



PUBLIC DISCLOSURE

October 19, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Champlain National Bank
Charter Number 9405

3900 NYS Route 22
Willsboro, NY 12996

Office of the Comptroller of the Currency

5000 Brittonfield Parkway
Suite 102B
East Syracuse, NY 13057

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

- Champlain National Bank's (CNB) average loan-to-deposit ratio during the evaluation period is reasonable and meets the standard for satisfactory performance.
- A majority of the loans originated during the evaluation period were inside the bank's assessment area (AA).
- CNB had a reasonable penetration of lending to small businesses.
- CNB had an excellent dispersion of commercial loans in the limited number of moderate income tracts in the AA.
- CNB did not receive any CRA-related complaints during the evaluation period.

SCOPE OF EXAMINATION

The evaluation covers the period from September 5, 2012, through October 19, 2016. However, the loans sampled for the lending test portion of the evaluation were originated during the period from January 1, 2014, through September 30, 2016. This sample period is representative of the entire evaluation period due to the bank operating under the same lending and deposit gathering strategies during the entire evaluation period. After evaluating originations during the sample period, we determined that business loans are the bank's primary product. To evaluate the bank's lending performance, we randomly sampled 40 commercial loans.

DESCRIPTION OF INSTITUTION

CNB is a \$307 million community bank. The bank recently crossed the \$300 million asset threshold. It is wholly-owned by Champlain Bank Corporation and is that corporation's sole subsidiary. The main office is located in Willsboro, New York (Essex County) and has eight branches. There are three branches located in Clinton County, Plattsburgh Downtown, Plattsburgh, and Champlain. There are five branches in Essex County, one each in the towns of Crownpoint, Keene, Elizabethtown, Lake Placid and Westport. Champlain, the most northern branch, is approximately 50 miles from Willsboro. Crownpoint, the most southern branch, is about 32 miles from Willsboro. Lake Placid, located 43 miles from the main office, is the most western branch. On December 8, 2014, management moved the Lake Placid branch less than a quarter of a mile from its leased location to a bank owned building. The majority of branches are open eight hours a day during the work week, generally between the hours of 9:00 am and 5:00 pm. Two offices, Plattsburgh and Lake Placid, have Saturday banking hours for three hours before noon. With the exception of Plattsburgh Downtown and Westport (walk-up), all branches have drive-up teller windows and each branch has a 24 hour automated teller machine (ATM). The Plattsburgh Downtown Office has the only ATM that will accept deposits. CNB offers mobile banking, internet banking and telebanking

for transfers, balance inquiries, online bill pay, etc. The mobile banking product allows for remote deposit of checks. Remote deposit capture is available for commercial customers. The bank offers non-complex deposit accounts and basic lending products. The bank's business strategy is to meet the needs of the community from which it draws deposits.

As of September 30, 2016, CNB reported total assets of \$306.7 million. Assets primarily consist of loans (60%) and investments (30%). Bank management continues to focus on commercial lending. Based on loan originations from January 1, 2014, commercial lending accounted for 45% of the number of loans booked and 76% of the loan dollars booked. As of September 30, 2016, the bank reports commercial and commercial real estate loans totaling \$110.94 million, or 61% of gross loans. Residential mortgage loans account for \$57.5 million or 31.8%, and consumer loans, \$10.6 million or 5.9% of gross loans. Agricultural loans accounted for \$0.6 million or 0.34% of gross loans.

CNB received a rating of "Satisfactory" CRA performance at the last CRA evaluation dated September 5, 2012. There have been no mergers or acquisitions since the last evaluation. CNB does not have any legal, financial or other factors that would impede its ability to help meet the credit needs in its AA.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's assessment area (AA) consists of all 19 census tracts in Clinton County and all 13 census tracts in Essex County. Clinton County is adjacent to Essex County. The 32 census tracts have been combined to form one Assessment Area (AA). This AA is in the northeast corner of New York State. The AA is not located within any Metropolitan Statistical Area (MSA) and meets all regulatory guidelines.

As reported in the 2010 U.S. Census, the AA has no low-income census tracts. The AA has four moderate-income (12.5%), 20 middle-income (62.50%), and seven upper-income (21.88%) census tracts. One tract (3.13%), located in the center of the City of Plattsburgh, is a college and has no income classification. Three of the moderate-income census tracts are located in the City of Plattsburgh. The remaining moderate-income CT is located just west of the city limits in Plattsburgh West.

CNB's main competition for commercial loans is one larger community bank with multiple branches in the Greater Plattsburgh Area and a few branches in Essex County. Several larger national and regional lenders have branch(es) and lend in the AA as well. From a Home Mortgage Disclosure Act (HMDA) reporting perspective, in 2015 Community Bank, N.A. made the most residential mortgage loans in the AA, followed by Wells Fargo Bank N.A. and Glens Falls National Bank and Trust Company. Of seven banks in the two county AA, the FDIC reported CNB is ranked fifth in deposit share at 13.05%, CBNA has the largest deposit market share at 23.85%. Of all the banks reporting, CNB is the only one whose deposit base is limited to the two counties, all others have deposits outside of the AA.

According to Dun and Bradstreet, as of June 2014, the AA had 7,211 non-farm businesses and 394 farms. Nearly 97% of the farms and 76% of the non-farm businesses report revenue below \$1 million. Seventy-two percent of all farms and non-farm businesses report revenues below \$500 thousand dollars. Approximately 86% of the farms and non-farm businesses in the AA were single location operations with 84% owning the business property. Sixty nine percent of the farm and non-farm businesses employ one to four persons, 10% five to nine persons and 5.4% 10-19 persons. Service businesses make up approximately 47% of the businesses, 19% are wholesale and retail, financial, real estate and construction make up 14% and manufacturing consists of 4%.

According to the 2010 Census, the total population of the AA is 121,498 and consists of 30,088 families and 47,154 households. There are 60,824 housing units, including 4,910 multifamily units and 7,265 mobile homes in the AA. Fifty-five percent are owner-occupied, 23% are renter-occupied, and 23% are vacant. Approximately 12 % of the households are below the poverty level. The median housing value in the AA is \$135,198. The 2015 Updated Median Family Income is \$60,000. This figure is based on information from the Department of Housing and Urban Development (HUD).

Four state penitentiaries are located in the AA (two in each county) and the inmate populations are included within the population totals. The rural nature of the AA includes a significant portion of farmland, some of which is not in use. A substantial portion of the AA is comprised of uninhabited mountain terrain, much of which is classified as "Forever Wild" by the New York State Constitution.

Clinton County is located in the northeastern corner of New York State, bordered on the east by Lake Champlain and to the north by Quebec, Canada. The county's southwest corner contains a portion of the Adirondack Park, and like Essex County there are many outdoor activities, which generate tourism revenue. In Plattsburgh, the major population center of the county, the Plattsburgh Airbase Redevelopment Corporation (PARC) has been successful in creating a new home for businesses and nonprofits over the last 21 years. As of 2016, PARC tenants include: Wood Group, Pratt and Whitney, Sikorsky, UPS Airfreight and FedEx Airfreight. Larger employers in the county include: Nova Bus, Bombardier Inc. and Schluter Systems. Nova and Bombardier have benefited from transportation authorities across the country increasing orders for buses and commuter train cars. Schluter has recently expanded its warehousing capacity for its tile installation related products. A new high tech company, Norsk Titanium, has recently started to manufacture aerospace components using 3D rapid plasma printers and is expected to employ about 250 persons. This activity is reflective of an improved economy in the county since the last evaluation. Other significant employers in the AA include: CVPH Medical Center, State University of New York at Plattsburgh, and Clinton Community College in Plattsburgh. Clinton County unemployment in August of 2016 was 5.1% compared to 9.2% in August of 2012. However, the effects of seasonal employment are visible in 2016. Unemployment levels have ranged from a high of 6.3% in January 2016, to a low of 4.8% in May 2016.

Essex County is located in the northeastern portion of New York State. It is bordered to the north by Clinton County and to the east by Lake Champlain. It is entirely encompassed by New York State's Adirondack Park, a six-million acre park comprised of both public and private lands. As such Essex County is heavily dependent on tourism to support its local economy. North Country Community College is located in Essex County. The county seat is in Elizabethtown. Lake Placid is best known as the two-time site of the Winter Olympics. Outside of seasonal employment from tourism, major employers in the county include: International Paper, Adirondack Medical Center and Ray Brook Federal Corrections Institution. In 2014, International Paper completed a \$100 million capital expansion to its Ticonderoga Plant. This expansion was supported by grants and lower cost energy sources provided by the State of New York. Similar to Clinton County, Essex County's unemployment rate shows seasonality. In 2016 the unemployment rate ranged from 6.6% in January to 4.1% in August. However as in Clinton County, the economy has improved as unemployment in August of 2012 was 8%.

During the evaluation, we contacted a local economic development organization to provide insight into economic opportunities and needs. The agency's service area includes Essex and Clinton Counties. The contact stated that many small farmers have moved into the area to meet the growing preference for locally grown farm products. The contact also noted growth in the local arts community. However, aging infrastructure and the cost of energy contribute to economic slowness and higher unemployment rates. The contact reports a need for continued efforts to fund infrastructure improvements. This will help attract trade and more tourism to the areas. The contact stressed the need for continued support of programs that attract local investment and lead to job creation and retention, including increased funding sources and support services for micro business and start-ups. The contact complimented the funding efforts of CNB in supporting these goals.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on a review of the bank's loan report for loans originated between January 1, 2014, and September 30, 2016, we determined the bank's primary products to be business loans. The testing period is indicative of lending performance over the entire evaluation period. During the testing period, business loans account for 45% of the number of loans originated, and 76% of the dollars of loans originated. Home loans account for 28% of the number of loans originated and 21% of the dollars originated. Consumer loans account to 28% of the number and 2% of the dollars.

Our conclusion for the Loan-to-Deposit (LTD) ratio is derived from Call Report data. For lending in the AA we used the random sample of 33 loans both in and out of the AA. Conclusions for the income distribution and the geographic distribution of loans were based on the 26 loans that were in the AA.

Loan-to-Deposit Ratio

CNB’s average loan-to-deposit ratio (LTD) during the evaluation period was reasonable. Since the last CRA evaluation, CNB’s quarterly average loan-to-deposit ratio was 63.57%. Comparable banks with assets below \$500 million reflect average LTD ratios of 66.56%. While there are no similarly situated banks in the AA, the comparable banks do provide reasonable data for a fair interpretation of CNBs LTD performance. The LTD averages of the comparable banks ranged from 50.71% to 84.05%

Lending in Assessment Area

A majority of commercial loans originated during the evaluation period were inside the bank's AA. Of the 33 commercial loans we sampled, 26, or 78.33%, were within the defined AA. By loan amount, 69.52% were within the bank's AA. Refer to the chart below for more information.

Lending in the Assessment Area										
Loan Type	Number of Loans				Total	Dollars of Loans (000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Commercial and Commercial RE	26	78.79%	7	21.21%	33	4,102	69.52%	1,799	30.48%	5,901

Source: Sample of Commercial and Commercial Real Estate loans originated between January 1, 2014 and September 30, 2016.

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

CNB had reasonable penetration in lending to small businesses during the evaluation period. Based on our sample of 26 commercial loans originated in the bank’s AA, 16, or 61.54%, of the number of loans originated were to businesses with revenues below \$1 million. By dollar amount, 26.38% of total loans were extended to businesses with revenues of \$1 million or less. Inherently, loans to small businesses with revenues below \$1 million will be of smaller dollar amounts. By count and dollar 15.38% and 14.77% respectively were for start-ups, dependent on the personal income of guarantors, and not reportable. Dun and Bradstreet business demographic information indicates 75.84% of the businesses within the AA have revenues of \$1 million or less, 5.26% have revenues in excess of \$1 million, and 18.9% had unknown revenue information. Refer to the chart below for more information.

Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.84%	5.26%	18.90%	100%
% of Bank Loans in AA by #	61.54%	23.08%	15.38%	100%
% of Bank Loans in AA by \$	26.38%	58.85%	14.77%	100%

Source: Sample of Commercial and Commercial Real Estate loans originated between January 1, 2014 and September 31, 2016; 2014 Dun and Bradstreet data.

Geographic Distribution of Loans

The bank had excellent dispersion of loans to census tracts of different income levels during the evaluation period. Based on our sample of 26 small commercial loans originated in the bank’s AA, 30.77% of the number of loans were to businesses located within the moderate-income census tracts. According to the 2010 U.S. Census, 13.27% of total businesses in the AA are located within the moderate-income census tracts. Refer to the chart below for more information.

Geographic Distribution of Loans to Businesses in the 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
Commercial and Commercial RE	0%	0%	13.27%	30.77%	57.98%	46.15%	27.76%	18.18%

Source: Sample of Commercial and Commercial Real Estate loans originated between January 1, 2014, and September 30, 2016; 2010 U.S. Census.

Responses to Complaints

CNB did not receive any CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.