



PUBLIC DISCLOSURE

April 14, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First United National Bank
Charter Number 9480

Routes 157 and 208
Fryburg, PA 16326

Office of the Comptroller of the Currency

Corporate One Office Park, Bldg 2
4075 Monroeville Blvd, Suite 300
Monroeville, PA 15146-2529

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.

First United National Bank's (FUNB) performance under the Lending Test is "Satisfactory." FUNB's lending activity compares reasonably to a peer group of similarly situated banks. FUNB, over the evaluation period, originated a substantial majority of sampled residential mortgage loans within its Assessment Area (AA). FUNB has demonstrated a reasonable record of originating residential mortgages among AA borrowers and a reasonable record of originating residential mortgages within geographies of different income levels.

- The bank's lending activity is reasonable when compared to a peer group of similarly situated banks;
- The bank originated a substantial majority of its residential mortgage loans within its AA;
- The bank has demonstrated a reasonable penetration of originating residential mortgage loans to AA borrowers of different income levels, and;
- The bank has demonstrated a reasonable dispersion of originating residential mortgage loans throughout their AA geographies.

SCOPE OF EVALUATION

FUNB was reviewed under the Small Bank Community Reinvestment Act (CRA) evaluation procedures. This evaluation was a full scope review of the bank's AA . Our review encompassed the bank's performance from February 17, 2010 to April 14, 2014, as this time-period was representative of its lending strategy since the last CRA evaluation. Residential mortgages are the bank's primary loan product and were reviewed as part of this evaluation. In order to assess the bank's record of lending, we analyzed a random sample of sixty (60) residential mortgage loans originated by FUNB between January 1, 2012 and December 31, 2013.

FUNB is a \$250 million, intrastate community bank, chartered in 1909 and is headquartered in Fryburg, Pennsylvania. The town of Fryburg is located in Clarion County, Pennsylvania. Clarion County is situated in Northwestern Pennsylvania. Specifically, Fryburg is located north of Interstate 80, approximately eighty (80) miles south of Erie, Pennsylvania. FUNB operates six full-service branch offices. One of the branch offices is located at FUNB's main office in Fryburg, Pennsylvania. The other five branch offices are located in Oil City, New Bethlehem, Franklin, Clarion, and Cranberry, Pennsylvania.

FUNB operates seven automated teller machines (ATMs). Six of the ATMs are located in conjunction with branch office sites. The remaining ATM is situated at an off-site location. FUNB operates their branches with regular business hours of 9am to 4pm, Monday through Thursday. On Fridays, the bank offers extended lobby hours, which

are offered at all six branches, each remaining open until 6:00 p.m. or 7:00 p.m. On Saturday mornings, full-service banking and drive-up services are offered at two branches and drive-up services only are offered at an additional separate branch. FUNB is a wholly owned subsidiary of Fryburg Banking Company, a one-bank holding company located in Fryburg, Pennsylvania. FUNB did not open any new branch offices, or closed any branch offices, during the evaluation period.

FUNB is a full service community bank offering a range of traditional deposit and loan products and services. FUNB primarily focuses on local residential and commercial real estate lending. FUNB's retail products include checking accounts, savings programs, and individual retirement accounts. FUNB's commercial products include commercial, agricultural, and small business loans. FUNB also offers services including mail, telephone, and internet banking. Additional information regarding the bank's products and services is offered via its website: www.fun-bank.com.

As of December 31, 2013, FUNB reported net loans of \$154.5 million, total deposits of \$229.2 million, and tier one capital of \$20.8 million. Net loans represented 61.1% of total assets. FUNB's loan portfolio consists of: residential real-estate loans (65%), commercial loans (17%), consumer loans (15%), construction and development loans (1%), and municipal loans (1%). There are no financial or legal circumstances impeding the bank's ability to help meet the credit needs in its AA. FUNB received a satisfactory rating as a result of its previous CRA performance evaluation, which was conducted as of February 16, 2010.

DESCRIPTION OF ASSESSMENT AREA

FUNB's AA is located in northwestern Pennsylvania. FUNB includes within its AA, in their entirety, the Pennsylvania counties of Clarion, Venango, and Forest. FUNB's AA also includes contiguous whole Census Tracts (CTs) or geographies within the Pennsylvania counties of Crawford and Jefferson. FUNB's AA contains forty-one geographies, which is an increase from thirty-six at the previous CRA performance evaluation. The increase is primarily due to a split in several CTs throughout the AA. According to 2010 U.S. Census data, of the forty-one AA geographies, eight are designated as moderate-income, one is designated as upper-income, and the remaining thirty-two are designated as middle-income. There are two CTs within Forest County that are designated as distressed and underserved middle income CTs. At the time of this evaluation, FUNB's AA does not contain any geographies designated as low-income. FUNB's AA meets regulatory requirements and does not arbitrarily exclude low and moderate-income geographies. The geographies comprising FUNB's AA are not located within a Metropolitan Statistical Area (MSA).

The following table details AA demographic data:

Table 1 - Demographic Information for Full Scope Area: First United National Bank AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	41	0.00	19.51	78.05	2.44	0.00
Population by Geography	144,117	0.00	16.94	80.97	2.09	0.00
Owner-Occupied Housing by Geography	42,669	0.00	15.54	82.43	2.03	0.00
Business by Geography	10,521	0.00	16.10	82.20	1.70	0.00
Farms by Geography	577	0.00	5.55	92.89	1.56	0.00
Family Distribution by Income Level	38,240	0.00	17.14	80.89	1.96	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	16,072	0.00	22.65	76.01	1.34	0.00
Median Family Income		\$49,061	Median Housing Value		\$85,374	
HUD Adjusted Median Family Income for 2010		\$55,300	Unemployment Rate (National)		6.7%	
Households Below Poverty Level		13.82%	PA Unemployment Clarion County		6.4%	
			Venango County		7.6%	
			Jefferson County		7.4%	
			Crawford County		7.6%	
			Forest County		7.1%	
			(Jan. 2014 BLS Statistics)		9.1%	

Source: 2010 US Census and 2013 HUD updated MFI

For FUNB’s AA, the 2010 U.S. Census reports a total population of 144,117, total families of 38,240 and total households of 56,900. Of total AA households, 13.82% subsist below the poverty level. Of the 38,240 AA families, 8,080 and 7,992 were classified as low- and moderate-income, respectively. The 2010 U.S. Census reports the AA median income to be \$49,061 while the United States Department of Housing and Urban Development (HUD) data, updated for 2013, reports adjusted AA median family income to be \$55,300. Of AA families, 21.13% are low-income, 20.90% are moderate-income, 23.43% are middle income, and 34.54% are upper income.

Clarion County is primarily rural in nature. The Bureau of Labor Statistics, as of January 2014, reported the unemployment rate in Clarion County to be 7.6%, which represents a decline from 9.1% at the previous CRA performance evaluation. Unemployment in Clarion County is higher than the 6.4% rate reported for the State of Pennsylvania during the same period. Clarion University continues to be a major contributor to the local community and provides significant employment in the county. Top employers as of June 30, 2013 include: The Pennsylvania State System of Higher Education (Clarion

University), Clarion Hospital, Wal-Mart, Riverview Intermediate Unit (education services), Pennsylvania State Government, and New Light, Inc. (community housing). Major area industries include health and social assistance, education services, retail trade, accommodation and food services, and manufacturing.

Venango County is primarily rural in nature as well. The Bureau of Labor Statistics, as of January 2014, reported the unemployment rate in Venango County to be 7.4%, down from 9.2% at the previous CRA Performance Evaluation. This represents slightly higher unemployment than the 6.7% rate reported for the State of Pennsylvania. Venango County is ranked 11th in the state for oldest population by median age, with a median age of 44.4, according to 2012 state data. Manufacturing continues to be a leading industry for job growth in Venango County and the majority of job openings (66.67%) in the county require vocational school certificates as a minimum education level. Top employers as of June 30, 2013 include: State Government, Joy Global Underground Mining Inc., UPMC Northwest, Venango County, and Oil City Area School District. Major area industries include manufacturing, health care and social assistance, retail trade, education services, and accommodation and food services.

Forest County is also primarily rural in nature. There are two CTs within Forest County that are designated as distressed and underserved middle-income CTs. However, it is important to note that the county is primarily a rural retreat with approximately 75% of the county's dwellings being second or vacation homes. Forest County has the third lowest population in the state, with only 7,716 residents, as of the 2010 US Census, which represented significant growth at (56%) from its reported population of 4,946 in 2000. This growth is almost entirely due to the opening of a State Correctional Facility in the county in 2004 which houses approximately 2,200 inmates. The Bureau of Labor Statistics, as of January 2014, reported the unemployment rate in Forest County to be 9.1%, down from 10.8% at the previous CRA Performance Evaluation. This represents significantly higher unemployment than the 6.4% rate reported for the State of Pennsylvania for the same time period. As of January 2014, Forest County has the fifth highest unemployment rate in the state. Top employers in Forest County as of June 30, 2013 include: State Government (State Correction Facility), the Cornell Abraxas Group, Industrial Timber and Land Company, Windsor, Inc. (Skilled Care Facility), and the Pennsylvania General Energy Company. Major area industries include public administration, health care and social assistance, mining, accommodation and food services, and transportation/warehousing.

FUNB includes only a small portion of Crawford and Jefferson County geographies within its AA. These geographies are situated within rural sections of the counties away from population centers. Unemployment rates are 7.6% and 7.1% for Jefferson and Crawford County, respectively. Both unemployment rates have improved since the prior CRA Performance Evaluation. Economically, these geographies exhibit similar characteristics to the geographies located within Clarion and Venango Counties.

Banking competition within FUNB's AA is strong. According to the FDIC Deposit Market Share Report, as of June 30, 2013, within Clarion County, FUNB is ranked second in

market share, garnering 21.4% of market deposits. Of FUNB's six branches, three are located in Clarion County. Many of the primary competitors in the area are larger institutions. Area competitors include: S&T Bank (S&T), Northwest Savings Bank (Northwest), Clarion County Community Bank (CCCB), Farmers National Bank of Emlenton (Farmers NB), and PNC Bank (PNC).

According to the FDIC Deposit Market Share Report, as of June 30, 2013, for Venango County, FUNB is ranked fourth in market share, garnering 11.21% of market deposits. The bank's remaining three branches are located in Venango County. Primary competitors are similar to those in Clarion County; however, PNC and First National Bank of Pennsylvania (FNB of PA) have a greater presence within this county. Area competitors include: Northwest, PNC, FNB of PA, Citizens Bank of PA (CB of PA), and Farmers NB.

As FUNB only has offices in Clarion and Venango County, they do not report deposits in the other counties of their AA, including Crawford, Jefferson, and Forest. According to the FDIC Deposit Market Share report, Northwest is the only institution to operate branches, two branches, in Forest County and accounts for 100% of deposits in that county. FUNB only operates a deposit-taking ATM within Forest County.

During the performance evaluation, a local small business development center (SBDC) and a local economic development corporation (EDC) were contacted for comments. The SBDC consults in a 10-county region around Clarion County and provides education, tools, and resources to local entrepreneurs looking to start or grow a small business. The SBDC contact noted that the current economic condition in the area has been less than optimal, but is moving in a positive direction. While several larger employers closed or moved out of the area several years ago, the SBDC contact noted that there are many new startup businesses in the area, and that the housing market and local manufacturing businesses have seen improvement over the past several years.

The EDC provides assistance in site location, business financing, workforce recruiting, and business development to companies in Clarion County. The EDC contact stated that the business environment and local economy has been relatively stable. They noted that, since the prior performance evaluation, a new company has moved to Clarion County, providing approximately 85 jobs to the area and that an existing company is expanding operations, resulting in additional job growth. The contact noted that there is little residential or housing project development happening in the area.

Both contacts noted that local community banks and larger banks with a presence in the region have been very involved in economic development in the area and providing financing for small businesses. Given that FUNB is largely a residential lender, these contacts did not specifically identify FUNB. This is primarily because the SBDC and EDC focus on commercial and business development rather than residential or housing development.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FUNB's performance under the Lending Test is "Satisfactory." FUNB's lending activity compares reasonably to a peer group of similarly situated banks. FUNB, over the evaluation period, originated a substantial majority of its residential mortgage loans within its AA. FUNB has demonstrated a reasonable penetration of originating residential mortgages among AA borrowers of different income levels and a reasonable dispersion of originating residential mortgages among geographies of different income levels.

Loan-to-Deposit Ratio

FUNB's net loan to deposit ratio is reasonable given the bank's size, financial condition, AA credit needs, and internal/external factors. The bank's quarterly net loan-to-deposit ratio averaged 65.16 percent over 16 quarters from January 1, 2010 to December 31, 2013, with a quarterly low of 63.56 percent and a quarterly high of 67.47 percent.

The bank's net loan-to-deposit ratio is in line with other community banks of similar size (asset size between \$100million and \$400million), location, and product offerings. Given the limited number of banks in FUNB's AA, the peer group consists of seven other banks considered to be similarly situated to FUNB located within a ten county area that includes FUNB's AA. FUNB ranks 5th among the eight banks in the peer group. The aggregate average net loan-to-deposit ratio of the other institutions was 67.57 percent, ranging from a low of 65.0 percent to a high of 73.06 percent over the 16 quarters from January 1, 2010 through December 31, 2013.

Several external factors impact the bank's ability to make loans, including strong competition from larger institutions within the bank's AA, the rural nature of the counties within the AA, and a high level of households below the poverty level at 13.82 percent. Internal factors are limited, however, FUNB did begin to sell loans on the secondary market in October, 2013. Loan and deposit levels have generally grown at a similar rate year over year. Net loans and leases grew at an average rate of 1.86% from January 1, 2010 through December 31, 2013 and total deposits grew at an average rate of 2.08% over the same period. FUNB's lending practices continue to rely on conservative underwriting standards.

Lending in Assessment Area

FUNB originates a substantial majority of its loans to borrowers located within its AA. FUNB's lending to customers within the AA for residential loans is more than reasonable. Total lending within the AA amounted to 95.74% by number and 96.42% by dollar amount. This analysis included a random sample of sixty (60) residential mortgage loans (purchases, refinances, and home improvement loans) originated at FUNB over the evaluation period. Home purchases and refinances make up the majority of the bank's portfolio.

Lending to Borrowers of Different Incomes

FUNB's record of originating residential mortgages among AA borrowers of different income levels meets the standard for satisfactory performance. The distribution of FUNB's residential mortgage originations reflects reasonable penetration among AA borrowers, considering the context in which FUNB operates.

FUNB's record of originating home purchase, home improvement, and home refinance loans to low-income AA borrowers is slightly below the percentage of AA-families classified as low-income for each of the respective loan types. However, FUNB's record of originating home purchase, home improvement, and home refinance loans to moderate-income AA borrowers is more than reasonable and exceeds the percentage of AA families classified as moderate-income.

Opportunities to originate residential mortgages within FUNB's AA may be impacted by demographic factors including the extent to which the bank's AA population is age 65 or older (17.30%), retired (22.69%), eligible for social security (36.94%) and/or the population that is at or below poverty level (13.82%). Opportunities to originate residential mortgages within the AA may also be impacted by housing affordability and banking competition. US Census data for 2010 reports the median housing value within FUNB's AA to be \$85,374. The 2013 HUD updated median family income is \$55,300, indicating that low-income AA families by definition are families with annual incomes below \$27,650. Additionally, 13.82% of AA families subsist below the poverty level and area unemployment exceeds the Pennsylvania state employment rate.

FUNB has demonstrated its commitment to originating more affordable residential mortgage loans to low-and moderate-income AA borrowers through the internal development and adoption of an affordable mortgage program. The affordable mortgage program serves the credit needs of low-income and moderate-income borrowers by offering reduced down payment options without the need for private mortgage insurance. The volume of loans FUNB originates through the program increased over the evaluation period. Specifically, over the evaluation period, FUNB originated 41 loans totaling \$1.66 million through its affordable mortgage program.

The following table details the distribution of home purchase, home improvement, and refinancing loans originated by FUNB during the evaluation period among AA borrowers.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	21.13%	8.33%	20.90%	41.67%	23.43%	20.83%	34.54%	29.17%
Home Improvement	21.13%	14.29%	20.90%	28.57%	23.43%	14.29%	34.54%	42.86%
Home Refinance	21.13%	11.11%	20.90%	25.93%	23.43%	25.93%	34.54%	37.04%

Source: Loan sample and 2010 U.S. Census data

Geographic Distribution of Loans

The distribution of FUNB's residential mortgage originations reflects an excellent dispersion among the AA geographies considering the context in which FUNB operates.

FUNB's AA contains no low-income geographies and eight moderate-income geographies. There are two CTs within Forest County that are designated as distressed and underserved middle-income CTs. Of all owner-occupied housing available within FUNB's AA, the 2000 U.S. census data reports that 15.54% (6,631 of 42,669 units) are located within the AA's moderate-income geographies. This is a significant change from 2007-2010 when only two moderate CTs were in the bank's AA and 2.5% of owner-occupied units were in moderate-income geographies. The vast majority, 84.46% of all AA owner-occupied housing, is located within the AA's middle- and upper-income geographies. The change in CTs and resulting increased number of owner-occupied housing within moderate-income geographies allowed the bank the opportunity to originate more residential mortgage loans within those moderate-income geographies.

The following table details the distribution of home purchase, investment, and refinancing loans originated by FUNB during the evaluation period among AA geographies.

Table 3 - Geographic Distribution of Residential Real Estate Loans in FUNB AA								
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
Home Purchase	0.00%	0.00%	15.54%	20.83%	82.43%	70.83%	2.03%	8.33%
Home Improvement	0.00%	0.00%	15.54%	0.00%	82.43%	100.00%	2.03%	0.00%
Home Refinance	0.00%	0.00%	15.54%	11.11%	82.43%	88.89%	2.03%	0.00%

Source: Loan Sample and 2010 U.S. Census Data

Responses to Complaints

FUNB did not receive any complaints about its performance in helping to meet credit needs in the AA during this evaluation 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.