



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 20, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Merchants National Bank
Charter Number 2449

100 North High Street
Hillsboro, Ohio 45133

Office of the Comptroller of the Currency
Westlake Center
4555 Lake Forest Drive, Suite 610
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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.

- The bank's loan-to-deposit ratio is more than reasonable and reflects outstanding performance.
- A majority of the bank's lending activity occurs inside the bank's assessment areas (AAs).
- The bank's performance in lending to geographies of different income levels exhibits reasonable dispersion.
- Lending to borrowers of different income levels and businesses of different sizes reflects reasonable penetration.
- Responsiveness to the community development needs through loans, investments, and services is adequate.

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 the intermediate small bank CRA examination procedures to perform the examination. The evaluation under the Lending Test considered performance from January 1, 2010 to December 31, 2011 (lending evaluation period), excluding Community Development (CD) loans. The evaluation under the CD Test considered CD loans, investments, and services from April 11, 2008 to August 20, 2012 (CD evaluation period).

The bank's performance in residential real estate and small business (commercial and commercial real estate loans) lending is considered foremost in this CRA examination. We reviewed home purchase, home improvement, and refinance loans reported under the Home Mortgage Disclosure Act (HMDA). We reviewed the HMDA data for 2010 and 2011, as part of a data integrity review, and determined the information to be reliable. We sampled twenty business loans from the same time period for each AA. For each AA, we conducted separate analyses. We used the 2000 U.S. Census Data, updated as of 2011, to analyze performance.

The Non-MSA (metropolitan statistical area) AA, Columbus MSA AA, and Cincinnati MSA AA were weighted equally in this evaluation. The Springfield MSA AA was weighted less than the other three AAs due to having less than 1% deposit market share and only originating 5% of home mortgage loans in this AA during the evaluation period. The Merchants National Bank (MNB) opened a branch in Springfield in 2008 and has struggled to generate adequate loan growth and deposits in this area due to the economy.

Description of Institution

MNB is an independent, intrastate community bank headquartered in Hillsboro, Ohio, which is located in Highland County. MNB is a wholly owned subsidiary of Merchants Bancorp, Inc., a one-bank holding company also located in Hillsboro. The bank has twelve banking offices, located in Highland, Fayette, Madison, Brown, Clark, and Clermont counties. The bank has drive-through facilities at nine of their offices and automatic teller machines (ATMs) at ten offices. MNB has ten offices in middle-income geographies (six are located in distressed nonmetropolitan middle income geographies, including the main office, in Highland and Fayette counties) and two offices in moderate-income geographies in Brown County.

At December 31, 2011, MNB had total assets of \$570 million and held \$49 million in Tier 1 Capital. MNB's loan portfolio totaled \$443 million, with net loans representing about 78 percent of total assets as of December 31, 2011. During the lending evaluation period, approximately 33 percent of the dollar volume of loans originated was residential real estate loans and 44 percent was business loans. The bank's primary lending products are residential real estate and business loans (commercial and commercial real estate loans). The table below reflects the bank's total loans originated/purchased between January 1, 2010 and December 31, 2011.

Loan Type	% by Dollars of Loans Originated/ Purchased during evaluation period	% by Number of Loans Originated/ Purchased during evaluation period
Home Loans	33%	21%
Consumer Loans	7%	40%
Business Loans	44%	27%
Farm Loans	15%	7%
Other Loans	1%	5%
Total	100%	100%

MNB's primary business focus is home mortgage lending (residential real estate) and small loans to businesses (commercial and commercial real estate loans). The bank offers a full range of standard lending and deposit products to accommodate the needs of customers within its AAs. Competition for loans and deposits within the bank's AAs is strong and comes from many local community financial institutions and branches of larger institutions.

Presently, there are no financial or legal impediments that affect the bank's ability to help meet the credit needs of its AA. MNB's CRA rating as of April 11, 2008, was "Satisfactory Record of Meeting Community Credit Needs."

Description of Assessment Areas

MNB has four AAs. One of the AAs is made up of three counties in a Non-MSA AA (Highland, Ross, and Fayette counties). The Columbus MSA AA includes parts of Madison County. Brown County and parts of Clermont County are in the Cincinnati MSA AA. The Springfield MSA AA includes parts of Clark County. Bank management selected these AAs based on the bank's targeted lending territory and office locations. The AAs are contiguous, meet the requirements of the Community Reinvestment Act, and do not arbitrarily exclude low- or moderate-income geographies.

Competition in the AAs is high due to many national banks, savings and loan associations, mortgage banks, and branches of large financial institutions being located in the AA. As of June 30, 2011, MNB had approximately 5 percent of the market share of deposits in Brown and Clermont Counties, 12 percent in Fayette, Highland, and Ross Counties, 1 percent in Clark County, and 12 percent in Madison County. The source of the deposit market share information is the June 30, 2011 Market Share Report from the Federal Deposit Insurance Corporation (FDIC).

Community contacts indicated that the area's economy is improving, after having been negatively impacted by the recession. The economic improvement is being led by manufacturing and agriculture. The credit needs of the AA include funding for startup and small businesses. According to the contacts, local financial institutions are meeting those needs, but lending standards have tightened in recent years. Another need identified by community contacts was education for small business owners. Per discussion with management and review of the area and community contacts, the community development needs and opportunities are being adequately served by the local financial institutions.

Non-MSA AA

The Non-MSA AA is comprised of all census tracts in Highland and Fayette counties and one census tract in the western section of Ross County. The entire area is contiguous. The main office in Hillsboro is located in southwestern Ohio, approximately 60 miles east of Cincinnati. Hillsboro is the largest city in Highland County and the county seat. The bank has five offices in Highland County - three in Hillsboro and two in Greenfield. Greenfield is the second largest city in the Highland County. The bank has one office located in Washington Court House in Fayette County, which is the largest city in that county. All of the offices in this AA are located in distressed nonmetropolitan middle-income areas as of 2011.

The Non-MSA AA is comprised of two moderate-income (12 percent) and 15 middle-income (88 percent) geographies. As of the 2000 census, the population of the Non-MSA AA is 73,575, with 11 percent of the population living in moderate-income and 89 percent in middle-income tracts. Sixty-five percent of the housing units are owner-occupied, with 10 percent of them in moderate-income areas and 90 percent in middle-income areas. Twelve percent of the households are living below the poverty level, 29 percent of the households receive social security benefits, and 18 percent are retired.

The median housing value is \$83,385; the average median age of housing is 46 years. The weighted average monthly gross rent is \$458.

According to the 2000 U.S. Census Data, the Ohio statewide non-MSA median family income is \$43,801. The Department of Housing and Urban Development's (HUD) estimated median income for 2011 was \$52,900. Approximately 19 percent of the families in the AA are low-income and 20 percent are moderate-income.

The local economy is stable and diversified in manufacturing, retail, and agriculture. As of July 2012, the county unemployment rates in this AA were: Highland County 9.8 percent, Fayette County 7.6 percent, and Ross County 8.2 percent. The state of Ohio unemployment rate was 7.2 percent and the national unemployment rate was 8.3 percent for the same time period. Highland and Ross counties exceeded both the state and national unemployment rates and Fayette County exceeded the Ohio unemployment rate for July 2012. Management indicated that there has been some improvement in the local economy, and that agriculture is doing well. In addition, small businesses have stabilized, and some are improving, particularly those linked to the automotive industry, per discussions with bank management.

The major employers in Highland County include RR Donnelley, Greenfield Research, Wal-mart, Highland District Hospital, and the local school districts. The major employers in Fayette County are Fayette County Memorial Hospital, Mars Petcare, Sugar Creek Packing Co., YUSA Corp., Wal-mart, and the local school districts. Major employers in Ross County include Adena Regional Health System, Wal-mart, the local school systems, and government offices. The region continues to suffer increased unemployment due to job losses at DHL in Clinton County.

Columbus MSA AA

The Columbus MSA AA is comprised of nine census tracts in Madison County. Madison County is contiguous to Fayette County. Madison County is located north of Fayette County and west of Columbus, Ohio (Franklin County). London is the largest city in Madison County and the county seat. The bank has one office in the Columbus MSA AA located in London, in a middle-income census tract.

The Columbus MSA AA is comprised of one moderate-income (11 percent), seven middle-income (78 percent), and one upper-income (11 percent) geography. As of the 2000 census, the population of the Columbus MSA AA is 34,314, with eight percent of the population living in moderate-income and 92 percent in middle-income tracts. Sixty-eight percent of the AA housing units are owner-occupied, with six percent of them in moderate-income and 94 percent in middle-income areas. Eight percent of the households are living below the poverty level and 26 percent of the households receive social security benefits. Twenty percent of the households are retired. The median housing value is \$102,474; the average median age of housing is 48 years. The weighted average monthly gross rent is \$517.

According to the 2000 U.S. Census Data, the Columbus MSA median family income is \$54,708. The Department of Housing and Urban Development's (HUD) estimate of the Columbus MSA median family income was \$66,600 for 2011. Approximately 18 percent of the families in the AA are low-income and 23 percent are moderate-income.

The local economy is stable and diversified in manufacturing and retail. As of July 2012, the unemployment rate in Madison County was 6.8 percent, which is below both the national and State of Ohio rates. The major employers in Madison County include the Battelle Memorial Institute, Jefferson Industries, Madison County Hospital, and the local school districts.

Cincinnati MSA AA

The Cincinnati MSA AA is comprised of Brown and Clermont Counties. Brown County is contiguous to and directly west and south of Highland County. Clermont County is contiguous to and directly west of Brown County. Both counties are located east of Cincinnati. The bank has four offices in this AA, two in middle-income and two in moderate-income census tracts.

The Cincinnati MSA AA is comprised of 11 moderate-income (27 percent), 25 middle-income (61 percent), and five upper-income (12 percent) census tracts. The population of the Cincinnati MSA AA is 220,262, with 24 percent of the population living in moderate-income, 61 percent in middle-income, and 15 percent in upper-income geographies. Seventy-one percent of the housing units in the AA are owner-occupied, with 22 percent of them in moderate-income, 61 percent in middle-income, and 17 percent in upper-income areas. Eight percent of the households are living below the poverty level and 22 percent of the households receive social security benefits. Sixteen percent of the households are retired. The median housing value is \$111,632; the average median age of housing is 36 years. The weighted average monthly gross rent is \$538.

According to the 2000 U.S. Census Data, the Cincinnati MSA median family income is \$54,771. The HUD estimate of the Cincinnati MSA median family income was \$70,400 for 2011. Approximately 19 percent of the families in the AA are low-income and 20 percent are moderate-income.

The local economy is stable and diversified into manufacturing, health services, and retail. As of July 2012, the unemployment rate in Brown County was 8.3 percent, identical to the national employment rate above the State of Ohio rate. The unemployment rate for Clermont County was 6.8 percent, lower than the state and national rates. The major employers in Brown County include Milacron, Southern State Community College, and the local school districts. The major employers in Clermont County include Duke Energy, American Modern Insurance Corp, Tata Consultancy Services Limited, and the local school districts.

Springfield MSA AA

The Springfield MSA AA is comprised of 34 census tracts in Clark County. Clark County is contiguous to Madison County. Clark County is located west of Madison County and west of Columbus, Ohio. Springfield is the largest city in Clark County and the county seat. The bank has one office in the Springfield MSA AA located in Springfield, in a middle-income census tract.

The Springfield MSA AA is comprised of two low-income (6 percent), nine moderate-income (26 percent), 16 middle-income (47 percent), and seven upper-income (21 percent) geographies. As of the 2000 census, the population of the Springfield MSA AA is 114,142. Four percent of the population lived in low-income, 19 percent in moderate-income, 54 percent in middle-income, and 23 percent in upper-income geographies. Sixty-three percent of the AA housing units are owner-occupied, with two percent of them in low-income, 13 percent in moderate-income, 57 percent in middle-income, and 28 percent in upper-income areas. Eleven percent of the households are living below the poverty level and 29 percent of the households receive social security benefits. Twenty-two percent of the households are retired. The median housing value is \$84,078; the average median age of housing is 55 years. The weighted average monthly gross rent is \$486.

According to the 2000 U.S. Census Data, the Springfield MSA median family income is \$48,068. The HUD estimate of the Springfield MSA median family income was \$56,100 for 2011. Approximately 20 percent of the families in the AA are low-income and 18 percent are moderate-income.

The local economy is stable and diversified into manufacturing, transportation, and health services. As of July 2012, the unemployment rate in Clark County was 7.5 percent, which is below the national rate but above the State of Ohio rate. The major employers in Clark County include Assurant, Wittenberg University, Gordon Food Service, and the local school districts.

Conclusions with Respect to Performance Tests

LENDING TEST

Based on the criteria for the CRA lending test, this bank's lending performance is rated satisfactory.

Loan-to-Deposit Ratio

- The loan-to-deposit ratio (LTD) is more than reasonable given the bank's size, financial condition, and AA credit needs and meets the requirements for outstanding performance.

Over the past 17 quarters (June 30, 2008 to June 30, 2012), the bank had the highest average LTD ratio (95 percent) of other similar-sized financial institutions in the

surrounding area. The seven local peer banks located within the AA had an average LTD ratio of 80 percent as of March 31, 2012. In addition, the bank far exceeded the national peer average LTD ratio of 74 percent as of June 30, 2012. Presently, the bank’s LTD ratio, as of June 30, 2012, was 91 percent. The bank’s LTD ratio has steadily declined since 2008, decreasing from a high of 104 percent, at December 31, 2008, to a low of 85 percent at March 31, 2012. The primary causes for the decline in the LTD ratio is a decrease in loan demand and an increase in deposits—byproducts of local economic conditions. In summary, the bank’s quarterly average and present LTD ratios are more than reasonable given the bank’s size, financial condition, and AA credit needs.

Lending in Assessment Area

- The bank’s record of lending within its AA is reasonable and supports satisfactory performance, with a majority of the bank’s lending inside the AA.

As previously discussed, the bank’s primary loan products are residential real estate loans and small business loans (commercial and commercial real estate). In order to determine the adequacy of the bank’s lending record within their AAs, we analyzed residential real estate loans reported on the bank’s 2010 - 2011 HMDA Loan Application Register. We also sampled 20 business loans that the bank originated during the evaluation period. The results of our testing concluded that the bank originated 87 percent of the number of loans inside their assessment areas, which is a reasonable majority. Table 1 below details the bank’s lending within the AA by both number and dollar volume.

Table 1 - Lending in all Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	237	84%	44	16%	281	20,008	84%	3,746	16%	23,754
Home Refinance	385	88%	53	12%	438	48,003	88%	6,335	12%	54,338
Home Improvement	23	100%	0	0%	23	1,191	100%	0	0%	1,191
Business Loans	15	75%	5	25%	20	1,490	55%	1,195	45%	2,685
Totals	660	87%	102	13%	762	70,692	86%	11,276	14%	81,968

Source: 2010 and 2011 data reported under HMDA and a sample of business loans from the same time period.

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

- The bank's lending to borrowers of different income levels and businesses of different sizes is reasonable and reflects satisfactory performance.

The bank continues to originate the majority of its residential real estate loans within the Non-MSA AA, as this lending area accounted for 66 percent of home loans made during the evaluation period. While lending in the Cincinnati MSA AA and the Columbus MSA has increased, these two lending areas only account for 16 percent and 13 percent of originated home loans, respectively. The Springfield MSA AA is the bank's smallest lending area, representing five percent of home loans originated during the evaluation period. The bank first expanded into this AA in 2008, and continues to experience difficulty generating loan growth. Due to deteriorating economic conditions, the low volume of loans in the Springfield MSA AA and limited time in this AA, more weight was placed on the results of the Non-MSA AA, Columbus MSA AA, and Cincinnati MSA AA.

Non-MSA AA

Lending to borrowers of different income levels and businesses of different sizes in the Non-MSA AA exhibits reasonable penetration and demonstrates satisfactory performance. The bank's distribution of residential real estate loans in the Non-MSA AA reflects reasonable penetration among borrowers of different income levels, including low- and moderate-income borrowers, and supports satisfactory performance. Based on the 2000 census data and residential real estate loans originated during the evaluation period, the bank's percentage of home loans made to moderate-income borrowers (20 percent) meets the percentage of moderate-income families in the AA (20 percent). However, the bank's percentage of home loans made to low-income borrowers (9 percent) was significantly lower than the percentage of low-income families in the AA (19 percent). Twelve percent of the households in the Non-MSA live at or below the poverty level. These households may experience difficulty meeting the bank's credit underwriting standards for home mortgage loans. In addition, 25 percent of the occupied housing units in the AA are rental units, which suggests a large portion of the population is opting to rent instead of purchasing a home. There are also many other banking institutions in the area providing additional competition for loans. Overall, the bank's performance in residential real estate lending reflects satisfactory performance.

The penetration of loans to small businesses is reasonable and meets the standard for satisfactory performance in the Non-MSA AA. In our sample of 20 business loans originated during the evaluation period, the bank made 80 percent of their loans to businesses with annual gross revenues of less than \$1 million, which compares favorably to the 70 percent of businesses in the AA of similar size.

Refer to Tables 2 and 3 for specific details on the borrower distribution of residential real estate loans and loans to businesses, respectively, originated during the evaluation period in the Non-MSA AA.

Table 2 - Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
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
Home Purchase		11%		27%		25%		37%
Home Refinance		7%		17%		28%		48%
Home Improvement		18%		0%		35%		47%
Total	19%	9%	20%	20%	25%	27%	36%	44%

Source: HMDA loans originated from January 1, 2010, through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

Table 3 - Borrower Distribution of Loans to Businesses in the Non-MSA AA				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70%	2%	28%	100%
% of Bank Loans in AA by #	80%	10%	10%	100%
% of Bank Loans in AA by \$	95%	3%	2%	100%

Source: Business loan sample and Dunn and Bradstreet data.

Columbus MSA AA

Lending to borrowers of different income levels and businesses of different sizes in the Columbus MSA AA exhibits reasonable penetration and demonstrates satisfactory performance. The bank’s distribution of residential real estate loans in the Columbus MSA AA reflects reasonable penetration among borrowers of different income levels, including low- and moderate-income borrowers, and supports satisfactory performance. Based on the 2000 census data and residential real estate loans originated during the evaluation period, the bank’s percentage of home loans made to moderate-income borrowers (25 percent) exceeded the percentage of moderate-income families in the AA (23 percent). However, the percentage of home loans made to low-income borrowers (6 percent) was significantly lower than the percentage of low-income families in the AA (18 percent). Eight percent of the households in the Columbus MSA AA live at or below the poverty level. As previously noted, these households may experience difficulty meeting the bank’s credit underwriting standards for home mortgage loans. In addition, 26 percent of the occupied housing units in the AA are rental units, which suggests a large portion of the population is opting to rent instead of purchasing a home.

The penetration of loans to small businesses is reasonable and meets the standard for satisfactory performance in the Columbus MSA AA. In our sample of twenty business loans originated during the evaluation period, the bank made 75 percent of their loans to businesses with annual gross revenues of less than \$1 million, which compares favorably to the 69 percent of businesses in the AA of similar size.

Refer to Tables 4 and 5 additional details.

Table 4 - Borrower Distribution of Residential Real Estate Loans in the Columbus MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
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
Home Purchase		8%		29%		17%		46%
Home Refinance		5%		24%		46%		25%
Home Improvement		0%		0%		0%		0%
Total	18%	6%	23%	25%	26%	37%	33%	32%

Source: HMDA loans originated from January 1, 2010, through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

Table 5 - Borrower Distribution of Loans to Businesses in the Columbus MSA AA				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69%	2%	29%	100%
% of Bank Loans in AA by #	75%	15%	10%	100%
% of Bank Loans in AA by \$	84%	15%	1%	100%

Source: Business loan sample and Dunn and Bradstreet.

Cincinnati MSA AA

Lending to borrowers of different income levels and businesses of different sizes in the Cincinnati MSA AA exhibits reasonable penetration and demonstrates satisfactory performance. The bank’s distribution of residential real estate loans in the Cincinnati MSA AA reflects reasonable penetration among borrowers of different income levels and supports satisfactory performance. Based on the 2000 census data and residential real estate loans originated during the evaluation period, the bank’s percentage of home

loans made to low-income borrowers (16 percent) is near the percentage of low-income families in the AA (19 percent). In addition, the bank's percentage of home loans made to moderate-income borrowers (33 percent) exceeds the percentage of moderate-income families in the AA (20 percent).

The penetration of loans to small businesses is reasonable and meets the standard for satisfactory performance in the Cincinnati MSA AA. In our sample of 20 business loans originated during the evaluation period, the bank made 65 percent of their loans to businesses with annual gross revenues of less than \$1 million. This performance is near the demographic comparator of 69 percent of businesses in the AA of similar size.

Refer to Tables 6 and 7 for additional details.

Table 6 - Borrower Distribution of Residential Real Estate Loans in the Cincinnati MSA AA								
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		13%		41%		27%		19%
Home Refinance		18%		29%		33%		20%
Home Improvement		20%		20%		60%		0%
Total	19%	16%	20%	33%	24%	33%	37%	18%

Source: HMDA loans originated from January 1, 2010, through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

Table 7 - Borrower Distribution of Loans to Businesses in the Cincinnati MSA AA				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69%	2%	29%	100%
% of Bank Loans in AA by #	65%	15%	20%	100%
% of Bank Loans in AA by \$	60%	37%	3%	100%

Source: Business loan sample and Dunn and Bradstreet.

Springfield MSA AA

Lending to borrowers of different income levels and businesses of different sizes in the Springfield MSA AA reflects poor penetration. The bank's distribution of residential real estate loans in the Springfield MSA AA does not meet the standard for reasonable penetration among borrowers of different income levels. Based on the 2000 census data and residential real estate loans originated during the evaluation period, the bank's percentage of home loans made to low-income borrowers (15 percent) was lower than the percentage of low-income families in the AA (20 percent). However, 11 percent of the households in this AA live at or below the poverty level. As previously noted, these households may experience difficulty meeting the bank's credit underwriting standards for home mortgage loans. The percentage of home loans made to moderate-income borrowers (6 percent) was significantly lower than the percentage of moderate-income families in the AA (18 percent). Twenty-nine percent of the occupied housing units in the AA are rental units, which suggests a large portion of the population is opting to rent instead of purchasing a home. As stated above, the Springfield MSA AA is the bank's smallest lending area, representing only five percent of home loans originated during the evaluation period. The bank only made 35 home loans in this AA from 2010 – 2011. The bank first expanded into the MSA in 2008, and continues to experience difficulty generating loan growth due in part to economic conditions. We included a full scope review of the AA since it was a new AA since the last CRA examination; however, less weight is placed on this AA based on the volume of lending thus far in this AA.

The penetration of loans to small businesses is reasonable and meets the standard for satisfactory performance in the Springfield MSA AA. In our sample of 20 business loans originated during the evaluation period, the bank made 55 percent of their loans to businesses with annual gross revenues of less than \$1 million. This performance is lower than the 69 percent of businesses in the AA of similar size, but is reasonable due to the bank's recent expansion into the MSA. The move into the Springfield MSA coincided with the deterioration of the country's economic condition. Since that time, the bank has struggled to generate loan growth in the area.

Refer to Tables 8 and 9 additional details.

Table 8 - Borrower Distribution of Residential Real Estate Loans in the Springfield MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
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
Home Purchase		18%		12%		17%		53%
Home Refinance		9%		0%		45%		46%
Home Improvement		0%		0%		100%		0%
Total	20%	15%	18%	6%	24%	29%	38%	50%

Source: HMDA loans originated from January 1, 2010, through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

Table 9 - Borrower Distribution of Loans to Businesses in the Springfield MSA AA				
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69%	3%	28%	100%
% of Bank Loans in AA by #	55%	25%	20%	100%
% of Bank Loans in AA by \$	10%	86%	4%	100%

Source: Business loan sample and Dunn and Bradstreet.

Geographic Distribution of Loans

- MNB's geographic distribution of loans reflects reasonable dispersion to all areas within its AA, including moderate-income areas, and is reflective of satisfactory performance. Our analysis reflected lending in most census tracts with no conspicuous gaps.

Non-MSA AA

Lending to geographies of different income levels in the Non-MSA AA reflects reasonable dispersion and demonstrates satisfactory performance. Of the 17 census tracts in the AA, there are no low-income census tracts and only two moderate-income census tracts. As of the 2011 demographic data, 15 of the census tracts were distressed nonmetropolitan middle-income census tracts. The majority of the bank's

lending occurs in this AA in the distressed nonmetropolitan middle-income census tracts. The bank made 66 percent of its home mortgage loans within the Non-MSA AA during the evaluation period.

The distribution of residential real estate loans to moderate-income geographies is reasonable and represents satisfactory performance. Based on the 2000 census data and residential real estate loans originated during the evaluation period, the bank made eight percent of their home mortgage loans to borrowers in moderate-income census tracts. This performance is near the demographic comparator of the percentage of owner-occupied housing units in the AA that are located within moderate-income geographies (10 percent). In addition, the bank made 92 percent of its home mortgage loans to borrowers in the distressed nonmetropolitan middle-income census tracts, which exceeds the percentage of owner-occupied housing units in these census tracts (90 percent). See Table 10 for additional details.

The dispersion of business loans in the Non-MSA AA is reasonable and reflective of satisfactory performance. Based on our sample of 20 business loans within the AA, the bank made five percent of the number of business loans in the moderate-income census tracts. This performance is near the demographic comparator of the percentage of businesses located in the moderate-income tracts (8 percent). See Table 11 for details.

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	No low-income census tracts in AA		10%	10%	90%	90%	No upper-income census tracts in AA	
Home Refinance			10%	6%	90%	94%		
Home Improvement			10%	6%	90%	94%		
TOTAL			10%	8%	90%	92%		

Source: HMDA loans originated from January 1, 2010, through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

Table 11 - Geographic Distribution of Loans to Businesses in the Non-MSA AA								
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	0%	0%	8%	5%	92%	95%	0%	0%

Source: Business Loan Sample; Dunn and Bradstreet

Columbus MSA AA

Lending to geographies of different income levels in the Columbus MSA AA reflects excellent dispersion and demonstrates outstanding performance. Of the nine census tracts in the AA, there are no low-income census tracts and only one moderate-income census tract. The bank made 13 percent of its home mortgage loans within the Columbus MSA AA during the evaluation period.

The distribution of residential real estate loans to moderate-income geographies is excellent and represents outstanding performance, as the bank made eight percent of its home mortgage loans originated during the evaluation period to borrowers in the moderate-income census tract. This performance exceeds the percentage of owner-occupied housing units in the AA that are located within moderate-income geographies (6 percent). See Table 12 for specific details.

The dispersion of business loans in the Columbus MSA AA is excellent and reflective of outstanding performance. Based on our sample of 20 business loans within the AA, the bank made 15 percent of the number of business loans in the moderate-income census tract. This performance exceeds the percentage of businesses located in the moderate-income tract (10 percent). See Table 13 for details.

Table 12 – Geographic Distribution of Residential Real Estate Loans in the Columbus MSA 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	No low-income census tracts in AA		6%	4%	94%	96%	No upper-income census tracts in AA	
Home Refinance			6%	9%	94%	91%		
Home Improvement			6%	0%	94%	0%		
TOTAL			6%	8%	94%	92%		

Source: HMDA loans originated from January 1, 2010, through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

Table 13 - Geographic Distribution of Loans to Businesses in the Columbus MSA AA

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	0%	0%	10%	15%	90%	85%	0%	0%

Source: Business Loan Sample; Dunn and Bradstreet.

Cincinnati MSA AA

Lending to geographies of different income levels in the Cincinnati MSA AA reflects excellent dispersion and demonstrates outstanding performance. Of the 41 census tracts in the AA, there are no low-income census tracts and 11 moderate-income census tracts. The bank originated 16 percent of its home mortgage loans within the Cincinnati MSA AA during the evaluation period.

The distribution of residential real estate loans to moderate-income geographies is excellent and represents outstanding performance. Based on the 2000 census data and residential real estate loans originated during the evaluation period, the bank made 46 percent of its home mortgage loans in the Cincinnati MSA AA to borrowers in moderate-income census tracts. This performance significantly exceeds the percentage of owner-occupied housing units in the AA that are located within moderate-income geographies (22 percent). See Table 14 for specific details.

The dispersion of business loans in the Non-MSA AA is excellent and reflective of outstanding performance. Based on our sample of 20 business loans originated within

the AA, the bank made 80 percent of the number of business loans in the moderate-income census tracts. This performance significantly exceeds the 19 percent of the AA businesses located in the moderate-income census tracts. Refer to Table 15 for more details.

Table 14 – Geographic Distribution of Residential Real Estate Loans in the Cincinnati MSA 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	No low-income census tracts in AA		22%	43%	61%	57%	17%	0%
Home Refinance			22%	47%	61%	50%	17%	3%
Home Improvement			22%	60%	61%	40%	17%	0%
TOTAL			22%	46%	61%	52%	17%	2%

Source: HMDA loans originated from January 1, 2010, through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

Table 15 - Geographic Distribution of Loans to Businesses in the Cincinnati MSA AA								
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	0%	0%	19%	80%	61%	10%	20%	10%

Source: Business Loan Sample; Dunn and Bradstreet.

Springfield MSA AA

Lending to geographies of different income levels in the Springfield MSA AA reflects poor dispersion. Of the 34 census tracts in the AA, there are two low-income census tracts and nine moderate-income census tracts. The Springfield MSA AA is the smallest of the bank's four lending areas. The bank only made five percent of its home mortgage loans within the Springfield MSA AA during the evaluation period.

The distribution of residential real estate loans to low- and moderate-income geographies does not meet the standard for reasonable dispersion. During the evaluation period, the bank did not originate any home loans in low-income census tracts and made six percent of their home loans in moderate-income census tracts. Only two percent of the owner-occupied housing units in the AA are located within low-income geographies, therefore the bank not lending in low-income census tracts is

reasonable. However, lending in moderate-income census tracts is significantly lower than the percentage of owner-occupied housing units located within the moderate-income tract (13 percent). As previously stated, management attributes lending discrepancies in the Springfield MSA AA to the bank’s recent expansion into the area. The AA is the bank’s newest of their four lending areas and the opening of the Springfield branch in 2008 coincided with the deterioration of the economy. Since that time, the bank has struggled to generate adequate loan growth in the area. However, as economic conditions continue to improve, home loan distribution to low and moderate-income geographies should begin to more accurately reflect the MSA’s demographics. See Table 16 below for specific details on sample results.

The dispersion of business loans in the Springfield MSA AA is reasonable and reflective of satisfactory performance. Based on our sample of 20 business loans within the AA, the bank made no business loans within the low-income census tract and 20 percent of the number of business loans in the moderate-income census tract. This performance is lower than the percentage of businesses located in the low-income tracts (3 percent) and exceeds the percentage of businesses in moderate-income tracts (19 percent). See Table 17 for details.

Table 16 – Geographic Distribution of Residential Real Estate Loans in the Springfield MSA 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	2%	0%	13%	5%	57%	76%	28%	19%
Home Refinance	2%	0%	13%	8%	57%	59%	28%	33%
Home Improvement	2%	0%	13%	0%	57%	0%	28%	100%
TOTAL	2%	0%	13%	6%	57%	68%	28%	26%

Source: HMDA loans originated from January 1, 2010, through December 31, 2011; 2000 U.S. Census data, updated as of 2011.

Table 17 - Geographic Distribution of Loans to Businesses in the Springfield MSA AA

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	3%	0%	19%	20%	53%	55%	25%	25%

Source: Business Loan Sample; 2000 U.S. Census data, updated as of 2011.

Responses to Complaints

MNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's responsiveness to community development (CD) needs of the AA through CD lending, investments, and services is adequate. Performance in the Non-MSA AA, Columbus MSA AA, Cincinnati MSA AA, and Springfield MSA AA is adequate. The bank has been adequately responsive to CD needs through CD services and loans, considering the bank's capacity and the need, and availability of such opportunities for CD in the bank's AAs. The bank's level of investments is adequate.

The evaluation period for CD loans, investments, and services was April 11, 2008 to August 20, 2012.

Number and Amount of Community Development Loans

MNB's amount of CD loans is adequate, as the bank is responsive to the CD needs of the AA through CD loans. During this evaluation period, the bank made various CD loans to different organizations in the Non-MSA AA, Columbus MSA AA, and Cincinnati MSA AA. The bank did not make any CD loans in the Springfield MSA AA, which demonstrates very poor responsiveness to CD lending in this AA. Overall, more weight was given to the other three AAs as a majority of the lending and deposits come from these AAs and the branch in the Springfield MSA AA was opened in 2008. Descriptions of the loans can be found below for each AA.

Non-MSA AA

During the evaluation period, the bank originated 12 CD loans to four different organizations totaling \$723,181. This indicates adequate responsiveness to the needs of the community. The bank made loans to the following not-for-profit organizations serving low- to moderate-income individuals in the AA:

- My Sister’s House – provides community development services as a domestic violence women’s shelter.
- Fayette Metropolitan Housing Authority (FMHA) - provides affordable housing to low- and moderate-income individuals and families.
- Turning Point Applied Learning Center, Inc – provides job training to low- and moderate-income individuals.
- Supplementary Assistance to the Handicap (SATH) - provides services to handicapped individuals, primarily low- and moderate-income.

Columbus MSA AA

During the evaluation period, the bank originated or renewed 10 CD loans to two different organizations totaling \$816,137, which indicates adequate responsiveness to the needs of the community. MNB originated and/or renewed eight loans to Fairbrook Homes, Inc., which provides affordable housing to low- and moderate-income individuals and families and assists with USDA/rural development lending. The bank also renewed two loans to the Madison County Senior Citizens Center, Inc., which offers various community development services to low-and moderate-income individuals in the county.

Cincinnati MSA AA

During the evaluation period, the bank originated or renewed six CD loans to two different borrowers totaling \$436,000. This indicates adequate responsiveness to the needs of the community. The bank made five loans to an individual who operates housing and day facilities for low- and moderate-income individuals who are handicapped. MNB also originated one loan under the “Grow Now” program through the State of Ohio. This program provides low cost financing to small business owners to help create and retain jobs in the state of Ohio.

Springfield MSA AA

The bank did not originate any CD loans in the Springfield MSA AA during the evaluation period, which demonstrates very poor responsiveness. The bank opened a branch in Springfield, Ohio in 2008. According to management, they are looking for opportunities to make CD loans in this AA, but have not made any to date. The bank’s level of CD loans needs to improve.

Number and Amount of Qualified Investments

MNB’s amount of qualified CD investments is adequate. The number, amount, and descriptions of the qualified investments/donations for each AA can be found below.

Non-MSA AA

MNB's level of CD investments is adequate given the asset size and the capacity of the bank in the Non-MSA AA. We based our review on the volume and types of investments made by the bank relative to the CD opportunities of the AA. During the evaluation period, MNB made 59 qualifying donations to 33 organizations totaling \$50,798. MNB donated just over \$23,000 to the Highland County Society for Children and Adults. This organization provides assistance and health services to Highland County residents who need help for expenses for necessary medical treatment, transportation to hospitals, and health equipment and devices, primarily low- and moderate-income individuals and/or families. MNB also donated land to the Habitat for Humanity valued at \$10,500 in 2011.

Columbus MSA AA

MNB's level of CD investment is adequate given the asset size and the capacity of the bank in the Columbus MSA AA. During this evaluation period, MNB made seven donations to three organizations totaling \$1,332. The majority of the donations were to an organization that provides CD services to low- and moderate-income families. None of the investments made by the bank are considered innovative or complex.

Cincinnati MSA AA

MNB's level of CD investment is adequate given the asset size and the capacity of the bank in the Cincinnati MSA AA. During this evaluation period, MNB made 16 donations to eight organizations totaling \$2,933. The largest donation of \$1,000 was made to the Village of Moscow for the disaster relief fund to assist local residents after a tornado. A majority of the donations were to various food banks and homeless shelters. None of the investments made by the bank are considered innovative or complex.

Springfield MSA AA

MNB's level of CD investment is adequate given the asset size and the capacity of the bank in the Springfield MSA AA. During this evaluation period, MNB made 15 donations to seven organizations totaling \$6,575. The largest donation was made to Habitat to Humanity for \$2,975. A majority of the other donations were to various food banks and a homeless shelter. None of the investments made by the bank are considered innovative or complex.

Number and Amount of Qualified Grants and Donations

The bank made notable qualifying donations to the following organizations located within the Non-MSA AA, Columbus MSA AA, Cincinnati MSA AA, and the Springfield MSA AA:

- Organizations that provide educational opportunities, healthcare, and other social services to low and moderate-income families;
- Food banks which provide groceries and other items to low- and moderate-income families;

- Organizations which provide housing, medical treatment and life skills training, and other social services to low- and moderate-income families (including persons who are homeless);
- Organizations that provide services for victims of domestic violence, primarily low- and moderate-income individuals and/or families;
- Habitat for Humanity, which builds homes in partnership with families in need;
- An organization that provides assistance and health services to Highland County residents who need help for expenses for necessary medical treatment, transportation to hospitals, and health equipment and devices, primarily low- and moderate-income individuals and/or families; and
- Organizations that provide employment assistance to low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

CD services provided by the bank represent adequate responsiveness and demonstrate satisfactory performance. The bank has six offices located in distressed nonmetropolitan middle-income census tracts. All of these offices are located in the Non-MSA AA, as of 2011. The majority of the bank's lending occurs in this AA. MNB employee involvement in CD services is adequate in all AAs. MNB is represented on major community groups active in meeting housing, services, and economic needs of low- and moderate-income individuals and areas. These organizations provide essential services to low- and moderate-income individuals, as well as services to organizations dedicated to promoting economic development and creating or improving jobs for low- and moderate-income geographies or individuals.

Bank officers and employees serve on boards or as volunteers for numerous local social service and community development organizations, offering technical assistance and expertise. During 2012, six bank employees served as board members or in a service capacity for eight organizations targeted towards assisting low- and moderate-income individuals and/or families in the AAs, employment assistance/job training organizations, and economic development organizations. For example, some of the organizations that employees serve include the following (but not limited to): Turning Point Applied Learning Center, Inc., Highland County Metropolitan Housing Authority, CIC Highland County, Habitat for Humanity in Highland County, South Central Development Corporation, and the Highland County Community Action.

MNB participates in a loan program which targets low- and moderate-income borrowers. The Federal Home Loan Bank of Cincinnati (FHLBC) offers a program called "Welcome Home" that provides down payment assistance funds to borrowers who meet the income criteria. Since MNB is a member of the FHLBC, they are permitted to use these grants to assist borrowers. During the evaluation period, the bank used grants from this program for 36 loans totaling approximately \$2.2 million.

In addition, MNB offers several services targeted to low- and moderate-income individuals, including the following:

- MNB assists Habitat for Humanity by servicing its loan payments and providing financial reporting to Habitat for Humanity free of charge, thus reducing operating costs and improving efficiency for Habitat for Humanity.
- MNB offers MNB Free Checking, a no service fee charge checking account targeted to low- and moderate-income customers.

Responsiveness to Community Development Needs

MNB is adequately responsive to CD needs of the AAs through CD lending, investments, and services. The Non-MSA AA, Columbus MSA AA, Cincinnati MSA AA, and Springfield MSA AA reflect satisfactory performance.

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.