



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 9, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank
Charter Number 10359

116 S. Lincoln
Arlington, KS 67514

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 South Minnesota Ave, Suite 300
Sioux Falls, SD 57108

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."

Summarize the major factors supporting the institution's rating.

- The bank's loan-to-deposit ratio is more than reasonable given the bank's size and financial condition and the assessment area (AA) credit needs.
- Overall borrower distribution to small businesses, small farms, and to low- and moderate-income borrowers is more than reasonable.
- A majority of the bank's loans are originated to borrowers within the bank's designated AAs.

SCOPE OF EXAMINATION

Citizen's National Bank (CNB) was evaluated under the Small Bank examination procedures. This examination covers CRA-related activities from March 7, 2003 through December 31, 2008.

Primary products for each of the AAs were determined by analyzing bank data including the number and dollar volume of loan originations from January 1, 2006 through December 31, 2008. Primary products are consumer and agricultural for the Arlington AA, consumer and commercial for the Attica AA, and commercial, consumer, and home purchase for the McPherson AA. Other loan types were excluded due to low volume in each AA. Examiners also reviewed the bank's CRA public file and conducted a community contact in each defined AA.

DESCRIPTION OF INSTITUTION

CNB is a \$46 million bank headquartered in Arlington, Kansas. The bank has three locations including the main office in Arlington and branches in McPherson and Attica, Kansas. The bank has two automated teller machines located at the offices in Arlington and McPherson. The bank is a wholly owned subsidiary of Citizens National Corporation, a three-bank holding company located in Wisner, Nebraska. Affiliates include Citizens National Bank, Wisner, NE; Elkhorn Valley Insurance Agency, Inc.; and United Republic Bank in Omaha, NE. On December 31, 2008, the holding company had total assets of \$238 million. There have been no changes in the bank's corporate structure.

CNB is a full service bank offering a variety of loan products with an emphasis on agricultural and consumer loans. On December 31, 2008, net loans represented 67 percent of the bank's total assets. The bank's \$31 million loan portfolio has the following composition: 59 percent agricultural; 24 percent commercial; 9 percent consumer; and 8 percent residential real estate. The bank has not changed any existing loan products, or offered any new products since the previous CRA examination.

The bank received a "Satisfactory" rating during its March 6, 2003 CRA examination. There are no financial, legal, or other factors that impede the bank's ability to meet the credit needs of its AAs.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's primary market is in the state of Kansas, where all three branches are located. The bank has three AAs. A brief description of each AA is below.

Arlington AA

The Arlington AA consists of Reno County, Kansas, which is located in South Central Kansas. The area consists of one middle-income census tract. The AA has a total population of 2,785 and 1,321 housing units. The 2000 median family income was \$38,065 and the HUD 2008 updated median family income was \$50,100. The bank's Arlington branch serves this AA.

The economy in the area is characterized as stable. Major employers in the area include Promise Regional Medical Center (hospital), Dillons Companies (groceries), Hutchinson Clinic, and local government (including public schools). According to the Bureau of Labor Statistics, the unemployment rate for Reno County in December 2008 was 4.2 percent. This compares favorably to the national unemployment rate of 7.2 percent and the state unemployment rate of 5.0 percent.

Attica AA

The Attica AA consists of Barber and Harper Counties in Kansas. The counties are located in South Central Kansas. The area consists of five middle-income census tracts, all of which are designated as distressed and/or underserved non-metropolitan tracts. The AA has a total population of 11,843 and 6,010 housing units. The 2000 median family income was \$39,753 and the HUD 2008 updated median family income was \$50,100. The bank's Attica branch serves this AA.

The economy in the area is characterized as stable. Major employers in the area include Elkhorn Valley Packing Company (meat packing) and local government (including public schools). According to the Bureau of Labor Statistics, the unemployment rate for Barber and Harper Counties in December 2008 was 3.4 percent and 3.6 percent, respectively. This compares favorably to the national unemployment rate of 7.2 percent and the state unemployment rate of 5.0 percent.

McPherson AA

The McPherson AA consists of McPherson County, Kansas, which is located in Central Kansas. The area consists of one upper- and two middle-income census tracts. The AA has a total population of 14,344 and 5,852 housing units. The 2000 median family income was \$49,438 and the HUD 2008 updated median family income was \$50,100. The bank's McPherson branch serves this AA.

The economy in the area is characterized as stable. Major employers in the area include Hospira (manufacturer of hospital products), National Cooperative Refinery Association (distills fuel and gasoline products), and local government (including public schools). According to the Bureau of Labor Statistics, the unemployment rate for McPherson County in December 2008 was 3.7 percent. This compares favorably to the national unemployment rate of 7.2 percent and the state unemployment rate of 5.0 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly net loan-to-deposit ratio averaged 83.10 percent for the 24 quarters from March 31, 2003 through December 31, 2008. During this 24-quarter period, the ratio ranged from a quarterly low of 74.45 percent to a quarterly high of 92.41 percent.

The bank's net loan-to-deposit ratio is more than reasonable when compared with other community banks of similar size (total assets of less than \$100 million) located in the AAs. CNB ranks first among seven similarly situated banks serving the AAs. The other six banks had quarterly average net loan-to-deposit ratios averaging 65.80 percent and ranging from 43.71 percent to 80.11 percent over the 24 quarters from March 31, 2003 through December 31, 2008.

Lending in Assessment Area

CNB originates a majority of loans to borrowers located within its designated AAs. Of loans originated from January 1, 2006 to December 31, 2008, approximately 79 percent by number and 51 percent by dollar volume, were made to borrowers within the bank's AA. The dollar volume of agricultural loans originated within the AA is low because the bank purchases large agricultural loans from its affiliate in Nebraska. The table below shows loans originated inside the AA by number and dollar volume.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	14	70%	6	30%	20	\$487	17%	\$2,368	83%	\$2,855
Commercial	32	80%	8	20%	40	\$1,878	86%	\$317	14%	\$2,195
Consumer	51	85%	9	15%	60	\$305	82%	\$65	18%	\$370
Res Real Estate	13	65%	7	35%	20	\$887	53%	\$795	47%	\$1,682
Totals	110	79%	30	21%	140	\$3,557	50%	\$3,545	50%	\$7,102

Source: Bank records (verified by examiners)

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

Overall borrower distribution is more than reasonable. Lending to small farms in the Arlington AA and to small businesses in the Attica and McPherson AAs is excellent. Consumer lending to low-income borrowers in the Arlington and Attica AAs is excellent. Consumer lending to moderate-income borrowers in the McPherson AA is excellent. Consumer lending to low-income borrowers in the McPherson AA and moderate-income borrowers in the Attica and Arlington AAs is reasonable. Home purchase lending to low- and moderate-income borrowers in the McPherson AA is reasonable.

CNB’s distribution of loans to small farms in the Arlington AA reflects excellent penetration. The bank’s agricultural lending by both number and dollar volume exceeds community demographics. All of the 20 agricultural borrowers sampled had gross annual revenues of less than \$1 million, which exceeds AA demographics of 99 percent. We did not analyze agricultural loans originated in the Attica or McPherson AAs due to minimal volume. The following table compares the bank's agricultural lending activity by revenue size to farm demographics.

Borrower Distribution of Loans to Farms in the Arlington AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Bank records (verified by examiners) and U.S. Census Agricultural Census Data (2008)

Distribution of consumer loans to borrowers of varying income levels is more than reasonable. Our sample of consumer loans included 60 loans, 20 from each of CNB’s three AAs. Lending to low-income borrowers in the Arlington and Attica AAs is excellent and significantly exceeds community demographics. Lending to low-income borrowers in the McPherson AA is reasonable and meets community demographics. Lending to moderate-income borrowers in the McPherson and Attica AAs is excellent and significantly exceeds community demographics. Lending to moderate-income borrowers in the Arlington AA is reasonable and meets community demographics. The following table compares the bank's consumer lending activity by borrower income level to community demographics.

Borrower Distribution of Consumers Loans						
Borrower Income Level	Arlington AA		Attica AA		McPherson AA	
	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households	% of Number
Low	25.49	45.00	24.16	40.00	17.74	25.00
Moderate	27.45	30.00	19.26	30.00	13.93	35.00
Middle	23.53	20.00	20.83	20.00	18.68	25.00
Upper	23.53	5.00	35.75	10.00	49.65	15.00
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Bank records (verified by examiners) and U.S. Census Data

Distribution of loans to businesses of various revenue sizes is excellent. Our sample of commercial loans included 20 loans from the Attica AA and 20 loans from the McPherson AA. The number of loans to businesses with gross annual revenues of less than \$1 million for the Attica and McPherson AAs is more than reasonable and exceeds business demographic data. Lending by dollar volume to businesses with gross annual revenues of less than \$1 million for the Attica AA (66 percent) is more than reasonable and exceeds business demographic data of 49 percent. Lending by dollar volume to businesses with gross annual revenues of less than \$1 million for the McPherson AA (55 percent) is near the business demographic data of 49 percent and is reasonable given that the number of loans to small business for this AA exceeds business demographic data. We did not analyze commercial loans originated in the Arlington AA due to minimal volume. The following table compares the bank's commercial lending activity by revenue size to business demographics.

Borrower Distribution of Commercial Loans						
Gross Annual Revenue	Attica AA			McPherson AA		
	% of Dollar	% of Number	Business Data	% of Dollar	% of Number	Business Data
≤\$1,000,000	66%	90%	49%	55%	85%	65%
>\$1,000,000	34%	10%	3%	45%	15%	8%
Unknown	0%	0%	48%	0%	0%	27%
Totals	100%	100%	100%	100%	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (2008)

Distribution of home purchase loans to borrowers of various income levels is more than reasonable. Our sample included 20 home purchase loans in the McPherson AA. Lending to low-income borrowers is more than reasonable and exceeds community demographics. Lending to moderate-income borrowers is reasonable and meets community demographics. We did not analyze home purchase loans originated in the Arlington or Attica AAs due to minimal volume. The following table compares the bank's home purchase lending activity by borrower income level to community demographics.

Borrower Distribution of Residential Real Estate Loans in McPherson AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Home Purchase	12.32	21.43	13.76	14.29	28.01	28.57	45.91	35.71

Source: Bank records (verified by examiners) and U.S. Census Data

Geographic Distribution of Loans

Analysis of the geographic distribution of loans is not meaningful because the bank's AAs contain no low- or moderate-income census tracts.

Responses to Complaints

The bank has not received any CRA-related complaints during the assessment period.

Fair Lending or Other Illegal Credit Practices Review

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