



PUBLIC DISCLOSURE

December 12, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Peoples National Bank of New Lexington
Charter Number 13596

110 North Main Street
New Lexington, OH 43764

Office of the Comptroller of the Currency

West Lake Center
4555 Lake Forest Drive, Suite 610
Blue Ash, OH 45242-3760

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 Peoples National Bank of New Lexington (Peoples NB or the bank) exhibits a Satisfactory record of meeting its community credit needs. The rating is primarily based on the following:

- The bank's current and quarterly average loan-to-deposit (LTD) ratios are reasonable and commensurate with Peoples NB's size, financial condition, and credit needs of the assessment area (AA).
- The bank is responsive to its community's credit needs as a substantial majority of their primary loan products are inside their AA.
- The distribution of loans reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers.
- The bank's distribution of loans throughout geographies of different income levels, including moderate-income geographies, continues to be reasonable.

SCOPE OF EVALUATION

Our office conducted a full scope Community Reinvestment Act (CRA) evaluation to assess the bank's record of meeting the credit needs of its entire community, including low- and moderate-income areas. We used small bank CRA evaluation procedures and considered information from January 1, 2014, through December 31, 2015 (evaluation period), to perform the evaluation. We also performed a data integrity examination of the bank's home mortgage loans, as reported via the Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs) to determine the accuracy of the bank's data. We found the data was accurate and reliable.

The bank's primary loan products, based on discussions with management and a review of loan originations during the evaluation period, are consumer loans and residential real estate loans. The majority of the bank's lending is consumer loans by number and residential real estate loans by dollar. These loan types are considered foremost in this CRA evaluation.

The bank became a HMDA reporter in 2014, and we utilized the bank's HMDA data to perform our analysis of Lending in the AA and the Borrower and Geographic Distribution analyses for residential real estate lending. To evaluate the bank's levels of consumer lending, we selected a random sample of 30 loans that were originated during the evaluation period. We used these files first to perform the analysis of Lending in the AA, then to perform the Borrower and Geographic Distribution analyses. In the Borrower and Geographic Distribution analyses, we disregarded any loans not

originated in the AA. In addition, we conducted interviews with two individuals representing community organizations.

DESCRIPTION OF INSTITUTION

The bank is a wholly owned subsidiary of Peoples National Bancshares, Inc., a one-bank intrastate holding company located in New Lexington, Ohio. The main office and one full-service branch are located approximately 50 miles southeast of Columbus, Ohio, in the City of New Lexington, Ohio, the Perry County seat. The other three full service offices are located in Junction City, Ohio, about five miles west of New Lexington; Thornport, Ohio, about 20 miles north of New Lexington; and Roseville, Ohio, about 15 miles northeast of New Lexington. All offices are located in middle-income census tracts and contain an automated teller machine (ATM) to provide 24-hour banking. The bank also has two stand-alone ATMs in Perry County. One ATM is located in a New Lexington grocery store and another in a carryout store in Shawnee, Ohio.

As of September 30, 2016, Peoples NB's total assets were \$122 million, with tier 1 capital of \$10.67 million and net loans approximating \$92 million, or 75 percent of assets. The table below reflects the bank's total loans originated between January 1, 2014, and December 31, 2015.

The bank's primary business focus is retail banking and it offers traditional products and services to customers throughout the AA. The nearest competition comes primarily from a branch of a large multi-state bank, and a branch of a large community bank, which are both located in New Lexington. Competition also comes from smaller community banks and branches of large banks located throughout the AA.

Presently, no legal or financial impediments exist that could restrict Peoples NB's ability to meet the credit needs of the community. The bank's last CRA evaluation was as of April 4, 2011, and resulted in a 'Satisfactory' rating.

Primary Loan Types		
Loans Originated from January 1, 2014 to December 31, 2015		
Loan Type	Percent by Number of Loans	Percent by Dollar of Loans
Residential Real Estate (RE) Loans	22%	48%
Consumer Loans	68%	22%
Business Loans	8%	24%
Farm Loans	1%	2%
Other Loans	1%	4%
TOTAL GROSS LOANS	100%	100%

Source: Internal bank reports as of December 31, 2016

DESCRIPTION OF ASSESSMENT AREA

Peoples NB has one AA, consisting of nine census tracts (CTs), including all six CTs located in Perry County, and three CTs adjacent to Perry County. The AA meets the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income CTs. The AA is located within the Columbus Metropolitan Statistical Area (MSA). The three CTs outside of Perry County are located in Fairfield County (west of Perry County), Muskingum County (northeast of Perry County), and Morgan County (east of Perry County). The bank does not have any branches in Fairfield County.

According to 2010 Census data, the AA consists of one moderate CT in Perry County and eight middle-income CTs. The 2010 census data shows the AA having a total population of 36,058. The AA has a median family income of \$51,746 and contains about 11,321 families. The United States Census Bureau's estimate of the Ohio statewide non-MSA median family income was \$49,429 for 2011 through 2015. Of the AA's 17,201 housing units, approximately 68 percent are owner-occupied. The average median housing value is \$84,540. Approximately 18 percent of the AA's households live below the poverty level. The table below summarizes the AA's income composition by families and geographies based on the 2010 census data.

Income Composition by Families & Households in the AA and Geographic Distribution of Census Tracts in the AA								
Families, Households & Geographies	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
Families	3,214	28%	2,429	21%	2,908	26%	2,770	25%
Households	4,785	31%	2,713	17%	3,145	20%	4,954	32%
Census Tracts	0	0%	1	11%	8	89%	0	0%

Source: 2010 U.S. Census Data

The overall economic condition in the AA has improved since the previous CRA evaluation. Unemployment in Perry County was at 13.0 percent as of February 2011, but averaged 6.5 percent for 2016. Unemployment has historically been, and continues to be, above the national and state unemployment rates of 5.2 percent, and 4.9 percent, respectively, as of December 2016. Primary industries include local government, manufacturing, and retail trade. Current large employers include Perry County Government, the New Lexington, Northern, Southern, and Crooksville Board of Education, Westmoreland Coal, CerCo LLC, Cooper-Standard Automotive, Eclipse Aluminum Trailer LLC, Ludowici Roof Tile, PCC Airfoils LLC, and Shelly Materials Inc. There continues to be job growth in areas including the mining industry, professional services, education and health services, hospitality, and local government.

The bank currently holds about 3 percent of AA deposits according to the June 30, 2016, Federal Deposit Insurance Corporation market share report. Park National Bank currently holds about 22 percent of all AA deposits, which makes it the largest holder of AA deposits. Prior primary competition came from National City Bank, which merged with PNC bank. PNC bank is competitive in the local market, holding 9 percent of deposits. Other competition comes from smaller, similarly situated community institutions.

Per two community contact interviews, economic development remains a challenge due to the location, poor infrastructure, and lack of local development in Perry County. The county has no hospital or urgent care facility and has only one mile of four-lane highway. Perry County continues to lack affordable (starter) housing units given the significant increase in housing costs. Some available land and housing stock is in disrepair or has been damaged by use. The community contacts could not identify any specific credit products or services that were needed and not adequately offered, and knew of no areas that were significantly underserved for credit-related products. Our community contacts also indicated that opportunities for participation from area institutions in any type of low- or moderate-income sponsored programs are very limited, but that the bank has been involved in revitalization efforts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

- **Based on the criteria for the CRA lending test, the bank's lending performance is satisfactory.**

Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable given the bank's market share, strategy and credit needs of the AA. The bank's average LTD ratio for the past 23 quarters was 81.75 percent. As of September 30, 2016, the bank's LTD ratio was 83.26 percent. The ratio remained consistent since the previous CRA exam that had an LTD ratio of 83.34 percent as of December 31, 2010.

Both the bank's current and average LTD ratios were compared to a custom peer group consisting of seven banks of similar asset size, which are located in the bank's AA. As of September 30, 2016, the LTD ranged from 62.68 percent to 98.60 percent for the seven comparable institutions. The LTD ratio for the same seven banks over the last 23 quarters ranged from 59.04 percent to 100.85 percent. Both the bank's average LTD ratio and LTD ratio as of September 30, 2016, compare favorably to the peer group.

Lending in Assessment Area

A substantial majority of the bank's lending activity occurs inside their AA. Our analysis of the bank's lending within the AA included consumer loans and residential real estate loans.

We reviewed a sample of 30 consumer loans originated during the evaluation period to determine the bank's level of lending inside the AA. The bank originates the majority of their consumer loans within the AA. The table below indicates the bank's lending activity within the AA by number and dollar volume based on the loan sample. This number of loans and dollar amount of lending reflects a substantial majority of consumer lending is within the bank's assessment area.

We utilized the bank's HMDA data to review residential real estate lending in the bank's assessment area. The analysis in the table below details the bank's residential real estate lending within its assessment area and the dollar volume based on the bank's HMDA data. The number and dollar amount of consumer loans within the bank's assessment area reflects a substantial majority of residential real estate lending is within the bank's assessment area.

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(000s)		(000s)		(000s)
Consumer	27	90%	3	10%	30	\$313	92%	\$26	8%	\$339
Residential RE	172	84%	32	16%	204	\$15,815	72%	\$6,282	28%	\$22,097

Source: Loan Sample, 2014 and 2015 HMDA LAR Data

Lending to Borrowers of Different Incomes

The distribution of consumer and residential real estate lending in the AA reflects reasonable penetration among individuals of different incomes, including low- and moderate-income borrowers, and supports overall satisfactory performance.

The distribution of consumer lending reflects excellent penetration among individuals of different incomes and supports the bank's overall satisfactory performance. Lending to low-income borrowers exceeds the percentage of low-income households in the AA. Additionally, the distribution of lending to moderate-income borrowers is significantly

higher than the distribution of moderate-income households in the bank’s AA. Refer to the table below for additional details on the bank’s consumer lending.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	30%	44%	15%	33%	20%	10%	35%	13%

Source: Loan Sample, 2010 U.S. Census Data

The distribution of residential real estate lending reflects reasonable penetration among individuals of different incomes including low- and moderate-income borrowers, and supports overall satisfactory performance. The residential real estate loan sample reflects penetration in all income categories. Lending to low-income borrowers is comparable to the percentage of low-income families within the AA. Lending to moderate-income borrowers is also comparable to the proportion of moderate-income families in the AA. See the table below for additional details on the bank’s residential real estate lending.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	27%	26%	20%	20%	25%	28%	28%	26%

Source: 2014 and 2015 HMDA LAR Data, 2010 U.S. Census Data

Geographic Distribution of Loans

The bank’s distribution of loans throughout geographies of different income levels, including low- and moderate-income geographies, reflects reasonable dispersion and meets the standards for satisfactory performance. The analysis shows that the bank is lending in all tracts in its AA. The bank does not have any low- or upper-income CTs in its AA.

The analysis in the table below details the bank’s consumer lending activity in the different income geographies for the identified AA, which reflects excellent dispersion. Peoples NB’s lending in the moderate-income CT is well above the number of moderate-income households in the AA. Please see the table below.

Geographic Distribution of Consumer Loans in MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0%	0%	53%	80%	47%	20%	0%	0%

Source: Loan Sample, 2010 U.S. Census Data

The analysis in the table below details the bank’s residential real estate lending activity in the different income geographies for the identified AA. The bank’s real estate lending in the one moderate-income geography reflects reasonable distribution. The moderate-income CT is adjacent to Muskingum County (10 banks within 10 miles of the bank branch location in the moderate-income CT), resulting in heavy competition. Peoples NB’s penetration in the moderate-income CT is therefore reasonable. See the table below for additional details.

Geographic Distribution of Residential Real Estate (RE) Loans in MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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	0%	0%	49%	32%	51%	68%	0%	0%

Source: 2014 and 2015 HMDA LAR data, 2010 U.S. Census Data

Responses to Complaints

During the period covered by the scope of this evaluation, the bank has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) in determining a national bank’s (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.