: September 30, 2005 Consolidated Report of Condition

CNB has a 24-hour telephone response system that allows customers to obtain account balance information and transfer funds between accounts. CNB faces strong competition from other financial institutions located in San Saba. Based on its financial condition, the local economy, product offerings, competition, and prior performance, CNB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on June 30, 2001. No legal impediments or other factors hinder CNB’s ability to provide credit in its AA.

DESCRIPTION OF SAN SABA COUNTY

CNB has designated all of San Saba County as its AA. Principal communities located in the AA include the City of San Saba, Richland Springs, and Cherokee.

Specific demographic data for this combined area is listed below.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 1,629 |
| Number of Households | 2,290 |
| <i>Geographies</i> | |
| Number of Census Tracts | 2 |
| % Low-Income Census Tracts | 0 |
| % Moderate-Income Census Tracts | 0 |
| % Middle-Income Census Tracts | 2 |
| % Upper-Income Census Tracts | 0 |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | 35,870 |
| 2004 HUD-Adjusted MFI | 42,000 |
| 2005 HUD-Adjusted MFI | 42,000 |
| <i>Economic Indicators</i> | |
| Unemployment Rate | 1.50 |
| 2001 Median Housing Value | \$56,369 |
| % of Households Below Poverty Level | 15 |

This area is made up of contiguous census tracts, which surround and include CNB’s respective business locations. This area meets the requirements of the regulation and does not arbitrarily exclude low- to moderate-income (LMI) geographies. A further description of the AA is presented below.

Based on the 2000 Census data, the AA has a population of approximately 6M (M = 000’s). The two census tracts are classified as middle-income. There are no low- or moderate-income areas in the AA. There are 3M housing units in the AA of which 59% are owner-occupied, 19% renter-occupied, and 22% vacant. Major employers located in and/or adjacent to the AA include school districts, city and county government, the Texas Youth Commission, and service-related organizations. The agricultural industries of ranching and pecans continue to drive San Saba County’s economy.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted the local San Saba County Extension Agent during this evaluation. This individual stated that recent drought conditions have had a negative impact on the agricultural industry. He mentioned that there were no unmet credit needs in the City of San Saba. The contact further stated that CNB is active in the community and responsive to local credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has been successful in meeting the credit needs of CNB's AA, including LMI individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

CNB's LTD ratio is considered satisfactory, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio of 28% achieved on June 30, 2001, was equally matched to that of September 30, 2005. However, the average LTD ratio over the past 17 quarters was 23%, which is slightly below the average 26% during the previous evaluation. Such performance is consistent and reasonable given the dollar volume of public funds (\$9 million) deposited by local government and agencies, and available loan demand in the AA. An LTD ratio of 37% is obtained upon netting out both public funds and participations purchased out of CNB's AA. The asset size and LTD ratio for CNB and its two comparable banks during this period are listed below.

| Institution | Assets as of 09/30/05 | Average LTD Ratio % |
|------------------------------|--------------------------|------------------------|
| The Commercial Bank - Mason | 20,033 | 59.81 |
| Farmers State Bank - Bertram | 27,124 | 22.79 |
| <i>City NB - San Saba</i> | 44,987 | 23.33 |

Lending in Assessment Area

A substantial majority of the bank's loans are made within its AA. The following table shows the bank's lending pattern in and out of the AA by loan type.

| TOTAL LOANS REVIEWED | | | | | | | | |
|----------------------|--------------------|----|-------|----|------------------------|----|-----|----|
| LOAN TYPE | In Assessment Area | | | | Out Of Assessment Area | | | |
| | # | % | \$ | % | # | % | \$ | % |
| Consumer | 25 | 89 | 27 | 95 | 3 | 11 | 1 | 5 |
| Agricultural | 21 | 95 | 2,344 | 85 | 1 | 5 | 415 | 15 |
| Total Reviewed | 46 | 92 | 2,371 | 85 | 4 | 8 | 416 | 15 |

Note: \$ in 000's

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

CNB's loan portfolio reflects an excellent distribution among individuals of various income levels and agricultural businesses of different sizes within the AA. In order to assess the bank's performance within the AA, we sampled 28 consumer and 20 agricultural loans. This loan sample was limited to loans originated from January 2002 through September 2005.

Our analysis determined that CNB lends to all applicants, regardless of their income category. Based on the 2000 Census, 41% of AA households are LMI. Our review determined that 82% of consumer loans were made to LMI households. The following chart reflects the results of our selected sample of consumer loans originated in CNB's AA.

| CONSUMER | | | | | | | | |
|------------------------------|-------------|-------------|-----------------|-------------|---------------|-------------|--------------|-------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| % of AA Households | 24 | | 17 | | 21 | | 38 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 50 | 42 | 32 | 19 | 7 | 5 | 11 | 34 |

CNB originates commercial loans in a manner consistent with area demographics. The bank's distribution of loans to "small businesses with revenues less than \$1 million" is reflective of CNB's focus on providing loans that will enhance the local economy.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES | | |
|---|---------------------|------------------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses | 96 | 4 |
| % of Bank Loans in AA # | 100 | 0 |
| % of Bank Loans in AA \$ | 100 | 0 |

Geographic Distribution of Loans

As previously mentioned, there are no census tracts classified as low- or moderate income in the AA. Therefore, an analysis of loan distribution by geographic area would not be meaningful.

Responses to Complaints

No complaints relating to CRA performance have been received by CNB.

Fair Lending or Other Illegal Credit Practices Review

We performed an analysis of January 2000 through August 2005 public comments and consumer complaint information according to the OCC's risk-based fair lending approach. We also reviewed a Fair Lending report dated October 24, 2005 by the bank's external compliance auditors. The compliance audit did not identify any instances of lending discrimination or other disparate treatment. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination need not be conducted in connection with the CRA evaluation this year.