



# The Citizens National Bank

of Southwestern Ohio

29 West Whipp Road  
Dayton, OH 45459  
phone 937.913.8262  
fax 937.913.8260  
toll free 877.913.8262

Sebastian Melluzzo  
President & CEO

February 10, 2009

Neil M. Barofsky  
Special Inspector General  
TARP/CPP  
1500 Pennsylvania Ave., N.W., suite 1064  
Washington, D.C. 20220

Dear Mr. Barofsky:

This is in reply to your letter of February 6, 2009 concerning our use of the Preferred stock Capital Purchase proceeds of sale in the amount of \$2 million to the U.S. Treasury.

We closed on this transaction on December 23, 2008. The following is an update on the background behind our decision to participate in the program and what the additional capital has enabled our bank to accomplish at this point:

1. Due to loan growth, our bank was nearing risk based capital guideline limits. Our Board thought it prudent we raise additional common equity and approved a subscription rights offering to commence October 1, 2008. Because of what happened with bank stocks in late summer, we thought the timing for a successful private placement was not right. At this point, we put the equity offering on hold until the climate improved.

In October of 2008 the Treasury announced the Capital Purchase Program for privately held banks. Our board thought this was a good opportunity to raise additional Tier 1 capital so we could continue to lend to the small businesses and consumers that make up the majority of our customer base.

- For the period of December 23, 2009 through February 10, 2009, we have generated the following new loans;

Real People. Real Bank. Real Service.

i. Consumer Loans	\$1,049,687
ii. Residential Mortgage Loans	1,903,000
iii. Business Loans	<u>3,248,187</u>
Total	\$6,200,874

2. Executive Compensation Requirements:

- The following documents will be provided to the TARP Chief Compliance Officer and are attached for your review;
  - i. Executive Compensation compliance certification
  - ii. Senior Executive Officer compliance document

3. Supporting Documentation Attached:

- Letter to shareholders
- Dayton Daily News Article
- Financial Pro-formas

I certify to the best of my belief that the statements, representations and supporting information provided is accurate.

Please let me know if you have questions or require additional information.

Sincerely,





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February 9, 2009

RE: 120 Day Certification

Sebastian Melluzzo  
President & CEO

TARP Chief Compliance Officer,

“I, Sebastian Melluzzo, President & CEO, certify, based on my knowledge, that the compensation committee of TCNB Financial Corp. and its only subsidiary, The Citizens National Bank of Southwestern Ohio, reviewed within 90 days of the Department of the Treasury’s purchase of the Preferred Stock and Exercised Warrants of TCNB Financial Corp. under the program the incentive compensation arrangements of the senior executive officers, as defined in subsection 111(b)(3) of the Emergency Economic Stabilization Act of 2008 and regulations and guidance issued thereunder (SEOs), of TCNB Financial Corp. with senior risk officers of TCNB Financial Corp. to ensure that the SEO-incentive compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of The Citizens National Bank of Southwestern Ohio.”

Sincerely,

Sebastian Melluzzo  
President & CEO



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February 9, 2009

RE: First Fiscal Year Certification

TARP Chief Compliance Officer,

Sebastian Melluzzo  
President & CEO

"I, Sebastian Melluzzo President & CEO, certify, based on my knowledge, that:

- i. The compensation committee of TCNB Financial Corp. and its only subsidiary, The Citizens National Bank of Southwestern Ohio, has met at least once during the most recently ended fiscal year with senior risk officers to discuss and review the relationship between the risk management policies and practices of TCNB Financial Corp. and the incentive compensation arrangements of the senior executive officers, as defined in subsection 111(b)(3) of the Emergency Economic Stabilization Act of 2008 (EESA) and regulations and guidance issued thereunder (SEOs), to ensure that the SEO incentive compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of The Citizens National Bank of Southwestern Ohio;
- ii. The compensation committee of TCNB Financial Corp. has certified to the review of the SEO incentive compensation arrangements required under (i) above;
- iii. TCNB Financial Corp. has required the SEO bonus and incentive compensation be subject to recovery or "clawback" by TCNB Financial Corp. if the payment were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;
- iv. TCNB Financial Corp. has prohibited any golden parachute payment, as defined in the regulations and guidance issued under section 111(b) of EESA, to an SEO;
- v. TCNB Financial Corp. has instituted controls and procedures to limit deduction for remuneration for federal income tax purposes to \$500,000 for each SEO for most recently ended fiscal year as if section 162(m)(5) of the Internal Revenue Code applied to TCNB Financial Corp.; and
- vi. The following individuals are the SEOs for the Current fiscal year:  
Sebastian Melluzzo, President & CEO  
Kay Sandusky, Senior Vice President  
Robert Ward, Vice President  
Monica Schneider, Vice President  
Beth Willis, Assistant Vice President  
Denise O'Neil, Assistant Vice President"

Sincerely,

Sebastian Melluzzo  
President & CEO

***TCNB Financial Corp.***

29 West Whipp Road  
Dayton, Ohio 45459  
(937) 913-8262

December 1, 2008

Dear Fellow Stockholder:

You are cordially invited to attend a special meeting of stockholders of TCNB Financial Corp. (the "Company"). The meeting will be held on December 18, 2008 at 8:00 AM, local time, at the Company's offices located at 29 West Whipp Road, Dayton, Ohio.

The enclosed notice of special meeting and proxy statement describe the formal business to be transacted at the special meeting, which will include a proposal to approve an amendment to our articles of incorporation to authorize our board of directors to issue shares of preferred stock. We are asking for your approval of this amendment in order to enable us to take advantage of what we believe is a very attractive capital raising opportunity proposed by the U.S. government. On October 14, 2008, the U.S. Department of Treasury announced the establishment of the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program"), pursuant to which Treasury plans to invest up to \$250 billion in U.S. financial institutions by purchasing preferred stock from these institutions. Stockholder approval of the proposed amendment to our articles of incorporation is a prerequisite to our participation in the TARP Capital Purchase Program. Our application to participate in the program preliminarily was approved by Treasury on November 26, 2008. The proposed amendment would also provide our board of directors with the flexibility to issue additional shares of preferred stock in other capital raising transactions, though no specific issuances of preferred stock outside of the TARP Capital Purchase Program are presently contemplated.

Financial institutions continue to experience extremely challenging economic and financial market conditions. While we continued to be "well capitalized" as of September 30, 2008 under regulatory capital guidelines, our board of directors believes that we should take all necessary steps to achieve higher capital levels to ensure that we remain strong for the duration of the current industry crisis and as we continue to grow.

Our board of directors unanimously recommends that you vote **FOR** the proposed amendment to our articles of incorporation. The vote required to approve the proposed amendment is the affirmative vote of the holders of a majority of the outstanding shares of our common stock. ***Your vote is very important*** - a failure to vote will have the same effect as a vote against the proposed amendment.

Whether or not you expect to attend the special meeting in person, please complete, sign and date the enclosed proxy as promptly as possible and return it in the enclosed envelope (to which no postage need be affixed if mailed in the United States).

We appreciate your continued support and your prompt attention to this important matter.

Sincerely,



SEBASTIAN J. MELLUZZO

*President and Chief Executive Officer*

## BAILOUT

# Citizens National to receive \$2M for loans

By Tim Tresslar  
Staff Writer

WASHINGTON TWP., Montgomery County — The Citizens National Bank of Southwest Ohio has signed on for a \$2 million cash infusion from the federal government that it can use for local lending.

The bank will get the money from the U.S. Treasury Department's Capital Purchase Program, part of a larger financial industry rescue package approved in October. The CPP provides banks with capital that they can lend in exchange for preferred stock and warrants.

Citizens National inked the agreement to receive the CPP funds on Dec. 23, said Sebastian "Seb" Melluzzo, the bank's president and chief executive.

Plans call for the bank to repay the cash infusion, plus interest, within three years by raising cash through private sources, Melluzzo said.

CPP is part of the \$700 billion Troubled Asset Repurchase Program, a financial rescue package approved by President Bush and the Congress in October. While the TARP was aimed at bailing out institutions weighted down by bad loans, the CPP is aimed at providing healthy banks additional money to lend.

Privately held Citizens National wanted to raise additional money for lending and decided it would approach the same people who invested in the bank's start nearly a decade ago. That plan changed in September, he said.

"Then the bottom absolutely fell out of the financial markets," Melluzzo said. "Bank stocks were looked upon with disfavor."

Melluzzo said the bank decided to apply for the federal program instead of seeking private investment. He added that the money can be used for both business and consumer lending.

Citizens National, which has three offices, has \$98.9 million in assets and \$91 million in deposits.

On Monday, Dec. 29, shareholders of Fifth Third Bancorp approved the Cincinnati-based bank's participation in the program, providing it with more than \$3 billion in capital. And on Dec. 12, shareholders of Hamilton-based First Financial Bancorp agreed to borrow \$80 million through the CPP.

\$2M Preferred Stock issued to UST in 12/2008, downstream funds to Bank in 1/2009, 5% annual dividend, (b) (4)

(b) (4)

DESCRIPTION	Actual YTD Dec-08	Forecast YTD Dec-09	Forecast YTD Dec-10	Forecast YTD Dec-11	Forecast YTD Dec-12	Forecast YTD Dec-13					
<b>ASSETS</b>											
Total Cash & Cash Equivalents	13,637,966	(b) (4)									
Total Securities	4,467,141										
Total Loans Held for Sale	155,000										
Total Loans	77,885,393										
Reserve for Loan Loss	825,079										
Net Loans	77,060,315										
Total Other Assets	4,879,911										
<b>TOTAL ASSETS</b>	<b>100,200,333</b>										
<b>LIABILITIES</b>											
Total Deposits	91,766,914										
Total Other Liabilities	625,923										
<b>TOTAL LIABILITIES</b>	<b>92,392,837</b>										
<b>TOTAL CAPITAL</b>	<b>7,807,496</b>										
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>100,200,333</b>										
	<b>0</b>										

Assumptions:

- \$2M Preferred Stock issued to UST Dec 2008, \$1.6M downstreamed to Bank in Jan 2009
- \$100K preferred warrants issued to UST and exercised at once (5% of \$2M Preferred Stock); warrants amortized over 3 years
- Preferred Stock dividends and dividends on warrants \$109K/yr (5%) paid at holding company level

(b) (4)

\$2M Preferred Stock issued to UST in 12/2008, downstream funds to Bank in 1/2009, 5% annual dividend.

(b) (4)

(b) (4)

DESCRIPTION	Actual YTD Dec-08	Forecast YTD Dec-09	Forecast YTD Dec-10	Forecast YTD Dec-11	Forecast YTD Dec-12	Forecast YTD Dec-13
<b>AVERAGE RATES</b>						
<b>INTEREST INCOME</b>						
Commercial	5.91%					
Real Estate	5.45%					
Installment	7.92%					
Other Loans	4.27%					
Home Equity	3.84%					
<b>Total Loan Income</b>	<b>6.42%</b>					
CDs with other Banks	1.50%					
Federal Agencies	4.26%					
Municipals	4.00%					
Dividends on FRB & FHLB Stock	5.75%					
<b>Total Securities Income</b>	<b>4.08%</b>					
Fed Funds Interest	0.15%					
<b>TOTAL INTEREST INCOME</b>	<b>5.76%</b>					
<b>INTEREST EXPENSE</b>						
Interest Checking	0.84%					
Savings	0.50%					
Money Market	1.82%					
Certificate of Deposits & IRAs	3.83%					
<b>Total Deposit Expense</b>	<b>2.79%</b>					
Fed Funds Purchased	0.90%					
Repurchase/Sweep Accounts	0.90%					
<b>Days Per Period</b>	<b>365</b>					

(b) (4)



\$2M Preferred Stock issued to UST in 12/2008, downstream funds to Bank in 1/2009, 5% annual dividend, (b) (4)

(b) (4)

DESCRIPTION	Actual YTD Dec-08	Forecast YTD Dec-09	Forecast YTD Dec-10	Forecast YTD Dec-11	Forecast YTD Dec-12	Forecast YTD Dec-13
<b>INTEREST INCOME</b>						
Total Loan Income	4,999,275					
Total Securities Income	182,054					
Fed Funds Interest	146,104					
<b>TOTAL INTEREST INCOME</b>	<b>5,327,433</b>					
<b>INTEREST EXPENSE</b>						
Total Deposit Expense	2,564,344					
Total Borrowing Expense	0					
<b>TOTAL INTEREST EXPENSE</b>	<b>2,564,344</b>					
<b>NET INTEREST INCOME</b>	<b>2,763,089</b>					
Provision for Loan Loss	102,123					
<b>NET INTEREST INCOME AFTER PROVISION</b>	<b>2,660,966</b>					
Interest Income to Earning Assets	6.47%					
Interest Expense to Deposits	2.79%					
Cost of Funds	3.67%					
<b>NON INTEREST INCOME</b>						
Total Service Income	378,081					
Total Other Non Interest Income	181,768					
<b>TOTAL NON INTEREST INCOME</b>	<b>559,849</b>					
<b>NON INTEREST EXPENSE</b>						
Total Salaries & Benefits	1,410,907					
Total Occupancy Expense	445,686					
Total Operating Expenses	1,022,876					
<b>NET INCOME BEFORE TAXES</b>	<b>341,346</b>					
Tax Provision Expense 34%	120,138					
<b>NET INCOME</b>	<b>221,208</b>					
Preferred Dividends	0					
<b>NET INCOME AVAILABLE TO COMMON EQUITY</b>	<b>221,208</b>					

\$2M Preferred Stock issued to UST in 12/2008, downstream funds to Bank in 1/2009, 5% annual dividend.

(b) (4)

(b) (4)

DESCRIPTION	Actual YTD Dec-08	Forecast YTD Dec-09	Forecast YTD Dec-10	Forecast YTD Dec-11	Forecast YTD Dec-12	Forecast YTD Dec-13
<b>Return On Assets (ROAA)</b>	0.22%					
<b>Return On Equity (ROAE)</b>	2.83%					
<b>Efficiency Ratio</b>	86.65%					
<b>RLL/Total Loans</b>	1.06%					
<b>Equity/Total Assets</b>	7.79%					
<b>Earnings Per Share</b>	\$ 0.27					
<b>Reserve Calculation</b>						
Beginning Balance	841,550					
Charge Offs	118,594					
Required Reserve	825,585					
Provision	(102,123)					
<b>Ending Balance</b>	841,550					
<b>RISK BASED CAPITAL CALCULATION</b>						
Total Equity Capital	7,807,496					
Less Unrealized Gain on AFS	0					
Less Non-qualifying perpetual preferred stock	0					
Less Other	0					
<b>Tier 1 Capital</b>	7,807,496					
<b>Tier 2 Capital</b>						
Qualifying Subordinate Debt	0					
Cumulative Perpetual Preferred	0					
Allowance for loan Loss	825,079					
Unrealized Gains on AFS includable in Tier 2	0					
Other Adjustments	0					
<b>Tier 2 Capital</b>	8,632,575					
<b>Average Total Assets</b>	97,594,936					
<b>Capital Ratio Levels</b>						
Tier 1 Leverage Ratio	8.00%					
Tier 1 risk based capital ratio	9.56%					
Total risk-based capital ratio	10.57%					