

Be the Change!

COMMUNITY IMPACT REPORT



 Neighborhood
National Bank



Be the Change!

Robert M. McGill, Chairman & CEO

Mahatma Gandhi said, “Be the change you want to see in the world.” At the Neighborhood we have taken this commandment to heart. “Be the change” to us means that we physically locate in the economically impacted neighborhoods we serve, we constitute a board of directors representative of those neighborhoods, we hire management and staff reflective of the neighborhood, and we raise capital from investors that understand and appreciate that a bank can do well and do good at the same time.

NNB’s support of the impacted neighborhoods of San Diego has not diminished over the past few years despite the many challenges brought on by the economy and the regulatory environment. We are proud to present you with the pictures and stories of our continuing success in wealth-building in low and moderate income communities.

Why a CDFI bank? After researching the many organizational forms a CDFI (Community Development Financial Institution) can take, the answer came down to one word... leverage. A capital investment of \$1 million allows us to increase deposits by \$10 million and assets by \$8 to \$10 million. Through the power of this leverage we have been able to grow a \$100 million financial services company that serves people and companies that would otherwise be capital starved. We opened the first nationally chartered community development bank in 1997.

As a “wholesaler of capital”, we support the small businesses that are job generators; we support the faith-based and nonprofit organizations that specialize in job



Jewels Kassab and Valen Kassab, owners of Murphy’s Market, together with NNB’s Sofia Corona (center).

training, affordable housing, education, and child-care; we service the inner-city markets whose check cashing allows a lower cost approach over the payday lenders who blight our neighborhoods.

We hope that you will join us and **Be the Change.**

Sincerely,

ROBERT M. MCGILL

Our Impact

NNB IMPACT IN THE SAN DIEGO REGION: 2006-2010

NNB LOANS

	NUMBER	AMOUNT
Total Lending	450	\$123,800,000
Business Lending	256 (57% of all loans)	\$54,200,000
Small business lending	179 (70% of all business loans)	\$33,600,000

JOBS SUPPORTED

Jobs supported at business borrowers	2,470
Dollars loaned per job supported	\$21,900

PERCENTAGE OF DOLLARS IN TARGET AREA¹

	High Poverty Areas	High Unemployment Areas	High Minority Areas	LMI Areas
All loans	15%	18%	64%	71%
Business loans	11%	17%	58%	67%

NNB DEPOSITORS

All depositors (n=309)	48%	69%	83%	74%
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NNB provided approximately \$124 million of loan capital to borrowers in the San Diego region in the five years from 2006 to 2010, including over \$54 million to operating businesses responsible for the employment of 2,470 workers. This equates to a capital cost per job supported of \$21,900. Over 70 percent of NNB's loans are directed to low to moderate income (LMI) areas; 15 percent to the areas of highest poverty in San Diego; 64 percent to areas with higher proportions of minority residents than the typical California community; and 18 percent to areas experiencing a significantly higher unemployment rate than other parts of San Diego. The proportion of NNB lending in LMI communities (71%) is especially notable given the overall demographics of San Diego County, where only 30 percent of all census tracts are classified as LMI. NNB's lending in LMI communities is over four times greater than the median lending rate of all US banks in LMI areas (16%) and 1.4 times greater than the median lending rate of all CDFI banks in LMI areas (50%).²

NNB is headquartered in a low-income community in San Diego. The Bank's three branches provide services to the region's neediest customers; fully 48 percent are in the highest

poverty areas of San Diego and 69 percent are in areas with the highest rates of unemployment and economic distress.

Children of the Rainbow



OUR CLIENTS ARE OUR COMMUNITY

Children of the Rainbow (COTR) is a childcare business with 65 employees, serving 180 families, almost all of whom live in the oldest, most culturally diverse, and economically disadvantaged areas of San Diego. COTR approached NNB in 2008 with a number of significant challenges: a traditional banking institution refusing to refinance two large loans, and a desperate need for working capital.

NNB's support enabled COTR to not only survive, but to expand its day care services and take over several Head Start Programs. This resulted in the creation of new jobs, including for many parents of the children with which COTR works.

Access to Capital

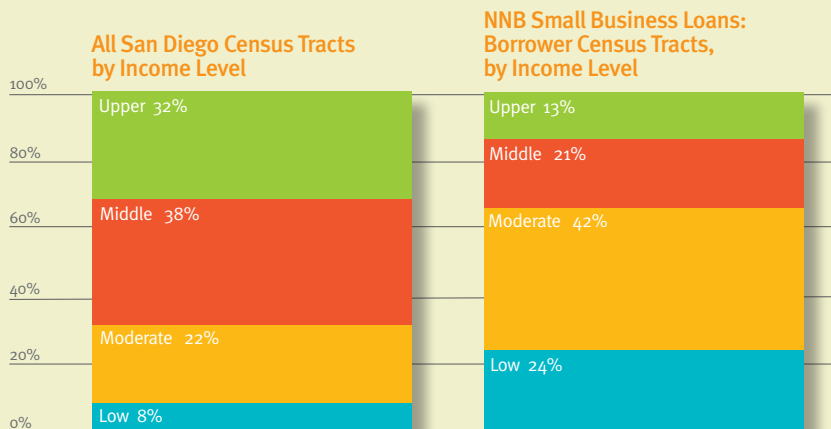
NNB has been a lender to business, and particularly small business, at a time when San Diego’s promising entrepreneurs need capital most – including in underserved areas.

Seventy percent of NNB’s business loans in San Diego are provided to small companies, defined as those with \$1 million or less in annual revenue. Approximately 40 percent of NNB’s lending is to businesses with under \$500,000 in annual revenue.

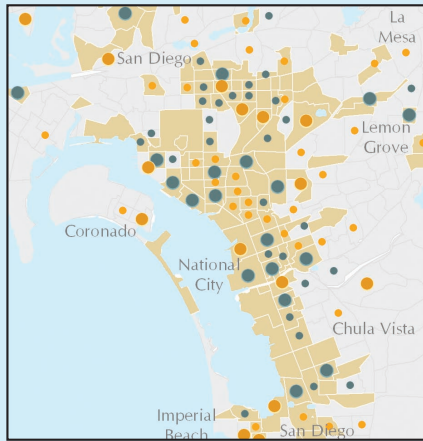
Over 65 percent of NNB’s small business lending is directed to communities defined by the US Department of Housing and Urban Development as low to moderate income. One-quarter of NNB’s small business lending is in the most distressed, low-income communities, where median family income is less than half the \$64,900 median of the San Diego region.³ In the five years to 2010, lending to small businesses totaled \$35 million.

BUSINESS LOANS

	NUMBER	TOTAL	AVERAGE SIZE	NUMBER OF SMALL BUSINESS LOANS, AS % OF ALL BUSINESS LOANS IN EACH CATEGORY
San Diego Region Business Loans				
Business loans	256	\$54,230,000	\$212,000	
Small business loans	179	\$33,600,000	\$188,000	70%
Business Loans Outside the San Diego Region				
Business loans	10	\$4,700,000	\$471,450	
Small business loans	3	\$1,790,000	\$564,000	30%
TOTAL BUSINESS LOANS				
Business loans	266	\$58,950,000	\$222,000	
Small business loans	182	\$35,290,000	\$194,000	68%



NNB BUSINESS LOANS IN THE SAN DIEGO REGION: 2006-2010



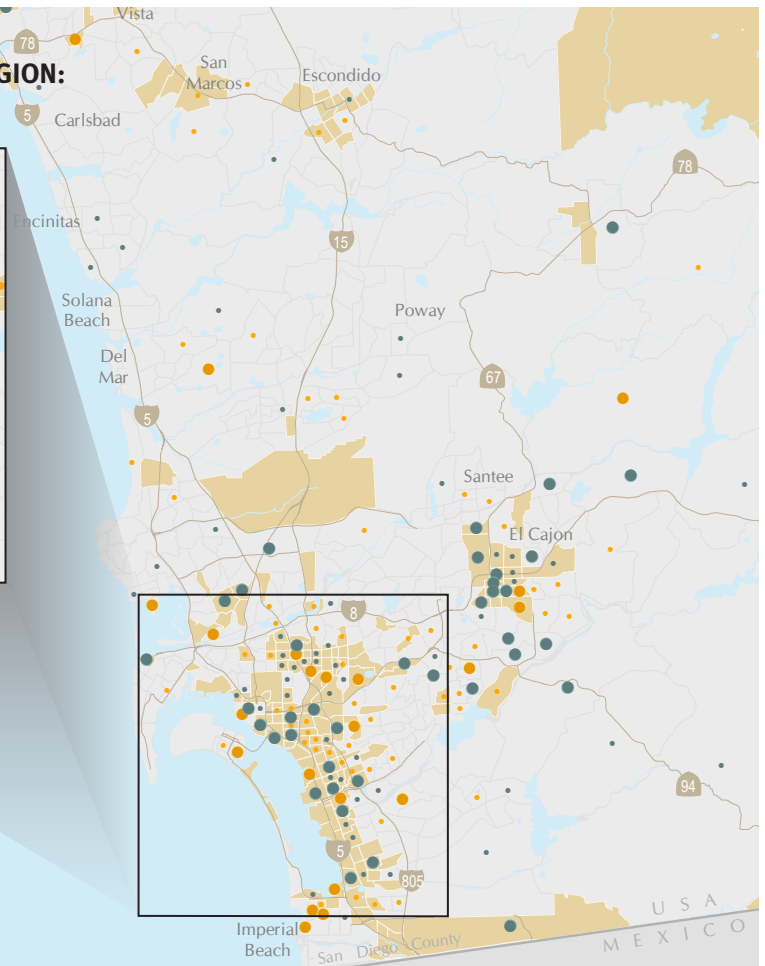
Volume of Loans Directed to Census Tract

- Under \$500,000
- \$500,000 and up

Type of Borrower

- Includes small businesses
(Annual revenues of some borrowers in this census tract are \$1 million or less)
- Non-small businesses only
(Annual revenues of all borrowers in this census tract exceed \$1 million)

■ Low to Moderate Income Census Tract



Olivewood Gardens & Learning Center



SHARED MISSIONS

Olivewood Gardens and Learning Center, a non-profit community garden in National City specializing in the education of children on healthy eating, has been an NNB customer and recipient of the Bank's donations since its creation. In its first year, the Garden introduced 2,000 elementary school children and 2,200 adults to the benefits of harvesting fresh fruits and vegetables, and the preparation of healthy meals.

The Center has three employees, many more volunteers, and, with the help of NNB, has significantly impacted its local, low-income neighborhood where kids would not have otherwise been exposed to gardening.

NNB understands the unique financial challenges of non-profit, faith-based, and socially-conscious organizations that focus on low-income communities. NNB granted 23 special community loans to these organizations since 2006, totaling \$8.9 million for child and youth services (3 loans), religious organizations (7 loans), health care centers (1 loan), battered women's shelters (4 loans), educational support services (2 loans), community services (2 loans) and housing services (4 loans). NNB also offers non-profit organizations an interest-bearing checking account without monthly maintenance fees.

Serving the Underbanked

NNB's commitment to **Be the Change** extends first and foremost to those with difficulty accessing traditional banking services. This includes small businesses and individuals.

Above and beyond its own depositors – around three-quarters of which reside in LMI communities – NNB has an unmatched wholesale banking relationship with San Diego's Money Service Businesses (MSBs). MSBs are the corner markets, gas stations, convenience stores, liquor stores and other shopfronts that offer the same check cashing, money order sales and money transfer services as a bank, but for people without a traditional account. MSBs allow many people living in underserved communities to get the services they need, without turning to more expensive payday lenders.

NNB is a foundational service provider to MSBs – ensuring we have a significantly outsized impact in underbanked communities for an institution of our size. With 246 MSB customers, NNB serves close to one-quarter of *all* 1,099 MSBs in San Diego County.⁴ Ninety-two of these MSBs have borrowed \$29 million from NNB, allowing customers to cash \$260 million in checks, process \$200 million in money orders, and purchase goods using \$9 million of Women, Infants and Children (WIC) deposits annually.

NNB has a department dedicated to ensuring MSB customers are in compliance with regulatory requirements. Like traditional banks, these types of businesses are examined periodically by the Financial Crimes Enforcement Network and are subject to penalties and fines for non-compliance.

MSB SERVICES: 2006-2010

TOTAL LOANS: \$29 million

PERCENTAGE OF DOLLARS IN TARGET AREAS

High Poverty Areas	15%
High Unemployment Areas	52%
High Minority Areas	69%
LMI Areas	66%

LOAN LEVERAGE

For every \$1 of NNB lending to MSBs, customers benefit from the equivalent of...

\$9	In annual check cashing
\$7	In annual money orders
\$0.30	In annual WIC deposits

Murphy's Market



BUILDING A HEALTHY ECONOMY IN CITY HEIGHTS

Murphy's Market and Murphy's Supermercado cater to one of the most distressed and immobile communities in San Diego, City Heights. With 80 employees, and 2,500 largely minority customers weekly, they are also two of the largest businesses in the area.

NNB did something no other bank was willing to do from 2009 to 2011, providing three significant loans to the stores for large-scale construction and tenant improvements, inventory, equipment purchase and working capital. Traditional commercial real estate finance was simply not available during this time for smaller businesses in LMI areas, including Murphy's.

NNB's support allowed the stores to offer inventory and lower prices never before available in the community, healthy foods including fresh vegetables and fruits, as well as healthy hot food. Sales increased as a result of NNB's capital injection, exceeding projections at both stores, including more than doubling at Murphy's Market. The stores are also MSBs, providing check cashing and other money services and products at lower cost than the payday lenders that dominate City Heights.

CITY HEIGHTS: A COMMUNITY IN NEED PERCENTAGE OF POPULATION THAT IS...

Minority	87%
Not in the labor force	44%
Below the poverty level	38%
Earn less than \$30,000/year	61%
High school dropout	52%

SOURCE: SANDAG, 2000 CENSUS DATA

Our Culture of Community

NNB's mission is to provide financial products and services to underserved communities. As a CDFI, we are mandated by the federal government to have a primary mission of promoting community development. We are therefore duty bound to assist our neighbors in LMI communities – but more importantly, we *want* to.

NNB's three branches are located in an inner-city barrio, in a large Hispanic community, and in an area dominated by Middle-Eastern immigrants. All three offices look like traditional branches, but without the floor-to-ceiling security “bandit-barriers” that stigmatize other financial institutions in low-income communities and intimidate the residents that need financial services the most. NNB staff love interacting with customers. We can do so because we speak not

only English, but Spanish, Tagalog, French, Portuguese, German, Arabic, and Vietnamese. Our diversity reflects the neighborhoods we serve. NNB's Board of Directors also consists of men and women of different ethnicities and professional backgrounds. Through the example of their own lives, and the time and experience they provide to us, these remarkable individuals bring NNB's mission to fruition every day.

NNB is an active participant in many of San Diego's formal community and economic development initiatives and has a dedicated Community Development Officer that participates in many of San Diego's economic, ethnic-centered, business and commerce, children and teen-orientated groups, organizations and associations.

THE IMPACT OF FINANCIAL SUSTAINABILITY

NNB's commitment to working with delinquent borrowers instead of automatically foreclosing or repossessing, as other financial institutions do, took a toll on our capital during the recent economic downturn. Small businesses that received support during the boom times were suddenly struggling to make loan payments. The riskier the loan, the more funds were needed for our loan loss reserve, thereby decreasing primary capital.

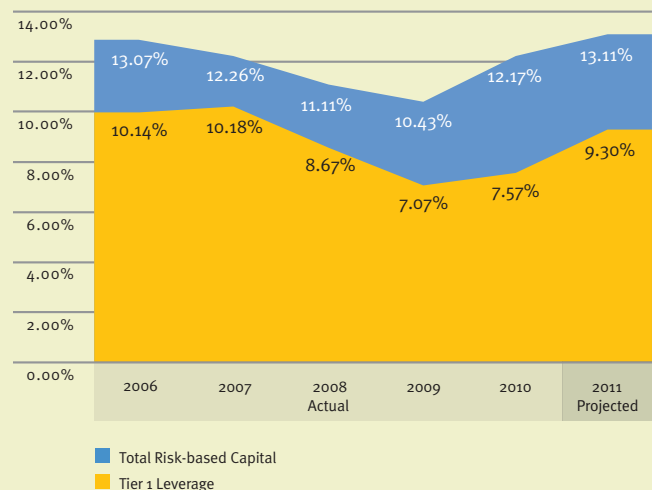
NNB's financial performance was robust prior to the recession. In 2007-2008, our Total Risk Based Capital and Tier 1 Leverage declined due to an increase in the reserve. The resulting decrease in primary capital has inhibited the Bank's ability to fully assist its communities at the level prior to the recession.

Our financial performance is again on an upward trend as the local economy slowly recovers. We have rounded the corner and are moving forward, with the 2011 Budget projecting a positive net income with the provisions for loan loss reduced and a stabilizing loan portfolio. Ratios are improving in 2011 as capital is preserved.

Yet in order to meet our goal of being a viable economic foundation and engine in disadvantaged communities, we require additional capital. With your support, together

with improving loan quality, NNB will return to profitability and expand our assistance to LMI neighborhoods and the individuals and small businesses creating jobs and building wealth for those that need it most.

NNB CAPITAL RATIOS



¹ Total Risk Based Capital is the measure of Capital to Risk Weighted Assets – the majority of which are loans. Tier 1 Leverage is the ratio of Capital to Total Assets, averaged over a calendar quarter.

Creating Economic Opportunity in San Diego



A signpost at Olivewood Gardens, which is also home to the International Community Foundation.

Neighborhood National Bank

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San Diego Office**
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**National City Office
and Administrative Offices**
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East County Office
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El Cajon, CA 92019
(619) 462-1253

Loan Department
(619) 789-4400
Select Option #4

Telephone Banking
24-Hour Bank by Phone
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This report was produced by InSight at Pacific Community Ventures, an independent, third-party evaluator of the social and economic impacts of investments. www.pacificcommunityventures.org/insight. Report footnotes available at www.mynnb.com

COVER IMAGES

Top: Mark Gonzales, from NNB, with Children of the Rainbow

Middle: R. Kassab, owner of Murphy's Market

Bottom: Rebecca Humphries, from NNB, with Amy Carstensen, from Olivewood Gardens