



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 25, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number: 13742

112 West Market Street
Orrville, OH 44667

Office of the Comptroller of the Currency

Northern Ohio Field Office
200 Public Square, Suite 1610
Cleveland, OH 44114

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

First National Bank (FNB) has a satisfactory record of addressing community credit needs. The factors supporting the bank's rating include:

- A substantial majority of loans are within the bank's assessment areas.
- FNB's geographic distribution of residential real estate loans is reasonable.
- FNB's record of lending to borrowers of different income levels is reasonable.
- FNB's community development performance, through its record of community development loans, qualified investments, and community development services, demonstrates adequate responsiveness to community development needs in its assessment areas.

Scope of Examination

The bank has three assessment areas (AAs) in northeast Ohio: Wayne County, twenty-nine census tracts in Stark County, and three census tracts in Medina County. The AAs meet the requirements of the CRA regulation and do not arbitrarily exclude low and moderate-income geographies. The evaluation period for this evaluation is May 31, 2007 through April 25, 2011. Community development loans, investments, and services from this time period are considered. The time period for all other loan analyses is January 1, 2008 through December 31, 2010. The bank's primary lending product during this evaluation period was one-to-four family residential real estate, and we analyzed data using the Home Mortgage Disclosure Act – Loan Application Registers (HMDA-LAR) for 2009 and 2010. Mortgage loan data was tested prior to this review and found to be reliable for the purposes of our analysis. We also performed two community contacts to better assess community needs and the performance of financial institutions in the AAs.

Description of Institution

FNB is a full-service community bank headquartered in Orrville, Ohio (which is located in Wayne County). FNB is a wholly owned subsidiary of National Bancshares Corporation, a single bank holding company. The bank's strategy is to become the primary option in the community it serves, rather than large banks.

The bank has fourteen branches. Nine of the branches are located in the Wayne County assessment area, two branches are located in the Stark County assessment area, and two branches are located in the Medina County assessment area. The fourteenth full service branch is located in the Summit County assessment area, but did not become fully serviceable until November 2010 and will not be considered for purposes of this examination. The bank also has 14 full-service ATMs.

As of December 31, 2010, FNB reported \$372 million in total assets and \$28 million in Tier One capital. The bank's loan portfolio totaled \$191 million, or 51 percent of total assets as of December 31, 2010. The bank offers a wide range of deposit and loan products. The primary loan product is residential real estate loans, but the bank also offers commercial real estate loans, commercial loans, and agricultural loans. Real estate loans represent 79 percent of the loan portfolio while commercial loans represent 13 percent, consumer loans represent 6 percent, and agricultural loans represent 1 percent. With a deposit market share of 3.18 percent, FNB ranks eighth among 25 financial institutions servicing these counties, based on June 30, 2010 FDIC deposit information.

There are no legal or financial impediments that have limited FNB's ability to meet credit needs in its assessment areas. We reported a Satisfactory rating in our May 31, 2007 Public Evaluation.

Description of Assessment Area(s)

FNB has three assessment areas (AAs) within Wayne, Stark, and Medina Counties. These three counties are located in the northeast section of the State of Ohio. The bank has a total of thirteen branches in the three AAs. In arriving at our conclusions, we gave primary consideration to the Wayne and Stark County AAs. We did not give as much weight to the Medina County AA because it only covers three census tracts and represents small portions of the bank's deposits and lending activity.

Wayne County AA

The Wayne County AA consists of the entire county and includes 33 census tracts. This county is in a non-metropolitan statistical area (MSA). The AA is comprised of no low-income tracts, one moderate-income tract, twenty-six middle-income tracts, and six upper-income tracts. The county seat for Wayne County is the City of Wooster. This AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- and moderate-income geographies.

FNB has nine full service branches in the Wayne County AA. Loan balances at these branches total \$100 million during the evaluation period. As of June 30, 2010, deposit balances total \$231 million according to the FDIC Deposit Market Share Report.

Wayne County is the 13th largest county in the State of Ohio by geographic size. The population in the county is 111,564, based on the 2000 U.S. Census. The county is predominately rural, and has just over 800 farms. There are also just over 7,000 businesses in Wayne County. Manufacturing, healthcare and education services, agriculture, and retail services provide a majority of the county's employment opportunities. Major employers in the county include J.M. Smuckers Co, Luk USA LLC, College of Wooster, Buehler Food Markets, and Wooster Community Hospital.

The local economic conditions in Wayne County declined during the evaluation period due to increased unemployment, even though the unemployment rate in the county is lower than state

and national averages. There are six large banks with 21 branch offices and seven community banks with 27 branch offices serving the county and providing a competitive banking environment.

During our assessment of the bank’s CRA performance, we met with a local organization to get a better understanding of the AA and its credit needs. This contact felt that the banks serving the county were meeting the needs of local businesses. The contact also indicated that future county economic growth would come from small start-up businesses, and that there would be future opportunities for banks to provide funding to the entrepreneurs.

The following table highlights some additional demographics of the AA:

Table 1 - Demographic Information for the Wayne County Assessment Area					
Demographic Characteristics	#	Low Income (%)	Moderate Income (%)	Middle Income (%)	Upper Income (%)
Geographies (Census Tracts)	33	0.00	3.03	78.79	18.18
Population by Geography	111,564	0.00	3.43	78.02	18.55
Owner-Occupied Housing by Geography	29,653	0.00	2.39	76.13	21.48
Businesses by Geography	7,080	0.00	3.50	80.71	15.79
Farms by Geography	805	0.00	0.25	77.39	22.36
Family Distribution by Income Level	29,742	13.12	17.75	25.13	44.00
Median Family Income HUD Adjusted =	\$53,800	Median Housing Value =		\$105,582	
Median Family Income for 2009 =	\$48,275	Unemployment Rates - (November 2010 unadjusted)			
Households Below the Poverty Level =	8.02%	United States =		9.8%	
		State of Ohio =		9.3%	
		Wayne County =		8.6%	

Stark County AA

The Stark County AA consists of 29 census tracts in Stark County, and is part of the Canton-Massillon, Ohio Metropolitan Statistical Area (MSA) #15490. The AA is comprised of one low-income tract, five moderate-income tracts, eighteen middle-income tracts, and five upper-income tracts. Stark County as a whole has a total of 80 census tracts, including four low-income census tracts, eighteen moderate-income census tracts, forty-seven middle-income census tracts and eleven upper-income census tracts. This AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- and moderate- income geographies.

FNB has two full service branches in the Stark County AA. Loan balances at these branches total \$46 million during the evaluation period. As of June 30, 2010, deposit balances total \$47 million according to the FDIC Deposit Market Share Report.

Stark County is made up of a mixture of rural and urban/commercial areas. The county seat for Stark County is the City of Canton. The population in the county is 378,098, based on the 2000 U.S. Census. The county has 963 farms and approximately 24,000 businesses. Major employers in the county include Aultman Hospital, The Timken Company, Diebold Inc., Freshmark Inc., and Stark State College of Technology

The current local economic condition is worse than the State of Ohio as a whole, given the higher unemployment rate. The unemployment rate in the county is above state and national averages. There are nine large banks with 104 branch offices, and six community banks with 16 branch offices, serving the county and providing a competitive banking environment.

We performed two community contacts in Stark County to better assess community credit needs. This included a real estate agency and a government economic organization in the county. These community contacts indicated that since the housing foreclosure crisis, banks have been more reluctant to lend. Based on these interviews, there are opportunities for banks to better serve borrowers in obtaining home financing.

The following table highlights some additional demographics of the AA:

Table 2 - Demographic Information for the Stark County Assessment Area					
Demographic Characteristics	#	Low Income (%)	Moderate Income (%)	Middle Income (%)	Upper Income (%)
Geographies (Census Tracts)	29	3.45	17.24	62.07	17.24
Population by Geography	132,983	0.22	10.11	63.63	26.04
Owner-Occupied Housing by Geography	54,971	0.02	8.98	65.74	51.99
Businesses by Geography	7,802	2.85	6.90	49.73	40.53
Farms by Geography	345	0.29	11.30	70.14	18.26
Family Distribution by Income Level	37,515	0.14	9.49	64.11	26.27
Median Family Income HUD Adjusted =	\$57,700	Median Housing Value = \$99,930			
Median Family Income for 2009 =	\$48,838	Unemployment Rates - (November 2010 unadjusted)			
Households Below the Poverty Level =	9.29%	United States = 9.8%			
		State of Ohio = 9.3%			
		Stark County = 10.2%			

Medina County AA

The Medina County AA consists of three census tracts, and is part of the Cleveland-Elyria-Mentor, OH MSA #17460. All three census tracts in the AA are middle-income. Medina County as a whole has a total of 34 census tracts. This AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- and moderate-income geographies.

FNB has two full service branches in the Medina County AA. Loan balances at these branches total \$6 million during the evaluation period. As of June 30, 2010 deposit balances total \$30 million according to the FDIC Deposit Market Share Report.

Medina County is made up of a mixture of urban and rural areas, with the county seat being the City of Medina. The assessment area has a population of 9,082 people, based on the 2000 U.S. Census. The assessment area has 50 farms and 589 businesses. Major employers include Brunswick City Board of Education, Discount Drug Mart, Medina City Board of Education, Medina County Government, Medina General Hospital, MTD Products, Inc., Schneider National Inc., Wadsworth City Board of Education, Wadsworth-Rittman Hospital, and Westfield Group.

The local economy has fared better than both the state and national economy, with an 8.6 percent unemployment rate versus 10.1 percent and 9.8 percent for the State of Ohio and United States, respectively. There are a large number of community and large banks able to meet banking needs and provide for a competitive environment.

The following table highlights some additional demographics of the AA:

Table 3 - Demographic Information for the Medina County Assessment Area					
Demographic Characteristics	#	Low Income (%)	Moderate Income (%)	Middle Income (%)	Upper Income (%)
Geographies (Census Tracts)	3	0.00	0.00	100.00	0.00
Population by Geography	9,082	0.00	0.00	100.00	0.00
Owner-Occupied Housing by Geography	2,770	0.00	0.00	100.00	0.00
Businesses by Geography	589	0.00	0.00	100.00	0.00
Farms by Geography	50	0.00	0.00	100.00	0.00
Family Distribution by Income Level	53,108	0.00	0.00	100.00	0.00
Median Family Income HUD Adjusted =	\$64,800	Median Housing Value =		\$128,300	
Median Family Income for 2009 =	\$64,800	Unemployment Rates - (November 2010 unadjusted)			
Households Below the Poverty Level =	0%	United States =		9.8%	
		State of Ohio =		9.3%	
		Medina County =		7.5%	

Conclusions with Respect to Performance Tests

This evaluation concentrated on the bank's primary loan product of residential real estate loans. Residential real estate loans include home purchase, refinance, and improvement loans for the purpose of this analysis. FNB has a reasonable loan-to-deposit ratio, and a majority of loans originated were within the AAs. The borrower distribution of loans reflects reasonable penetration among borrowers of different incomes. The geographic distribution of residential real estate loans reflects reasonable dispersion in the AAs.

LENDING TEST

FNB's performance under the lending test is rated Satisfactory.

Loan-to-Deposit Ratio

FNB's average loan-to-deposit (LTD) ratio is reasonable. The average LTD ratio during the 15 quarters from April 1, 2007 through December 31, 2010 was 68.87 percent. The maximum LTD ratio during the evaluation period was 78.57 percent and the minimum was 61.35 percent.

As deposits have increased, the LTD ratio has decreased. The LTD ratio began to decline in the fourth quarter of 2008, which is when the deposit program was implemented.

We compared FNB's average LTD ratio to the average LTD ratio of two peer banks. FNB's LTD ratio ranked lowest of the two banks. The average LTD ratio of the peer banks, during the same evaluation period, is 92.02 percent. Peer banks were local small community banks similar in asset size and product characteristics. FNB's ratio is reasonable although lower than peer given the lending inexperience of the branch managers located in the AAs.

Lending in Assessment Areas

A substantial majority of the bank's residential real estate loans are originated within its AAs. Our loan sample includes loans from 2009 and 2010. Table 4 below indicates that 80.43 percent of the number of loans and 64.44 percent of the dollar amount of loans were originated within the bank's AA.

Table 4 - Lending in the Wayne County, Stark County, and Medina County Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	59	68.60	27	31.40	86	6,516	67.76	3,101	32.24	9,617
Other Home	237	84.04	45	15.96	282	23,410	63.57	13,416	36.43	36,826
Totals	296	80.43	72	19.57	296	29,926	64.44	16,517	35.56	46,443

Source: Loan sample or data reported under HMDA.

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among borrowers of different incomes. Below is an analysis for residential real estate loans in the Wayne, Stark, and Medina County AAs.

Residential Real Estate Loans

The borrower distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels in the Wayne County AA. FNB has excellent lending distribution in the moderate-income census tracts, with 23.72 percent of the HMDA reportable residential real estate loans, which compares favorably to the 17.75 percent of families in the AA identified as moderate-income. Loans to low income borrowers is below the demographic for low-income families in the AA at 8.84 percent versus the 13.12 percent of low-income families. This is not a significant concern, as it is somewhat difficult to for borrowers in this demographic to meet lending standards. As a result, we concluded the bank’s home mortgage borrower distribution is reasonable for the Wayne County AA.

Table 4B - Borrower Distribution of Residential Real Estate Loans in the Wayne County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
	13.12	8.84	17.75	23.72	25.13	26.05	44.0	33.02

Source: U.S. Census Data from 2000.

The borrower distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels in the Stark County AA. Loans to low-income borrowers are in line with the demographics, while loans to moderate-income borrowers exceed the demographics. We concluded the bank’s residential real estate borrower distribution was reasonable when considering the bank’s overall performance in lending to low- and moderate-income borrowers for the Stark County AA.

Table 4C - Borrower Distribution of Residential Real Estate Loans in the Stark County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
	13.99	11.94	18.30	22.39	23.53	25.37	44.17	37.31

Source: U.S. Census Data from 2000.

The borrower distribution of residential real estate loans reflects poor penetration among borrowers of different income levels in the Medina County AA. However, this is not a concern. Until 2011, branch managers at the branches in this AA had not been trained to make loans, so there was no emphasis on making loans in this AA. Going forward, all branch managers are

being trained to identify lending opportunities so this ratio should improve. In addition, there are no low- or moderate-income census tracts in this AA.

Table 4D - Borrower Distribution of Residential Real Estate Loans in the Medina County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
	16.52	0.00	18.36	7.14	27.64	42.86	37.48	100.00

Source: U.S. Census Data from 2000.

Geographic Distribution of Loans

First National Bank’s geographic distribution of residential real estate loans reflects a reasonable dispersion of loans throughout the three AAs. As of the 2000 U.S. Census, the Wayne County AA had no low-income census tracts, and only one moderate-income tract. The Stark County AA had no low-income census tracts, but six moderate-income tracts. The Medina County AA had no low-income or moderate-income census tracts. In evaluating geographic distribution, more weight is placed on lending in low- and moderate-income tracts with emphasis on the bank’s primary lending product. Our conclusion also factors in the change in strategy and focus on bringing in additional deposits as well.

Residential Real Estate Loans

The bank’s dispersion of residential real estate loans to geographies of different income levels in Wayne County is reasonable, given lending opportunities and the bank’s performance context. The percentage of loans made in the one moderate-income census tract was slightly lower than the percentage of the AA’s owner occupied housing in that tract. The bank made three residential loans in the moderate-income tract during the evaluation period. This represents a relatively low volume of loans, but we consider it to be reasonable when taking into consideration the bank’s strategic initiatives during this time frame.

Table 5 - Geographic Distribution of Residential Real Estate Loans in the Wayne County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
	0.00	0.00	2.39	1.40	76.13	93.49	21.48	5.12

Source: U.S. Census Data from 2000.

The bank’s dispersion of residential real estate loans to geographies of different income levels in Stark County is excellent. The percentage of loans made in the moderate-income tracts exceeds the percentage of the AA’s owner occupied housing in those tracts. FNB made seven loans in

the moderate-income census tracts during the evaluation period. The number of loans made in the low-income census tract is in line with the demographic, given the very low percentage of owner-occupied housing in the census tract.

Table 5B - Geographic Distribution of Residential Real Estate Loans in the Stark County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
	0.02	0.00	8.98	10.45	65.74	73.13	25.26	16.42

Source: U.S. Census Data from 2000.

The Medina County AA has no low- or moderate-income owner occupied housing, so a meaningful analysis could not be performed.

Responses to Complaints

There have been no consumer complaints relating to the bank’s CRA performance during this evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB’s performance under the community development test is rated Satisfactory.

First National Bank’s community development performance, through its record of community development loans, qualified investments, and community development services, demonstrates adequate responsiveness to community development needs in its AA.

Number and Amount of Community Development Loans

Wayne County AA

Community Development Loans:

Since May 31, 2007, FNB has originated three community development loans totaling \$1.9 million to renovate housing in downtown Wooster. The homes are intended to be sold to low- and moderate-income families.

Qualified Investments:

During the evaluation period, FNB made 43 qualified donations to 17 organizations totaling \$134 thousand. All funds are specifically targeted to benefit low- and moderate-income persons, low- and moderate-income geographies within the AA, or organizations whose primary purpose

to provide economic development, revitalize central business districts, and/or offer assistance to attract, expand, and retain small business entities, payrolls, and job levels throughout the AA.

Community Development Services:

FNB has nine full service branches located in the Wayne County AA. In addition to full-service branches and ATM locations, FNB offers on-line banking to provide customer access to consumer and business accounts. Consumers can access accounts, check balances, view statements and cancelled checks, and transfer funds between accounts. Customers also have the option of using mobile banking to transact business. In addition to providing the services listed above for consumers, business customers can also make loan payments, make ACH and wire transfer requests, and have various corporate entities linked to a parent organization. FNB provides a telephone bill payment system, allowing customer to make bill payments directly from their deposit accounts. FNB offers free checking accounts to all its customers that include the following features: unlimited check writing, direct deposit options, no minimum monthly balance, free bill pay, and check safekeeping.

FNB employees volunteer on the boards of several local organizations, and have participated in various charity events. The organizations are primarily responsible for providing services to low- and moderate-income families or individuals.

Stark County AA

Community Development Loans:

During the evaluation period, FNB did not originate any community development loans for this assessment area.

Qualified Investments:

During the evaluation period, FNB made five qualified donations to two organizations totaling \$16 thousand. All funds are specifically targeted to benefit low- and moderate-income persons, low- and moderate-income geographies within the AA, or organizations whose primary purpose to provide economic development, revitalize central business districts, and/or offer assistance to attract, expand, and retain small business entities, payrolls, and job levels throughout the AA.

Community Development Services:

FNB has two full service branches located in the Stark County AA. In addition to full-service branches and ATM locations, FNB offers on-line banking to provide customer access to consumer and business accounts. Consumers can access accounts, check balances, view statements and cancelled checks, and transfer funds between accounts. Customers also have the option of using mobile banking to transact business. In addition to providing the services listed above for consumers, business customers can also make loan payments, make ACH and wire transfer requests, and have various corporate entities linked to a parent organization. FNB provides a telephone bill payment system, allowing customer to make bill payments directly

from their deposit accounts. FNB offers free checking accounts to all its customers that include the following features: unlimited check writing, direct deposit options, no minimum monthly balance, free bill pay, and check safekeeping.

FNB employees volunteer on the boards of several local organizations, and have participated in various charity events. The organizations are primarily responsible for providing services to low- and moderate-income families or individuals.

Medina County AA

Community Development Loans:

During the evaluation period, FNB did not originate any community development loans for this assessment area.

Qualified Investments:

During the evaluation period, FNB made one qualified donation to one organization totaling \$50. The funds were donated to an organization committed to helping individuals suffering from mental illness to transition into housing.

Community Development Services:

FNB has two full service branches located in the Medina County AA. In addition to full-service branches and ATM locations, FNB offers on-line banking to provide customer access to consumer and business accounts. Consumers can access accounts, check balances, view statements and cancelled checks, and transfer funds between accounts. Customers also have the option of using mobile banking to transact business. In addition to providing the services listed above for consumers, business customers can also make loan payments, make ACH and wire transfer requests, and have various corporate entities linked to a parent organization. FNB provides a telephone bill payment system, allowing customer to make bill payments directly from their deposit accounts. FNB offers free checking accounts to all its customers that include the following features: unlimited check writing, direct deposit options, no minimum monthly balance, free bill pay, and check safekeeping.

FNB employees volunteer on the boards of several local organizations, and have participated in various charity events. The organizations are primarily responsible for providing services to low- and moderate-income families or individuals.

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.