



PUBLIC DISCLOSURE

May 31, 2023

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

The Citizens National Bank of Somerset
Charter Number 11544

44 Public Square
Somerset, Kentucky 42501

Office of the Comptroller of the Currency

10200 Forrest Green Boulevard
Suite 501
Louisville, Kentucky 40223

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, and should not 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.

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Overall CRA Rating

Institution's CRA rating: Satisfactory

The lending test rating: Satisfactory

The community development test rating: Satisfactory

The major factors that support these ratings include:

- The Citizens National Bank of Somerset's (CNB or bank) lending test rating is based on a reasonable distribution of loans to low- and moderate-income (LMI) borrowers and an excellent distribution of loans to small businesses.
- The bank's lending activity also reflects a reasonable dispersion of lending by income in the geography.
- The bank's loan-to-deposit (LTD) ratio is reasonable, and a substantial majority of loans were originated inside the bank's assessment areas (AA).
- The community development (CD) test rating is based on adequate responsiveness to community needs through qualified CD investments, services, and loans.

Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AAs, the bank's LTD ratio is reasonable. This conclusion considered CNB's competitive environment and the approximately \$108.1 million in home mortgage loans CNB originated and sold on the secondary market during the evaluation period that were not captured in the LTD ratio. CNB's quarterly LTD ratio averaged 61.0 percent over the 8 quarters covered in the evaluation period, with a quarterly high of 68.5 percent and a quarterly low of 57.4 percent. The average LTD ratios of the other six banks over the same period ranged from 62.6 to 90.1 percent. CNB's average LTD is the lowest among seven similarly situated banks serving its AAs, but as noted above, the LTD ratio was not inclusive of significant secondary market volume.

Lending in the Assessment Area

A substantial majority of the bank's loans were within its AAs. The bank originated and purchased 81.5 percent of its total loans inside the bank's AAs during the evaluation period. This analysis is performed at the bank, rather than the AA, level. The following table depicts CNB's lending within its AAs by number and dollar volume during the evaluation period. The chart reflects data for all loans on the bank's home mortgage disclosure act (HMDA) loan application registers (LAR) and a random sample of 20 business loans.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2020	564	81.9	125	18.1	689	87,171	79.5	22,414	20.5	109,585
2021	404	81.0	95	19.0	499	63,487	61.9	39,114	38.1	102,601
Sub-Total	968	81.5	220	18.5	1,188	150,659	71.0	61,527	29.0	212,186
Small Business										
2020-2021	17	85.0	3	15.0	20	4,012	86.6	620	13.4	4,632
Sub-Total	17	85.0	3	15.0	20	4,012	86.6	620	13.4	4,632
Total	985	81.5	223	18.5	1,208	154,671	71.3	62,147	28.7	216,818

Source: Bank's complete HMDA LAR files for 2020 and 2021 and a random sample of business loans originated or purchased between January 1, 2020, and December 31, 2021, taken from bank records. Totals may reflect negligible variances due to rounding.

Description of the Institution

CNB is a full-service, intrastate financial institution. It is wholly owned by Citizens Bancshares, Inc., headquartered in Somerset, Kentucky. As of December 31, 2021, CNB had \$616 million in total assets with \$303 million in loans, \$513 million in deposits, and \$50 million in tier 1 capital. As of the December 31, 2021, call report, CNB's net loans represented approximately 47.7 percent of its average assets. The composition of CNB's loan portfolio at year-end 2021 included loans secured by one- to four-family residential real estate (44.5 percent), loans secured by commercial real estate (21.0 percent), construction and land development loans (10.5 percent), loans secured by multifamily (5 or more) properties (6.7 percent), loans to individuals (6.3 percent), other commercial and industrial loans (6.2 percent), loans secured by farmland (2.7 percent), and municipal and other loans (2.1 percent).

CNB's business strategy includes meeting community needs by offering traditional banking products and services that include a variety of loan and deposit products for individuals and businesses. Product offerings include conventional and government-guaranteed home mortgage loans. CNB also offers a full range of business loans, as well as home improvement and consumer loans. Deposit products include personal checking and savings, money market, business checking, NOW accounts, and certificates of deposit.

As of December 31, 2021, the bank had one limited-¹ and eight full-service locations, all of which were accessible to all segments of the communities in four Kentucky counties. These locations included seven locations in Pulaski County: the main office, the single limited-service location, and three full-service branches in Somerset, Kentucky; one branch in Science Hill, Kentucky; and one branch in Nancy, Kentucky. Five of the Pulaski County locations were in middle-income census tracts (CT) designated as *distressed* or *underserved* throughout the evaluation period.² The limited-service location was in a moderate-income tract and the remaining branch was in an upper income tract. The bank had one

¹The limited-service location provides drive-thru service conducting all teller-supported transactions, but does not conduct any account-opening, or loan origination activities.

²Annual designations of *distressed* or *underserved* nonmetropolitan middle-income geographies are made by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency based on rates of poverty, unemployment, and population loss or population size, density, and dispersion.

location in Monticello, Kentucky (Wayne County) in a moderate-income CT, and one in Russell Springs, Kentucky (Russell County) in a CT that was designated *distressed* and *underserved*. The bank has a single branch in a middle-income CT in Jessamine County in the Lexington-Fayette, Kentucky metropolitan statistical area (MSA). All branch locations are equipped with drive-through facilities. There are full-service automated teller machines at each location along with other cash dispensers located throughout the AAs. No branches were opened or closed since the previous CRA evaluation.

CNB designated two AAs for CRA purposes. AA1 includes Pulaski, Russell, and Wayne counties in Kentucky. All are non-MSA adjacent counties and share similar demographic and economic characteristics. In total, AA1 consists of 24 CTs. AA2 includes only Jessamine County, located in the Lexington-Fayette Kentucky MSA, and consists of nine CTs.

There were no legal or financial circumstances that impacted CNB's ability to meet the credit needs of its community. However, the COVID-19 pandemic, beginning in 2020, adversely impacted local economies, including unemployment rates. The U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP) provided loans to help businesses keep their workforces employed during the pandemic. CNB participated in this program and originated 498 loans totaling \$21.1 million. The last CRA evaluation was performed on March 16, 2020. CNB received a satisfactory rating.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The OCC evaluated CNB's performance under the Intermediate Small Bank examination procedures. These procedures evaluate a bank's performance based on a lending test and a CD test. The lending test evaluated the bank's record of meeting the credit needs of its AAs through its lending activities spanning January 1, 2020, through December 31, 2021. The CD test evaluated the bank's CD lending, qualified investments, and CD service activities across the same period. Home mortgage loan data was analyzed in comparison to 2015 United States Census (2015 U.S. Census) demographic information and the percentage of loans originated and purchased by all reporting lenders (the aggregate comparator). Business loans sampled were compared to 2015 U.S. Census data and 2021 business demographic data from Dun & Bradstreet (D&B). Lending and CD activities in 2022 were not included in the evaluation period as peer aggregate data was not available at the time of this evaluation.

Examiners used call report data as of December 31, 2021, to determine the bank's LTD ratio and to identify the bank's primary loan products. Based on an analysis of lending activity during the evaluation period, home mortgage and business loans were determined to be primary products. Conclusions regarding the bank's lending performance were based on complete home mortgage lending data from the bank's 2020 and 2021 HMDA LARs and a random sample of 20 business loans (or the full number of loans originated if less than 20), for each year in the evaluation period for each AA. We also reviewed all CD loans, qualified investments, donations, and CD services submitted by CNB management to evaluate the bank's responsiveness to the credit needs of its AAs.

Selection of Areas for Full-Scope Review

The bank's two AAs each received a full-scope review. Refer to *Appendix A: Scope of Examination* for a list of products reviewed within the AAs.

Ratings

The bank's overall rating is based on the state of Kentucky rating. The state rating is based on the full-scope review of CNB's two AAs. Examiners gave more weight to the bank's performance in AA1 as that was where the vast majority of CNB's lending activities took place across the evaluation period. Similarly, examiners gave more consideration to the distribution of loans by income level of borrower and gross annual revenues of businesses than the geographic distribution of loans because there were no low-income CTs in either of the bank's AAs over the evaluation period.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national banks or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by, or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Kentucky

CRA rating for the State of Kentucky: Satisfactory

The lending test rating: Satisfactory

The community development test rating: Satisfactory

The major factors that support these ratings include:

- The overall distribution of CNB's loans to borrowers of different income levels and businesses of different sizes is reasonable.
- The overall geographic distribution of the bank's loans throughout its AAs is reasonable.
- CNB exhibits adequate responsiveness to CD needs in its AAs through qualified investments, CD services, and CD loans, taking into consideration the bank's capacity and the needs and opportunities available in the bank's AAs.

Description of the Institution's Operations in Kentucky

CNB's AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. CNB delineated two AAs for CRA purposes. AA1 consists of three adjacent counties, all located in a non-MSA area in South-Central Kentucky. Consistent with the prior evaluation, AA1 includes the entireties of Pulaski, Russell, and Wayne counties. The entirety of Jessamine County in the Lexington-Fayette, Kentucky MSA comprises AA2.

AA1: Non-MSA AA of South-Central Kentucky (Pulaski, Russell, and Wayne counties)

The total population of the AA was 101,959. The three counties consisted of 24 CTs with zero low-income tracts, six moderate-income tracts, 16 middle-income tracts, and two upper-income tracts. All 16 middle-income tracts in the AA were designated as *distressed* or *underserved* or carried both designations in 2020 and 2021.

CNB has strong competition within the AA. As of June 30, 2021, there were 14 financial institutions operating 46 banking offices in the AA, including CNB. Competition in the AA included several local community and regional banks. The June 30, 2021, FDIC Deposit Market Share Report shows CNB ranked a very close second in market share at 19.3 percent. CNB's major competitors in the AA were The Monticello Banking Company, Monticello, Kentucky (19.7 percent market share) and The First National Bank of Russell Springs, Russell Springs, Kentucky (9.81 percent market share).

CNB operated one limited- and eight full-service locations in the AA, and most lending activity over the assessment period took place in this AA. As a result, examiners placed more weight on lending activities in this AA when assessing the bank's overall CRA performance.

The following table shows demographic information covering CNB's AA1.

Table A – Demographic Information of the Assessment Area						
Assessment Area 1: 2021 – Non-MSA South-Central Kentucky (Pulaski, Russell, and Wayne Counties)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	24	0.0	25.0	66.7	8.3	0.0
Population by Geography	101,959	0.0	21.6	66.9	11.5	0.0
Housing Units by Geography	52,069	0.0	22.2	68.0	9.9	0.0
Owner-Occupied Units by Geography	28,438	0.0	21.7	66.3	12.0	0.0
Occupied Rental Units by Geography	12,122	0.0	20.8	68.9	10.3	0.0
Vacant Units by Geography	11,509	0.0	24.9	71.0	4.2	0.0
Businesses by Geography	7,404	0.0	14.9	70.7	14.5	0.0
Farms by Geography	426	0.0	18.1	72.1	9.9	0.0
Family Distribution by Income Level	26,977	27.4	16.6	19.6	36.4	0.0
Household Distribution by Income Level	40,560	30.9	14.2	16.6	38.3	0.0
Median Family Income Non-MSAs - KY		\$45,986	Median Housing Value			\$96,759
			Median Gross Rent			\$554
			Families Below Poverty Level			21.0%
<i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

On average, the unemployment rates for the three counties within the AA were at or above the state unemployment rates for 2020 and 2021. Economic conditions for the AA prior to the COVID-19 pandemic were slightly worse than the state of Kentucky, especially in Russell and Wayne counties, both of which had a 5.5 percent unemployment rate. In contrast, the state of Kentucky was at 4.1 percent going into the pandemic. At the peak of the pandemic in April 2020, the unemployment rates in the three counties in the AA varied between a low of 14.1 percent in Wayne County to a high of 21.9 percent in Russell County. The state of Kentucky peaked at 16.7 percent. The December 2021 unemployment rate improved significantly for all three counties in the AA, but all remained higher than the statewide rate.

The major industries in the AA include retail, healthcare and social services, education, and manufacturing, with the retail industry bringing the most jobs to the AA.

AA2: Lexington-Fayette, Kentucky MSA (Jessamine County)

The total population of the AA was 50,328. The AA encompasses only Jessamine County and consists of nine CTs. There are zero low-income tracts, five moderate-income tracts, three middle-income tracts, and one upper-income tract. None of the middle-income tracts in the AA were designated as *distressed* or *underserved*.

CNB has strong competition within the AA. As of June 30, 2021, there were 12 financial institutions operating 19 banking offices in the AA, including CNB. Competition in the AA included several local community banks, as well as branches of regional and large banks. The June 30, 2021, FDIC Deposit Market Share Report shows CNB ranked 10th, with just 1.5 percent market share in the AA. CNB's top

competitors in the AA were The Farmers Bank, Nicholasville, Kentucky (22.7 percent market share), Central Bank and Trust Company, Lexington, Kentucky (15.1 percent market share), and Wesbanco Bank, Inc., Wheeling, West Virginia (13.3 percent market share). Each of these competitors had more than one location, in contrast with CNB’s single full-service location within this AA.

The following table shows demographic information covering CNB’s AA2.

Table A – Demographic Information of the Assessment Area						
Assessment Area 2: 2021 - Lexington-Fayette Kentucky MSA (Jessamine County)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	9	0.0	55.6	33.3	11.1	0.0
Population by Geography	50,328	0.0	50.3	37.1	12.6	0.0
Housing Units by Geography	19,796	0.0	52.5	35.8	11.7	0.0
Owner-Occupied Units by Geography	11,676	0.0	47.5	35.8	16.6	0.0
Occupied Rental Units by Geography	6,636	0.0	61.3	35.3	3.4	0.0
Vacant Units by Geography	1,484	0.0	52.3	37.9	9.8	0.0
Businesses by Geography	4,966	0.0	44.2	30.5	25.3	0.0
Farms by Geography	274	0.0	37.6	32.1	30.3	0.0
Family Distribution by Income Level	13,913	28.2	17.6	19.5	34.8	0.0
Household Distribution by Income Level	18,312	25.5	15.7	16.9	41.9	0.0
Median Family Income MSA - 30460 Lexington-Fayette, KY MSA		\$66,800	Median Housing Value			\$188,315
			Median Gross Rent			\$767
			Families Below Poverty Level			15.5%
<i>Source: 2015 ACS and 2021 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

On average, the unemployment rate for Jessamine County was below the state unemployment rates for 2020 and 2021. Economic conditions for the AA prior to the COVID-19 pandemic were slightly better than the state of Kentucky. At the height of the pandemic in April 2020, the unemployment rate in Jessamine County was 13.7 percent. The state of Kentucky peaked at 16.7 percent. The December 2021 unemployment rate improved significantly to 3.8 percent for Jessamine County compared to the state of Kentucky’s 4.7 percent.

The major industries in the AA include education, retail, manufacturing, and healthcare and social services, with the education industry bringing the most jobs to the AA.

Conclusions With Respect to Performance Tests in Kentucky

Lending Test

The bank's performance under the lending test in Kentucky is rated **Satisfactory**.

Distribution of Loans by Income Level of the Geography

The bank exhibits reasonable geographic distribution of loans in the state.

Home Mortgage Loans

The overall geographic distribution of home mortgage loans throughout the bank's AAs is reasonable. Refer to Table O in *Appendix D: Tables of Performance Data* for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

Non-MSA South-Central Kentucky (AA1)

Lending to geographies of different income levels in AA1 reflected reasonable dispersion. There were no low-income CTs in the AA. The bank originated 11.4 percent of home mortgage loans to borrowers in moderate-income CTs. This was below the demographic comparator of 21.7 percent and less than the aggregate distribution of 16.0 percent. Challenges faced by CNB include strong competition from numerous local and regional banks in Wayne County, where four of the bank's six moderate-income CTs in the AA are located. In contrast, CNB had only a single branch.

Lexington-Fayette, Kentucky MSA (AA2)

Though less weight was given to the bank's performance in AA2 due to the lower volume of activity, CNB's lending reflected reasonable dispersion across geographies of different income levels. There are no low income CTs in the AA. The bank originated 42.9 percent of home mortgage loans to borrowers in moderate-income CTs. Though slightly lower, the bank's performance approached the demographic comparator of 47.5 percent and the aggregate comparator of 49.6 percent.

Small Loans to Businesses

The bank exhibits excellent geographic distribution of business loans within the AAs. In part, this is reflective of CNB's participation in the SBA's PPP, which increased lending opportunities, especially in AA2. Refer to Table Q in *Appendix D: Tables of Performance Data* for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of small loans to businesses.

Non-MSA South-Central Kentucky (AA1)

Lending to geographies of different income levels in AA1 reflected excellent dispersion. There were no low-income CTs in the AA. The bank originated 37.5 percent of loans to businesses in moderate-income CTs. This was well above both the demographic comparator of 14.9 percent and the aggregate distribution of 10.9 percent.

Lexington-Fayette, Kentucky MSA (AA2)

Examiners gave less weight to performance in AA2 due to the low volume of lending, which did not produce a full sample of 20 loans for each year in the evaluation period. Nevertheless, CNB's lending reflected excellent dispersion across geographies of different income levels in this AA. There are no low income CTs in the AA. The bank originated 73.1 percent of loans to businesses in moderate-income CTs. This was well above the demographic comparator of 44.2 percent and the aggregate distribution of 45.5 percent.

Lending Gap Analysis

We analyzed CNB's geographic lending patterns throughout its AAs and did not identify any unexplained conspicuous lending gaps.

Distribution of Loans by Income Level of the Borrower

The bank exhibits a reasonable distribution of loans to individuals of different income levels and businesses of different sizes, given the product lines offered by the bank.

Home Mortgage Loans

The overall distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels in the AAs. Refer to Table P in *Appendix D: Tables of Performance Data* for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

Non-MSA South-Central Kentucky (AA1)

Examiners gave more weight to the bank's performance in this AA as a significant majority of lending takes place in this AA.

Lending to low-income borrowers in the AA is reasonable. The bank originated 4.2 percent of home mortgage loans to low-income borrowers. This is less than the demographic comparator of 27.4 percent but approximates to the 4.6 percent aggregate rate. The vast difference between the aggregate rate and the AA's demographic comparator is indicative of the challenges to lending. Factors affecting CNB's ability to lend to low-income borrowers included annual unemployment rates in all three counties that generally exceeded the state unemployment rate across the evaluation period. Further, the share of rental units as a percentage of total housing units in the AA is significant at 26.1 percent and may be a more attractive option to the 26.6 percent of households in the AA identified as having incomes below the poverty level. With the weighted average median housing value in the AA at around 4.2 times the 2021 annual income of a low-income family, the alternative of an average monthly gross rent of \$554 for a rental unit could represent a more affordable option and reduce the opportunities for banks to originate loans.

Lending to moderate-income borrowers in the AA is reasonable. The bank originated 15.4 percent of home mortgage loans to moderate-income borrowers. This is on par with the demographic comparator of 16.6 percent and exceeds the aggregate rate of 14.4 percent.

Lexington-Fayette, Kentucky MSA (AA2)

Though examiners placed less reliance on the bank's performance in this AA, CNB's lending to low- and moderate-income borrowers in AA2 reflects reasonable income distribution. CNB originated 5.7 percent of home mortgage loans to low-income borrowers, which is below the demographic comparator of 28.2 percent and slightly below the aggregate rate of 7.2 percent. CNB originated 17.1 percent of home mortgage loans in AA2 to moderate-income borrowers. This is slightly below the demographic comparator of 17.6 percent and the aggregate rate of 18.4 percent. Similar barriers to lending exist in AA2 as in AA1. These include the prevalence of rental units at 34.8 percent of total housing units and a weighted average median house value 5.6 times the annual income of a low-income family. Though unemployment in this AA was lower than statewide figures, the effects of the higher costs of living in the AA as evidenced by a median average house value well above the state average, make it difficult for some borrowers to afford a home. With a monthly gross rent of \$767 in the AA, renting may be more manageable than the costs associated with obtaining a mortgage on a house, thereby reducing opportunities to lend.

Small Loans to Businesses

CNB exhibits excellent distribution of loans to businesses of different sizes. In assessing CNB's performance, examiners weighted AA1 most heavily, as that is where a substantial majority of the bank's lending occurred. Refer to Table R in *Appendix D: Tables of Performance Data* for the facts and data used to evaluate the borrower distribution of the bank's originations and purchases of small loans to businesses.

Non-MSA South-Central Kentucky (AA1)

CNB's distribution of loans to businesses of different sizes is excellent. The bank originated 70.0 percent of its loans to businesses with known gross annual revenues (GAR) of \$1 million or less. This is below the demographic comparator of 85.5 percent but well above the aggregate comparator of 47.6 percent. Notably, the bank also originated another 15.0 percent of loans in the sample to businesses with revenues not available. All of these were PPP loans for which the bank was not required to obtain GAR information, but which were originated in amounts of less than \$100,000. Using loan size as a proxy for a business borrower's GAR would increase the bank's originations to small businesses to 85.0 percent or virtually the same as the demographic comparator and nearly double the aggregate rate.

Lexington-Fayette, Kentucky MSA (AA2)

Although reasonable, examiners gave little weight to lending performance in this AA. The volume of lending, aside from PPP loans for which limited GAR data was required to be obtained, is low. Nevertheless, the bank originated 26.9 percent of the loans in the sample to businesses with known GARs of \$1 million or less. This falls well below both the demographic comparator of 89.5 percent and the aggregate rate of 48.6 percent. However, 57.7 percent of the bank's originations in the sample were PPP loans for which no GAR information was available. Using loan amounts of less than \$100,000 as a proxy increases the bank's origination rate to small businesses to 84.6 percent, putting it on par with the demographic comparator and significantly exceeding the aggregate rate.

Responses to Complaints

CNB did not receive any written complaints regarding its CRA performance during the evaluation period.

Community Development Test

The bank’s performance under the community development test in the state of Kentucky is rated Satisfactory.

Conclusions for Areas Receiving a Full-Scope Review

Based on a full-scope review, the bank exhibits adequate responsiveness to CD needs in the state through CD loans, qualified investments, and CD services, as appropriate, considering the bank’s capacity and the need and availability of such opportunities for CD in the bank’s AAs.

Number and Amount of Community Development Loans

The CD loans table, shown below, sets forth the information and data used to evaluate the bank’s level of CD lending. The table includes all CD loans, including multifamily loans that also qualify as CD loans.

<i>CD Loans</i>				
Assessment Area	Total			
	#	% of Total #	\$(000's)	% of Total \$
AA1	63	100.0	\$6,958	100.0
AA2	0	0	0	0
Total	63	100.0	\$6,958	100.0

CNB demonstrated adequate responsiveness to the needs of its AAs through CD lending. Our conclusion considered the strong competition and the bank’s single branch location in AA2. CNB originated or renewed approximately 63 CD loans, totaling nearly \$7.0 million, during the evaluation period. The majority of these loans were small business loans which served to revitalize or stabilize distressed non-MSA middle-income geographies. One large loan was facilitated under the SBA’s PPP for a vital employer in the bank’s AA, helping to retain jobs that kept essential services operational during the COVID-19 pandemic.

Number and Amount of Qualified Investments

CNB’s level of qualified investments demonstrates adequate responsiveness to the CD needs of its AAs. The bank made one qualified investment during the current period and retained two from a prior period that supported the school district in AA1 where the majority of students qualify for free or reduced-price

meals under the United States Department of Agriculture’s school lunch program.

At the broader state-wide level, the bank made 11 new and maintained seven prior period investments. These included investments that benefitted various other Kentucky school districts with a majority of students receiving free or reduced-price lunches; provided for essential water district infrastructure projects that benefitted all residents, including LMI individuals and families; supported the creation of a community facility in a low-income CT with the purpose of promoting health and wellness to its citizens; and, that supported stabilization through the funding of government facilities building projects in *distressed* CTs.

Qualified Investments								
Assessment Area	Prior Period*		Current Period		Total			
	#	\$(000's)	#	\$(000's)	#	% of Total #	\$(000's)	% of Total \$
AA1	2	\$1,251	1	\$936	3	14.3	\$2,187	20.0
AA2	0	0	0	\$0	0	0	0	0
Kentucky	11	\$4,644	7	\$4,108	18	85.7	\$8,752	80.0
Total	13	\$5,895	8	\$5,044	21	100.0	\$10,939	100.0

* Prior Period Investments means investments made in a previous evaluation period that are outstanding as of the examination date.

In addition to the investments detailed above, the bank provided \$30,730 in grants or donations to qualified community or non-profit organizations in its AAs. These organizations had stated missions to build houses for, or to provide food or health care services to LMI individuals and families.

Extent to Which the Bank Provides Community Development Services

CNB’s CD services reflect adequate responsiveness to meeting community needs within its AAs. The bank’s physical presence in its AAs, the impact of COVID-19 government-mandated shutdowns during the evaluation period, and the needs of the community were considered in evaluating the bank’s responsiveness.

CNB offers a wide variety of loan products through various programs that are attractive to borrowers of varying means. During the current evaluation period, the bank originated and sold around \$108 million in home mortgage loans on the secondary market. Included in this total are loans originated under various programs designed to assist lower-income individuals and families afford homeownership. Specifically, the bank originated \$8.3 million in loans under the Kentucky Housing Corporation’s Mortgage Credit Certificate program, and 48 borrowers were granted \$252,500 under the Federal Home Loan Bank’s Welcome Home program. The bank’s participation in these programs help make entry into home ownership more affordable, a need identified by one community contact interviewed during the evaluation period.

As previously noted, the bank participated in the SBA’s PPP in 2020 and 2021 and offered COVID-19 loan payment deferrals to customers during the evaluation period. The bank offers free checking accounts, providing affordable entry for LMI individuals and the unbanked into the financial system. The bank opened 2,760 such accounts in 2020 and 2021. To facilitate access for all members of the community, the bank provides 24-hour remote access via digital and mobile banking channels and by telephone. Bank staff can also be available, by arrangement, to meet with customers outside of normal business hours if needed.

CNB officers and employees volunteered their financial expertise in a variety of ways during the evaluation period. In all, employees donated 103 hours in service to seven different entities. Hours spent included serving on boards, committees, or acting as treasurer for various entities that serve LMI populations, promote financial literacy, or have a mandate to revitalize distressed communities.

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Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSA(s) and non-MSA(s) that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

Time Period Reviewed:	January 1, 2020 – December 31, 2021	
Bank Products Reviewed:	Home mortgage, small business, CD loans, qualified investments, and CD services.	
Affiliate(s)	Affiliate Relationship	Products Reviewed
Not applicable		
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Kentucky		
AA1 Non-MSA South-Central Kentucky (Pulaski, Russell, and Wayne Counties)	Full Scope	
AA2 Lexington-Fayette County MSA (Jessamine County)	Full Scope	

Appendix B: Summary of MMSA and State Ratings

RATINGS		The Citizens National Bank of Somerset	
Overall Bank:	Lending Test Rating*	CD Test Rating	Overall Bank/State/Multistate Rating
CNB	Satisfactory	Satisfactory	Satisfactory
State:			
Kentucky	Satisfactory	Satisfactory	Satisfactory

(*) The Lending Test and Community Development Test carry equal weight in the overall rating.

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Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rating Area: A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (call report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (call report). These loans have original amounts of \$500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

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Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

- Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.
- Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.
- Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s assessment area.
- Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

The total loan amount presented in the tables for each assessment area may differ from the total loan amount reported in the aggregate table due to how the underlying loan data is rounded in each table.

- Table S. Assessment Area Distribution of Loans to Farms by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents aggregate peer data for the years the data is available. Because aggregate small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table T. Assessment Area Distribution of Loans to Farms by Gross Annual Revenues** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$500 thousand) originated and purchased by the bank to farms with revenues of \$1 million or less to: 1) the percentage distribution of farms with revenues of greater than \$1 million; and 2) the percentage distribution of farms for which revenues are not available. The table also presents aggregate peer small farm data for the years the data is available.
- Table U. Assessment Area Distribution of Consumer Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households in those geographies.
- Table V. Assessment Area Distribution of Consumer Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of households by income level in each MMSA/assessment area.

The total loan amount presented in the tables for each assessment area may differ from the total loan amount reported in the aggregate table due to how the underlying loan data is rounded in each table.

Table O: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																			2020-21
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
AA1	933	143,222	96.4	2,960	0.0	0.0	0.0	21.7	11.4	16.0	66.3	67.4	66.1	12.0	21.2	17.8	0.0	0.0	0.0
AA2	35	7,436	3.6	3,421	0.0	0.0	0.0	47.5	42.9	49.6	35.8	45.7	32.3	16.6	11.4	18.1	0.0	0.0	0.0
Total	968	150,659	100.0	6,381	0.0	0.0	0.0	29.2	12.5	34.0	57.5	66.6	48.0	13.3	20.9	18.0	0.0	0.0	0.0

Source: 2015 ACS; 01/01/2020 - 12/31/2021 Bank Data, 2021 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2020-21
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers		
	#	\$	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
AA1	933	143,222	96.4	2,960	27.4	4.2	4.6	16.6	15.4	14.4	19.6	20.4	19.4	36.4	50.2	43.4	0.0	9.9	18.2
AA2	35	7,436	3.6	3,421	28.2	5.7	7.2	17.6	17.1	18.4	19.5	17.1	17.7	34.8	40.0	38.4	0.0	20.0	18.4
Total	968	150,659	100.0	6,381	27.7	4.2	6.0	16.9	15.5	16.5	19.6	20.2	18.5	35.8	49.8	40.7	0.0	10.2	18.3

Source: 2015 ACS; 01/01/2020 - 12/31/2021 Bank Data, 2021 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%

The total loan amount presented in the tables for each assessment area may differ from the total loan amount reported in the aggregate table due to how the underlying loan data is rounded in each table.

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography																	2020-2021		
Assessment Area:	Total Loans to Small Businesses			Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available- Income Tracts			
	#	\$	% of Total	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	
AA1	40	6,270	60.6	0.0	0.0	0.0	14.9	37.5	10.9	70.7	52.5	74.8	14.5	10.0	14.3	0.0	0.0	0.0	
AA2	26	1,805	39.4	0.0	0.0	0.0	44.2	73.1	45.5	30.5	26.9	31.3	25.3	0.0	23.2	0.0	0.0	0.0	
Total	66	8,075	100.0	0.0	0.0	0.0	26.6	51.5	29.8	54.5	42.4	51.0	18.8	6.1	19.2	0.0	0.0	0.0	

Source: 2021 D&B Data; 01/01/2020 - 12/31/2021 Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues												2020-2021	
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available			
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans		
AA1	40	6,270	60.6	1,230	85.5	70.0	47.6	4.1	15.0	10.4	15.0		
AA2	26	1,805	39.4	1,478	89.5	26.9	48.6	3.6	15.4	6.9	57.7		
Total	66	8,075	100.0	2,708	87.1	53.0	48.2	3.9	15.2	9.0	31.8		

Source: 2021 D&B Data; 01/01/2020 - 12/31/2021 Bank Data; "--" data not available.
Due to rounding, totals may not equal 100.0

The total loan amount presented in the tables for each assessment area may differ from the total loan amount reported in the aggregate table due to how the underlying loan data is rounded in each table.