



PUBLIC DISCLOSURE

September 26, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The City National Bank of Taylor
Charter Number 5275

212 North Main Street
Taylor, Texas 76574-3515

Office of the Comptroller of the Currency
San Antonio North Field Office
10001 Reunion Place
Suite 250
San Antonio, TX 78216-4165

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including any 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The City National Bank of Taylor's (CNBT) lending performance reflects satisfactory response to meeting known credit needs of its community. Factors that support the rating include:

- CNBT's loan-to-deposit (LTD) ratio is reasonable and has increased steadily since the previous examination.
- A majority of home improvement, refinance, and business loans originated inside the assessment area (AA).
- The distribution of loans reflects reasonable penetration to borrowers of different income levels and to businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion.

SCOPE OF EXAMINATION

We evaluated CNBT's lending performance using the Small Bank CRA examination procedures. The evaluation period covered from October 24, 2011, the date of the previous CRA evaluation, to September 26, 2016, the start date of the current evaluation. The bank's primary loan products, residential real estate and commercial loans not secured by real estate, were selected for testing.

To analyze performance, we calculated the quarterly average LTD ratio for the 19 quarters in the evaluation period, and evaluated lending activities for the calendar years 2013 through 2015. The bank's AA includes census tracts (CTs) located in eastern Williamson County, part of the Austin-Round Rock-San Marcos metropolitan statistical area (MSA), making the bank a Home Mortgage Disclosure Act (HMDA) reporter. We determined HMDA data was reliable through our review of the bank's auditing process and data integrity of reported HMDA information. We selected a sample of commercial loans not secured by real estate for analysis and used reported HMDA data to assess CNBT's residential lending performance.

DESCRIPTION OF INSTITUTION

CNBT, an intrastate community bank headquartered in Taylor, Texas, approximately 25 miles northeast of Austin, is wholly-owned by CNB Financial Corporation, Inc., a one-bank holding company. In addition to the main office, the bank also has a lending center and a drive-through banking branch located in Taylor. The bank has eight automated teller machines (ATMs) located in Taylor and the immediately surrounding communities of Thorndale, Granger, and Hutto. Seven of the eight ATMs have deposit-taking capabilities.

There are no legal, financial, or other factors hindering the bank's ability to help meet credit needs in its AA. The previous CRA examination, dated October 24, 2011, assigned an overall "Satisfactory" rating under the small bank performance criteria.

At June 30, 2016, CNBT reported total assets of \$191 million. Loans totaled \$116 million or 61% of total assets and represented 69% of total deposits. As shown in the following table, residential real estate loans comprise the majority of the loan portfolio, followed by commercial loans.

LOAN PORTFOLIO COMPOSITION AS OF JUNE 30, 2016		
<i>Loan Category</i>	<i>Dollar Volume (000's)</i>	<i>Percentage</i>
Residential Real Estate	\$70,982	61%
Commercial	\$28,775	25%
Agriculture	\$13,144	11%
Consumer	\$3,073	3%
Other	\$4	0%
Total:	\$115,978	100%

CNBT offers full banking services, including standard deposit and loan products, Monday through Friday. Personal deposit account options include free Kasasa checking and savings, money market, and Reward Savings. The bank also offers standard savings and time accounts including an individual retirement account (IRA). Other products and services include VISA debit and gift cards, savings bonds, cashier checks, safe deposit boxes, onsite notary, no liability merchant processing programs, remote deposit capture, mobile deposit, CNBT mobile app and online banking. The CNBT mobile app and online banking give customers instant access to their accounts and real time balances, internal and external funds transfers, and bill pay. Customers may also apply for loans online using the bank's web site, www.cnbt.com.

CNBT faces competition from state chartered institutions, credit unions, non-bank financial institutions, mortgage companies, online lenders, and other local and regional national bank chartered institutions for both residential and business loans in the AA. In an effort to increase its loan portfolio, CNBT expanded its origination of 1-4 family residential real estate loans into the Port Aransas, Texas area during this evaluation period. A loan officer of the bank lives and works in this South Texas area. Although this supplemental lending activity is outside the bank's AA, CNBT's primary strategy and focus is meeting the credit needs of its local, Central Texas, community.

DESCRIPTION OF ASSESSMENT AREA

CNBT's AA consists of 16 CTs located in Williamson County. Six of the 16 CTs are moderate-income, nine are middle-income and one is upper-income. There are no low-income CTs in the AA. Cities located within the AA include Taylor, Granger, Hutto and Thrall. The AA meets regulatory requirements, does not reflect discrimination, and does not arbitrarily exclude any low- or moderate-income (LMI) geographies. The following table reflects pertinent information about the AA.

DEMOGRAPHIC INFORMATION FOR WILLIAMSON COUNTY ASSESSMENT AREA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	16	0%	38%	56%	6%
Population by Geography	64,818	0%	28%	60%	12%
Owner-Occupied Housing Units by Geography	16,191	0%	20%	68%	12%
Businesses by Geography	4,033	0%	28%	55%	17%
Farms by Geography	314	0%	36%	58%	6%
Family Distribution by Income Level	16,359	19%	22%	25%	34%
Household Distribution by Income Level	20,764	20%	15%	22%	43%
Census Median Family Income (MFI)	\$71,602	Median Housing Value		\$141,925	
HUD – Adjusted MFI: 2013	\$73,200	Households Below Poverty Level (%)		9.96%	
HUD – Adjusted MFI: 2014	\$75,400	Unemployment Rate (%)		5.82%	
HUD – Adjusted MFI: 2015	\$76,800				

Source: 2010 US Census, 2013 – 2015 FFIEC updated MFI, and Bureau of Labor Statistics

The City of Taylor, centrally located within the AA, has a combined population of 65 thousand. Within the AA, the unemployment rate is 5.8% with a poverty level just under 10%. The AA has a higher unemployment rate than both the State of Texas (4.8%) and the U.S. national average (5%). A majority of the population is located in middle-income CTs, and a majority of households are in upper-income CTs.

Primary industries include services, retail trade and construction. Major employers include Electric Reliability Council of Texas, Taylor ISD, Wal-Mart, and the City of Taylor. Of the 4,033 non-farm businesses, 95% are single location businesses with sole operations located within the AA. The vast majority (83%) of AA businesses have revenues less than or equal to \$1 million.

In conducting the evaluation of CNBT's CRA performance, we contacted a member of the local community to discuss community needs. A contact from the Taylor Economic Development Corporation stated the area has experienced good economic growth that has accelerated as new businesses continue to move into the Taylor area. The contact also commented that the Taylor area needs repairs to existing roads and small dollar retail loans are a popular loan product. The contact mentioned CNBT's involvement with local civic and service clubs, and noted the bank maintains a good reputation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the bank's size, location, competition and credit needs within the AA. During the evaluation period, the average quarterly LTD ratio was 47% and ranged from 33% to a high of 67% at June 30, 2016. To assess CNBT's performance, we compared its average quarterly LTD ratio with three other local, similarly-situated banks. As reflected in the following table, the LTD ratios for the three banks ranged from 23% to 45% with an average of 35%.

INSTITUTION	TOTAL ASSETS (\$000s) As of 06/30/2016	AVERAGE QUARTERLY LTD RATIO As of 06/30/2016
The City National Bank, Taylor, TX	\$191,006	47%
Union State Bank, Florence, TX	\$477,707	45%
Citizens National Bank, Cameron, TX	\$413,458	38%
The Granger National Bank, Granger, TX	\$32,297	23%

Source: Quarterly Call Report data from December 31, 2011 through June 30, 2016

Lending in Assessment Area

CNBT originated a majority of home improvement, refinance, and business loans inside its AA. The following table reflects the percentages, by number and the dollar volume, of loans originated inside and outside the AA.

LENDING IN WILLIAMSON COUNTY ASSESSMENT AREA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	41	22%	148	78%	189	6,006	15%	33,872	85%	39,878
Home Improvement	45	83%	9	17%	54	821	75%	270	25%	1,091
Refinance	42	52%	39	48%	81	4,505	37%	7,620	63%	12,125
Business	13	75%	7	25%	20	403	45%	484	55%	887
Totals	141	41%	203	59%	344	11,735	22%	42,246	78%	53,981

Source: 2013, 2014, and 2015 HMDA data; business loan sample

During the evaluation period, the bank originated 135 home purchase loans totaling \$30 million with collateral in the Port Aransas area. These loans were made by a loan officer who works remotely from her residence in Port Aransas. CNBT does not include the Port Aransas area in its AA as it does not have a branch or deposit-taking ATM in this area. Considering the bank's efforts to originate residential real estate loans in its AA, and that a majority of home improvement and refinance loans originated inside the AA, along with the performance context, CNBT's lending inside its AA is reasonable.

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

CNBT's distribution of loans reflects reasonable penetration to borrowers of different income levels and to businesses of different sizes.

Residential Loans

As shown in the following table, demographic data from the 2010 Census reflects 19% of families in the AA are low-income and 22% of families are moderate-income. The distribution of home purchase and refinance loans to low-income borrowers is somewhat lower than demographic data but reflects reasonable penetration. The distribution of

home improvement loans to low-income borrowers is near to the demographic data and also reflects reasonable penetration. The distribution of home purchase loans to moderate-income borrowers is equal to demographic data and reflects reasonable penetration. The distribution of home improvement loans to moderate-income borrowers exceeds demographic data and reflects excellent penetration. The distribution of refinance loans to moderate-income borrowers is lower than demographic data and reflects poor penetration.

BORROWER DISTRIBUTION OF RESIDENTIAL LOANS IN ASSESSMENT AREA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	19%	10%	22%	22%	25%	20%	34%	49%
Home Improvement	19%	18%	22%	27%	25%	22%	34%	33%
Refinance	19%	10%	22%	7%	25%	29%	34%	55%

Source: 2013, 2014 and 2015 HMDA data; 2010 Census data.

Business Loans

The distribution of business loans exceeds demographic data and reflects excellent penetration. As shown in the following table, 90% of the business loans in our sample originated to businesses with annual revenues equal to or less than \$1 million. Demographic data reflects 83% of the businesses in the AA have annual revenues equal to or less than \$1 million (13% of the businesses did not report revenue).

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN ASSESSMENT AREA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	83%	4%	13%	100%
% of Bank Loans in AA by #	90%	10%	0	100%
% of Bank Loans in AA by \$	95%	5%	0	100%

Source: Business loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion in moderate-income CTs. Since the AA does not include any low-income CTs, our conclusion is based on performance in the moderate-income CTs.

Residential Loans

The geographic distribution of all residential loan types exceeds demographic data and reflects excellent dispersion. As reflected in the following table, 26% of owner-occupied housing is located in moderate-income CTs.

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS IN ASSESSMENT AREA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
<i>Loan type</i>	<i>% of AA Owner Occupied Housing</i>	<i>% of Number of Loans</i>	<i>% of AA Owner Occupied Housing</i>	<i>% of Number of Loans</i>	<i>% of AA Owner Occupied Housing</i>	<i>% of Number of Loans</i>	<i>% of AA Owner Occupied Housing</i>	<i>% of Number of Loans</i>
Home Purchase	0%	0%	26%	37%	63%	63%	12%	0%
Home Improvement	0%	0%	26%	62%	63%	38%	12%	0%
Refinance	0%	0%	26%	31%	63%	67%	12%	2%

Source: 2013, 2014 and 2015 HMDA data, 2010 Census data

Business Loans

The geographic distribution of business loans exceeds demographic data and reflects excellent dispersion. Based on our sample, 29% of loans to businesses originated in moderate-income CTs. Demographic data shows that 28% of businesses in the AA are located in moderate-income CTs.

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN ASSESSMENT AREA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
<i>Loan Type</i>	<i>% of AA Businesses</i>	<i>% of # of Loans</i>	<i>% of AA Businesses</i>	<i>% of # of Loans</i>	<i>% of AA Businesses</i>	<i>% of # of Loans</i>	<i>% of AA Businesses</i>	<i>% of # of Loans</i>
	0%	0%	28%	29%	55%	80%	17%	0%

Source: Business loan sample, Dun and Bradstreet data

Responses to Complaints

CNBT did not receive any complaints related to its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 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 AA 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.