



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

March 01, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Citizens National Bank of Lebanon
Charter Number 3988**

**149 West Main Street
Lebanon, KY 40033**

**Comptroller of the Currency
Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, KY 40222**

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 document is an evaluation of the Community Reinvestment Act (CRA) performance of The Citizens National Bank of Lebanon in Lebanon, Kentucky prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 1, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

This institution is rated Satisfactory.

Major Conclusions:

- A substantial majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects reasonable penetration among individuals of different income levels.
- Geographic distribution of loans is considered excellent, given the community's credit needs and demographics in relation to the bank's location and capacity to lend. There were no conspicuous gaps in lending.
- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.

DESCRIPTION OF INSTITUTION

The Citizens National Bank of Lebanon (CNB) is a full-service intrastate bank 100% owned by Citizens National Bank of Lebanon Bancorp, Inc, a one-bank holding company headquartered in Lebanon, Kentucky. As of December 31, 2003, the bank had \$109 million in total assets, \$84 million in deposits, \$41 million in loans, and \$8 million in Tier One Capital. The bank offers traditional banking products and services and operates one full-service office, which is located in downtown Lebanon, Kentucky. Currently, the bank has two Automated Teller Machines (ATMs), which are cash-withdrawal only. One ATM is located at the main office and one is located at the local Kroger's store. Both the office and the ATM's are accessible to all segments of the community.

The bank's primary lending focus is home mortgage loans and consumer loans. CNB also makes loans to small businesses and farms in the area. As of December 31, 2003, net loans represented approximately 39% of the bank's average assets. The loan portfolio mix is as follows: 1-4 family residential mortgages 47%, consumer loans 19%, total commercial real estate loans 18%, farm-related real estate loans 11%, agriculture loans less than 4%, and construction and development loans 1%.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. The last CRA evaluation was performed on August 31, 1998. The bank received a rating of satisfactory. This CRA evaluation will cover the time period of January 2002 to December 2003.

DESCRIPTION OF MARION COUNTY

CNB has identified Marion County as its assessment area (AA) for CRA purposes. The assessment area delineation is in conformance with the regulatory requirements of CRA and appears appropriate in relation to the location of the bank's offices. The delineation of the assessment area does not arbitrarily exclude any low- or moderate-income areas. The assessment area includes the entire county and is located in the non-metropolitan portion of the State of Kentucky.

For this examination, we will be using two sets of information: the 1990 census and the 2000 census. For our analysis of borrower distribution, we will be using the 2000 census information for our review of the 2002/2003 loans. For our analysis of geographic distribution, we will be using both sets of information for a comparison of the 2002 and 2003 distribution of loans among the different census tracts. The 1990 U.S. Census divided the assessment area into eight census tracts (CT's), with two moderate-income, five middle-income, and one upper-income geographies. There were no low-income CT's identified within the 1990 U. S. Census for Marion County. This determination was based on the Kentucky 1990 Median Family Income for a non-metropolitan area of \$36,300. The 2000 U.S. Census divided the assessment area into six census tracts (CT's), with four middle-income and 2 upper-income geographies. There were no low-income or moderate-income CT's identified within the 2000 U.S. Census for Marion

County. This was based on the Kentucky 2000 Median Family Income for a non-metropolitan area of \$38,600.

Marion County is a rural county located in central Kentucky with a total population of 18,212 according to the 2000 U.S. Census. The 2000 population of the AA was comprised of 6,603 households, of which 2,481, or 38%, are considered to have low- or moderate-incomes. In addition, the percentage of households in the AA living below the poverty level is approximately 19%, and 30% of the households receive social security benefits. The median family income for the assessment area is \$35,884.

The economy of the assessment area is considered to be relatively stable with employment based in light industrial companies. While a significant portion of workers in Marion County commute to jobs in surrounding counties, the majority of the employment opportunities in Lebanon revolve around factory positions with some agriculture-related jobs. Specifically, major employers in Marion County include Angell Manufacturing (automotive parts), Curtis Maruyasu (automotive supplier), TG Kentucky (automotive supplier), Plastic Products (plastic injection molding), Montebello (tube manufacturing), Morton Plastic (plastic injection molding), Ken Mar (government & industrial parts manufacturing), and Teledyne (forging operation). Other employers include the local hospital and the Board of Education.

Unemployment rates have experienced an overall decrease in 2002-2003. According to the U.S. Department of Labor, the most current unemployment rate for the assessment area is 3.5% for December 2003, and is below both the state (6.2%) and national (6.0%) annual unemployment rates..

Competition is considered moderate to strong and involves competition from banks, farm credit services, and finance companies.

A community contact familiar with the area's credit needs indicated all local banks are active in the community and are willing to provide financing for potential projects. The contact did not identify any credit needs in the county that were not being addressed by the banks or through other sources.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending in Assessment Area

A substantial majority of loans and other lending-related activities are in CNB's assessment area. The analysis shows approximately 90% of the number and 98% of the dollar amount of loan originations sampled were to borrowers inside the assessment area. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans originated since the last CRA examination. See table below for details.

| SAMPLE OF LOAN ORIGINATIONS FROM JAN 2002 THROUGH DEC 2003 | | | | |
|---|------------------------|----------------------------|--------------------------------------|----------------------------|
| | Number of Loans | Percentage of loans | Dollar Amt of Loans \$(000's) | Percentage of Loans |
| Within the Assessment Area | 18 | 90.00% | \$495 | 98.21% |
| Outside the Assessment Area | 2 | 10.00% | \$ 9 | 1.79% |
| Totals | 20 | 100.00% | \$504 | 100.00% |

* Source: Randomly selected sample of loans originated between Jan 2002 and December 2003.

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

The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income). To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans from each of the bank's primary loan types. Primary loan types were determined by reviewing the number and dollar amount of loans outstanding. The primary loan types identified for this analysis included 1-4 family residential mortgages and consumer loans. See the tables below for details.

"Table INC-1 Home Mortgage Loans" shows the percentage of CNB's home mortgage loans to low- and moderate-income borrowers to be overall comparable to the percentage of families in the assessment area with low- and moderate-income. Low-income borrowers received 15% of the number of home mortgage loans and moderate-income borrowers received 25% of the number of home mortgage loans. CNB's mortgage lending is reasonable considering the identified home mortgage credit needs in the community.

Table INC-1 Home Mortgage Loans

| 1-4 FAMILY MORTGAGES | | | | | |
|--------------------------------------|--|----------|-------------------|----------|--|
| Borrower Income Level | Sampled Between January 1, 2002 and December 31, 2003 | | | | % of Families within each Income Category |
| | # of Loans | % | \$ (000's) | % | |
| Low | 3 | 15.00% | \$ 52 | 5.31% | 21.62% |
| Moderate | 5 | 25.00% | \$171 | 17.47% | 14.92% |
| Middle | 6 | 30.00% | \$451 | 46.07% | 21.03% |
| Upper | 6 | 30.00% | \$305 | 31.15% | 42.43% |
| Total | 20 | 100.00% | \$979 | 100.00% | 100.00% |

* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans) originated between January 2002 and December 2003 from within the bank's assessment area.

** Note: This information is based upon the 2000 U. S. Census.

“Table INC-2 Consumer Loans” shows the overall percentage of CNB’s consumer loans to low- and moderate-income borrowers exceeds the percentage of households in the assessment area with low- and moderate-income. Low-income borrowers received 25% of the number of consumer loans. Moderate-income borrowers received 30% of the number of consumer loans.

Table INC-2 Consumer Loans

| CONSUMER LOANS | | | | | |
|--------------------------------------|--|----------|-------------------|----------|--|
| Borrower Income Level | Sampled Between January 1, 2002 and December 31, 2003 | | | | % of Households within each Income Category |
| | # of Loans | % | \$ (000's) | % | |
| Low | 5 | 25.00% | \$ 16 | 8.89% | 23.91% |
| Moderate | 6 | 30.00% | \$ 66 | 36.67% | 13.66% |
| Middle | 7 | 35.00% | \$ 75 | 41.67% | 18.45% |
| Upper | 2 | 10.00% | \$ 23 | 12.77% | 43.98% |
| Total | 20 | 100.00% | \$180 | 100.00% | 100.00% |

* Source: Randomly selected sample of consumer loans originated between January 2002 and December 2003 from within the bank's assessment area.

** Note: This information is based upon the 2000 U. S. Census.

We did not review farm and business loans as agricultural and commercial lending are not considered to be primary loan types for this bank and an analysis would not be meaningful.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects excellent dispersion throughout the assessment area. CNB’s lending activity extends throughout the assessment area. There were no conspicuous gaps in lending. To reach this conclusion, the OCC analyzed the bank’s lending activity by selecting a random sample of twenty loans from each of the bank’s primary loan types for both 2002 and 2003 and comparing the results to both the 1990 census and the 2000 census (see tables below). The geographic distribution of loans made in 2002 were compared to geographies identified during the 1990 U.S. Census and the geographic distribution of loans made in 2003 were compared to geographies identified during the 2000 U.S. Census. The primary loan types include 1-4 family home purchase loans and consumer loans.

Analysis of Geographic Distribution of 2002 loans:

“Table GEO-1 Home Mortgage Loans Made in 2002” shows the overall percentage of CNB’s mortgage loans made in moderate-income census tracts exceeded the percentage of owner-occupied housing in the assessment area’s two moderate-income census tracts. These two census tracts contain approximately 12% of all owner-occupied housing in the assessment area and the sample selected for FNB showed 15% of the number of their 1-4 Family mortgages were made to borrowers located in these moderate-income census tracts.

Table GEO-1 Home Mortgage Loans Made in 2002

| Geographic Distribution of 1-4 Family Mortgage Loans By Geography Income Designation Originated Between January 1, 2002 – December 31, 2002 | | | | | |
|--|-------------------------------------|----------|-----------------------|----------|---|
| Income Level of Census Tract Areas | 1-4 Family Loan Originations | | | | Distribution of Owner Occupied Housing |
| | # of Loans | % | \$ (000's) | % | |
| Moderate | 3 | 15.00% | \$ 140 | 13.61% | 12.18% |
| Middle & Upper | 17 | 85.00% | \$ 889 | 86.39% | 87.82% |
| Total | 20 | 100.00% | \$1,029 | 100.00% | 100.00% |

* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans) originated between January 1, 2002 and December 31, 2002 from within the bank’s assessment area.

** Note: This information is based upon the 1990 U. S. Census. In addition, there were no low-income geographies identified within the 1990 census.

“Table GEO-2 Consumer Loans Made in 2002” shows the overall percentage of CNB’s consumer loans made in moderate-income census tracts exceeded the percentage of households in the assessment area’s two moderate-income census tracts. These two census tracts contain approximately 12% of all households in the assessment area and the sample selected for FNB showed 15% of the number of their consumer loans were made to borrowers located in these moderate-income census tracts.

Table GEO-2 Consumer Loans Made in 2002

| Geographic Distribution of Consumer Loans By Geography Income Designation Originated Between January 1, 2002 – December 31, 2002 | | | | | |
|---|------------------------------------|----------|-----------------------|----------|---|
| Income Level of Census Tract Areas | Consumer Loans Originations | | | | Distribution of Households |
| | # of Loans | % | \$ (000's) | % | |
| Moderate | 3 | 15.00% | \$ 41 | 23.30% | 11.58% |
| Middle & Upper | 17 | 85.00% | \$135 | 76.70% | 88.42% |
| Total | 20 | 100.00% | \$176 | 100.00% | 100.00% |

* Source: Randomly selected sample of consumer loans originated between January 1, 2002 and December 31, 2002 from within the bank’s assessment area.

** Note: This information is based upon the 1990 U. S. Census. In addition, there were no low-income geographies identified within the 1990 census.

Analysis of Geographic Distribution of 2003 loans:

We determined a geographic distribution analysis would not be appropriate as there are no low- or moderate-income CT’s identified within the 2000 U. S. Census.

Analysis of Geographic Distribution of Farm/Business Loans:

We did not review farm and business loans as agricultural and commercial lending are not considered to be primary loan types for this bank and an analysis would not be meaningful.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs.

CNB's average net loan-to-deposit ratio for the seventeen quarters since the last CRA evaluation is 52.29%. The loan-to-deposit ratio has decreased slightly since the last CRA evaluation and as of December 31, 2003 is 48.15%.

The OCC identified a few local competitors as well as four similarly situated financial institutions operating in markets similar to CNB's market. The similarly situated banks are comparable to CNB in asset and deposit size as well as major lending products. For these identified banks, the loan-to-deposit ratios ranged from 42% to 87% with an average ratio of approximately 66%.

| Institution | Average |
|----------------------------|----------------|
| CNB of Lebanon | 52.29% |
| Bank #1 (local competitor) | 42.44% |
| Bank #2 (local competitor) | 86.81% |
| Bank #3 | 76.28% |
| Bank #4 | 66.44% |
| Bank #5 | 70.06% |
| Bank #6 | 66.73% |

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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