



INTERMEDIATE SMALL BANK

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

PUBLIC DISCLOSURE

August 15, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Union National Bank
Charter Number 7236**

**One Fountain Square Plaza
Elgin, IL 60120**

**Comptroller of the Currency
Chicago North
85 West Algonquin Road Arlington Pl. II, Suite 340
Arlington Heights, IL 60005**

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: Outstanding.

The Community Development Test is rated: Satisfactory.

Union National Bank and Trust Company of Elgin (UNB) has a satisfactory record of meeting community needs based on the following:

- The bank's quarterly average net loan to deposit ratio of 101 percent is outstanding and reflective of the bank's willingness to lend.
- The majority of the bank's loans by number (73 percent) and by dollar volume (55 percent) are located within its assessment area (AA).
- Lending to businesses with different revenue sizes is satisfactory.
- Geographic distribution of loans is excellent as the number of loans made in moderate income census tracts exceeds the demographic data for those areas.
- Community development loans are good and responsive to the AA needs. Community development services are good as the bank officers offer their expertise within the AA.

SCOPE OF EXAMINATION

This Community Reinvestment Act (CRA) examination includes commercial and small business loans originated or purchased from January 1, 2004 through March 31, 2006. We also considered community development loans and services for the same time period.

The volume of home improvement, residential home refinance and multifamily loans is very low, as such we did not analyze this data. Additionally, consumer loan originations are not a primary loan product and were not evaluated for the lending test.

DESCRIPTION OF INSTITUTION

Union National Bank is a wholly owned subsidiary of Elgin Bancshares, Incorporated. The bank is located in downtown Elgin, Illinois, and has one branch on the west side of Elgin.

As of June 30, 2006 UNB had total assets of \$358 million with net income of \$4.8 million and a loan to deposit ratio of 105%. Net loans and leases represent 93% of average assets. Commercial real estate is the bank's primary loan type representing 82% of the average gross loans. The loan portfolio also consists of 16% in other commercial and industrial loans and 2% in consumer loans.

UNB provides various retail and commercial bank products. The bank’s business focus is primarily commercial, with an emphasis in Small Business Administration (SBA) lending. UNB is designated as a SBA “preferred lender.” Other services are provided as an accommodation to these commercial relationships. UNB does not market home mortgage or consumer loan products.

There are no financial or legal impediments that would impact UNB’s ability to meet the credit needs of its community. This evaluation considered the bank’s performance since the last examination, dated June 14, 1999, in which the bank received a “Satisfactory” rating.

DESCRIPTION OF THE ASSESSMENT AREA

UNB’s AA consists of portions of Cook, DuPage, Kane, McHenry and Lake counties. The counties are located within the Chicago Metropolitan Statistical Area. The AA is contiguous and contains 277 census tracts.

Of the 277 census tracts, 84 are located within Cook County, 93 are in DuPage County, 42 are in Kane County, 22 are in Lake County and 36 are within McHenry County. The bank’s AA does not arbitrarily exclude low or moderate- income areas.

The AA is comprised of income tract levels including nine (3 percent) moderate-income, 116 (42 percent) middle-income, and 151 (55 percent) upper-income. There are no low-income tracts and there is one census tract in which no information was available within the AA.

The following table summarizes the income levels of census tracts by counties within the bank’s AA.

County	Census Tracts									
	Low		Moderate		Middle		Upper		NA	
Cook	0	0%	2	2%	35	42%	47	56%	0	0%
DuPage	0	0%	1	1%	38	41%	54	58%	0	0%
McHenry	0	0%	0	0%	17	47%	19	53%	0	0%
Lake	0	0%	1	5%	6	27%	15	68%	0	0%
Kane	0	0%	5	12%	20	48%	16	38%	1	2%
Total	0	0%	9	3%	116	42%	151	55%	1	0.36%

Source: U.S. Census data

The overall local economy is stable. The employment base is diversified. Major employers in Elgin are Sherman Hospital, Bank One credit card issuer and the Grand Victoria Casino.

The 2006 Business Geodemographic data indicate the leading industries in all five counties are services and retail. The 2005 unemployment rate for Cook County, DuPage, McHenry, Lake and Kane was 7 percent, 5 percent, 5 percent, 5 percent, and 6 percent, respectively.

The unemployment rates were within a reasonable range of the State of Illinois unemployment rate of 6 percent and the nation's unemployment rate of 5 percent.

Per the 2000 U.S. Census data, there are 1.4 million individuals and 364 thousand families within the AA. There are 501 thousand housing units with 77% owner occupied. The bank's AA consists of relatively newer communities with housing units averaging 27 to 35 years of age.

Much of UNB's competition are branches of larger financial institutions, such as JP Morgan Chase and LaSalle National Bank. However, the bank considers Elgin State Bank in Elgin, Illinois and First Community Bank of Elgin, Illinois to be their main competitors. Including UNB, there are 249 financial institutions serving the five counties. JP Morgan Chase is the leader, holding 16% of the deposit market share. UNB holds 0.13% of the market share of deposits, ranking ninety-one within the AA.

The credit needs throughout the bank's AA are widely varied. Significant credit needs include affordable housing, consumer, and small business loans. These needs were identified through community contacts.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

UNB's average loan-to-deposit ratio is outstanding when compared to its two competitor banks and other similarly situated banks. The bank's quarterly loan-to-deposit ratio averaged 101% over 28 quarters from June 30, 1999 to June 30, 2006. This was a 29% increase from the 78% average quarterly loan-to-deposit ratio from the June 14, 1999 Public Evaluation.

UNB ranks first when compared to four other institutions of similar size (\$138 - \$801 million) in the AA. The quarterly average loan-to-deposit ratios for the other peer banks range from 71% to 81%. The bank's net loan-to-deposit ratio has been trending upwards since the last Public Evaluation, and has historically been above peer average.

Lending in Assessment Area

UNB originates the majority of its loans to borrowers inside its AA. Our analysis was performed by sampling 33 commercial loans that were originated during the evaluation period (the years of 2004, 2005, and year-to-date 2006).

The bank's record of lending within its AA is satisfactory. Approximately 73% by total number and 55% by dollar volume of loans were made to businesses with the bank's AA.

TOTAL LOANS REVIEWED (\$000s)										
Loan Type	In Assessment Areas				Out of Assessment Areas				Totals	
	#	% of #	\$\$ (000s)	% of \$\$	#	% of #	\$\$ (000s)	% of \$\$	#	\$
Commercial Loans (1)	24	73%	3,839	55%	9	27%	3,104	45%	33	6,943
GRAND TOTAL	24	73%	3,839	55%	9	27%	3,104	45%	33	6,943

Source: Bank records in years 2004, 2005, and year-to-date 2006 (verified by examiners)

(1) Commercial & Industrial U.S including secured with real estate

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

Borrower distribution of commercial loans of different revenue levels is satisfactory. The sample of loans depicts stronger dollar volume of loans to companies with revenues less than \$1 million.

Due to the low volume of home mortgages, an analysis would not be meaningful. Home mortgages are made as an accommodation to existing commercial customers.

Borrower Distribution of Commercial Loans					
Gross Annual Revenue			\$ (000s)	% of \$ (000's)	Business Data
	#	% of #			
<= \$1 million	17	52%	3,852	60%	66%
> \$ 1 million	16	48%	2,606	40%	8%
Revenue unavailable	0	0%	-	0%	26%
Total	33	100.00%	6,458	100.00%	100.00%

Source: Bank records (verified by examiners) and Business GeoDemographics (2005)

(1) Commercial & Industrial U.S including secured with real estate

Geographic Distribution of Loans

Geographic distribution is excellent. The bank's lending in moderate-income census tracts far

exceeds the business demographics. The bank’s AA contains no low-income tracts.

Geographic Distribution of Commercial Loans		
Tract Income Level	% of # of loans made	% of Business
Low	0%	0%
Moderate	6%	3%
Middle	52%	40%
Upper	42%	57%
Revenue Unavailable	0%	0.01%
Total	100.00%	100.00%

Source: Bank records (verified by examiners) and Business GeoDemographics (2005)

Responses to Complaints

UNB has not received any written complaints regarding its performance in helping meet the credit needs within its AA during the current evaluation period.

Community Development Test

During the evaluation period, UNB did not generate any qualified investments. UNB does provide a strong level of community development loans. UNB primarily focuses on SBA loans which are long-term financing supporting economic development within a community. The bank made numerous SBA loans which were greater than one million dollars. Those loans totaled \$23 million or 63% of Tier 1 Capital.

UNB provides low to no cost banking services to various organizations. These organizations provide services to low and moderate-income individuals. Organizations include Elgin Mental Health Center and the Ecker Center for Mental Health. Donations are also made to organizations which help low to moderate-income individuals.

Retail services are accessible to individuals of various income levels. Deposit services are available at both UNB’s locations. Loan services are available at the main branch, as the loan officers are located there. Customers are referred to the main office on East Chicago Street should they inquire at the Larkin Avenue branch. Retail services include:

- Accessible and free Automate Teller Machines (ATMs). The bank offers ATM services through an outside vendor. UNB pays for its customers to utilize any ATM available through Cirrus.
- UNB offers 24 hour, seven days per week access to customer account information through a personal computer banking product and bank by phone. These services allow customers to perform various online transactions such as transferring funds between bank accounts; verifying balances, etc.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discrimination or other credit practices inconsistent with helping to

meet community credit needs.