



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 5, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of McConnellsville
Charter Number 46**

**86 North Kennebec Avenue
McConnellsville, Ohio 43756**

**Comptroller of the Currency
Central Ohio Field Office
325 Cramer Creek Court, Suite 101
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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory. The bank's current and 27 quarter average loan-to-deposit ratios are reasonable and commensurate with those demonstrated by local peer banks. A majority of the loans are made within the bank's defined assessment areas. There is reasonable dispersion of loans to individual borrowers and businesses of different income levels. The dispersion of the HMDA reportable loans made in the Non-MSA moderate-income geographies is less than the percentage of owner-occupied homes for those areas as reported in the 1990 census data. However, this dispersion is understandable considering the demographics and preferences of area residents.

DESCRIPTION OF INSTITUTION

The First National Bank of McConnelsville (FNB) is a wholly owned subsidiary of FNB Shares, Inc., a one-bank holding company. The main office is located approximately 90 miles southeast of Columbus, Ohio in the Village of McConnelsville, Ohio. The bank operates the main office and one full-service branch (Stockport, Ohio) in Morgan County. They also operate full-service branches in Junction City, Ohio (Perry County) and Carroll, Ohio (Fairfield County). The bank's focus is retail banking and it offers standard products and services through all four locations. There are no existing legal or economic impediments that could restrict the institution's ability to serve the community's credit needs.

FNB's December 31, 2002 Call Report showed total assets of \$74 million and gross loans of \$55.6 million. Net loans represent approximately 75% of total assets. Loans for one-to-four family residential homes, commercial real estate, individual consumer and commercial purposes represent 57.6%, 15.2%, 14.2% and 6.5% of average gross loans, respectively. Other types of loans account for the remaining 6.5%. The last CRA examination was conducted in November 1996. The bank was rated "Outstanding Record of Meeting Community Needs."

DESCRIPTION OF ASSESSMENT AREAS

FNB has two assessment areas (AA). The primary market area for the bank is Morgan County; however, the non-MSA AA also includes the block numbering area (BNA #9663 in Perry County) that contains the Junction City, Ohio branch office. Morgan County has four BNA's (3 middle- and 1 moderate-income geographies). The BNA in Perry County is a moderate-income geography. Therefore, the non-MSA geography consists of 40% moderate-income and 60% middle-income geographies. The population of the non-MSA AA is 19,767 as determined in the 1990 census.

Morgan County is primarily rural with a manufacturing focus. As of March 31, 2003, the county had the highest unemployment rate in the state at 18.2%. The seasonally adjusted unemployment rate for the State of Ohio was 6.1%. The economic condition is depressed. Employment in the county is centered in manufacturing, retail services and government. The major employers include Morgan County Local Schools, MIBA and American Electric Power. Perry County has a similar industry make-up with employment focused in the same three industries. The unemployment rate for Perry

County is better at 11.5%, but is still depressed. The population for the BNA (#9663) is 5,573 people. The 2002 Non-MSA Updated Median Family Income is \$48,700. Of the non-MSA's 8,809 housing units, approximately 63% are owner-occupied and have a median housing value of \$34,438.

Competition is strong in the primary market and comes principally from one other community bank with its headquarters in McConnelsville. A third community bank also has a sizeable presence in the McConnelsville market but it is significantly less than the two primary banks. A branch of a fourth financial institution is located in close proximity (across the Muskingum River) and primarily serves the Village of Malta, Ohio.

The second defined AA is census tract (CT) 309 in Fairfield County. The CT is in the Columbus, Ohio Metropolitan Statistical Area (MSA) #1840. The bank's Carroll, Ohio branch office is located in the CT. CT 309 is a middle-income geography. The 2002 MSA Updated Median Family Income is \$63,400. Based on 1,675 housing units in this AA, approximately 81% are owner-occupied and have a median housing value of \$73,200.

In Perry and Fairfield Counties the bank has specifically defined their market to the cities where their branch offices are located. Their market share in these counties is minimal; however, in the cities that house their branches they have the dominant market share. The AAs comply with all regulatory requirements and do not arbitrarily exclude any low- or moderate-income areas.

A community contact interview did not reveal any primary credit needs that are not being met by the local financial institutions. The contact did state that road infrastructure was needed to allow easier access to I-70 and I-77 for trucks. The community contact stated that this would draw more businesses to the area and help reduce local unemployment.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio of 87% as of December 31, 2002, and average LTD ratio over the last 27 quarters of 83% are reasonable and meet the requirements for satisfactory performance. For analysis purposes, FNB's current and 27-quarter average LTD ratios were compared with a custom peer group consisting of five banks of similar size and purpose competing within the same AAs. The analysis shows that FNB's LTD ratios were within the peer group's current range of 60% to 88%, and the 27-quarter average range of 70% to 90% and supports reasonable performance.

Lending in Assessment Areas

The bank meets the standards for satisfactory performance with respect to lending in the AAs. A majority of the residential real estate loans made between 1998 and 2002 were made in the AAs. A total of 914 loans were made with 771 (84%) made in the bank's defined AAs. On a dollar basis \$41.9 million in loans were originated with \$32.8 million (78%) in the AAs. We also reviewed twenty-seven business/farm loans and determined that twenty of those loans (74%) were made in the bank's AAs.

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

Overall lending to borrowers of different income levels and to businesses of different sizes is satisfactory and reflects reasonable penetration. In the non-MSA AA, the distribution of residential real estate lending reflects good penetration among individuals of different income levels including low- and moderate-income borrowers. The chart below indicates satisfactory performance. The results were based on information reported for HMDA from 1998 through 2002.

Non-MSA HMDA Loans by Borrower Income vs. AA Families by Income Category (Census)								
Income Category	Purchase		Improvement		Refinance		Total	Census
	# loans \$ loans	%	# loans \$ loans	%	# loans \$ loans	%		
Low	54	22%	50	23%	55	18%	21%	28%
	1,234	11%	694	10%	1,362	10%	10%	
Moderate	62	25%	62	29%	86	29%	28%	21%
	2,215	20%	1,573	24%	3,523	25%	23%	
Middle	61	25%	56	27%	87	29%	27%	24%
	3,284	30%	2,304	35%	4,970	35%	33%	
Upper	61	25%	31	15%	66	22%	21%	27%
	3,588	32%	1,581	24%	3,965	28%	29%	

Source: HMDA Loan Application Registers 1998-2002

For the MSA AA, there were only 12 home mortgage loans originated for the period under review in CT 309. The principal reason for this is low interest rates and borrower's desires to lock in long-term fixed rates of interest. This bank only offers variable rate mortgages and does not offer secondary market access. Therefore, mortgage loan activity was limited. As the following chart indicates, other than to the low-income category the loans were well dispersed. Overall performance is reasonable considering that approximately 5% of households live below the poverty level and would have trouble meeting routine credit criteria. Loans to moderate-income borrowers significantly exceeded AA demographics (see the chart on the following page).

MSA 1840 HMDA Loans by Borrower Income vs. AA Families by Income Category (Census)								
Income Category	Purchase		Improvement		Refinance		Total	Census
	# loans \$ loans	%	# loans \$ loans	%	# loans \$ loans	%		
Low	0		0		0		0%	
	0	N/A	0	N/A	0	N/A	0%	17%
Moderate	2	50%	0		5	83%	28%	
	145	37%	0	N/A	256	74%	46%	15%
Middle	0		1	50%	0		27%	
	0	N/A	14	10%	0	N/A	2%	27%
Upper	2	50%	1	50%	1	20%	33%	
	248	63%	123	90%	88	26%	52%	42%

Source: HMDA Loan Application Registers 1998-2002

Lending to businesses of different sizes was reasonable. In order to determine the bank's performance of lending to businesses of different sizes, we selected a sample of twenty-seven loans. Twenty-four of the twenty-seven loans were made to businesses or farms with annual revenues less than \$1 million. This represents 89% of the loans in the sample. Census data for businesses in the AA's that reported revenue showed that 93% of the businesses had annual revenues less than or equal to \$1 million.

Geographic Distribution of Loans

The home loan originations in the moderate-income geographies are less than the percentage of owner-occupied housing units in the non-MSA AA. However, overall geographic distribution of loans is reasonable considering natural boundaries and the location of the branches of other institutions. Although lending in the moderate-income BNAs is low relative to census data, it is important to consider that the Muskingum River divides the communities of Malta (moderate-income BNA) and McConnellsville (middle-income BNA). There is a financial institution on the Malta side of the river that services those customers. In addition, the moderate-income BNA includes townships that are west of the river and the Village of Malta, which are close to financial institutions in Chester Hill, Ohio, and Glouster, Ohio.

Non-MSA HMDA Loans by Geography vs. AA Owner Occupied Housing Units (Census)								
Income Category	Purchase		Improvement		Refinance		Total	Census
	# loans \$ loans	%	# loans \$ loans	%	# loans \$ loans	%		
Moderate	36	15	39	18	53	18	17%	
	1,676	15	1,247	19	2,566	18	17%	47%
Middle	209	85	174	82	248	82	83%	
	9,371	85	5,410	81	11,621	82	83%	53%

Source: HMDA Loan Application Registers 1998-2002

In the MSA, the bank's AA currently includes only CT 309 where the branch is located. This is a

middle-income geography; therefore, a geographic distribution analysis would not be meaningful.

Responses to Complaints

No complaints relating to the bank's CRA performance have been submitted during the evaluation period.

Fair Lending Review, Other Illegal Credit Practices, and Predatory and Abusive Lending Practices.

We found no evidence of illegal discrimination or other illegal credit practices.