



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 22, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Pekin National Bank
Charter Number 15511

333 Court Street
Pekin, IL 61554

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.

INSTITUTION'S CRA RATING: This institution is rated: Satisfactory

- Pekin National Bank's (PNB) quarterly average loan-to-deposit ratio was 56 percent during the evaluation period, which is reasonable.
- A majority of the loans originated by PNB during the evaluation period were to borrowers within its AA.
- The overall distribution of loans to borrowers of different income levels and businesses of different sizes reflects reasonable penetration.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area (AA).

SCOPE OF EXAMINATION

This Performance Evaluation assesses PNB's record of meeting the credit needs of the communities in which it operates. We evaluated PNB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. We used data from PNB's primary loan products, residential mortgage loans and commercial business loans, to evaluate the bank's lending performance.

This evaluation covers the period from the date of the previous CRA examination, October 2, 2007, through April 22, 2013. The lending test evaluated residential mortgage and commercial loans originated, or purchased, between January 1, 2011 and December 31, 2012. We compared loans originated in 2011 to 2000 census information. We compared loans originated or purchased in 2012 to 2010 census information. Loans originated or purchased in 2012 carried more weight in our conclusion based on lending volume in that year.

We used a random sample of both residential mortgage and commercial loans, originated or purchased during the evaluation period. Our sample included 58 total loans, 39 residential real estate loans and 19 commercial loans. We used these loans to test the level of lending to borrowers of different incomes, businesses of different sizes, and geographic distribution of loans. Our sample was relatively small due to the low-level of originations and purchases during the evaluation period.

DESCRIPTION OF INSTITUTION

PNB is a \$22 million financial institution located in Pekin, Illinois, which is located on the eastern shore of the Illinois River approximately 15 miles south of Peoria, Illinois. PNB has two full-service offices: 329 Court Street and 2121 Sheridan Road in Pekin, Illinois, and one limited-service location: Capitol & Margaret in Pekin, a drive-up only facility. The bank has one Automated Teller Machine (ATM), located at the Sheridan Road

branch office. The bank is a wholly owned subsidiary of PNB Bancshares Inc., a one-bank holding company headquartered in Pekin, Illinois.

Customers may also access their accounts by the Internet. Internet banking services include transfers between PNB accounts, review of account balances or transactions, access loan information, and on-line bill-paying capability through the Internet banking product. PNB also offers debit cards providing customers with additional access to their accounts at point of sale and ATM locations. Since the last CRA evaluation, PNB has not opened or closed any facilities.

PNB has two primary lending products, which are commercial and residential real estate loans. These two loan types account for 94 percent of the dollar amount of all loan originations during the evaluation period. We used these two lending products for the analysis of this evaluation. Real estate loans carried more weight due to loan volume. PNB’s strategy remains that of an independent bank meeting the financial needs of the greater Pekin area.

Loan Originations by Loan Type from January 1, 2011 through December 31, 2012				
Loan Category	\$ (000)	%	#	%
Commercial Loans	\$ 1,674	14%	23	18%
Residential Loans	\$ 9,704	80%	75	60%
Consumer Loans	\$ 721	6%	28	22%
Agricultural Loans	\$ 0	0%	0	0%
Total Originations	\$12,099	100%	126	100%

Source: Bank records on loans originated from January 1, 2011 through December 31, 2012.

As of December 31, 2012, PNB reported net loans and leases of \$10.14 million and had a net loans and leases to total assets ratio of 45 percent. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Type December 31, 2012		
Loan Category	\$ (000)	Percent
Commercial Loans	\$ 2,334	23%
Residential Loans	\$ 6,721	66%
Consumer Loans	\$ 986	10%
Agricultural Loans	\$ 103	1%
Total Loans	\$ 10,144	100%

Source: December 31, 2012 Call Report.

There are no legal or financial impediments to PNB's ability to meet the credit needs of its AA. We rated the bank Satisfactory at our previous CRA examination dated October 1, 2007.

DESCRIPTION OF ASSESSMENT AREA

PN has one assessment area, the Tazewell AA.

Tazewell Assessment Area

PNB has one AA consisting of the West Central portion of Tazewell County, including the communities of Creve Coeur, Marquette Heights, North Pekin, Pekin, South Pekin, and Tremont. PNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The AA includes twelve CTs within Tazewell County, which is part of the Peoria MSA. The entire county is not included in the AA due to the size of Tazewell County and the size and location of PNB. The 2000 U.S. Census data shows the AA contains no low- or upper-income CTs. There are four moderate-income CTs and eight middle-income CTs. The 2010 U.S. Census resulted in several CTs shifting their income level. PNB's AA as of the 2010 census includes four moderate-income CTs, six middle-income CTs, and two upper-income CTs; there are no low-income CTs.

Although the local economy is weak, it is showing signs of improvement. Our community contact said that local businesses are starting to make capital investments again and that the City of Pekin has seen an increase in revenue from sales tax. They described the primary credit need of the community as commercial loans and said there was currently a good mix of affordable housing options in the area.

Major employers in the area include Pekin Hospital, Pekin Insurance, the local government and school districts, a federal prison, and Caterpillar. Competition for financial services in the AA is heavy. A large regional credit union, a local national bank, and branches of larger national and regional banks all serve the AA.

The following tables illustrate demographic information for the assessment area based on the 2000 U.S. Census and 2010 U.S. Census.

Demographic Information for Tazewell AA 2011						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	12	0.00	33.33	66.67	0.00	0.00
Population by Geography	58,097	0.00	35.06	64.94	0.00	0.00
Owner-Occupied Housing by Geography	16,899	0.00	28.89	71.11	0.00	0.00
Business by Geography	3,784	0.00	29.65	70.35	0.00	0.00
Farms by Geography	197	0.00	13.71	86.29	0.00	0.00
Family Distribution by Income Level	15,864	19.76	21.65	25.32	33.27	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	6,569	0.00	42.34	57.66	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		52,122 68,200 8%	Median Housing Value Unemployment Rate (2011 Tazewell County)		82,179 7.70%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2011 HUD updated MFI

(**)Unemployment Data from December 2011 - Illinois Department of Employment Security

Demographic Information for Tazewell AA 2012						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	12	0.00	33.33	50.00	16.67	0.00
Population by Geography	58,909	0.00	28.58	49.94	21.48	0.00
Owner-Occupied Housing by Geography	18,560	0.00	27.55	48.97	23.48	0.00
Business by Geography	3,514	0.00	34.12	39.76	26.12	0.00
Farms by Geography	190	0.00	21.05	18.95	60.00	0.00
Family Distribution by Income Level	15,679	21.77	20.80	23.34	34.08	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,820	0.00	26.48	51.79	21.74	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2012 Households Below Poverty Level		66,038 69,100 10%	Median Housing Value Unemployment Rate (2012 Tazewell County)		112,320 7.80%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2012 FFIEC updated MFI

(**)Unemployment Data from December 2012 - Illinois Department of Employment Security

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

PNB’s performance meets the criteria for a satisfactory rating.

Loan-to-Deposit Ratio

PNB’s loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the credit needs of the AA. PNB’s quarterly loan-to-deposit ratio averaged 56 percent over 21 quarters from December 31, 2007, to December 31, 2012, with a low of 38 percent and a high of 72 percent. PNB ranks sixth among seven similarly situated banks. Similarly situated banks, within the AA and asset sizes ranging from \$22.13 million to \$2.73 billion, had average loan-to-deposit ratios ranging between 49 percent and 88 percent over the same period, with an overall group average of 67 percent.

Lending in Assessment Area

A majority of the loans originated by PNB during the evaluation period, both by dollar and number, were inside of the AA. While overall more loans were inside, than out, we found that the dollar volume of commercial loans had a majority outside of the AA, which is the result of an overall low-level of lending, and several large loan participations.

Lending in Tazewell AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	36	62%	22	38%	58	\$4,067	58%	\$2,929	42%	\$6,996
Commercial	19	83%	4	17%	23	\$882	49%	\$852	51%	\$1,734
Totals	55	68%	26	32%	81	\$4,949	57%	\$3,781	43%	\$8,730

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

The distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes. Loans originated or purchased in 2012 carried more weight in our conclusion based on lending volume in that year.

Residential Real Estate

PNB’s performance of lending to borrowers of different income levels reflects excellent penetration for 2011. We sampled 19 residential real estate loans originated in 2011 and found that lending to low- and moderate-income borrowers exceeded the percentage of moderate-income families in the AA, and was near the percentage of low-income families.

Borrower Distribution of Residential Real Estate Loans in Tazewell AA 2011				
Borrower Income Level	Low	Moderate	Middle	Upper

Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	20%	16%	22%	47%	25%	5%	33%	32%

PNB’s performance of lending to borrowers of different income levels in 2012 is reasonable. Based on our loan sample of 2012 loans, we found that lending to low-income borrowers is significantly lower than the percent of low-income families in the AA. This is mitigated by a poverty rate of 10 percent in the AA, and a relatively high unemployment rate of 7.8 percent in Tazewell County. We found that lending to moderate-income families in the AA was near to the demographic comparator.

Borrower Distribution of Residential Real Estate Loans in Tazewell AA 2012								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	22%	5%	21%	20%	23%	25%	34%	50%

Commercial Loans

PNB’s performance of lending to businesses of different sizes is excellent for 2011. We sampled six commercial loans, which was the entire commercial loan population originated in 2011 inside PNB’s AA. We found that 100 percent of commercial loans originated in 2011 went to small businesses. Small businesses are businesses with annual gross revenues equal to or less than one million dollars.

Borrower Distribution of Loans to Businesses/Farms in Tazewell AA 2011				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67%	3%	30%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

PNB’s performance of lending to businesses of different sizes was reasonable in 2012. We sampled 13 commercial loans originated in 2012, which was the entire population of commercial loans originated in 2012 inside of the AA. We found that the number of loans made to small businesses exceeded the amount of small businesses inside of the AA. We also considered that 26 percent of businesses had unknown revenues in our conclusion.

Borrower Distribution of Loans to Businesses/Farms in Tazewell AA 2012				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total

% of AA Businesses	70%	4%	26%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	61%	39%	0%	100%

Geographic Distribution of Loans

The geographic distribution of residential real estate and commercial loans reflects reasonable dispersion throughout the Tazewell AA. We came to the reasonable determination because we placed more weight on commercial loans due to our community contact indicating that this was a greater credit need in the AA. Furthermore, our contact said there is already a good mix of affordable housing options in the area.

Residential Real Estate Loans

PNB’s geographic distribution of residential real estate lending reflects reasonable dispersion throughout the AA in 2011. There were no low-income census tracts in the AA in 2011. We sampled 19 residential real estate loans originated in 2011 inside the AA and found that lending in moderate-income census tracts was close to the demographic comparator.

Geographic Distribution of Residential Real Estate Loans in Tazewell AA 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	N/A	N/A	29%	21%	71%	79%	0%	0%

PNB’s geographic distribution of residential real estate lending in 2012 reflects poor dispersion throughout the AA. We sampled 20 residential real estate loans within the AA and found that the number of loans originated in moderate-income census tracts was significantly below the percent the demographic comparator. This is partially mitigated by the high number of families living below the poverty level, 10 percent, and the high unemployment rate in the county of 7.8 percent.

Geographic Distribution of Residential Real Estate Loans in Tazewell AA 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	N/A	N/A	28%	5%	49%	75%	23%	20%

Commercial Loans

PNB’s geographic distribution of commercial lending reflects excellent dispersion of census tracts of different income levels throughout the AA. From our sample of commercial loans originated inside the AA during 2011, we found that loans made in moderate-income census tracts, exceeded the percent of businesses located in moderate-income census tracts. There were no low-income census tracts in the AA.

Geographic Distribution of Loans to Businesses in Tazewell AA 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	N/A	N/A	30%	33%	70%	67%	N/A	N/A

PNB’s geographic distribution of commercial lending reflects reasonable dispersion throughout the AA in 2012. From our sample of commercial loans originated in 2012 inside the AA, we found that the number of loans made to businesses in moderate-income census tracts was near the demographic comparator. There were no low-income census tracts in the AA.

Geographic Distribution of Loans to Businesses in Tazewell AA 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	N/A	N/A	34%	31%	40%	38%	26%	31%

Responses to Complaints

PNB did not receive any complaints during this evaluation period.

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