



PUBLIC DISCLOSURE

July 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank of Southwestern Ohio
Charter Number 23927

29 West Whipp Road
Dayton, Ohio 45459

Office of the Comptroller of the Currency

West Lake Center
4555 Lake Forest Drive, Suite 520
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 Satisfactory.

The Citizens National Bank of Southwestern Ohio (“TCNB” or “the bank”) exhibits a **satisfactory** record of meeting its community’s credit needs.

- TCNB is responsive to its community’s credit needs as a substantial majority of the loans in our sample were made inside the bank’s assessment area (AA). Ninety percent of the number of loans in our sample were inside the bank’s AA.
- The bank’s current and 26-quarter average loan-to-deposit ratios are reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- Lending to businesses of different sizes reflects reasonable penetration.

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. The prior CRA examination was conducted as of November 27, 2006.

The bank’s performance in business lending is considered foremost in this CRA examination. Commercial and commercial real estate loans (business loans) are the bank’s primary lending products as determined through discussions with management and our review of the volume of the bank’s loan originations during the lending evaluation period. The lending evaluation period was January 1, 2011 to December 31, 2012.

To perform our analysis of lending inside the AA, we randomly sampled 20 loans originated during the evaluation period from the 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 we used at least 20 loans for the primary product, in each census period, for the borrower distribution and geographic analysis. 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.

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

DESCRIPTION OF INSTITUTION

TCNB is a wholly owned subsidiary of TCNB Financial Corporation, a one-bank holding company. Both TCNB and its holding company are headquartered in Dayton, Ohio. Dayton is located in Montgomery County in the southwestern portion of Ohio. The bank operates three full service offices, which include the main office in Dayton, a branch office in Huber Heights, Ohio, and a branch office in Miamisburg, Ohio. The Miamisburg office was opened in May 2007. All offices are located in Montgomery County and are in middle-and upper-income

geographies. TCNB has an automated teller machine (ATM) located at each office and a drive thru facility at the Huber Heights and Miamisburg offices. In addition, the bank services a cash dispensing ATM at a local gas station/convenient store in a moderate-income geography in Greene County. The bank’s primary business focus is business and retail lending. Furthermore, the bank offers standard products and services through their three offices.

At the prior CRA examination, as of November 27, 2006, TCNB received a satisfactory CRA rating. Currently, no legal or financial impediments exist that could restrict the bank’s ability to serve the community’s credit needs.

As of June 30, 2013, TCNB reported total assets of \$105 million and Tier-One Capital of \$10.3 million. Net loans represent 68% of average assets. After reviewing the total originations/purchases made during the evaluation period, reviewing total outstanding loans, and holding discussions with management, we determined the bank’s primary loan products to be commercial and commercial real estate (business) loans. Table 1 details the total number and dollar volume of loans originated during the evaluation period. In 2011 and 2012, TCNB sold approximately \$6 million in fixed rate residential real estate loans (which is included in the table below) to the Federal Home Loan Bank of Cincinnati and are currently servicing \$11 million of sold loans as of December 31, 2012.

| Table 1 - Primary Loan Types | | | | |
|---|--|-------------|---|-------------|
| Loans originated or purchased from January 1, 2011 through December 31, 2012 | | | | |
| Loan Type | % by Dollars of Loans Originated/Purchased during evaluation period | | % by Number of Loans Originated/Purchased during evaluation period | |
| | \$000’s | % | # of Loans | % |
| Commercial/Commercial Real Estate | 52,610 | 83% | 286 | 74% |
| Residential Real Estate | 7,446 | 12% | 47 | 12% |
| Consumer | 848 | 1% | 23 | 6% |
| Home Equity Lines of Credit | 1,753 | 3% | 19 | 5% |
| Other | 492 | 1% | 11 | 3% |
| Total | 63,149 | 100% | 386 | 100% |

Source: Internal bank reports of loans originated from January 1, 2011 through December 31, 2012.

DESCRIPTION OF ASSESSMENT AREA

TCNB has designated one AA, which is located in the Dayton, Ohio Metropolitan Statistical Area (MSA) #19380 [Dayton MSA AA]. The Dayton MSA AA consists of all census tracts (CTs) located within Montgomery County, southern portions of Miami County, and western portions of Greene County. The entire AA is contiguous and meets the requirements of the regulation. It does not arbitrarily exclude any low-or moderate-income areas. The Board of Directors selected this AA based on the bank’s size, condition, lending expertise, and competition. The bank is headquartered in Montgomery County and does most of its lending in this county. The CTs outside Montgomery County are located near the bank’s offices.

Competition in the AA is strong with national banks, credit unions, and branches of larger financial institutions. As of June 30, 2012, TCNB had approximately a 1.33 percent deposit market share in Montgomery County and was ranked ninth out of 20 financial institutions. For the same time period, the bank had a 0.95 percent deposit market share in a combined county AA of Montgomery, Greene, and Miami counties (11th out of 26 financial institutions). The source of the deposit market share information is from the Deposit Market Share Report produced by the Federal Deposit Insurance Corporation.

Our community contacts in the AA indicated that the AA's economy was improving. One of the contacts identified the needs of the AA to include quality employment, affordable housing, and federal benefits. The credit needs of the community continue to include affordable housing and small business lending. According to the contacts, local financial institutions are meeting those needs.

Information as of the 2000 U.S. Census Data

As of the 2000 U.S. Census, the AA had 13 low-income (8 percent), 40 moderate-income (23 percent), 76 middle-income (45 percent), and 41 upper-income (24 percent) CTs. According to the 2000 Census data, the population of the AA was 688,784, with four percent of the population living in low-income, 23 percent in moderate-income, 43 percent in middle-income, and 30 percent in upper-income tracts. Sixty-two percent of the housing units in the AA are owner-occupied, with two percent in low-income, 18 percent in moderate-income, 45 percent in middle-income, and 35 percent in upper-income tracts. Ten percent of the households in the AA live below the poverty level, 26 percent receive social security benefits, and three percent receive public assistance. The median housing value for the AA is \$103,116, with the average median age of housing stock of 51 years. The weighted average monthly gross rent is \$527.

According to the 2000 U.S. Census data, the MSA median family income was \$51,271. The Department of Housing and Urban Development estimate of the updated MSA median family income was \$62,400 for 2011. Approximately 19 percent of the families in the AA are low-income, 18 percent are moderate-income, and the remainder is middle- and upper-income. As of the 2000 U.S. Census, 68 percent of AA businesses had annual gross revenues less than or equal to \$1 million and six percent of AA businesses were located in low-income tracts and 18 percent in moderate-income tracts.

Information as of the 2010 U.S. Census Data

As of the 2010 U.S. Census, the AA had 20 low-income (11 percent), 44 moderate-income (24 percent), 72 middle-income (40 percent), and 43 upper-income (24 percent) CTs; one CT was listed as non-applicable (1%). According to the 2010 Census data, the population of the AA was 681,625, with eight percent of the population living in low-income, 22 percent in moderate-income, 40 percent in middle-income, and 30 percent in upper-income tracts. Fifty-nine percent of the housing units in the AA are owner-occupied, with five percent in low-income, 18 percent in moderate-income, 42 percent in middle-income, and 35 percent in upper-income tracts. Fourteen percent of the households in the AA live below the poverty level, 29 percent receive social security benefits, and 3 percent receive public assistance. The median housing value for

the AA is \$128,929, with the average median age of housing stock of 48 years. The weighted average monthly gross rent is \$691.

According to the 2010 U.S. Census data, the MSA median family income was \$59,770. The Department of Housing and Urban Development estimate of the updated MSA median family income was \$63,300 for 2012. Approximately 21 percent of the families in the AA are low-income, 18 percent are moderate-income, and the remainder is middle-and upper-income.

As of the 2010 U.S. Census, 71 percent of AA businesses had annual gross revenues less than or equal to \$1 million and eight percent of AA businesses were located in low-income tracts and 19 percent in moderate-income tracts.

The local economy has been improving in the AA. According to the Ohio Labor Market Information as of June 2013, the unemployment rate for Montgomery County was 8.0 percent. It is higher than the state and national rates which were 7.5 and 7.8 percent, respectively. The unemployment rate for Greene County was 7.4 percent and the rate for Miami County was 7.2 percent for the same time period. These are more in line with, and slightly better than, the state and national levels.

The AA has a diverse employer base across several industries including manufacturing, service, and government. Major employers in Montgomery County include GE Capital, University of Dayton, Behr Dayton Thermal Products LLC, and AES Corp/Dayton Power & Light. Major employers in Greene County include Wright State University, the local school districts, and Wright Patterson Air Force Base. Major employers in Miami County include Meijer, Inc. and the local school districts.

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

The bank's quarterly net loan-to-deposit ratio averaged 78.65 percent over the previous 26 quarters, which dates back to the prior CRA examination dated November 27, 2006. TCNB's present loan-to-deposit ratio as of March 31, 2013 was 74.83 percent. The bank's quarterly loan-to-deposit ratio ranged from a low of 66.78 percent at March 31, 2012, to a high of 92.47 percent at March 31, 2007. The average loan-to-deposit ratio for similarly situated banks in Montgomery and Miami counties was 68.34 percent over the same 26 quarters, with a range from 46.98 percent to 90.36 percent. One similar situated bank had a relatively low average ratio of 46.98 percent. After removing this outlier, the average ratio of the remaining banks was 73.68 percent. The national peer average loan-to-deposit ratio as of March 31, 2013 was 70.91 percent. TCNB's present and quarterly average ratios perform satisfactory in comparison to peer.

Lending in Assessment Area

The bank's record of lending in the AA supports outstanding performance with a substantial majority of the bank's lending inside the AA.

As outlined in the description of the institution above, the bank's primary loan products are commercial and commercial real estate loans (business loans). We sampled 20 business loans that the bank originated during the evaluation period. According to the sample, the bank originated 90 percent of the loans, by number, within its AA. Table 2 details the bank's lending within the AA by number and dollar volume. This table demonstrates that a substantial majority of the loans in our sample were made inside the bank's AA.

| Table 2 - Lending in the AA | | | | | | | | | | |
|---------------------------------------|-----------------|-----|---------|-----|-------|-----------------------------|-----|---------|----|---------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (in 000's) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Commercial and Commercial Real Estate | 18 | 90% | 2 | 10% | 20 | \$4,818 | 98% | \$106 | 2% | \$4,924 |
| Totals | 18 | 90% | 2 | 10% | 20 | \$4,818 | 98% | \$106 | 2% | \$4,924 |

Source: Loan sample; loans originated from January 1, 2011 through December 31, 2012.

Lending to Businesses of Different Sizes

The bank's lending to businesses of different sizes reflects reasonable penetration and supports satisfactory performance.

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

The bank's lending to businesses of different sizes is reasonable and reflects satisfactory performance. A majority of the originated loans in the 2011 loan sample (20 loans) were to businesses with annual gross revenues of less than \$1 million with 55 percent originated by number of loans. This compares reasonably to the 68 percent of businesses available in the AA with annual gross revenues of less than \$1 million. Based on discussions with management, there are many mid-size to large businesses in the AA. TCNB is a commercial lender and their business focus is to market their products to local businesses, including the mid-size businesses. TCNB requires owner equity in the projects they fund and they do not make Small Business Administration (SBA) loans. See Table 3 for details.

| Table 3 - Borrower Distribution of Loans to Businesses in the AA for 2011 | | | | |
|--|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 68% | 4% | 28% | 100% |
| % of Bank Loans in AA by # | 55% | 45% | 0% | 100% |
| % of Bank Loans in AA by \$ | 36% | 64% | 0% | 100% |

Source: Loan Sample; 2011 Business Geographic data.

Information as of the 2010 U.S. Census Data, Loan sample originated in 2012

The bank's lending to businesses of different sizes is reasonable and reflects satisfactory performance. Sixty-five percent of originated loans in the 2012 loan sample (20 loans) were to businesses with annual gross revenues of less than \$1 million. This compares reasonably to the 71 percent of businesses available in the AA with annual gross revenues of less than \$1 million. See Table 4 for details.

| Table 4 - Borrower Distribution of Loans to Businesses in the AA for 2012 | | | | |
|--|---------------------|------------------------|---------------------------------|--------------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 71% | 5% | 24% | 100% |
| % of Bank Loans in AA by # | 65% | 30% | 5% | 100% |
| % of Bank Loans in AA by \$ | 56% | 43% | 1% | 100% |

Source: Loan Sample; 2012 Business Geographic data.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA and supports an overall satisfactory performance rating.

The geographic distribution analysis reflected lending throughout most of the AA with no conspicuous gaps identified. Most of the loans in our sample were originated in Montgomery County, with only four loans made in Greene County. In our sample, we did not have any loans originated in Miami County. There are no low-income CTs in either Greene or Miami County in the bank's AA. As of the 2010 U.S. Census data, there are only three moderate-income CTs in Greene County and two in Miami County in the bank's AA. As of the 2000 U.S. Census data, Greene County had three moderate-income CTs and Miami County had one. The majority of the low- and moderate-income CTs in the bank's AA are located in Montgomery County.

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

The bank's geographic distribution of business loans (commercial and commercial real estate loans) reflects reasonable dispersion throughout the AA. TCNB originated ten percent of the loans to borrowers in low-income tracts in the 2011 loan sample (20 loans), which is more than the demographic comparator of six percent. However, the bank only originated five percent of business loans to borrowers in moderate-income tracts, which is significantly less than the 18 percent of businesses in moderate-income CTs. See Table 5 for details.

| Table 5 - Geographic Distribution of Loans to Businesses in the AA for 2011 | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | 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 | % of AA Businesses | % of Number of Loans |
| Business Loans | 6% | 10% | 18% | 5% | 38% | 25% | 38% | 60% |

Source: Loan Sample; 2011 Business Geographic data.

Information as of the 2010 Census Data, Loan sample originated in 2012

The bank’s geographic distribution of business loans reflects excellent dispersion throughout the AA compared to the 2010 demographics. The bank originated 15 percent of their business loans to borrowers in low-income tracts and 20 percent of their business loans to borrowers in moderate-income tracts in the 2012 loan sample (20 loans). Both figures exceed the percentage of businesses in the AA in low and moderate-income tracts, at eight percent and 19 percent respectively. See Table 6 for details.

| Table 6 - Geographic Distribution of Loans to Businesses in the AA 2012 Loan Sample | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | 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 | % of AA Businesses | % of Number of Loans |
| Business Loans | 8% | 15% | 19% | 20% | 39% | 35% | 34% | 30% |

Source: Loan Sample; 2012 Business Geographic Data.

Responses to Complaints

TCNB has not received any complaints about its performance in helping to meet AA credit needs during the 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.