



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 30, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers National Bank
Charter Number 22928

13447 Dixie Highway
Walton, KY 41094

Office of the Comptroller of the Currency

Louisville Field Office
9200 Shelbyville Road, Suite 505
Louisville, KY 40222-5134

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.

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of the Farmers National Bank, Walton, Kentucky prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 30, 2009. The agency rates CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

This institution is rated Satisfactory.

Major Conclusions:

- A majority of loans and other lending-related activities are in the bank's assessment area.
- The average loan-to-deposit ratio is more than reasonable, considering the bank's size, financial condition, and assessment area credit needs.
- The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.
- The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Farmers National Bank's lending activity extends throughout the AA.

SCOPE OF EXAMINATION

We performed a full-scope review of the bank's assessment area ("AA"). Conclusions regarding the bank's lending performance are based on loans originated between January 1, 2007 and March 31, 2009. Our analysis is based on a sample of residential and small business loans taken from this evaluation period. As part of our examination, we conducted a data integrity review of the Home Mortgage Disclosure Act ("HMDA") and found the data to be reliable.

DESCRIPTION OF INSTITUTION

Farmers National Bank ("FNB") is a \$69 million intrastate institution located in Walton, Kentucky, approximately 20 miles south of Cincinnati, Ohio. FNB is wholly owned by Commonwealth Trust Bancorp, Inc., a single bank holding company. The bank has a main office and three full-service branches. The main office and one full-service branch are located in Kenton County. The other two branches are located in Pendleton County. The main office is located in Walton. One branch is located in Independence, one in Butler, and the other in Falmouth. All four locations have drive-thru facilities. FNB has four Automated Teller Machines ("ATM") and seven cash dispensers. An ATM is at each location. Cash dispensers are located at the Blue Pantry in Independence, the Blue Pantry in Walton, the Blue Pantrys on U.S. 42 and Turfway Road in Florence, the BB's Super Store in Falmouth and Butler, and the Drawbridge Estates in Ft. Mitchell.

As of December 31, 2008, the bank's net loan portfolio totaled approximately \$57 million, or 79% of average assets. Tier-One capital was \$6.8 million. The loan mix at December 31, 2008 was as follows: 1-4 family residential mortgages 51%, commercial and commercial real estate loans 34%, farm loans 11%, consumer loans 3%, and other loans 1%.

The bank offers traditional banking services and lending products including several government-sponsored loan programs such as Federal Home Loan Bank ("FHLB"), Rural Housing Service ("RHS"), and Kentucky Housing Corporation ("KHC"). Through the FHLB, the bank offers Affordable Housing Program ("AHP") funds which are being used to help create home ownership. These funds are available to members as grants up to \$5,000 to assist homebuyers under the Welcome Home program. Welcome Home funds may be used to fund a reasonable downpayment and closing costs incurred in conjunction with the acquisition of owner-occupied housing to be used as primary residences by low- and moderate-income homebuyers. FNB continues to be community oriented and offers a wide variety of loan products including residential real estate, commercial, agricultural, and consumer.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. The last CRA evaluation was performed March 1, 2004. The bank received a rating of Satisfactory. The coverage period for this evaluation is from April 1, 2005 to March 31, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's assessment area ("AA") consists of portions of Boone, Campbell, Grant, Kenton, and Pendleton counties, which includes the Kentucky cities of Butler, Crittenden, Falmouth, portions of Independence, and Walton. The AA is located within the Cincinnati, OH-KY-IN Metropolitan Statistical Area (MSA 1640). The 2000 U.S. Census divides the AA into fourteen census tracts ("CTs"), with two moderate-income, eleven middle-income, and one upper-income geography. There are no low-income CTs in the AA. The assessment area delineation is in conformance with the regulatory requirements of CRA and appears appropriate in relation to the location of the bank's offices. The delineation of the assessment area does not arbitrarily exclude any low- or moderate-income areas.

The AA has a total population of 63,728 according to the 2000 U.S. Census. That number has declined from a total population of 64,435 in 2004. The population is comprised of 17,979 families, of which 6,672, or 37%, are considered to have low- or moderate-incomes. In addition, the percentage of households receiving public assistance is approximately 2%. Other significant factors to consider include: 22% of the households are on social security, 15% are retired, and 7% live below the poverty level.

The AA is centrally located in Northern Kentucky and has two major highways intersecting nearby. The major industry is services and public administration, followed by retail trade and agriculture. There are some small manufacturers within the AA, but most are closer to the Ohio River in Northern Kentucky and Cincinnati. Grant and Pendleton Counties have unemployment rates higher than the state average (9.3% and 9.5% versus 7.6% as of December 2008). However, Boone, Campbell, and Kenton County's unemployment rates of 6.8%, 7.4%, and 7.1% are below the state average. The national average rate is 5.6%.

Competition is heavy and many financial institutions service the assessment area. According to the Federal Deposit Insurance Corporation (FDIC) website, twenty-seven banks with 195 offices operate within these counties. These offices hold a combined total of \$5.4 billion in local deposits, as of June 30, 2008, and FNB has less than one percent of the market share. The competition includes seven large regional banks with total deposits ranging from \$37 billion to \$461 billion and twenty community or mid-size banks with total deposits ranging from \$22 million to \$2.7 billion.

We performed one community contact interview during our evaluation. We contacted a member of the Pendleton County business and labor group. The contact indicated the overall credit needs of the community are being met by local banks.

The following additional demographic information covering the bank's assessment area is based on 2000 census data unless otherwise noted.

Type of Information	AA	
Total Population in AA	63,728	
Average Median Family Income -- 2008	\$54,221	
Families in AA:		
Income Levels of Families	#	%
Low	3,211	18
Moderate	3,461	19
Middle	5,099	28
Upper	6,208	35
Total Families within AA	17,979	100
Median Housing Value	\$116,393	
Median Year Built:	1979	
Businesses in AA:	#	%
Under \$1 Million Revenue	2,515	57
Over \$1 Million Revenue	122	3
Revenue Not Reported	1,761	40
Total	4,398	100

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the Lending Test is rated **"Satisfactory."**

Because residential real estate lending is the bank's primary business line, more weight was given to residential lending when evaluating performance under the criteria detailed below.

Loan-to-Deposit Ratio

The Farmers National Bank's loan-to-deposit ratio is reasonable and exceeds the standard for outstanding performance given FNB's size, financial condition, and assessment area credit needs. The bank's average quarterly loan-to-deposit ratio for the twenty quarters since the last CRA evaluation was 94.46%. This average was compared to the average of two other banks in the assessment area considered similarly situated and comparable to FNB in asset size and major lending products. FNB's loan-to-deposit ratio has increased since the last CRA evaluation and as of December 31, 2008 was 98.80%. Refer to the table below for comparative data:

Loan-To-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 12/31/2008)	Average Loan -to-Deposit Ratio
Farmers National Bank	68,765	94.46%
Bank #1		73.25%
Bank #2		62.68%

Source: Institution Reports of Condition from January 31, 2004 to December 31, 2008.

Lending in Assessment Area

FNB's lending in its AA meets the standard for satisfactory performance. A majority of the number and dollar amounts of residential home mortgages and business loans were originated within the bank's AA. As depicted in the table below, 69% of the number and 68% of the dollar amount of loans were originated in FNB's AA.

Lending in FNB's AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	133	71	55	29	188	12,500	70	5,388	30	17,888
Business	10	50	10	50	20	964	52	907	48	1,871
Totals	143	69	65	31	208	13,464	68	6,295	32	19,759

Source: 2007 and 2008 HMDA/LAR 1-4 family residential loans and a random sample of commercial loans originated between January 1, 2007 and March 31, 2009.

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

The distribution of loans, given the demographics of the assessment area, reflects satisfactory penetration among individuals of different income levels (including low- and moderate-income borrowers) and businesses of different sizes. To reach this conclusion, the OCC analyzed the bank's lending activity of loans for each of the bank's primary loan types and selected the 1-4 family residential loans on the 2007 and 2008 HMDA/LAR and 20 business loans originated between January 1, 2007 and March 31, 2009. See the following tables for details.

1-4 Family Residential Loans					
Borrower Income Level	Loan Originations Between Jan 1, 2007 and Dec 31, 2008				Percentage of Families within each Income Category
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$ (000's)	Percentage of Dollars	
Low	28	21	1,268	11	18
Moderate	23	18	1,737	14	19
Middle	27	21	1,492	12	28
Upper	38	29	5,938	49	35
Not Avail	14	11	1,704	14	NA
Total	130	100	12,139	100	100

Source: 2007 and 2008 HMDA/LAR 1-4 family residential loans. Further segmentation of home mortgage lending activity by purpose was not necessary for this analysis.

FNB's borrower distribution of 1-4 family residential loans is satisfactory. Residential loans to low-income borrowers represented 21% of sampled loans which exceeds the demographic comparator. Loans to moderate-income borrowers represented 18% of sampled loans which is just slightly under the demographic comparator for moderate-income borrowers. FNB's residential mortgage lending performance is reasonable given the credit needs of the AA.

Business Loans					
Business Income Level In Revenues	Loan Originations Between Jan 1, 2007 and Mar 31, 2009				Percentage of Businesses in the AA
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars	
≤ \$1 Million	18	90	1,238	84	57
> \$1 Million	2	10	242	16	3
Not Reported	0	0	0	0	40
Total	20	100	1,480	100	100

Source: Randomly selected sample of commercial loans originated within the bank's assessment area.

FNB's borrower distribution of small business loans is excellent. Loans to businesses with revenues of \$1 million or less represented 90% of sampled business loans, which exceeds the 57% of area businesses that reported revenues of less than \$1 million. However, in this AA, the percentage of businesses with unreported revenue is high at 40%. Information shows the majority of businesses with unreported revenues to be small businesses (revenues of \$1 million or less) representing a higher level than shown by the comparator. FNB's business lending performance is reasonable considering the demographic comparator.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects outstanding dispersion throughout the AA. FNB's lending activity extends throughout the AA. Based on HMDA information and random sampling, management has originated loans in most CTs which comprise the AA. We did not note any conspicuous gaps in lending to moderate-income CTs. To reach this conclusion, the OCC analyzed the bank's lending activity of loans for each of the bank's primary loan types. The primary loan types for this analysis included 1-4 family residential mortgages (purchase, home improvement, and refinance) and business loans. See the tables below for details.

Geographic Distribution of 1-4 Family Residential Loans By Geography Income Designation					
Income Level of Census Tract	Loan Originations Between Jan 1, 2007 and Dec 31, 2008				Distribution of Owner Occupied Housing
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$ (000's)	Percentage of Dollars	
Moderate	43	33	2,634	22	11
Middle	67	51	5,675	46	76
Upper	6	5	2,126	18	13
Not Avail	14	11	1,704	14	NA
Total	130	100	12,139	100	100

Source: 2007 and 2008 HMDA/LAR 1-4 family residential loans.

*Note: The AA has no low--income census tract geographies.

FNB's geographic distribution of 1-4 family residential loans is excellent. Residential loans originated in the AA's moderate-income census tracts represented 33% of sampled loans. This exceeds the demographic comparator of 11% for all owner-occupied housing in the AA's two moderate-income CTs. FNB's residential mortgage lending performance is more than reasonable given the credit needs of the AA.

Geographic Distribution of Business Loans By Geography Income Designation					
Income Level of Census Tract	Loan Originations Between Jan 1, 2007 and Mar 31, 2009				Distribution of Businesses in the AA
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$ (000's)	Percentage of Dollars	
Moderate	9	45	622	42	12
Middle	11	55	865	58	67
Upper	0	0	0	0	21
Total	20	100	1,487	100	100

Source: Randomly selected sample of commercial loans originated within the bank's AA.

* Note: The AA has no low-income census tract geographies.

FNB's geographic distribution of business loans is excellent. Business loans originated in the AA's moderate-income census tracts represented 45% of sampled loans. This exceeds the demographic comparator of 12% for all businesses located in the AA's two moderate-income census tracts.

Responses to Complaints

FNB has not received any written complaints regarding its performance relating to the bank's Community Reinvestment Act performance during the evaluation 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.