



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 03, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Beverly National Bank
Charter Number: 969

240 Cabot Street
Beverly, MA 01915-0000

Office of the Comptroller of the Currency

New England Field Office
20 Winthrop Square 2nd Floor
Boston, MA 02110-1229

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Summarize the major factors supporting the institution's rating.

- The bank's level of lending, as reflected in its loan-to-deposit ratio, is reasonable.
- The majority of lending is within the assessment area (AA).
- The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the moderate-income census tracts.
- The bank's community development performance demonstrates adequate responsiveness to community development needs in its AA, through community development loans, investments, and services.

Scope of Examination

The Beverly National Bank (BNB) was evaluated using Intermediate Small Bank (ISB) examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period for the lending test covers its performance from January 1, 2006 through June 30, 2008. The evaluation period for the CD test is from August 17, 2005, the date of the last CRA evaluation, through November 3, 2008. Community development loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

BNB's primary loan products, based on loan originations during the evaluation period, are: commercial loans including commercial and industrial loans, commercial real estate loans, and residential mortgage loans including home purchase, refinance, and home improvement loans. Commercial loans represent 46% and residential mortgages comprise 34% of the bank's loan originations by number.

The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The bank was evaluated using large bank procedures at the last evaluation and was required to collect and report data for Community Reinvestment Act (CRA)

small business loans. While the bank is no longer required to collect and maintain this data for an ISB evaluation, it continued to collect the data; therefore, we were able to use the data to evaluate the bank's small business lending performance. As part of our evaluation, we tested the bank's HMDA and CRA data and found that the data was accurate.

Description of Institution

The Beverly National Bank is a full-service intrastate bank headquartered in Beverly, Massachusetts. As of June 30, 2008, BNB had total assets of \$492 million and Tier 1 Capital of \$44.5 million. BNB is wholly owned by Beverly National Corporation, a one-bank holding company with consolidated assets of \$494 million. The bank has a subsidiary, Beverly National Security Corporation, which was established as a Massachusetts securities corporation for the exclusive purpose of buying, selling, or holding investment securities. The Hannah Insurance Agency, a former subsidiary of the bank that sold annuities, life, long term and liability insurance, was dissolved in February 2006.

During the evaluation period, the bank has not closed any branches and opened one branch in Salem, Massachusetts. BNB has a total of eight full-service offices/branches, all with deposit-taking ATMs, as well as two limited service locations located at local high schools. The bank also has nine other ATM locations throughout the AA.

The bank offers a full range of consumer and commercial banking products and services. Management targets small business lending as the bank's strategic focus. Commercial customers are primarily small and medium size businesses in a variety of industries. Commercial loan products include short-term commercial loans, long-term commercial financing, demand loans, commercial lines of credit, commercial mortgages, commercial construction mortgages, letters of credit, municipal loans, and Industrial Revenue Bonds. Consumer loan products include fixed and adjustable rate mortgages, jumbo mortgages, home equity lines of credit, home equity loans, home improvement, automobile, installment, credit cards/advances, cash reserve/overdraft protection, and student loans. The bank offers a first time homebuyer mortgage program.

Bank management has identified affordable housing and lines of credit to small businesses as primary credit needs in the assessment area.

As of June 30, 2008, BNB reported net loans of \$334 million and had a net loans and leases to total assets ratio of 68%. The loan portfolio is comprised of 82% real estate, 17% commercial and other loans, and less than 1% consumer.

The following table provides a summary of the loan mix.

| Loan Portfolio Summary by Loan Product June 30, 2008 | |
|---|------------------------------------|
| Loan Category | % of Gross Loans and Leases |
| Commercial Real Estate loans | 43.4% |
| Home Mortgage Loans | 26.8% |
| Commercial & Industrial | 13.0% |
| Home Equity Loans | 7.3% |
| Construction and Land Development | 4.5% |
| Other Loans | 4.2% |
| Consumer Loans | .8% |

The bank has no financial or legal impediments to meeting the credit needs of the community. The bank was rated "Satisfactory," using large bank procedures, at the last CRA examination dated July 26, 2005.

Description of Assessment Area

The CRA requires a bank to define the assessment area in which it will be evaluated. BNB has one assessment area (AA) and this AA includes all branches and deposit-taking ATMs, as well as, the contiguous towns/cities around these offices.

The AA is part of the Peabody MA Metropolitan Division located in Essex County and consists of 15 cities/towns that include Beverly, Boxford, Danvers, Essex, Georgetown, Hamilton, Ipswich, Manchester, Marblehead, Middleton, Peabody, Rowley, Salem, Topsfield, and Wenham. The AA is comprised of 45 contiguous census tracts. There are four moderate-income geographies, 25 middle-income geographies, and 16 upper-income geographies. This AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The following table contains some demographic information for the AA:

| Demographic Information for BNB's AA | | | | | |
|---|---------|----------|----------------------------------|----------|-----------|
| Income Level | Total # | % Low | % Moderate | % Middle | % Upper |
| Geographies (Census Tracts) | 45 | 0% | 8.89% | 55.56% | 35.55% |
| Population by Geography | 242,907 | 0% | 7.24% | 51.17% | 41.59% |
| Owner-Occupied Housing by Geography | 97,256 | 0% | 3.52% | 49.83% | 46.65% |
| Businesses by Geography | 22,268 | 0% | 11.34% | 50.71% | 37.95% |
| Family Distribution by Income Level | 63,157 | 14.80% | 15.72% | 22.68% | 46.80% |
| Household Distribution by Income Level | 94,124 | 22.08% | 15.17% | 18.55% | 44.20% |
| Census Median Family Income (MFI) | | \$63,556 | Median Housing Value | | \$242,892 |
| HUD-Adjusted MFI: 2008 | | \$78,800 | Families Below the Poverty Level | | 6.44% |
| | | | Unemployment Rate * | | 5.5% |

Source: 2000 US Census data.

* US Bureau of Labor Statistics. The unemployment rate is for the state of Massachusetts, seasonally adjusted.

Economic indicators show the New England economy has slowed further in the third and fourth quarters of 2008. Retailers report that sales are softening and, in some cases, are below year-earlier levels. Manufacturers cite declines in orders or sales from a year ago, some of which are sizable. Major employers in the AA include Cummings Properties, Beverly and Salem Hospitals, Endicott College, the City of Beverly, and Axcelis Technologies, Incorporated. The unemployment rate seasonally adjusted, as of October 2008, for the state of Massachusetts is 5.5%, compared to the national unemployment rate of 6.5%.

BNB operates in a highly competitive market, with competition from regional commercial banks, savings banks, and mortgage and finance companies. The bank's competitors include Beverly Cooperative Bank, North Shore Bank, Eastern Bank, Salem Five Cents Savings Bank, and Century Bank.

In conducting the assessment of the bank's performance, we contacted a local affordable housing organization. The contact indicated there was a need for more affordable housing for low- and moderate-income individuals and families. Local community banks, including BNB, were perceived positively for their efforts to meet credit needs in the community.

Conclusions with Respect to Performance Tests

LENDING TEST

BNB's performance under the lending test is satisfactory. BNB's loan-to-deposit ratio is reasonable and a majority of the bank's primary loan products are within its AA. BNB has reasonable penetration of loans to borrowers of different income levels and businesses of different sizes. The bank's geographical distribution of loans reflects excellent dispersion in the moderate-income census tracts.

Loan-to-Deposit Ratio

BNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's net loan-to-deposit ratio averaged 86% over the last 12 quarters since the previous CRA examination dated July 26, 2005. During the period since the last examination, the loan-to-deposit ratio ranged from a quarterly low of 71% to a high of 92%. BNB's loan-to-deposit ratio is comparable with national peer bank's average of 88% over the same time period. The peer ratio ranged from a low of 85% to a quarterly high of 91% during the time period.

Lending in Assessment Area

BNB's lending inside its assessment area meets the standard for satisfactory performance. A majority of the bank's primary loan products were originated within its

assessment area, with 83% of the number and 75% of the dollar amount. The following table details the bank's lending within the AA by number and dollar amount of loans.

| Table 1 – Lending in BNB's AA | | | | | | | | | | |
|--------------------------------------|-----------------|-------|---------|-------|-------|------------------|-------|---------|-------|---------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Purchase | 36 | 70.59 | 15 | 29.41 | 51 | 13,502 | 71.32 | 5,430 | 28.68 | 18,932 |
| Home Refinance | 85 | 82.52 | 18 | 17.48 | 103 | 12,237 | 68.72 | 5,570 | 31.28 | 17,807 |
| Home Improvement | 74 | 96.10 | 3 | 3.90 | 77 | 10,146 | 98.67 | 137 | 1.33 | 10,283 |
| Commercial Loans | 258 | 81.90 | 57 | 18.10 | 315 | 43,380 | 73.15 | 15,922 | 26.85 | 59,302 |
| Totals | 453 | 82.97 | 93 | 17.03 | 546 | 79,265 | 74.55 | 27,059 | 25.45 | 106,324 |

Source: Data reported under HMDA and bank collected data of commercial loans.

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

The distribution of loans originated in the bank's AA reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

Home Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. The percent of home purchase loans is significantly lower, and the percent of home refinance and improvement loans to low-income families is lower than the percent of low-income families in the AA. Lending opportunities to this group are limited given the median home price in the AA of \$242,892. The maximum income that is considered low-income is \$31,778; therefore, low-income borrowers would have difficulty qualifying for a home purchase loan.

The distribution of home refinance and improvement loans to moderate-income families is excellent. The percent of home refinance and improvement loans to moderate-income families meets and exceeds, respectively, the percent of moderate-income families in the AA. There were no home purchase loans made to moderate-income families. These families might have difficulty qualifying for home purchase loans based on a median home price of \$242,892 and a maximum income of \$50,845.

In addition, market competition for these home mortgages is very competitive and limits BNB's ability to originate mortgages to both low- and moderate-income families. Mortgage lending in BNB's market area is dominated by larger financial and mortgage institutions. When comparing BNB to all the lenders within the AA using 2006 peer mortgage market share data, BNB ranked 59th out of 401 lenders by count for mortgage loans or .39% in the AA. The top 10 lenders in the AA dominated over 38% of the market share for home mortgage loans.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through June 30, 2008 as compared to the percent of families in each income category.

| Table 2 – Borrower Distribution of Home (Purchase, Refinance & Improvement) Loans in BNB's AA | | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | | NA |
| 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 | % of Number of Loans |
| Home Purchase | 14.80 | 2.78 | 15.72 | 0.0 | 22.68 | 8.33 | 46.80 | 77.78 | 11.11 |
| Home Refinance | 14.80 | 7.06 | 15.72 | 15.29 | 22.68 | 17.65 | 46.80 | 51.76 | 8.24 |
| Home Improvement | 14.80 | 8.11 | 15.72 | 18.92 | 22.68 | 14.86 | 46.80 | 55.41 | 2.70 |

Source: Data reported under HMDA from 1/1/2006 to 6/30/2008 and 2000 US Census data.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. The bank originated 54% in loans to small businesses with gross annual revenues of \$1 million or less. This is considered reasonable compared to demographic data that shows 67% of the area’s businesses are considered small businesses.

Commercial lending in BNB’s market area is dominated by larger financial institutions. When comparing BNB to all the lenders within the AA using 2007 peer small business market share data, BNB ranked 21st out of 71 lenders by count for small business loans or .25% in the AA. The top three lenders in the AA dominated over 61% of the market share for small business loans.

The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

| Table 2A - Borrower Distribution of Loans to Businesses in BNB's AA | | | | |
|--|---------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | < \$1,000,000 | ≥\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 66.83 | 5.69 | 27.48 | 100% |
| % of Bank Loans in AA by # | 54.26 | 40.70 | 5.04 | 100% |
| % of Bank Loans in AA by \$ | 38.61 | 52.50 | 8.89 | 100% |

Source: Bank collected data from 1/1/2006 to 6/30/2008 and 2000 US Census data.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the bank’s AA. We found no conspicuous gaps or areas of low penetration in the bank’s lending patterns. The bank’s AA has no low-income census tracts; therefore, we did not evaluate lending in these areas.

Home Loans

The bank’s geographic distribution of home loans in BNB’s AA reflects an excellent dispersion throughout the moderate-income census tracts.

The percent of BNB’s lending for home purchase loans in the moderate-income geographies is near the percent of owner-occupied housing in those geographies. The percent of home refinance and improvement loans in the moderate-income geographies exceeds the percent of owner-occupied housing in those geographies.

Following is a table that details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

| Table 3 – Geographic Distribution of Home (Purchase, Refinance and Improvement) Loans in BNB’s AA | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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 |
| Home Purchase | N/A | N/A | 3.52 | 2.78 | 49.83 | 58.33 | 46.65 | 38.89 |
| Home Refinance | N/A | N/A | 3.52 | 4.71 | 49.83 | 45.88 | 46.65 | 49.41 |
| Home Improvement | N/A | N/A | 3.52 | 5.41 | 49.83 | 43.24 | 46.65 | 51.35 |

Source: Data reported under HMDA from 1/1/2006 to 6/30/2008 and 2000 US Census data.

Business Loans

The bank’s geographic distribution of business loans reflects excellent dispersion throughout the moderate-income census tracts. BNB’s lending to smaller businesses in moderate-income geographies exceeds the level of total businesses with revenues less than \$1 million located there.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each census tract income level.

| Table 3A – Geographic Distribution of Loans to Businesses in BNB’s AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 |
| Business | N/A | N/A | 11.27% | 25.71% | 50.03% | 41.43% | 38.70% | 32.86% |

Source: Bank collected data from 1/1/2006 to 6/30/2008 and 2000 US Census data.

Responses to Complaints

BNB did not receive any CRA complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

Performance under the community development test is satisfactory. BNB's community development performance demonstrates adequate responsiveness to community development needs in its assessment area through community development loans, investments, and services. BNB provided community development loans and grants/donations in the AA representing 8.39% of Tier 1 Capital.

Number and Amount of Community Development Loans

The bank's level of CD lending is satisfactory. During this evaluation period, BNB originated or participated in six community development loans totaling \$3.618 million, or 8.13% of Tier 1 Capital.

A summary of the CD loans follows:

- A \$1.6 million loan made to an organization that provides a wide array of community services, targeted to low- and moderate-income children and families, including education, health, social services, and child care. In addition, a \$1 million line of credit was made to an organization that provides a broad range of health care services targeted to low- and moderate-income children and families.
- A \$538 thousand renewal of a loan participation to a non-profit organization dedicated to providing affordable housing in the local community. This loan renewed financing of original loan proceeds to fund the construction of an affordable housing development.
- A \$265 thousand mortgage loan on a six unit residential building in a moderate-income tract, adjacent to the bank's AA. This loan has the potential to benefit the bank's AA by providing some affordable housing units as well as help to revitalize/stabilize a moderate-income geography.
- A \$200 thousand participation loan to a non-profit organization that operates a food pantry, thrift shop, as well as community outreach programs that offer education, one-on-one support and information resources.
- A \$15 thousand increase in a line of credit to a non-profit organization that provides community services targeted to low- and moderate-income children and families.

Number and Amount of Qualified Investments

During the evaluation period, BNB made 78 grants/donations totaling \$115 thousand to 43 community development organizations in the AA. An investment made in the prior evaluation period totaled \$559 thousand as of November 3, 2008.

The bank also made an in-kind donation of free office space for two years to a local affordable housing organization.

Extent to Which the Bank Provides Community Development Services

BNB provides a good financial presence in the moderate-income census tracts. Of BNB's 10 branches, two or 20% are in moderate-income census tracts, which is nearly three times the percent (7.24%) of the population of the AA living in moderate-income geographies. The bank also participates in Basic Banking for Massachusetts, a state-wide voluntary program to provide low-cost or no-cost checking and savings accounts to customers with limited banking needs. BNB offers low-cost savings accounts that meet the program's requirements.

The bank provides a satisfactory level of community development services. During the evaluation period, 10 bank employees provided financial expertise and/or leadership services to 11 community development organizations serving the AA.

Responsiveness to Community Development Needs

BNB's community development performance, through CD loans, investments, and services, demonstrates adequate responsiveness to the needs of its AA, considering the bank's capacity and the need and availability of CD opportunities. Identified community development needs include additional affordable housing and social services for low- and moderate-income individuals and families.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.