



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 10, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens Commerce National Bank
Charter Number 23092

534 Marsailles Road
Versailles, KY 40383

Office of the Comptroller of the Currency

10200 Forest 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, 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

Citizens Commerce National Bank (“CCNB”) has a satisfactory record of meeting community credit needs. This conclusion is based on the following.

- CCNB’s loan-to-deposit ratio is reasonable.
- A majority of CCNB’s loans originated during this evaluation period were within the assessment area.
- CCNB’s distribution of loans to small businesses with gross revenues less than \$1 million and low- and moderate-income individuals reflects reasonable penetration.
- CCNB’s geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.

SCOPE OF EXAMINATION

CCNB was evaluated using the Small Bank examination procedures. These procedures include a lending test to evaluate CCNB’s record of meeting the credit needs of its assessment area (“AA”) through its lending activities.

The CRA evaluation period covers the time period between July 31, 2006, and September 10, 2012. The lending test evaluated CCNB’s lending performance using loans originated from January 1, 2010 to December 31, 2011.

The scope of the lending test included an assessment of CCNB’s primary loan products within each of CCNB’s two assessment areas. We identified three primary loan products. They are business, residential real estate, and consumer loans. CCNB is subject to data collection and reporting requirements under the Home Mortgage Disclosure Act (“HMDA”), which requires banks to report residential real estate loan applications on HMDA Loan Application Registers (“LARs”). The OCC performed a data integrity review to verify the accuracy of CCNB’s HMDA data. We noted material errors on the 2010 HMDA LAR and could not rely of the information for this review. Due to the unreliable HMDA data, we based our lending test conclusion on loan sampling.

The overall rating is the consolidation of conclusions reached for each AA. When consolidating AA conclusions into the overall rating, the performance in the Woodford and Jessamine County AA was given more weight than performance in the Franklin County AA. CCNB’s primary business area is within Woodford and Jessamine County, as three of the four offices are located within the AA. CCNB’s presence in Franklin County is limited to a small branch which is relatively new. In addition, less than 14 percent of CCNB’s deposit base comes from deposits originated at the Franklin County branch.

DESCRIPTION OF INSTITUTION

CCNB is a full service intrastate bank, headquartered in Versailles, Kentucky, approximately 15 miles west of Lexington, Kentucky. CCNB is wholly owned by Citizens Commerce Bancshares, Inc, a one-bank holding company. CCNB opened in November of 1996. As of June 30, 2012, the Bank reported \$234 million in average total assets, \$186 million in total deposits, \$118 million in total loans, and \$9.3 million in Tier-One capital. The Bank offers traditional banking products and services and operates from four offices. Two of the offices are located in the city of Versailles in Woodford County. Since the last CRA examination, CCNB has added two branches. CCNB opened its Franklin County office in the city of Frankfort in October 2007, and opened a branch in Jessamine County in April 2009. In December 2011, CCNB relocated their Jessamine Country branch. The relocated Jessamine County branch is now located in a moderate-income level census tract. Each of CCNB's branch locations is full service and equipped with an ATM machine. CCNB is accessible to all segments of the community.

CCNB is a full-service lender offering various loan and deposit products. As of June 30, 2012, net loans represented approximately 50.6 percent of average assets. The loan portfolio mix is as follows: 1-4 family residential and home equity loans 40.3 percent, business-purpose loans 33.4 percent, farmland and agricultural production loans 15.1 percent, multifamily dwelling loans 7.4 percent, consumer loans 3 percent, and miscellaneous other loans 0.8 percent. In addition, CCNB routinely originates home mortgage loans to local borrowers and sells them in the secondary market. Two loan officers are dedicated to originating home mortgage loans for the secondary market, one in Woodford County and one in Jessamine County. Since January 1, 2010, CCNB has made 223 secondary market loans totaling \$32.4 million.

During this CRA evaluation period, CCNB's ability to lend and meet the credit needs of the community has been impacted by the terms of a consent order with the Office of the Comptroller of the Currency executed March 16, 2010, due to the condition of CCNB. The terms of the consent order call for achievement of minimum capital ratios and additional requirements in regard to asset diversification and lending systems and controls. Tier-One Leverage as of June 30, 2012, was 4.03 percent and averaged 6.1 percent during the CRA evaluation period making it difficult for CCNB to fund new loans. A significant portion of CCNB's resources and strategic initiatives have been devoted to addressing the requirements of the consent order and improving the condition of CCNB.

The last CRA evaluation was performed July 31, 2006. CCNB received a rating of satisfactory.

DESCRIPTION OF ASSESSMENT AREAS

CCNB has delineated two assessment areas for CRA purposes. The first AA consists of two counties (Woodford and Jessamine) and the second AA consists of one county (Franklin). Woodford and Jessamine counties are part of the Lexington-Fayette Metropolitan Statistical Area ("MSA"). The AAs conform to the regulatory requirements of CRA. They are appropriate in relation to the location of CCNB's office and do not arbitrarily exclude any low- and moderate- income areas.

A review of community contacts familiar with the area's credit needs indicated that all local banks are active in meeting the community's needs, particularly the community banks. One contact identified loans to small businesses as a credit need in the community.

We identified primary loan products for each AA based on the number and dollar amount of loan originations since January 1, 2010, in each AA. The Woodford and Jessamine County AA primary loan products are business loans and residential real estate loans. The primary loan product of the Franklin County AA is consumer loans.

Description of Assessment Area 1 ("AA1"): Woodford and Jessamine County

AA1 consists of Woodford and Jessamine County, which are both located within the Lexington-Fayette MSA. The largest city in Woodford County is Versailles. The largest city in Jessamine County is Nicholasville. The remainder of AA1 is rural in nature, with a large number of horse farms. Several residential subdivisions are located throughout both counties. Both Nicholasville and Versailles are located 14 and 13 miles from Lexington, Kentucky respectively. Lexington, Kentucky is the second largest city in the state. A large portion of the Woodford and Jessamine County population commute daily to Lexington for employment.

The 2000 U.S. Census divides AA1 into 13 census tracts. There are zero low-income census tracts, three moderate-income tracts, seven middle-income tracts, and three upper-income tracts. The census tract determinations are based on the 2011 median family income for a MSA of \$66,200 as estimated by the U.S. Department of Housing and Urban Development ("HUD").

According to the 2000 U.S. Census, the population of AA1 was 62,249, which has risen to approximately 73,991 as of June 2011. The 2000 population was comprised of 17,441 families. Forty percent, or 6,881 of the families, have low- or moderate-incomes. Additionally, 10 percent of households in AA1 live below the poverty level and 2 percent receive public assistance.

As of June 2012, both Woodford and Jessamine County's unemployment rates were below the state of Kentucky's average unemployment rate. Kentucky's unemployment rate in June 2012, was approximately 8.2 percent, while Woodford and Jessamine County's unemployment rates were 5.8 and 7.2 percent, respectively. The Cabinet for Economic Development lists the following largest industrial firms for each county.

- Woodford County:
 - OSRAM Sylvania employs over 550 individuals and manufactures glass tubing and other components used in the automotive industry.
 - QuadGraphics employs approximately 500 individuals. Their primary products and services include book printing, binding, and distribution.
 - Pilkington North America employs approximately 300 individuals and manufactures glass windowing for automobiles.
- Jessamine County:
 - McLane Cumberland is a food distribution center that employs over 400 individuals.

- McKechnie Vehicle Components employs over 400 individuals. The company manufactures plastic injection modeling, chrome, and stainless steel plating.
- Alltech Inc employs over 300 individuals at their corporate headquarters within the county and manufactures animal feed additives.
- R J Corman Railroad Group LLC is headquartered in the county and employs approximately 300 individuals. The company provides rail services.

Competition from other financial institutions is very strong, notably in Jessamine County. CCNB’s competitors include five large regional banks with total deposits ranging from \$1.7 billion to \$743 billion and numerous community banks. According to the Federal Deposit Insurance Corporation (“FDIC”), 13 banks with 32 offices operate within AA1. CCNB operates three branches within AA1. As of June 30, 2011, these three offices hold a combined total of \$185 million in deposits and maintain 19 percent of AA1’s deposit market share.

The following additional demographic information is based on 2000 census data unless otherwise noted.

AA 1: Woodford and Jessamine Counties

Demographic Information for Full Scope Area: Lexington-Fayette MSA (Woodford and Jessamine Counties)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	13	0.00%	0.00%	10.00%	90.00%	0.00%
Population by Geography	62,249	0.00%	0.00%	5.92%	94.08%	0.00%
Owner-Occupied Housing by Geography	15,747	0.00%	0.00%	4.53%	95.47%	0.00%
Business by Geography	8,051	0.00%	0.00%	4.85%	95.15%	0.00%
Farms by Geography	612	0.00%	0.00%	3.31%	96.69%	0.00%
Family Distribution by Income Level	17,441	19.50%	19.95%	22.14%	38.41%	0.00%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	6,881	0.00%	29.40%	53.04%	17.56%	0.00%
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		= \$51,365 = \$66,200 = 9.99%	Median Housing Value Unemployment Rate		= \$114,121 See Above	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census, 2011 Business Demographic Data, and 2011 HUD updated median family income (“MFI”).

Note: These numbers were obtained directly from the 2000 U.S. Census and may not equal exactly 100 percent for each category.

Description of Assessment Area 2 (“AA2”): Franklin County

Franklin County is a rural county located in a non-metropolitan portion of Central Kentucky. It is located 27 miles from Lexington, Kentucky and 54 miles from Louisville, Kentucky. Franklin County is the home of Kentucky’s state capital, Frankfort. Forty-two percent of the county’s residents commute outside the county for employment.

The 2000 U.S. Census divides AA2 into 10 census tracts, with one middle-income tract, and nine upper-income tracts. This determination was based on the Kentucky 2000 median family income for a non-metropolitan area of \$43,000.

According to the 2000 U.S. Census, AA2 had a total population of 47,687. The population has grown to approximately 49,393 as of June 2011. The 2000 population was comprised of 12,831 families, of which 21 percent are considered to have low- or moderate-incomes. Twelve percent of households in Franklin County live below the poverty level, and 1.89 percent receives public assistance.

Franklin County has a lower unemployment rate than the state average. As of June 2012, Franklin County has an unemployment rate of 7.0 percent, while the state of Kentucky has an unemployment rate of 8.2 percent. Franklin County’s unemployment rate has declined from 8.4 percent since June 2011.

The Kentucky State Government employs a large number of individuals in the city of Frankfort, but the Cabinet for Economic Development lists the following largest industrial firms for Franklin County.

- Montaplast of North America employs approximately 700 individuals and produces plastic injection moldings used in the automotive industry.
- Buffalo Trace Distillery employs approximately 325 individuals and is a distiller of bourbon whiskey.
- Beam Inc. employs approximately 275 individuals and bottles distilled liquor.
- TOPY America Inc. employs approximately 250 individuals and produces steel road wheels for passenger cars and light trucks.

Competition from other financial institutions is also strong. CCNB operates one branch in Franklin County located in a residential area. According to the FDIC, as of June 30 2011, eleven banks with 22 offices operate in the county. These offices hold a combined total of approximately \$906 million in deposits, with CCNB having a 3.28 percent deposit market share. CCNB’s market share ranks seventh.

The following additional demographic information is based on the 2000 census data unless otherwise noted.

AA2: Franklin County

Demographic Information for Full Scope Area: Non-MSA AA (Franklin County)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.00%	0.00%	10.00%	90.00%	0.00%
Population by Geography	47,687	0.00%	0.00%	5.92%	94.08%	0.00%
Owner-Occupied Housing by Geography	12,900	0.00%	0.00%	4.53%	95.47%	0.00%
Business by Geography	5,462	0.00%	0.00%	4.85%	95.15%	0.00%
Farms by Geography	151	0.00%	0.00%	3.31%	96.69%	0.00%
Family Distribution by Income Level	12,831	10.71%	10.33%	15.20%	63.77%	0.00%
Distribution of Low and Moderate Income Families throughout AA Geographies	2,699	0.00%	0.00%	12.56%	87.44%	0.00%
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		= \$32,884 = \$43,000 = 11.64%	Median Housing Value Unemployment Rate		= \$91,179 See above	

(* The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census, 2011 Business Demographic Data, and 2011 HUD updated MFI.

Note: These numbers were obtained directly from the 2000 U.S. Census and may not equal exactly 100 percent for each category.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending Test

CCNB’s performance under the lending test is satisfactory. CCNB’s net loan-to-deposit ratio is reasonable and a majority of loan originations were inside CCNB’s AA. CCNB’s borrower distribution reflects reasonable penetration among businesses of different sizes and borrowers of different income levels. Overall, the geographic distribution of loans reflects reasonable dispersion. There were no complaints regarding CCNB’s performance in meeting the credit needs of the community.

Our conclusions for the lending test took into consideration the effect of the formal enforcement action on CCNB’s ability to lend. Additionally, less weight and consideration was given to AA2 due to the previously stated facts.

Loan-to-Deposit Ratio

CCNB’s net loan-to-deposit ratio is reasonable given its size and financial condition. CCNB’s net loan-to-deposit ratio averaged 89.45 percent over the 23 quarters since the previous CRA examination. This ratio ranged from a quarterly low of 60.57 percent to a quarterly high of 105.73 percent during the time period.

The Bank’s net loan-to-deposit ratio compares favorably with other community banks of similar size and location. CCNB has the highest net loan-to-deposit ratio when compared to a total of five similarly situated banks serving the AAs. The other five banks had average net loan-to-deposit ratios ranging from 72.38 percent to 81.74 percent over the last 23 quarters. The average net loan-to-deposit ratio of the five other banks was 78 percent.

Institution and Total Assets (000’s)	Average Net Loan-to-Deposit Ratio
Citizens Commerce National Bank	89%
First Southern National Bank Total assets \$708,103	72%
Farmers Bank & Capital Trust Company Total assets \$731,488	73%
Kentucky Bank Total assets \$677,172	82%
Farmers Bank Total assets \$103,371	80%
United Bank & Trust Company Total assets \$579,933	82%

Lending in Assessment Area

A majority of the primary loan products originated between January 1, 2010, and December 31, 2011, were to borrowers within the CCNB’s AAs. When combining all three loan types, 80 percent of loans and 84 percent of the original principal of these loans were originated inside the CCNB’s AAs.

The following table details CCNB’s lending within the AA by number and dollar amount of loans originated during the evaluation period.

Lending in Woodford, Jessamine, and Franklin Counties										
Loan Type	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	17	85.00%	3	15.00%	20	\$1,884	90.76%	\$192	9.24%	\$2,075
Business Loans	14	70.00%	6	30.00%	20	\$892	72.07%	\$346	27.93%	\$1,237
Consumer Loans	17	85.00%	3	15.00%	20	\$130	82.74%	\$27	17.26%	\$157
Totals	48	80.00%	12	20.00%	60	\$2,905	83.74%	\$564	16.27%	\$3,470

Source: Random sample of 1-4 family residential real estate, business loans, and consumer loans originated between January 1, 2010, and December 31, 2011.

Lending to Businesses of Different Sizes and Individuals of Different Incomes

The distribution of loans reflects reasonable penetration among businesses of different sizes and individuals of different income levels. The borrower distribution of loans in AA1 is reasonable. The borrower distribution of loans in AA2 is reasonable; however this conclusion is based on the borrower distribution of low-lending activity.

Performance Woodford and Jessamine County AA1

The borrower distribution of loans in AA1 is reasonable. The penetration of loans to small businesses is excellent, and the distribution of residential real estate loans reflects reasonable penetration among individuals of different incomes, including low- and moderate-income borrowers in AA1.

Business Loans

The distribution of business loans to businesses of different sizes in AA1 reflects reasonable penetration when compared to the percentage of small businesses in AA1. CCNB made 85 percent of their business loans to small businesses entities with annual revenues less than \$1 million, which is comparable to the demographic comparator of 71 percent, since it is also likely most of the businesses with unavailable data are also small businesses

The following table shows the distribution of business loans among different sized businesses in AA1.

Borrower Distribution of Loans to Businesses in Woodford and Jessamine County AA1				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.36%	2.10%	26.54%	100%
% of Bank Loans in AA by #	85.00%	10.00%	5.00%	100%
% of Bank Loans in AA by \$	80.38%	12.80%	6.82%	100%

Source: % of AA Businesses derived from 2000 U.S. Census data. Random sample of business loans originated between January 1, 2010, and December 31, 2011.

Residential Real Estate Loans

The distribution of residential real estate loans reflects excellent penetration among borrowers of different income levels, including low- and moderate-income borrowers. CCNB’s level of lending to low- income borrowers is slightly below the demographic comparator, but CCNB’s level of lending to moderate-income borrowers exceeds the demographic comparator. Within the sample of loans originated between January 1, 2010, and December 31, 2011, CCNB made 15% and 25% of their loans to low- and moderate-income borrowers, respectively.

The following table shows the distribution of residential real estate loans among borrowers of different income levels compared to the percent of families in each income category.

Borrower Distribution of Residential Real Estate Loans in the Woodford and Jessamine County AA1								
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
Residential Real Estate Loans	19.50%	15%	19.95%	25%	22.14%	15%	38.41%	45%

Source: % of AA Businesses derived from 2000 U.S. Census data. Random sample of 1-4 family residential real estate loans originated between January 1, 2010 and December 31, 2011.

Performance in Franklin County AA2

The distribution of consumer loans reflects reasonable penetration among individuals of different incomes, including low- and moderate-income borrowers in the Franklin County AA. However, lending activity in AA2 has been minimal. From January 1, 2010 through December 31, 2011, CCNB originated 11 consumer loans to borrowers in Franklin County, totaling \$60,825. One contributing factor to the low level of lending activity is CCNB did not have a full-time loan officer at the Franklin County branch in 2010 and 2011. The staffing situation recently changed. CCNB now has a full-time loan officer at the Franklin County branch.

Consumer Loans

The distribution of consumer loans to borrowers in AA2 reflects reasonable penetration among borrowers of different income levels. Consumer loans to low-income borrowers represented 20 percent of loans, which exceeds the demographic comparator of 16.39 percent. Consumer loans to moderate-income borrowers represented 10 percent of loans, which is similar to the demographic comparator of 10.77 percent.

The following table shows the distribution of consumer loans among borrowers of different income levels compared to the percent of households in each income category.

Borrower Distribution of Consumer Loans in Franklin County AA2								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	16.39%	20.00%	10.77%	10.00%	15.02%	30.00%	57.83%	40.00%

Source: % of AA Households derived from 2000 U.S. Census data. All consumer loans (11) originated between January 1, 2010, and December 31, 2011.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout AA1 given the requirements of CCNB’s consent order and the strong level of competition.

AA2 does not contain any low- or moderate-income geographies to measure dispersion, thus an analysis is not meaningful.

Performance in the Woodford and Jessamine County AA1

CCNB’s geographic distribution of loans in this assessment area reflects reasonable dispersion throughout the moderate-income census tracts. There are no low-income census tracts in the AA. Loans for small businesses was identified as a credit need in this AA, therefore more weight is placed on business loans.

Business Loans

CCNB’s geographic distribution of business loans reflects reasonable dispersion into moderate-income census tracts. CCNB originated 5 percent of their business loans to entities located in moderate-income census tracts. CCNB’s lending performance in the moderate-income tracts is lower when compared to the demographic comparator of 18 percent, but reasonable given the short length of time CCNB has been in Jessamine County and the strong competition. In addition, one of the three moderate-income census tracts is comprised of rural and agricultural properties. Agricultural lending is not a primary product of CCNB.

The following table details the Bank’s performance compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses in Woodford and Jessamine County 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 Loans	N/A	N/A	18.49%	5.00%	48.58%	50%	32.93%	45.00%

Source: % of AA Business derived from 2000 U.S. Census data. Random sample of business loans originated between January 1, 2010, and December 31, 2011.

Residential Real Estate Loans

The geographic distribution of residential real estate loans to borrowers in the moderate-income census tracts reflects poor dispersion. CCNB’s level of lending to borrowers in moderate-income census tracts is significantly below the demographic comparator. Based on an expanded random sample, CCNB did not originate any residential real estate loans to borrowers in the AA1’s moderate-income census tracts despite 20 percent of the AA’s owner-occupied housing being located in the moderate-income census tracts due to the Bank’s financial constraints and competition

The following table details CCNB’s performance compared to the percentage of owner-occupied housing units in each census tract income level.

Geographic Distribution of Residential Real Estate Loans Woodford and Jessamine County 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
Residential Real Estate Loans	N/A	N/A	20.19%	0%	49.58%	23.40%	30.23%	76.60%

Source: % of AA Owner Occupied Housing derived from 2000 U.S. Census data. Random sample of residential real estate loans originated between January 1, 2010, and December 31, 2011.

Performance in Franklin County AA

A geographic distribution analysis was not performed. AA2 does not include any low- or moderate- income census tracts; therefore the analysis is not meaningful.

Responses to Complaints

CCNB has not received any CRA complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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

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