



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 13, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Liberty National Bank
Charter Number 5425

118 South Main Street
Ada, Ohio 45810

Office of the Comptroller of the Currency
Central Ohio Field Office
Metro Center V
655 Metro Place South, Suite 625
Dublin, Ohio 43017

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.

- Liberty National Bank (LNB)'s lending to borrowers of different incomes and business of different sizes reflects reasonable penetration.
- LNB's loan-to-deposit ratio is reasonable compared to other similarly situated financial institutions within its assessment areas.
- A majority of LNB's lending activity occurs within its identified assessment areas.

SCOPE OF EXAMINATION

We used the Small Bank Community Reinvestment Act (CRA) procedures to assess LNB's CRA performance. We evaluated: the reasonableness of LNB's loan-to-deposit ratio; lending within its assessment area; reasonableness of its lending penetration to borrowers of different levels and business of different sizes; and reasonableness of its geographic distribution of lending within its assessment area. In addition, we also assessed LNB's responsiveness to CRA-related complaints and compliance with fair lending laws and regulations.

Our review period covered lending activity for the years 2010 and 2011. We reviewed LNB's primary lending products over that time period. Those primary lending products were residential real estate and commercial/commercial real estate loans. The following table provides detail regarding LNB's lending origination volumes by loan type during the evaluation period.

2010 & 2011 Lending Origination Volume		
Loan Type	Percentage by number of loans originated	Percentage by dollar amount of loans originated
Residential Real Estate	35%	33%
Commercial/Commercial Real estate	25%	42%
Agricultural/Farmground	14%	20%
Consumer Installment	16%	2%
Home Equity Lines of Credit	10%	3%

Source: The percentages reflected in the above table are based on bank-reported originations during 2010 and 2011.

We used LNB's 2010 and 2011 Home Mortgage Disclosure Act (HMDA) data to assess its residential real estate lending. To assess its commercial/commercial real estate activity, we evaluated a random sample of commercial/commercial real estate loans originated in 2010 and 2011.

DESCRIPTION OF INSTITUTION

LNB is an intrastate community bank and is a wholly-owned subsidiary of a one-bank holding company (Liberty Bancshares, Inc.). Both LNB and its holding company are located approximately 80 miles northwest of Columbus, Ohio, in the village of Ada, Ohio (Hardin County). Its primary business focus is retail, commercial, and agricultural banking products and services. LNB offers these traditional products and services through a total of five full service branches (Ada, Kenton, Bellefontaine (2), and Marysville). In January 2008, LNB opened a branch in Marysville, Ohio, which is the county seat of Union County. On October 1, 2012, the bank opened its second location on the south side of Bellefontaine, Ohio (Logan County seat). During September 2009, LNB closed its Kenton Plaza Branch Office, which was an additional location in Kenton, Ohio.

Currently, no legal or economic impediments exist that could restrict LNB's ability to service the community's credit needs. The bank earned a rating of satisfactory at their prior CRA examination (April 25, 2006).

As of September 30, 2012, LNB reported total assets of \$212.7 million, Tier One Capital of \$20.5 million, and gross loans of \$155.6 million. Commercial/commercial real estate loans represented nearly 51% of gross loans, residential real estate loans were 28% of gross loans, and agricultural/farmground accounted for 18% of gross loans.

DESCRIPTION OF ASSESSMENT AREA(S)

LNB has two assessment areas (AAs). One is a Non Metropolitan Statistical Area (MSA) AA consisting of Hardin and Logan Counties. The other AA is located in the Columbus Ohio MSA and consists of Union County. These two AAs completely surround LNB's offices, meet the requirements of the regulation, and do not arbitrarily exclude any low- or moderate-income areas. Overall competition for loans and deposits within the bank's two AAs is moderate, and comes from several local community banks and branches of regional/national institutions.

Non-MSA AA:

The Non-MSA AA has 18 census tracts (CTs). Of these CTs, three are upper-income, 14 are middle-income, and one is moderate-income (no low-income CTs). This AA represents LNB's primary market territory (i.e., 96% of residential real estate loans originated in the Non-MSA AA) and is provided the most weight in the final evaluation.

Based on the 2000 Census, the Non-MSA AA had a population of 77,950 with 20,897 total families (29,901 total households). The Weighted Average of the Department of Housing and Urban Development (HUD) Updated Median Family Income for Non-MSA AAs of Ohio for 2010 was \$53,700 (\$52,900 for 2011). Of all the families living in the Non-MSA AA, 16.09% are classified as low-income (11.42% of all households live below the poverty level), 18.87% are moderate-income, 23.91% are middle-income, and

41.13% are upper-income. Of this AA's 22,308 owner-occupied housing units, 4.85% are located in the one moderate-income tract, 75.37% are in the middle-income tracts, and 19.78% are in the upper-income tracts.

Based on 2011 Business Geodemographic Data (Dun & Bradstreet) for this AA, 71.42% of all non-farm businesses reported gross annual revenues of \$1 million or less, 2.58% reported gross annual revenues of more than \$1 million, and 26% did not report any revenue (NR). Of all the non-farm businesses in this AA, 7.84% are in the one moderate-income tract, 74.11% are in the middle-income tracts, and 18.05% are in the upper-income tracts.

LNB has the largest deposit market share (17%) among the 17 other financial institutions accepting deposits in the two counties in the Non-MSA AA. Huntington National Bank has the next largest deposit market share at 16.50%, and Citizens Federal Savings and Loan Association is third with a deposit market share of 14.30%. About 96% of LNB's total deposits are in this AA. This deposit market share information was obtained from the FDIC's June 30, 2012 Deposit Market Share report/database.

The economic conditions in this AA are strained but showing signs of modest improvement. During the economic recession starting in late 2008/early 2009, this area lost both industry and jobs. Currently, there is activity with respect to investment in buildings/other capital assets and an increase in employment. However, those new jobs are lower paying than those lost. For November 2012, the unemployment rate in Hardin County was 6.3%, and the unemployment rate in Logan County was 6.1%. These rates compare favorably to the averages for the State of Ohio (6.5%) and the nation (7.4%).

A community contact (conducted as part of this examination) with a local chamber of commerce representative in Hardin County indicated that there are opportunities for small business lending, and those needs are being met by local financial institutions. While this area could always use more affordable housing, local financial institutions are doing a good job of meeting this need. The overall reputation of local financial institutions, especially LNB, is positive. Employees of these institutions are actively involved in the various boards and committees that serve to improve the county and/or its citizens.

Columbus Ohio MSA AA

The Columbus Ohio MSA AA has seven CTs. Of these, five are middle-income tracts and two are upper-income tracts (no low- or moderate-income tracts).

Based on the 2000 Census, this MSA AA had a population of 40,909 with 10,886 families (14,342 households). The Weighted Average of HUD Updated Median Family Income for this MSA AA for 2010 was \$68,600 (\$66,600 for 2011). Of all the families living in this AA, 14.59% are classified as low-income (5.79% of all households live below the poverty level), 17.81% are moderate-income, 26.03% are middle-income, and 41.57% are upper-income.

Based on 2011 Business Geodemographic Data (Dun & Bradstreet) for this MSA AA, 70.18% of all non-farm businesses reported gross annual revenues of \$1 million or less, 3.01% reported gross annual revenues of more than \$1 million, and 26.81% did not report any revenue (NR).

Per the FDIC's June 30, 2012 Deposit Market Share report/database, LNB has a deposit market share of 1.16% in this AA (eighth out of eight total financial institutions accepting deposits in this county).

Based on the November 2012 unemployment rate for Union County (5.1%), the economic conditions of this MSA AA are better than those in the Non-MSA AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

- LNB's performance under the lending test is satisfactory.

Loan-to-deposit Ratio

- LNB's loan-to-deposit (LTD) ratio is reasonable compared to other similarly situated financial institutions within its assessment areas.

LNB's average LTD ratio over the last 26 quarters (since the prior CRA examination) is 86%. Other similarly situated financial institutions have average LTD ratios that range from 30% to 89% over this same time period. Of note, three other financial institutions have 26-quarter average LTD ratios that also exceed 80%. By similarly situated, we mean the seven other locally owned financial institutions headquartered within either of LNB's two AAs (Hardin, Logan, or Union Counties).

Lending in Assessment Area

- A majority of LNB's lending activity occurs inside its AAs.

To assess performance for this criterion, we used LNB's reported HMDA data for 2010 and 2011 (residential real estate loans). We also sampled 20 loans, regardless of location, from LNB's other primary loan type (commercial/commercial real estate). The following table provides our findings from this review and supports our conclusion in this area.

Lending in Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Residential RE	336	87%	52	13%	388	39,636	81%	9,599	19%	49,235
Commercial/ Commercial RE	16	80%	4	20%	20	6,393	91%	649	9%	7,042
Totals	352	86%	56	14%	408	46,029	82%	10,248	18%	56,277

Source: 2010 & 2011 bank reported HMDA LAR data (322 loans) and sample of 20 commercial/commercial real estate loans regardless of location.

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

- LNB's total lending activity reflects reasonable penetration to borrower's of different income levels and business of different sizes. In assessing LNB's overall CRA performance, this criterion was given greater weight than the geographic distribution criterion due to the limited number of low- and moderate-income areas (no low-income and one moderate-income area) within LNB's AAs.

Of LNB's total residential real estate loans made in its AAs (336), 96% were made in the Non-MSA AA. In addition, the ten commercial/commercial real estate loans in the MSA AA used in this analysis represent all of LNB's lending activity in that area for the 2010 and 2011 time period. Given these two facts, lending in the Non-MSA AA was given the greatest weight for this criterion.

Non-MSA AA:

Lending activity in the Non-MSA AA reflects reasonable penetration.

Residential Real Estate Lending

LNB's home mortgage lending to low- and moderate-income borrowers is reasonable and approximates key demographic data (percentage of AA families by income level). While total real estate lending to low-income borrowers (9.01%) is significantly lower than the percentage of low-income families (16.09%), the fact that 11.42% of AA's households live below the poverty level and may have difficulty meeting the minimum credit standards provides further support for overall reasonable performance. Total real estate lending to moderate-income borrowers (19.25%) exceeds the percentage of moderate-income families (18.87%) in the AA.

Borrower Distribution of Residential Real Estate Loans in Non-MSA AA									
Borrower Income Level	Low		Moderate		Middle		Upper		Borrower Income reported as "N/A"
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	% of Number of Loans
Home Purchase	16.09%	13.48%	18.87%	24.82%	23.91%	30.50%	41.13%	25.53%	5.67%
Home Improvement	16.09%	0.00%	18.87%	10.00%	23.91%	30.00%	41.13%	50.00%	10.00%
Refinancing	16.09%	5.85%	18.87%	15.20%	23.91%	22.23%	41.13%	50.29%	6.43%
Total HMDA	16.09%	9.01%	18.87%	19.25%	23.91%	26.09%	41.13%	39.44%	6.21%

Source: 2010 & 2011 bank reported HMDA LAR data.
Demographic data is from the 2000 U.S. Census.

Commercial/Commercial Real Estate Lending

LNB’s business lending activity in the non-MSA AA reflects reasonable distribution to business of different sizes, especially small businesses.

The following table provides a summary of LNB’s lending by revenue size of the business.

Borrower Distribution of Loans to Businesses in the Non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	71.42%	2.58%	26.00%	100%
% of Bank Loans in AA by #	60.00%	40.00%	0.00%	100%
% of Bank Loans in AA by \$	29.06%	70.94%	0.00%	100%

Source: Sample of 20 commercial/commercial real estate loans in this AA.
Demographic data is from Business Geodemographic.

Given LNB’s performance is lower than the key demographic data (percent of AA businesses with revenues of \$1 million or less) and the significant percentage of businesses with “unavailable/unknown” revenue information (26%), we also analyzed the borrower distribution of loans to businesses by loan size. The vast majority of loans to businesses (87% based on the number of loans) were made in amounts of \$500,000 or less. In addition, over one-half (54% based on the number of loans) were made in amounts of \$100,000 or less. See the following table for detail.

Borrower Distribution of Loans to Businesses by Loan Size in the Non-MSA AA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	396	54%	16,676,388	10%
\$100,001 - \$250,000	143	20%	24,044,560	15%
\$250,001 - \$500,000	96	13%	33,480,724	21%
\$500,001 - \$1,000,000	55	8%	37,702,298	24%
Over \$1,000,000	40	5%	47,706,954	30%

Source: Internal Bank Reports from 2010 & 2011.

Columbus Ohio MSA AA

Lending activities in the MSA AA reflects reasonable penetration. While residential real estate lending activity (a total of 14 loans) reflects poor penetration, commercial/commercial real estate lending reflects excellent penetration.

Residential Real Estate Lending

LNB’s lending to low- and moderate-income borrowers is poor compared to key demographic data (percentage of AA families by income level). There was no lending to low-income borrowers during the review period and lending to moderate-income borrowers was lower than the percentage of moderate-income families in this AA.

Borrower Distribution of Residential Real Estate Loans in the MSA AA (14 Total Loans)									
Borrower Income Level	Low		Moderate		Middle		Upper		Borrower Income reported as “N/A”
	% 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	
Home Purchase	14.59%	0.00%	17.81%	16.67%	26.03%	33.33%	41.57%	50.00%	0.00%
Home Improvement	14.59%	0.00%	17.81%	0.00%	26.03%	0.00%	41.57%	0.00%	0.00%
Refinancing	14.59%	0.00%	17.81%	12.50%	26.03%	12.50%	41.57%	62.50%	12.50%
Total HMDA	14.59%	0.00%	17.81%	14.29%	26.03%	21.43%	41.57%	57.15%	7.13%

Source: 2010 & 2011 bank reported HMDA LAR data (14 loans).
Demographic data is from the 2000 U.S. Census.

Commercial/Commercial Real Estate Lending

LNB’s lending activity reflects excellent distribution to business of different sizes, especially small businesses. LNB’s lending to businesses with revenues of \$1 million or

less (80%) exceeds the percentage of businesses in this AA. Also, 90% of all commercial/commercial real lending were in amounts of \$296,000 or less.

The following table provides a summary of LNB’s lending by revenue size of the business.

Borrower Distribution of Loans to Businesses in the MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.18%	3.01%	26.81%	100%
% of Bank Loans in AA by #	80.00%	20.00%	0.00%	100%
% of Bank Loans in AA by \$	42.20%	57.80%	0.00%	100%

Source: All ten (10) commercial/commercial real estate loans originated in this AA in 2010 and 2011. Demographic data is from Business Geodemographic.

Given the significant percentage of businesses with “unavailable/unknown” revenue information (26.81%), we also analyzed the borrower distribution of loans to businesses by loan size. Of the 10 loans commercial/commercial loans originated in the review period, nine (90%) were in amounts of \$296,000 or less, and six (60% of 10) of those were in amounts less than \$50,000.

Geographic Distribution of Loans

- LNB’s lending activity reflects reasonable dispersion in most census tracts, including the one moderate-income tract. This geographic distribution analysis is only relevant for the Non-MSA AA as the MSA AA has no low- or moderate-income tracts. Also, the Non-MSA AA has only one moderate-income tract (no low-income tracts). Because of these two facts, this criterion was given less consideration in assessing LNB’s overall CRA performance.

Non-MSA AA:

Residential Real Estate Lending

LNB’s lending to the one moderate-income area reflects reasonable dispersion as it is near key demographic data for this performance criterion. Please refer to the following table for detail.

Geographic Distribution of Residential Real Estate Loans in Non-MSA AA						
Census Tract Income Level	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
Purchase	4.85%	8.51%	75.37%	63.12%	19.78%	28.37%
Home Improvement	4.85%	0.00%	75.37%	90.00%	19.78%	10.00%
Refinancing	4.85%	1.75%	75.37%	76.61%	19.78%	21.64%
Total HMDA	4.85%	4.66%	75.37%	71.12%	19.78%	24.22%

Source: 2010 & 2011 bank reported HMDA LAR data. Demographic data is from the 2000 U.S. Census

Commercial/Commercial Real Estate Lending

LNB's lending to the one moderate-income area reflects excellent dispersion as it exceeds the key demographic data for this performance criterion. Please refer to the following table for detail.

Geographic Distribution of Commercial/Commercial Real Estate Loans in Non-MSA AA						
Census Tract Income Level	Moderate		Middle		Upper	
Loan type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial/ Commercial Real Estate	7.84%	10.00%	74.11%	75.00%	18.05%	15.00%

Source: Sample of 20 commercial/commercial real estate loans in this AA; Demographic data from Business Geodemographic.

Responses to Complaints

Neither LNB nor our office has received any complaints about its CRA performance during the review period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.