



PUBLIC DISCLOSURE

July 28, 2014

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Citizens National Bank of Paintsville
Charter Number 13023

620 Broadway Avenue
Paintsville, Kentucky 41240

Office of the Comptroller of the Currency
Roanoke Field Office
4419 Pheasant Ridge Road
Suite 300
Roanoke, Virginia 24014

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 major factors supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, credit needs within the assessment areas (AAs), and the bank's market share within the AAs.
- The bank made the majority of its loans inside its AAs.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income borrowers and businesses of different sizes), given the demographics of the AAs.
- The bank's community development performance demonstrates adequate responsiveness to community development needs in its AAs.

SCOPE OF EXAMINATION

This Performance Evaluation assesses the bank's performance under the Lending and Community Development Tests for Intermediate Small Banks¹. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The Community Development (CD) test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, services, and qualified investments. The evaluation period under the Lending Test considers the bank's performance from January 1, 2012 through December 31, 2013. The evaluation period for community development loans, investments, and services is January 1, 2011 through July 28, 2014.

Information regarding the bank's financial performance was as of March 31, 2014, whereas information regarding the bank's deposit market share within the counties comprising its AAs was as of June 30, 2013².

Data Integrity

Citizens National Bank of Paintsville's (CNB) public lending information is materially accurate. We performed a data integrity review in March 2014 to validate the accuracy of the bank's Home Mortgage Data Act (HMDA) data for January 1, 2011 through December 31, 2013. At that time, we determined that the HMDA data was reliable. We did not find errors in the bank's HMDA data collected and reported on its Loan Application Register.

¹ Intermediate Small Banks are defined as those banks with total assets between \$300 million and \$1.2 billion.

² Latest data available, compiled by the FDIC and updated in June of each year.

Determination of Bank's Primary Loan Products

We determined the bank's primary loan products based on bank-generated reports of loan origination data from January 1, 2012 through December 31, 2013. The primary loan product was determined to be Home Mortgage Loans and Business Loans based on total number of loans and total dollar amount. We sampled Small Business Loans originated between January 1, 2012 and December 31, 2013 using the numerical sampling methodology defined in the *Comptroller's Handbook, Sampling Methodology*, dated August 1998. Home mortgage loan data was collected and reported on the bank's HMDA Loan Application Register. Please refer to **Table 1** for loan origination data for each loan type during the evaluation period.

Loan Type	Table 1 – Loan Originations by Loan Type			
	Total Number of Loans	% of Number	Total \$ of Loans (\$000)	% of Total \$ of Loans
Small Business*	239	12.83	89,098	43.64
Consumer*	876	47.02	6,710	3.29
Home Mortgage**	748	40.15	108,374	53.08
Total loans for evaluation period	1,863		204,182	

*Institution's Report of New Loans by loan type, total number, and total dollar for the period of January 1, 2012 to December 31, 2013.

** HMDA data reports for Years 2012 and 2013.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, a sample of AAs within that state are selected for full-scope reviews. CNB does business in three defined AAs within the state of Kentucky. The Eastern Kentucky non-MSA AA (Paintsville) was selected for full scope review based on the majority of the bank's operations within this AA. The Paintsville AA accounted for 73 percent of home mortgage loans originated during the evaluation period and approximately 85 percent of the bank's deposits as of December 31, 2013.

The Huntington-Ashland, West Virginia-Kentucky-Ohio Multistate MSA AA (Ashland) was also selected for full-scope review as this AA accounted for approximately 20 percent of home mortgage loans originated during the evaluation period and 11 percent of total deposits as of December 31, 2013.

The Carter County Kentucky non-MSA AA (Carter) was selected to receive a limited scope review due to low volume of loan activity and deposits in this AA. The Carter AA area accounted for 7 percent of home mortgage loans originated during the evaluation period and 5 percent of total deposits as of December 31, 2013.

Ratings

The bank's overall rating is based on the rating for the state of Kentucky. The state rating is based on a blend of ratings from all three AAs in Kentucky. A full-scope review was performed for the Paintsville AA and Ashland AA. A limited scope review was performed for the Carter AA.

In evaluating performance under the Lending Test and determining how each loan type would be weighted, we considered the bank's business strategy and financial condition, the number and types of loans originated and outstanding, and community credit needs identified through discussions with community contacts. We also considered the state of the area economy, business climate, and market demographics to determine the extent to which opportunities to lend are present.

Based on discussions with bank management and supported by loan origination data, CNB's primary loan types are home mortgage loans and small business loans. To achieve the lending test rating, more weight was placed on the home mortgage loans originated in the Paintsville AA because a majority of the bank's lending and deposits are located in this AA.

DESCRIPTION OF INSTITUTION

CNB is a \$539 million intrastate bank as of March 31, 2014. CNB was established as a national bank in 1927 and is headquartered in Paintsville, Kentucky. CNB is owned by Citizens National Corporation (CNC). CNC stock is listed on the OTC Bulletin Board under the symbol CZNL.

CNB is a full-service community bank serving the counties of Johnson, Magoffin, Floyd, and Pike in the Big Sandy Area of eastern Kentucky. CNB also serves the counties of Boyd, Carter and Greenup as a result of its acquisition in June 2006 of Heritage Bank located in Ashland, Kentucky.

The bank's three AAs are located in the Eastern Coal Field Region, which is part of the Central Appalachian bituminous coal field, covering all or parts of 30 Kentucky counties and adjoining areas in Ohio, West Virginia, Virginia and Tennessee. The largest city in this region is Ashland, Kentucky, which is located in Boyd County. Other cities of significance in this region are Flatwoods, Kentucky located in Greenup County; Pikeville, Kentucky located in Pike County; and Paintsville, Kentucky located in Johnson County. The region's economy is centered around the vast amount of natural resources available, which includes coal, timber, natural gas, and oil. Recently, tourism has become a leading industry in the region, due to the region's unique cultural history and the creation of state parks.

CNB operates 11 full-service branches and 12 Automated Teller Machines (ATMs) in three AAs. The Paintsville AA has eight full-service branches located in two moderate-

income, four middle-income, and two upper-income census tracts (CTs); and, one stand-alone drive-up ATM in an upper-income CT. The Ashland AA (Boyd and Greenup County, Kentucky) has two full-service branches located in one moderate-income CT and one upper-income CT. The Carter County AA has one branch located in a middle-income CT.

CNB did not open any branches during the CRA evaluation period. The bank did close five full-service branches due to the low volume of transaction activity processed through these branches, and the low volume of customers that frequent them. CNB closed the following branches: the Village Plaza Branches located in a middle-income CT in Johnson County, Kentucky; the Garrett and Prestonsburg Branches located in a moderate- and middle-income CTs respectively, in Floyd County, Kentucky; the South Ashland Branch located in a middle-income CT in Boyd County, Kentucky; and the Belcher Branch located in a middle-income CT in Greenup County, Kentucky.

The bank's primary focus is on retail banking. Products and services include a variety of demand deposit accounts, savings and investment products, trust services, and loan products. Customers may access information on bank products and services, and conduct certain transactions by mail, telephone, and through the internet in addition to access through CNB branches and ATMs. The bank also provides an array of credit and deposit services for businesses. The bank's Internet website, www.cnbonline.com provides detailed information on products and services for both consumers and businesses.

The Summary of Deposits Report generated by the FDIC³ as of June 30, 2013, ranked CNB second among ten financial institutions in the Paintsville AA with 17.28 percent of the market share; and fourth among four financial institutions in the Carter AA with 6.15 percent of the market share. CNB ranked tenth among eleven financial institutions in Boyd-Greenup counties located in the Ashland AA with 3.07 percent of the market share.

The leading competitors in these markets are large national and state banks. The bank's competition in the Paintsville AA included Community Trust Bank, Inc., which ranked first with 39.08 percent of the market share; Branch Banking and Trust (BB&T), which ranked third with 11.20 percent of the market share; and City National Bank of West Virginia, which ranked eighth with 4.33 percent of the market share. The competitor banks in Boyd-Greenup counties were Home Federal Savings and Loan Association⁴, which ranked first with 16.23 percent of the market share; PNC Bank, N.A., which ranked second with 14.65 percent of the market share; and Community Trust Bank, Inc., which ranked third with 13.70 percent of the market share. The bank's significant competition in Carter County is The First National Bank of Grayson, which ranked first with 47.38 percent of the market share; and The Commercial Bank of Grayson, which ranked second with 40.61 percent of the market share.

³ Latest data available, compiled by the FDIC and updated in June of each year.

⁴ Home Federal is now known as Town Square Bank as of June 2014.

During the evaluation period, there were no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its AA. The bank received an "Outstanding" rating in its January 2011 CRA Performance Evaluation.

At March 31, 2014, CNB's gross loans totaled \$273 million, or 50.65 percent of total assets, and total deposits were \$432 million, or 80.15 percent of total assets. Total Tier One Capital plus the Allowance for Loan and Lease Losses was \$53 million. The institution's loan portfolio as of March 31, 2014 is presented in **Table 2** below.

Table 2 Loan Product Category	Gross Loans as of March 31, 2014	
	Dollar Amount Outstanding (000's)	Percentage of Amount
Residential Mortgage Loans	\$118,169	43.34
Commercial Real Estate	\$90,271	33.10
Individuals (Consumer Loans)	\$33,819	12.40
Commercial & Industrial	\$15,733	5.77
Construction & Land Development	\$11,073	4.06
All Other	\$3,629	1.33
Total	\$272,694	100.00

Description of Assessment Area(s)

Assessment Area Receiving Full-Scope Reviews

Eastern Kentucky Non-MSA AA (Paintsville AA)

Table 3 Demographic Information for Full Scope Area: Eastern Kentucky-Non MSA AA (Paintsville AA)					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	23	0.00	39.13	52.17	8.70
Population by Geography	88,827	0.00	32.68	57.99	9.33
Owner-Occupied Housing by Geography.	24,737	0.00	34.25	55.95	9.80
Business by Geography	7,211	0.00	18.17	67.58	14.26
Farms by Geography	103	0.00	26.21	59.22	14.56
Family Distribution by Income Level	24,331	28.95	17.60	17.41	36.04
Distribution of Low and Moderate Income Families throughout AA Geographies.	11,327	0.00	39.81	53.01	7.19
Median Family Income		\$43,212	Median Housing Value		\$72,468
HUD Adjusted Median Family Income for 2013 Households Below Poverty Level.		\$44,700 27%			

Source: 2010 U.S. Census and 2013 HUD updated MFI

The Paintsville AA consists of four contiguous counties in Kentucky - Floyd, Johnson, and Magoffin counties in their entirety and a portion of Pike County. These four counties are similarly-situated in the Eastern Coal Field Region of Kentucky. The designated AA has nine moderate-, twelve middle-, and two upper-income level tracts. All twelve middle-income CTs are identified as distressed and underserved nonmetropolitan middle-income geographies. The bank operates twelve full-service branch offices and twelve ATMs within this AA. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

The Paintsville AA is located in the heart of rural Appalachia. The largest employment sector in the AA is in state and local government entities, replacing mining industries. County school systems and secondary education institutions are the largest employers in this employment sector and within the AA. Health care and social assistance are second while service companies are the third largest employers in the AA.

Economic conditions in the area have deteriorated during the evaluation period. Rural Appalachia continues to experience poverty and unemployment rates higher than the state and national averages. The average unemployment rate for the AA as of June 2014 was 12 percent, which is higher than the Kentucky state unemployment rate of 7.4 percent and significantly higher than the national average of 6.1 percent. Due to high unemployment and underemployment, the poverty level for the AA at 27 percent is

higher than the state's poverty level of 19.3 percent and the national average of 15.9 percent (Source: 2010 U.S. Census Bureau⁵).

Competition in the area includes Community Trust Bank, Inc., BB&T, U.S. Bank, N.A., The First Commonwealth Bank of Prestonsburg, Inc., and The Salyersville National Bank. These five banks along with Citizens National Bank accounted for 88 percent of the deposit market share in 2013.

Community Contact

We conducted one community contact with the Paintsville AA. We discussed the economic activity with a local community service organization. The organization contacted works closely with elected officials and other community leaders of the area to fund affordable housing programs and economic development projects in partnership with state and federal agencies. Both organizations identified participation in available loan programs as a way for banks to be involved in meeting identified housing needs and revitalization of distressed areas.

⁵ Latest data available from the U.S. Census Bureau (www.census.gov)

***Huntington-Ashland West Virginia-Kentucky-Ohio Multi-State MSA 26580 AA
(Boyd and Greenup County, KY) - Ashland AA***

Table 4 Demographic Information for Full Scope Area: Ashland AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	12	8.33	16.67	41.67	33.33
Population by Geography	43,453	3.18	13.72	45.98	37.12
Owner-Occupied Housing by Geography	12,185	0.54	9.51	49.61	40.34
Business by Geography	3,899	27.60	13.62	30.42	28.37
Farms by Geography	48	8.33	16.67	43.75	31.25
Family Distribution by Income Level.	11,452	20.09	16.84	20.94	42.13
Distribution of Low and Moderate Income Families throughout AA Geographies.	4,229	3.10	19.08	53.98	23.84
Median Family Income		\$48,544	Median Housing Value		\$91,457
HUD Adjusted Median Family Income for 2013 Households Below Poverty Level.		\$50,800 17%			

Source: 2010 U.S. Census and 2013 HUD updated MFI

The Ashland AA consists of portions of two contiguous counties, Boyd and Greenup County in the State of Kentucky. These counties are included in the Huntington-Ashland West Virginia-Kentucky-Ohio 26580 MSA. The AA consists of 1 low-, 2 moderate-, 5 middle-, and 4-upper income CTs. The bank operates two full-service branch offices and two ATMs within this AA. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

The Ashland AA is located along the banks of the Ohio River within the Appalachian Plateau region. Boyd County is located at the northeastern edge of the State of Kentucky near the Ohio River and Big Sandy River. Greenup County is located north of Boyd County, also along the Ohio River. The city of Ashland is located in Boyd County and is the second largest city within the MSA, after Huntington, West Virginia. Ashland serves as an important economic and medical center for northeast Kentucky. Kings Daughter’s Medical Center, the fourth largest medical center in Kentucky, is the city’s biggest employer with over 4,000 employees.

While much of this AA is rural, the economy is adequately diverse with light manufacturing, retail trade, service businesses, government, and higher education. Other major employers in the AA include Marathon Petroleum, Our Lady of Bellafonte Hospital, AK Steel, and Boyd County Schools.

Demographic data for the AA from the 2010 U. S. Bureau of the Census reports as presented in Table 4 indicates the institution’s assessment area comprises 17,922 households and 11,452 families. Of the total households within the AA, 16.84 percent

are below the poverty level, which is higher than the national average of 13.8 percent for 2012.

As of June 30, 2014, the unemployment rate for this AA was 6.9 percent, which was below the average for the State of Kentucky of 7.4 percent and above the national average of 6.1 percent⁶.

Community Contact

We conducted one community contact within the Ashland AA. We discussed the economic area's outlook with one of the local Chamber of Commerce affiliate organizations. The organization's focus is to advance economic development and business prosperity in Boyd County and Greenup County through job creation and job retention programs, promote capital investment in the area by public and private sources; and support educational programs designed to increase the quality of life in the area. The contact stated that local financial institutions readily participated in community development activities. However, he identified the need for small business loans to provide funding for start-up costs and working capital during the first three to five years.

Conclusions with Respect to Performance Tests

LENDING TEST

CNB's performance under the lending test in the AA is rated "Satisfactory". The bank's geographic distribution reflects reasonable distribution throughout CTs of different income levels. The bank's borrower distribution reflects reasonable penetration among borrowers of different incomes.

For purposes of this evaluation, we considered home mortgage loans and small business loans as the primary loan products, based on the institution's business strategy and total loan originations by loan product during the evaluation period. Our analysis of the bank's performance for the respective evaluation factors is described below.

Lending Activity

To evaluate CNB's CRA lending performance, we focused on its record of lending in its AAs, LTD average since the last CRA evaluation, record of lending to borrowers of different incomes and businesses of different sizes, and the geographic distribution of lending in the bank's AAs.

⁶ Source: Bureau of Labor Statistics

Loan-to-Deposit Ratio

CNB's average quarterly LTD ratio is reasonable, considering the low dollar loans it is willing to make and the opportunities to lend within the assessment areas. The bank's average quarterly LTD ratio since the last CRA evaluation period is 70.34 percent. This ratio has declined since the prior CRA evaluation, in which the average quarterly LTD ratio was 82.65 percent. This LTD ratio has declined over the past two years due to the 14.45 percent reduction in loans and 2.09 percent decrease in deposits.

CNB average quarterly LTD ratio ranked fourth of four banks considered competitors during the evaluation period. The competitor banks primarily are large, multi-state national banks and large state banks with multiple branches within the AAs for CNB. These banks offer highly competitive rates on loans and deposit products, which yields these larger banks with the higher percentage of the market share. Competitor banks and the average quarterly LTD ratios are City National Bank of West Virginia at 86.69 percent; Community Trust Bank at 88.51 percent; and BB&T at 84.79 percent.

Lending in Assessment Area

Inside/Outside Ratio

We performed an analysis of all lending within each of the bank's AAs. **Table 5** recaps our findings. We consolidated all loans to determine if CNB made a majority of its loans within or outside the designated AA.

A majority of the loans sampled during our review were found to be inside the bank's AAs. For the evaluation period, 70.73 percent of the number and 67.81 percent of the dollar amount of home mortgage and small business loans were made inside of the bank's AAs. This analysis had a positive impact on the overall geographic distribution analysis.

Table 5 All Lending										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase*	155	65.13	83	34.87	238	18,533	61.75	11,482	38.25	30,015
Home Improvement*	56	69.14	25	30.86	81	5,340	63.30	3,096	36.70	8,436
Home Mortgage Refinance*	312	72.73	117	27.27	429	49,326	70.54	20,597	29.46	69,923
Small Business Loans**	40	83.33	8	16.67	48	4,636	72.29	1,777	27.71	6,413
Totals	563	70.73	233	29.27	796	77,835	67.81	36,952	32.19	114,787

Source: Home Mortgage Data reported under HMDA from January 1, 2012 - December 31, 2013
Small Business Loans Sample for January 1, 2012 - December 31, 2013

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

Overall, the borrower distribution of home mortgage and small business loans reflects reasonable penetration and meets the standard for satisfactory performance. The analysis of lending to borrowers of different income levels was completed using loans made inside the AA from the HMDA data reports and the small business loans sample presented in **Table 5** above.

Conclusions for Areas Receiving Full-Scope Reviews

Paintsville AA

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels. CNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels, given the demographics of the AA. We weighted the loan penetration in the middle-income geographies more heavily as all twelve middle-income CTs were identified as distressed and underserved nonmetropolitan geographies. CNB's record of home mortgage lending to borrowers of different incomes meets the standard for satisfactory performance.

We noted that the percentage of loans made to low- and moderate-income borrowers in all three categories (home purchase, home improvement and refinance) were below the percentage of low- and moderate income borrowers in this AA. We considered that opportunities to lend to low- and moderate-income borrowers in the AA are very limited. According to the 2010 U.S. Census, an estimated 27 percent of persons in the AA were living under the poverty level. The U.S. Census Bureau, Small Area Income and Poverty Estimates, for Year 2012⁷ reported the average poverty rate of 19.4 percent at the state level; and 15.9 percent at the national level.

Table 6 shows the distribution of home mortgage loan products among borrowers of different income levels for the period of January 1, 2012 through December 31, 2013 as compared to the percent of families in each income category.

⁷ Latest data available from the U.S. Census Bureau (www.census.gov)

Table 6 Borrower Distribution of Home Mortgage Loans in the Paintsville 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	28.95	6.94	17.60	5.56	17.41	25.00	36.04	62.50
Home Improvement	28.95	0.00	17.60	14.71	17.41	23.53	36.04	61.76
Home Mortgage Refinance	28.95	2.33	17.60	5.81	17.41	9.30	36.04	82.56

Source: Data reported under HMDA; 2010 U.S. Census data

Small Business Lending in the AA

CNB's record of originating business purpose loans among the Paintsville AA businesses of different sizes reflects a reasonable distribution considering the demographic context in which the bank operates.

Data collected from a sample of CNB small non-farm, non-residential real estate and commercial & industrial loan data, reflecting small business loans originated in its Paintsville AA, were analyzed. The analysis was performed to assess the bank's record of distributing its business loan originations among Paintsville AA businesses of different sizes. Specifically, during the evaluation period we collected and analyzed data from twenty small business loans that CNB originated to businesses in the AA.

Demographic data compiled during the 2010 census for CNB's Paintsville AA indicated that of the AA businesses which reported annual revenue, revenue was recorded as follows in **Table 7** below. A majority of loans to businesses were for amounts less than \$100 thousand. Gross annual revenue information was available for a majority of the loans to businesses sampled. As a result, we were able to conduct a fair assessment of the distribution of loans to business of different sizes. **Table 7** indicates reasonable distribution of loans to small businesses (those with less than \$1 million in gross annual revenues). The percentage of loans to small businesses is below the percentage of small businesses in the AA.

Table 7 Borrower Distribution of Loans to Businesses in Paintsville AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown*	Total
% of AA Businesses	69.48	3.95	26.57	100%
% of Bank Loans in AA by #	50.00	45.00	5.00	100%
% of Bank Loans in AA by \$	35.98	63.02	1.00	100%

Source: Bank data of loan originations for evaluation period; 2010 U.S. Census Data

* Revenue data not report

Ashland, AA (Boyd County and Greenup County)

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels and to businesses of different sizes. CNB’s record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels. CNB’s record of home mortgage lending to borrowers of different income levels meets the standard for satisfactory performance.

We noted the percentage of loans made to low- and moderate-income borrowers is below the number of low- and moderate-income population in the home purchase, home improvement and refinance loans. However, the distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels, given the demographics of the AA. We considered that opportunities to lend to low- and moderate-income borrowers in the AA are very limited. According to the 2010 U.S. Census, an estimated 17 percent of persons in the AA were living under the poverty level. The U.S. Census Bureau, Small Area Income and Poverty Estimates, for Year 2012 reported the average poverty rate of 19.4 percent at the state level; and 15.9 percent at the national level.

Table 8 shows the distribution of home mortgage loan products among borrowers of different income levels for the period of January 1, 2012 through December 31, 2013 as compared to the percent of families in each income category.

Table 8 Borrower Distribution of Home Mortgage Loans in the Ashland 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	20.09	7.14	16.84	14.29	20.94	14.29	42.13	64.29
Home Improvement	20.09	0.00	16.84	0.00	20.94	33.33	42.13	66.67
Home Mortgage Refinance	20.09	0.00	16.84	2.50	20.94	12.50	42.13	85.00

Source: Data reported under HMDA; 2010 U.S. Census data

Small Business Lending in the AA

CNB’s record of originating business purpose loans among the Ashland AA businesses of different sizes reflects a reasonable distribution considering the demographic context in which the bank operates.

Data collected from a sample of CNB’s small non-farm, non-residential real estate and commercial & industrial loan data, reflecting small business loans originated in this AA were analyzed. The analysis was performed to assess the bank’s record of distributing its business loan originations among AA businesses of different sizes. Specifically, during the evaluation period we collected and analyzed data from twenty small business loans that CNB originated to businesses in the AA.

Demographic data compiled during the 2010 census for the Ashland AA indicated that gross annual revenue information was available for a majority of the loans to businesses sampled. As a result, we were able to conduct a fair assessment of the distribution of loans to businesses of different sizes. A majority of loans to businesses were for amounts less than \$100 thousand.

Table 9 indicates reasonable distribution of loans to small businesses (those with less than \$1 million in gross annual revenues). The percentage of loans to small businesses is well below the percentage of small businesses in the AA.

Table 9 Borrower Distribution of Loans to Businesses in Ashland AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown*	Total
% of AA Businesses	69.86	4.08	26.06	100%
% of Bank Loans in AA by #	30.00	65.00	5.00	100%
% of Bank Loans in AA by \$	26.53	73.36	0.11	100%

Source: Bank data of loan originations for evaluation period; 2010 U.S. Census Data

* Revenue data not reported

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank’s performance under the lending test in the Carter AA is not inconsistent with the bank’s overall Satisfactory performance under the lending test in Kentucky.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable distribution throughout CTs of different income levels, when compared to the percentage of owner-occupied units in each income level census tract. CNB's performance meets the standard for satisfactory performance.

Paintsville AA

Home Mortgage Loans

The geographic distribution of loans reflects reasonable distribution throughout CTs of different income levels, when compared to the percentage of owner-occupied units in each income level CT. The AA consists of 23 CTs. This AA has no low-income CTs. Nine CTs, or 39 percent, are moderate-income CTs. We weighted the loan penetration in the middle-income geographies more heavily as all twelve middle-income CTs were identified as distressed and underserved non-metropolitan geographies. CNB's record of home mortgage lending to borrowers of different incomes meets the standard for satisfactory performance.

We noted that the percentage of loans made to low- and moderate-income borrowers in home purchase and refinance loan categories were below the percentage of owner-occupied units in moderate-income geographies in this AA. However, the distribution of home improvement loans in moderate-income geographies reflects reasonable distribution in owner-occupied units throughout geographies in the AA.

We considered opportunities to lend in moderate-income geographies in the AA are very limited, given the demographics of the AA. We noted that 27 percent of the occupied housing units in these geographies are rental properties. This adversely impacts the bank's ability to make mortgage loans to individuals residing in moderate-income geographies. The high unemployment rate and high poverty rate discussed above are also factors that limit opportunities to find qualified buyers in these geographies.

Table 10 illustrates loan originations, categorized by loan type and CT income level, during the review period.

Table 10 Geographic Distribution of Home Mortgage Loans in the Paintsville AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	34.25	15.79	55.95	77.63	9.80	6.58
Home Improvement	0.00	0.00	34.25	25.71	55.95	57.14	9.80	17.14
Home Mortgage Refinance	0.00	0.00	34.25	12.43	55.95	77.97	9.80	9.60

Source: Data reported under HMDA; 2010 U.S. Census data

Loans to Small Businesses

Please refer to **Table 11** below for the facts and data used to evaluate the geographic distribution of the bank’s origination/purchase of small loans to businesses. We considered the demographic characteristics of moderate-income geographies in evaluating geographic distribution of loans to businesses.

The geographic distribution of loans to small businesses reflects reasonable dispersion. The percentage of loans to businesses in moderate-income geographies is near to the percentage of businesses in these geographies.

Table 11 Geographic Distribution of Loans to Businesses in Paintsville 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	0	0.00	18.17	10.00	67.58	65.00	14.26	25.00

Source: Bank data of loan originations for evaluation period; 2010 U.S. Census Data

Ashland AA

Home Mortgage Loans

The geographic distribution of loans reflects reasonable distribution throughout CTs of different income levels, when compared to the percentage of owner-occupied units in each income level CT.

The AA consists of 12 CTs. The AA has one low- and two moderate-income CTs. We weighted the loan penetration in the moderate-income geographies more heavily as the percentage of owner-occupied units in the moderate-income CTs was 9.5 percent and was 0.54 percent the low-income CT. CNB’s record of home mortgage lending to borrowers of different incomes meets the standard for satisfactory performance.

We noted the bank did not originate home mortgage loans in the low-income CT, nor did it originate home refinance loans in the moderate-income geographies. However, the distribution of home purchase loans and home-improvement loans in moderate-income geographies reflects excellent distribution in owner-occupied units throughout moderate-income geographies in the AA.

We considered that opportunities to lend in low- and moderate-income geographies in the AA are very limited, given the demographics of the AA. The percentage of the rental-occupied housing units in the low-, and moderate-income geographies were 12 percent and 30 percent respectively. The percentage of multi-family housing units in the low-, and moderate-income geographies were 28 percent and 42 percent respectively. This adversely impacts the bank’s ability to make mortgage loans to individuals residing in low- and moderate-income geographies in the AA. The high unemployment rate and high poverty rate discussed above are also factors that limit opportunities to lend in the low- and moderate-income geographies in the AA.

Table 12 illustrates loan originations, categorized by loan type and CT income level, during the review period.

Table 12 Geographic Distribution of Home Mortgage Loans in the Ashland AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.54	0.00	9.51	13.33	49.61	40.00	40.34	46.67
Home Improvement	0.54	0.00	9.51	66.67	49.61	0.00	40.34	33.33
Home Mortgage Refinance	0.54	0.00	9.51	0.00	49.61	33.33	40.34	66.67

Source: Data reported under HMDA; 2010 U.S. Census data

Loans to Small Businesses

Please refer to **Table 13** below for the facts and data used to evaluate the geographic distribution of the bank’s origination/purchase of small loans to businesses. We considered the demographic characteristics of moderate-income geographies in evaluating geographic distribution of loans to businesses.

The geographic distribution of loans to small businesses reflects reasonable dispersion. The percentage of loans to businesses in low-income geographies is near to the percentage of businesses in these geographies. The percentage of loans to businesses in moderate-income geographies is near to the percentage of businesses in these geographies.

Table 13 Geographic Distribution of Loans to Businesses in Ashland AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Business	27.60	25.00	13.62	10.00	30.42	55.00	28.37	10.00

Source: Bank data of loan originations for evaluation period; 2010 U.S. Census Data

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the lending test in the Carter AA is not inconsistent with the bank's overall Satisfactory performance under the lending test in Kentucky.

Flexible Loan Programs

The bank offers two loan products specifically targeted to low- and moderate-income persons who meet certain income qualifications. The Kentucky Housing Corporation (Kentucky Housing) is a self-supporting, public corporation of the Commonwealth of Kentucky. A portion of Kentucky Housing's funds are derived from the interest earned through the sale of tax-exempt mortgage revenue bonds. From these proceeds, Kentucky Housing has made homeownership possible for more than 86,000 Kentucky families. CNB, in conjunction with Kentucky Housing Corporation, assisted with providing 1-4 family affordable housing loans to 35 families during the evaluation period.

The "Welcome Home Loan Grant" Program is a fixed-rate loan up to 30 years for owner-occupied properties within the CNB market area for moderate-income applicants. Welcome Home grants may be used to cover down payment and closing costs up to a qualified amount. During the evaluation period, the bank made one loan using \$5 thousand in grant funds.

The Federal Home Loan Bank Cincinnati's (FHLB) Disaster Reconstruction Program was established March 30, 2012, following a series of tornadoes that swept through parts of Kentucky, Ohio and Tennessee on March 2, 2012. Thirty-nine counties across these three states were designated "disaster areas" as a result of the storms. In response, the FHLB's Board of Directors authorized the new voluntary housing program, which awards grants to households whose residences are destroyed or damaged in natural disasters. CNB received grant funds for \$20 thousand from the Disaster Reconstruction Program to provide closing costs and down payment assistance for one qualified applicant.

Responses to Complaints

CNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period. This has a neutral impact on the bank's CRA assessment.

COMMUNITY DEVELOPMENT TEST

The bank's community development performance demonstrates adequate responsiveness to community development needs in the assessment areas. The bank offers appropriate community development loans and services considering the bank's capacity and the need and availability of such opportunities.

Number and Amount of Community Development Loans

Conclusions for Areas Receiving Full-Scope Reviews

Community development lending is adequate and had a positive impact on lending performance in the Paintsville AA. During the evaluation period, CNB originated nine community development loans totaling \$4.4 million.

Loans were for various operating needs of organizations that provide community development services and construct affordable housing for low- and moderate-income individuals and families, including special needs projects for persons with disabilities.

One loan of \$375 thousand funded construction of the Veterans Administration 25-bed transitional housing for homeless veterans in Prestonsburg, Kentucky. The bank originated two community development loans in the total amount of \$3.2 million to rebuild a two-story medical office building and construct a retail shopping center in Magoffin County to revitalize and stabilize the area following destruction caused by the tornado in May 2012. A loan for \$400 thousand was originated to construct eight one-bedroom units for special needs and clients with intellectual and developmental disabilities.

Loans also provided working capital for a community development organization that provides job training for at-risk students. Ninety-percent of the school's students live below the poverty level. These loans supported community credit needs related to housing and small businesses identified during discussions with community contacts.

Community development lending is adequate and had a positive impact on lending performance in the Ashland AA. CNB funded one loan in the amount of \$14 thousand for the purchase of a van to transport tenants of Kings Daughters and Sons Home, which houses senior aged men and women.

Conclusions for Areas Receiving Limited-Scope Reviews

During the evaluation period, the bank did not originate community development loans in the Carter AA. This had a neutral impact on the evaluation of community development activities in the AAs.

Number and Amount of Qualified Investments

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the investment test in Kentucky is rated Satisfactory. Based on a full-scope review, the bank's performance in the Paintsville AA is satisfactory.

The bank has a satisfactory level of qualified investments in the AA. The bank invested a total of \$3 million in four Qualified Zone Academy Bonds (QZAB) during the prior evaluation period. The investments were targeted to schools in the AA that qualified under the QZAB program and provided funding to renovate and repair buildings, invest in equipment and up-to-date technology, develop challenging curricula, and train quality teachers as needed.

The bank was also given credit for prior period investments in seven QZABs, totaling \$3.5 million that were for qualified school districts outside the bank's AA. These school districts are located in adjacent counties of the Eastern Kentucky non-MSA AA.

CNB also made investments totaling \$56 thousand to community development organizations that provide direct support, services and activities that impact low- and moderate-income geographies and low- and moderate-income individuals in the AA. Recipients included:

- Organizations that provide temporary housing and food pantries;
- An organization that offers housing, food and educational support services and resources for low-income families;
- A business development center that provides technical assistance to entrepreneurs and small business organizations that construct affordable housing for low- and moderate-income families;
- An organization that provides down-payment and closing cost assistance for low- and moderate-income home-buyers; and,
- Funds to support education programs at area schools where greater than 50 percent of students receive free or reduced-lunch.

CNB also made \$178 thousand in donations and contributions to charitable and civic organizations. All funds are specifically targeted to benefit low-and moderate-income persons within the AA or support organizations whose major purpose is providing economic development, revitalizing of central business districts, and offering assistance to attract, expand, and retain small business entities, payrolls, and job levels throughout the AA.

Conclusions for Areas Receiving Limited-Scope Reviews

The level of community development lending in the Carter AA is adequate. During the evaluation period, the bank did not purchase any qualified investments in the Carter AA. This had a neutral impact on the evaluation of community development activities in the AAs.

Extent to Which the Bank Provides Community Development Services

Conclusions for Area Receiving a Full-Scope Review

The bank's performance under the service test is rated Adequate. Based on a full-scope review, the bank's performance in the Paintsville AA and the Ashland AA is Adequate.

Officers and staff contributed their services to five community service organizations in the AA during the evaluation period. Other bank employees volunteer their financial expertise in the roles of directors or officers for organizations with community development goals. Their services consistently addressed community development needs through service on committees and boards of directors for organizations that provide assistance to small businesses, affordable housing and services to low middle-income areas or individuals.

Conclusions for Areas Receiving Limited-Scope Reviews

The level of community development services in the Carter AA is adequate. During the evaluation period, the bank's employees provided community development services in this AA through the 4H Reality Store. Employees of CNB conducted an ongoing class at West Carter High and East Carter High. This financial management curriculum offered in a game format, allowed students to learn the "reality" of a monthly family budget and the value of making appropriate choices in planning for career, family, and their education.

Responsiveness to Community Development Needs

The bank is responsive to community credit needs and opportunities to lend for community development purposes in the Paintsville AA. The bank adequately responds to community credit needs and opportunities to lend for community development purposes in the Ashland AA.

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 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.