



PUBLIC DISCLOSURE

August 5, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of McConnellsville
Charter Number 46

P.O. Box 208
86 North Kennebec Avenue
McConnellsville, Ohio 43756

Office of the Comptroller of the Currency

Central Ohio Field Office
West Lake Center
4555 Lake Forest Drive, Suite 520
Blue Ash, Ohio 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 First National Bank of McConnelsville (“FNB” or “the bank”) exhibits a **satisfactory** record of meeting its community’s credit needs.

- Lending to borrowers of different income levels reflects reasonable penetration and supports satisfactory performance particularly regarding consumer lending.
- FNB’s performance of lending in geographies of different income levels exhibits excellent dispersion in the moderate-income census tracts of the assessment area (AA).
- FNB is responsive to its community’s credit needs as a majority of the loans in our sample were originated inside the AA.
- The bank’s current and 21-quarter average loan-to-deposit ratios are reasonable and commensurate with those of local peer banks.

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. We used small bank examination procedures to evaluate the bank’s performance. We conducted the prior CRA examination in March 2008.

We determined the bank’s primary lending products are residential real estate and consumer loans through discussions with management and our review of the volume of the bank’s loan originations during the evaluation period. The evaluation period is January 1, 2011 through June 30, 2013.

To perform our analysis of lending inside the AA, we randomly sampled 40 loans originated during the evaluation period from each primary lending product. To perform our analysis for the borrower and geographic distributions, we removed any loans in the original sample that were outside the AA and randomly selected additional loans located inside the AA to ensure our sample included at least 20 loans from each primary product, for each census period. We compared loans originated in 2011 to the 2000 U.S. Census data and compared loans originated in 2012 through June 30, 2013 to the 2010 U.S. Census data.

FNB has designated one AA, as detailed under the **Description of Assessment Areas** section.

DESCRIPTION OF INSTITUTION

The First National Bank of McConnelsville is a wholly owned subsidiary of FNB Shares, Inc., a one-bank holding company. FNB has a total of seven branches located primarily in Morgan and Athens counties. The main office is located approximately 90 miles southeast of Columbus, Ohio, in the Village of McConnelsville, Ohio. The bank operates its main office and two full-service branches (Stockport, Ohio and Chesterhill, Ohio) in Morgan County. FNB also operates

three full-service branches in Athens County. The branches are located in Athens, Ohio, Glouster, Ohio, and Nelsonville, Ohio. In addition, there is a full-service branch in Junction City, Ohio (Perry County). FNB acquired the Nelsonville and Glouster branches when they purchased the First National Bank of Nelsonville in November 2008. The bank has an automated teller machine (ATM) located inside the Kroger grocery store in Nelsonville; however, this ATM does not accept deposits. As of the 2010 U.S. Census, four of the branches are located in moderate-income census tracts and three are in middle-income tracts.

The bank’s business focus is residential real estate loans, retail (consumer) loans, and commercial banking and they offer standard products and services through all seven locations. We determined the bank’s primary lending products are residential real estate and consumer loans. Currently, no legal or financial impediments exist that could restrict the bank’s ability to serve the community’s credit needs. At the previous CRA examination, FNB received a CRA rating of “Satisfactory.”

As of June 30, 2013, FNB reported total assets of \$141 million, Tier One Capital of \$9.6 million, and \$78 million in net loans. The bank’s primary lending products by number of loans originated are consumer and residential real estate loans as shown in Table 1 below.

Table 1 - Primary Loan Types				
Loans originated or purchased from January 1, 2011 to June 30, 2013				
Loan Type	% by Dollars of Loans Originated during evaluation period		% by Number of Loans Originated during evaluation period	
	\$000's	%	# of Loans	%
Consumer	\$11,522	28%	1,831	81%
Residential Real Estate	\$20,872	50%	340	15%
Commercial	\$9,051	22%	90	4%
All Other	\$97	0%	3	0%
Total	\$41,542	100%	2,264	100%

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

DESCRIPTION OF ASSESSMENT AREA

FNB has designated one AA in a Non-Metropolitan Statistical Area (Non-MSA). The AA consists of all four census-tracts (CT) in Morgan County, four CTs in northwestern Athens County, one CT in eastern Hocking County, and one CT in southwestern Perry County. The entire AA is contiguous, meets the requirements of the regulation, and does not arbitrarily exclude any low- or moderate-income areas. Bank management selected the AA based on the bank’s targeted lending territory and branch locations. The bank’s headquarters is in Morgan County and it does most of its lending in this county.

Competition for loans and deposits in the AA is strong with primarily community banks serving the needs of Morgan County and community banks and branches of larger regional financial institutions serving Athens, Hocking, and Perry Counties. As of June 30, 2012, in the three counties (Athens, Morgan, and Perry) where its branches are located, FNB had approximately an

eleven percent share of the deposit market and ranked third out of seventeen financial institutions. For the same period and including all four counties (Athens, Hocking, Morgan, and Perry) of the AA, the bank had an eight percent share of the deposit market and ranked fourth out of eighteen financial institutions. The source of the deposit market share information is the June 30, 2012 Deposit Market Share Report from the Federal Deposit Insurance Corporation (FDIC).

Based on key economic indicators, the economic conditions of the AA are depressed. Southeast Ohio and Appalachia are challenged with high unemployment, limited economic opportunities, and poor infrastructure. According to the Ohio Bureau of Labor Market Information (May 2013), the unemployment rate for Morgan County was 10.1 percent, which is significantly higher than the state and national levels of unemployment, which were 7.0 percent and 7.6 percent, respectively. The unemployment rate for Athens County was 7.4 percent, 7.3 percent for Hocking County, and 8.8 percent for Perry County in the same period. Major industries in the AA include local governments, school districts, retail trade, manufacturing, and healthcare and social services. Ohio University, a large public university located in Athens, Ohio is a major employer. In Morgan County, major employers include Miba Bearings US LLC and Highland Oaks.

Our community contacts in the AA indicated that the AA's economy was minimally impacted by the recession which started in 2008. As the local economy was depressed prior to the recession, families living in the AA were generally living within their means and housing prices did not increase substantially as they did in other markets. The credit needs of the community continue to include affordable housing, small business lending, and financial literacy programs. According to our contacts, local financial institutions are meeting those needs.

Information as of the 2000 U.S. Census

As of the 2000 U.S. Census, the AA has five moderate-income and five middle-income CTs with a total population in the AA of 41,612. Owner-occupied housing units represent 62 percent of the housing units in the AA, with 47 percent located in moderate-income geographies and 53 percent located in middle-income geographies. Households living below the poverty level equal 21 percent of households in the AA, 29 percent receive social security benefits, and 6 percent receive public assistance. The median housing value for the AA is \$59,519 and the median age of housing stock is 50 years. The weighted average monthly gross rent is \$384.

According to the 2000 U.S. Census, the Non-MSA median family income is \$43,801. The Department of Housing and Urban Development (HUD) estimate of the updated Non-MSA median family income is \$52,900 for 2011. Approximately 29 percent of the families in the AA are low-income, 22 percent are moderate-income, and the remaining families are middle- and upper-income.

Information as of the 2010 U. S. Census

As of the 2010 U.S. Census, the AA has five moderate-income and five middle-income CTs and the population of the AA is 41,801. Owner-occupied housing units represent 60 percent of the housing units in the AA, with 48 percent located in moderate-income geographies and 52 percent located in middle-income geographies. Households in the AA living below the poverty level equal 23 percent, 35 percent receive social security benefits, and 5 percent receive public

assistance. The median housing value for the AA is \$81,357 and the median age of housing stock is 43 years. The weighted average monthly gross rent is \$541.

According to the 2010 U.S. Census, the Non-MSA median family income is \$52,111. The HUD estimate of the updated Non-MSA median family income is \$53,600 for 2012. Approximately 29 percent of the families in the AA are low-income, 22 percent are moderate-income, and the remaining families are middle- and upper-income.

Changes in census tracts

While the total number of moderate-income (5) and middle-income (5) CTs remained the same between the 2000 Census and 2010 Census, there was a change in the income distribution of two CTs in the AA and include the following:

- 2000 census data:
 - CT 9726 (Athens County) moderate-income
 - CT 9690 (Morgan County) middle-income
- 2010 census data:
 - CT 9726 (Athens County) middle-income
 - CT 9690 (Morgan County) moderate-income

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

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

FNB has an average loan-to-deposit ratio of 75.58 percent over the 21 quarters (March 2008 through March 2013), since the prior CRA examination. This compares reasonably with the average loan-to-deposit rate of 73.26 percent for similarly situated community banks in Athens, Hocking, Morgan, and Perry counties.

Lending in the 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 a total of 80) that the bank originated during the evaluation period. Based on our sample, the bank originated 78 percent of loans by number and 74 percent by dollar amount within its AA. Table 2 details the bank’s lending within the AA by number and dollar volume. This table demonstrates that a majority of the loans in our samples were made inside the bank’s AA.

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	31	78%	9	22%	40	\$2,004	75%	\$657	25%	\$2,661
Consumer Loans	31	78%	9	22%	40	\$198	60%	\$135	40 %	\$333
Totals	62	78%	18	22%	80	\$2,202	74%	\$792	26%	\$2,994

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

Lending to Borrowers of Different Incomes

Lending to borrowers of different income levels reflects reasonable penetration and supports satisfactory performance.

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

Based on our sample of home loans originated during 2011 compared to the 2000 U.S. Census demographics, the bank’s distribution of residential real estate loans in its AA reflects reasonable penetration among borrowers of different income levels given the economic conditions of the AA. FNB originated 10 percent of its home loans to low-income borrowers, which is poor penetration when 29 percent of the AA families are low-income. The bank originated 15 percent of its loans to moderate-income borrowers, which is reasonable penetration when 22 percent of AA families are moderate-income. 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. Additionally, we note that rental units are 22 percent of the occupied units in the AA, which suggests a large portion of the population is choosing to rent instead of purchasing a home. Furthermore, 16 percent of the families in this AA live below the poverty level and may experience difficulty meeting the credit underwriting standards to qualify for a home mortgage loan. In addition, there are 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	29%	10%	22%	15%	23%	35%	26%	40%

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 for borrowers of low- and moderate-incomes. The bank originated 40 percent of its

consumer loans to low-income borrowers and 25 percent to moderate-income borrowers, which is excellent dispersion when compared to the AA’s demographics of 34 percent low-income and 20 percent moderate-income households. While opportunities for residential real estate lending to low- and moderate-income borrowers is limited, as noted above, FNB has demonstrated their ability to lend to borrowers with low- and moderate-incomes through their consumer lending. 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 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	34%	40%	20%	25%	19%	10%	27%	25%

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

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

Overall, 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 on our sample of home loans originated during this period compared to the 2010 U.S. Census demographics, FNB did not originate any home loans to low-income borrowers, which is poor penetration when 29 percent of families in the AA are low-income. FNB originated 30 percent of its loans to moderate-income borrowers, which reflects excellent penetration when 22 percent of families in the AA are moderate-income. See Table 5 for details.

Table 5 - Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA 2012 – Year-to-Date 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	29%	0%	22%	30%	23%	35%	26%	35%

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

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 and excellent penetrations to borrowers of moderate-income. Based on the 2010 Census, economic conditions have not improved in the AA since the 2000 Census was completed. Rental units comprise 23 percent of the occupied units in the AA, which suggest a large portion of the population is choosing to rent instead of purchasing a home. The 2010 Census reflected the median price of a home in the AA at \$81,357. Families living below the

poverty level are 18 percent of the families in the AA and 35 percent of the households in the AA receive social security benefits. These borrowers may experience difficulty meeting the credit underwriting standards for home mortgage loans. In addition, there are several other banks in the area providing competition for loans. These circumstances limit lending opportunities, especially for low-income families.

The distribution of consumer loans to low- and moderate-income borrowers reflects excellent penetration particularly for borrowers of moderate-income. The bank originated 25 percent of its consumer loans to low income borrowers, which is lower than the demographic of low-income households of 34 percent but reasonable performance given the economic conditions of the AA. The bank demonstrated excellent performance making 45 percent of consumer loans to moderate-income borrowers who represent 18 percent of the AA’s households. While opportunities for residential real estate lending to low- and moderate-income borrowers is limited, as noted above, FNB has demonstrated its ability to lend to borrowers with low- and moderate-incomes through their consumer lending. See Table 6 for details.

Table 6 - Borrower Distribution of Consumer Loans in the Non-MSA AA 2012 – Year-to-Date 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	34%	25%	18%	45%	18%	15%	30%	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 outstanding performance. Competition for loans is strong and management is meeting the credit needs of the community. Our analysis of the geographic distribution finds lending in most census tracts and we did not identify any significant gaps.

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

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

Based on our sample of home loans originated in 2011, FNB made 50 percent of its home loans in moderate-income geographies, which is excellent dispersion when 47 percent of owner-occupied units in the AA are in 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%	47%	50%	53%	50%	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 60 percent of the loans made in moderate-income geographies compared to 51 percent of households in the AA are 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%	51%	60%	49%	40%	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 in 2012 through June 30, 2013

As of the 2010 U.S. Census, FNB has five moderate-income census tracts with three in Morgan County and two in Athens County. There are no low-income census tracts in the AA.

FNB originated 80 percent of its home loans in moderate-income geographies, which reflects excellent dispersion when 48 percent of owner-occupied units in the AA are in moderate-income geographies. See Table 9 for details.

Table 9 - Geographic Distribution of Residential Real Estate Loans in the Non-MSA AA 2012 – Year-to-Date 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%	48%	80%	52%	20%	0%	0%

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 70 percent of the loans made in moderate-income geographies compared to 51 percent of AA households are in moderate-income geographies. See Table 10 for details.

Table 10 - Geographic Distribution of Consumer Loans in the Non-MSA AA 2012 – Year-to-Date June 30, 2013 Loan Sample								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA House- holds	% of Number of Loans						
Consumer Loans	0%	0%	51%	70%	49%	30%	0%	0%

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

Responses to Complaints

FNB 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.