



PUBLIC DISCLOSURE

August 12, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank of McConnelsville
Charter Number 5259

100 East Main Street
McConnelsville, Ohio 43756

Office of the Comptroller of the Currency

Westlake Center
4555 Lake Forest Drive, Suite 610
Cincinnati, 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 Outstanding.

The Citizens National Bank of McConnelsville (“CNB” or “the bank”) exhibits an **Outstanding** record of meeting its community’s credit needs.

- The bank’s 30-quarter average loan-to-deposit ratio is reasonable and commensurate with those demonstrated by local area banks.
- The bank makes a majority of its loans within the identified assessment area (AA).
- Lending to borrowers of different income levels reflects excellent penetration and supports outstanding performance, particularly in regards to consumer lending.
- CNB’s performance in lending to geographies of different income levels exhibits excellent dispersion in the moderate-income census tracts of the assessment area (“AA”).
- The bank’s performance with regard to Community Development (CD) activities demonstrates adequate responsiveness to CD needs in its AA.

SCOPE OF EXAMINATION

Our office conducted a full scope Community Reinvestment Act (CRA) examination to assess the bank’s record of meeting the credit needs of its entire community, including low- and moderate-income areas and borrowers. We used small bank examination procedures to evaluate the bank’s performance.

The bank’s primary lending products are residential real estate and consumer loans. We based this determination on discussions with management and the volume of loan originations during the lending evaluation period of January 1, 2011 to June 30, 2013.

CNB has designated one AA, as detailed under the *Description of Assessment Areas* section. To perform our analysis of lending inside the AA, we randomly sampled 40 loans originated during the evaluation period from each primary lending product. Next, to perform the borrower distribution and geographic analysis, we removed any loans in the original sample that were outside the AA. We selected additional loans located inside the AA as necessary to ensure the sample included at least 20 loans per primary product, per census period. We used the 2000 U.S. Census data for loans originated in 2011 and the 2010 U.S. Census data for loans originated in 2012 through June 30, 2013.

DESCRIPTION OF INSTITUTION

CNB is a wholly owned subsidiary of CNB Holdings, Inc., a one-bank holding company. CNB has one branch located in Duncan Falls, which is in the southern section of Muskingum County. The main office is located approximately 90 miles southeast of Columbus, Ohio, in

McConnelsville, Morgan County, Ohio. Currently, no legal or financial impediments exist that could restrict the bank's ability to serve the community's credit needs. CNB received an Outstanding CRA rating at the previous CRA examination, as of February 21, 2006.

As of June 30, 2013, CNB reported total assets of \$87.4 million, Tier One Capital of \$9.9 million, and \$45.3 million in net loans. Distribution of the bank's lending products by number of loans originated and dollar amount originated during the evaluation period is shown in Table 1 below.

Table 1 - Primary Loan Types				
Loans originated/purchased from January 1, 2011 to June 30, 2013				
Loan Type	% by Dollars of Loans Originated		% by Number of Loans Originate	
	\$000's	%	# of Loans	%
Consumer	\$5,625	21%	625	65%
Residential Real Estate	\$15,988	60%	235	24%
Commercial	\$3,284	12%	84	9%
Agricultural Loans	\$1,600	6%	17	2%
Total	\$26,497	100%	961	100%

Source: Internal bank reports of loans originated from January 1, 2011 through June 30, 2013.

DESCRIPTION OF ASSESSMENT AREA

CNB has designated one AA in a Non-Metropolitan Statistical Area (Non-MSA). This AA consists of all four census tracts (CT) in Morgan County and five CTs in the southern half of Muskingum County. The entire AA is contiguous, meets the requirements of the regulation, and does not arbitrarily exclude any low- or moderate-income areas.

Competition for loans and deposits in the AA is strong given the presence of other community banks and branches of larger regional financial institutions. As of June 30, 2013, CNB had approximately five percent of the deposit market share, according to the Federal Deposit Insurance Corporation, in the two counties in which their branches are located, ranking seventh out of 11 financial institutions.

The economic conditions of this Non-MSA AA are depressed. Challenges facing Southeast Ohio and Appalachia are high unemployment, limited economic opportunities and poor infrastructure. According to the Ohio Labor Market Information as of May 2013, the unemployment rate for Morgan County was 10.1 percent, which is significantly higher than the state and national levels of unemployment (7.0 percent and 7.6 percent, respectively). The unemployment rate for Muskingum County was 9.0 percent. Major industries/employers in the AA include local government, retail trade, manufacturing, and healthcare/social services.

We made contact with persons familiar with the AA, and they indicated the recession had minimal impact on the AA's economy. The local economy was in a depressed state prior to the recession. Families living in the AA were generally living within their means and housing prices

never increased substantially as they did in other markets. The credit needs of the community continue to include affordable housing, small consumer loans, small business lending, and financial literacy programs. These individuals also indicated CNB employees are striving to serve the credit needs of the community and have an active presence in the community.

Information as of the 2000 U.S. Census Data

As of the 2000 U.S. Census, the AA had three moderate-income and six middle-income CTs with a total population of 35,919. Sixty-seven percent of the housing units in the AA are owner-occupied, with 28 percent in moderate-income geographies and 72 percent in middle-income geographies. Fourteen percent of the households in the AA live below the poverty level, 32 percent receive social security benefits and four percent receive public assistance. The median housing value for the AA is \$70,930 with the median housing stock build year in 1965. The weighted average monthly gross rent is \$382.

According to the 2000 U.S. Census data, the Non-MSA median family income is \$43,801. The Department of Housing and Urban Development estimate of the updated Non-MSA median family income is \$52,900 for 2011. Approximately 25 percent of the families in the AA are low-income and 20 percent are moderate-income.

Information as of the 2010 U. S. Census Data

As of the 2010 U.S. Census, the AA had four moderate-income, four middle-income and one upper-income CTs with a population of 36,174. Sixty-seven percent of the housing units in the AA are owner-occupied, with 39 percent in moderate-income geographies, 52 percent in middle-income geographies and nine percent in upper-income geographies. Eighteen percent of the households in the AA live below the poverty level, 33 percent receive social security benefits, and four percent receive public assistance. The median housing value for the AA is \$100,217 with the median housing stock build year in 1969. The weighted average monthly gross rent is \$534.

According to the 2010 U.S. Census data, the Non-MSA median family income is \$52,111. The Department of Housing and Urban Development estimate of the updated Non-MSA median family income is \$53,600 for 2012. Approximately 24 percent of the families in the AA are low-income and 21 percent are moderate-income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on the criteria for the CRA lending test, the bank's lending performance is outstanding.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs and meets the requirements for satisfactory performance.

CNB has an average loan-to-deposit ratio, over the 30 quarters (March 31, 2006 to June 30, 2013), since the prior CRA examination, of 74.31 percent. This is comparable to the average loan-to-deposit ratio of 78.33 percent for similarly situated community financial institutions in Morgan and Muskingum Counties over this same period.

Lending in Assessment Area

The bank's record of lending within its AA supports satisfactory performance with a majority of the bank's lending inside the AA.

As outlined in the description of the institution above, the bank's primary loan types are residential real estate loans and consumer loans. We sampled 40 loans from each of these loan types (for 80 total loans) that the bank originated during the evaluation period. According to our sample, the bank originated 83 percent of its loans by number and 78 percent of its loans by dollar within its AA. Table 2 details the bank's lending within the AA by number and dollar volume.

Table 2 - Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	32	80%	8	20%	40	\$1,979	78%	\$560	22%	\$2,539
Consumer Loans	34	85%	6	15%	40	\$239	74%	\$82	26%	\$321
Totals	66	83%	14	17%	80	\$2,218	78%	\$642	22%	\$2,860

Source: Loan sample; CNB loans originated from January 1, 2011 through June 30, 2013.

Lending to Borrowers of Different Incomes

Lending to borrowers of different income levels reflects excellent penetration overall and supports outstanding performance.

Information as of the 2000 U.S. Census Data, Loan sample originated in 2011

The bank's distribution of residential real estate loans in their AA reflects reasonable penetration among borrowers of different income levels for loans originated in 2011. Based upon an analysis of home loans originated in our sample during 2011 compared to the 2000 U.S. Census demographics, CNB originated 5 percent of their home loans to low-income borrowers, which is poor when compared to the 25 percent of low-income families in the AA. They originated 10 percent to moderate-income borrowers, which is reasonable when compared to the 20 percent of moderate-income families in the AA. While the lending to low-income borrowers is poor, we find the overall level of lending for residential real estate loans in the AA reflects reasonable penetration given the economic conditions of the AA. Of note, 17 percent of the occupied units in the AA are occupied rental units, which suggest a large portion of the population is opting to

rent instead of purchasing a home. Fourteen percent of the households in the AA live below the poverty level, and 32 percent of the households receive social security benefits. There are also several other banks in the area providing competition for loans. These circumstances limit lending opportunities, especially for low-income families. See Table 3 for details.

Table 3- Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA 2011 Loan Sample								
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 Real Estate Loans	25%	5%	20%	10%	25%	35%	30%	50%

Source: Loan Sample; 2000 U.S. Census data, updated as of 2011.

The distribution of consumer loans to low- and moderate-income borrowers reflects excellent penetration particularly for moderate-income borrowers. While opportunities for residential real estate lending to low- to moderate-income borrowers is limited, as noted above, CNB has demonstrated their ability to lend to borrowers with low- and moderate-incomes through their consumer lending. CNB originates 65 percent of all small loans to individuals with low- and moderate income levels. This carries significant weight in our borrower distribution analysis given the level of households below the poverty line (14 percent) and the identification of small consumer loans as a primary credit need within the AA. See Table 4 for details.

Table 4- Borrower Distribution of Consumer Loans in the Non-MSA AA 2011 Loan Sample								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	28%	30%	19%	35%	20%	5%	33%	30%

Source: Loan Sample; 2000 U.S. Census data, updated as of 2011.

Information as of the 2010 U.S. Census Data, Loan sample originated 2012 – June 30, 2013

The bank’s distribution of residential real estate loans in their AA reflects reasonable penetration among borrowers of different income levels for loans originated in 2012 through June 30, 2013. Based upon an analysis of home loans originated in our sample during this time period compared to the 2010 U.S. Census demographics, CNB originated five percent of their loans to moderate-income borrowers, which is poor when compared to the 21 percent of moderate-income families in the AA. CNB originated 20 percent of their loans to low-income borrowers, which is reasonable when compared to the 24 percent of low-income families in the AA. While the lending to moderate-income borrowers is poor, we find the overall level of lending for residential real estate loans in the AA reflects reasonable penetration given the economic conditions of the AA.

Based on the 2010 census data, economic conditions have not improved in the AA since the 2000 census data was completed. Seventeen percent of the occupied units in the AA are occupied rental units, which suggest a large portion of the population is opting to rent instead of purchasing a home. Eighteen percent of the households in this AA live below the poverty level and 33 percent of the households receive social security benefits. There are also several other banks in the area providing competition for loans. These circumstances limit lending opportunities, especially for low-and-moderate income families. See Table 5 for details.

Table 5 - Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA 2012 – June 30, 2013 Loan Sample								
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 Real Estate Loans	24%	20%	21%	5%	22%	35%	33%	40%

Source: Loan Sample; 2010 U.S. Census data, updated as of 2012.

The distribution of consumer loans to low- and moderate-income borrowers reflects excellent penetration. While opportunities for residential real estate lending to low- to moderate-income borrowers is limited, as noted above, CNB has demonstrated their ability to lend to borrowers with low- and moderate-incomes through their consumer lending. CNB originates 65 percent of all small loans to individuals with low- and moderate income levels. This carries significant weight in our borrower distribution analysis given the level of households below the poverty line (18 percent) and the identification of small consumer loans as a primary credit need within the AA. See Table 6 for details.

Table 6- Borrower Distribution of Consumer Loans in the Non-MSA AA 2012 – June 30, 2013 Loan Sample								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	28%	35%	19%	30%	18%	20%	35%	15%

Source: Loan Sample; 2010 U.S. Census data, updated as of 2012.

Geographic Distribution of Loans

The geographic distribution of loans reflects an excellent dispersion throughout the AA and supports an overall outstanding performance. The geographic distribution analysis reflects lending in most census tracts with no significant gaps identified.

Information as of the 2000 U.S. Census Data, Loan sample originated in 2011

As of the 2000 U.S. Census, the bank had three moderate-income census tracts with two in Morgan County and one in Muskingum County. There are no low-income census tracts in the AA.

For loans originated in 2011, CNB originated 25 percent of their home loans in moderate-income geographies, which is reasonable compared to 28 percent of owner-occupied units in the moderate-income geographies. See Table 7 for details.

Table 7 – Geographic Distribution of Residential Real Estate Loans in the Non-MSA AA 2011 Loan Sample								
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 Real Estate Loans	0%	0%	28%	25%	72%	75%	0%	0%

Source: Loan Sample; 2000 U.S. Census data, updated as of 2011.

The distribution of consumer loans in moderate-income geographies reflects excellent dispersion with 35 percent of the loans made in moderate-income geographies compared to 32 percent of households in moderate-income geographies. See Table 8 for details.

Table 8 - Geographic Distribution of Consumer Loans in the Non-MSA AA 2011 Loan Sample								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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%	32%	35%	68%	65%	0%	0%

Source: Loan Sample; 2000 U.S. Census data, updated as of 2011.

Information as of the 2010 U.S. Census Data, Loan sample originated 2012 – June 30, 2013

As of the 2010 U.S. Census, CNB had four moderate-income census tracts with three in Morgan County and one in Muskingum County. There are no low-income census tracts in the AA during this time period.

For loans originated from 2012 through June 30, 2013, CNB originated 55 percent of their home loans in moderate-income geographies, which reflects excellent dispersion compared to 40 percent of owner-occupied units in the moderate-income geographies. See Table 9 for details.

Table 9 - Geographic Distribution of Residential Real Estate Loans in the Non-MSA AA 2012 –June 30, 2013 Loan Sample								
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 Real Estate Loans	0%	0%	40%	55%	52%	40%	8%	5%

Source: Loan Sample; 2010 U.S. Census data, updated as of 2012.

The distribution of consumer loans in moderate-income geographies reflects excellent dispersion with 65 percent of the loans made in moderate-income geographies compared to 42 percent of households in the moderate-income geographies. See Table 10 for details.

Table 10 - Geographic Distribution of Consumer Loans in the Non-MSA AA 2012 –June 30, 2013 Loan Sample								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans
Consumer Loans	0%	0%	42%	65%	50%	20%	8%	15%

Source: Loan Sample; 2010 U.S. Census data, updated as of 2012.

Community Development Activities

The bank’s performance with regard to Community Development (CD) activities provides additional support for an outstanding rating.

CNB’s CD performance through its record of community involvement, donations to local organizations, grants, and CD services since the prior CRA examination demonstrates adequate responsiveness to community development needs in its AA. CNB employees provide an abundant amount of community services to organizations offering services to low- and moderate-income individuals or organizations assisting small businesses. Donations and loans were also made to local organizations, which provide community development services.

CNB donated several thousand dollars to local community organizations to assist their members who are of low- and moderate-income status. These organizations include the local Future Farmers of America, The Muskingum Valley Educational Service Center, The Martin Luther King Jr. Scholarship Fund, and the Ohio Small Business Development Center among many others.

The bank exhibits adequate performance in meeting community needs through community services. In our evaluation of CNB services, we considered CNB employees' level of community involvement, the variety of organizations served, and feedback provided by our community contact.

During the evaluation period, the bank worked with the Federal Home Loan Bank of Cincinnati to help low- and moderate-income borrowers garner grants totaling \$80 thousand through the Welcome Home Project. The program awards \$5 thousand grants to qualified borrowers for down payment assistance on mortgages.

CNB Board members, officers, and employees are involved in a wide range of community development services within the AA. President Mike Vynalek and Chairman Robert Christie are very active in the community. Both men serve as Board members with the Community Improvement Corporation among other organizations. The primary purpose of this organization is to improve the economic conditions through the retention of existing jobs, attract new businesses to the community and work with local government and the state to improve the county's aesthetic environment and infrastructure in areas such as water, sewer, road, communication, and utilities.

Responses to Complaints

CNB has not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's 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.