



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

March 1, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers National Bank
Charter Number 22928**

**13447 Dixie Highway
Walton, Kentucky 41094**

**Comptroller of the Currency
9200 Shelbyville Road, Suite 505
Louisville, KY 40222**

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.

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INSTITUTION'S CRA RATING

*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 1, 2004**. 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:

- The average loan-to-deposit ratio is satisfactory, considering the bank's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans is considered satisfactory, considering the community's credit needs and demographics in relation to the bank's location and capacity to lend. We noted a gap in business lending in the moderate-income census tracts in 2003 due to a low volume of bank loan originations caused by the lack of businesses located in those geographies. In addition, competition is at a high level.

DESCRIPTION OF INSTITUTION

Farmers National Bank (“FNB”) is a \$54 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, two full-service branches, and one loan production office. The main office and one full-service branch are located in Kenton County. The other branch and loan production office are located in Pendleton County. The main office is located in Walton. One branch is located in Independence and the other branch is in Butler. The loan production office is in Falmouth. The main office and the two full-service branches have drive-thru facilities. FNB has three Automated Teller Machines (“ATM”) and eight cash dispensers. An ATM is located at the main office, one at the Butler branch, and one at the Independence branch. Cash dispensers are located at the Grocery Bag in Taylor Mill, the Blue Pantry in Independence, the Blue Pantry in Walton, the Blue Pantry on U.S. 42 in Florence, the Blue Pantry on Turfway Road in Florence, BB’s Super Store in Falmouth, BB’s Shell Station in Butler, and the Drawbridge Estates in Ft. Mitchell.

As of December 31, 2003, the bank’s net loan portfolio totaled approximately \$40 million, or 74% of average assets. Tier-One capital was \$5 million. The loan mix at December 31, 2003 was as follows: 1-4 family residential mortgages 49%, commercial and commercial real estate loans 37%, consumer loans 7%, farm loans 4%, and other loans 3%.

The bank offers traditional banking services and lending products including many government-sponsored loan programs such as Small Business Administration (“SBA”), 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 homeownership. These funds are available to members as grants up to \$7,500 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 December 23, 1997. The bank received a rating of Satisfactory. The coverage period for this evaluation is from January 1, 1998 to December 31, 2003.

DESCRIPTION OF ASSESSMENT AREA

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 1990 U.S. Census divided the AA into ten census tracts ("CTs"), with three moderate-income and seven middle-income geographies. There are no low- or upper-income CTs in the AA. The 2000 U.S. Census has since divided the AA into fourteen CTs, with two moderate-income, eleven middle-income, and one upper-income geography. The AA appears appropriate in relation to the location of the bank and does not arbitrarily exclude any low- or moderate-income areas.

The AA has a total population of 64,435. The population is comprised of 18,163 families, of which 6,640, 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: 21% of the households are on social security, 14% are retired, and 7% live below the poverty level.

The AA is centrally located in Northern Kentucky and has two major highways intersecting nearby. Easy access to the area is continuing to promote rapid growth with the economy considered mixed. The major industry is services, followed by construction and retail trade. There are some small manufacturers within the AA, but most are closer to the Ohio River in Northern Kentucky and Cincinnati. As of December 2003, the unemployment rate for the AA was 4.2%. That compares favorably to Kentucky's unemployment rate of 6% and the national average rate of 5.6%.

There are a total of ten commercial and savings banks in the AA. Of these banks, five are chartered in the AA. The bank's major competition in and around the AA consists of other banks. 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 demographic information on the bank's AA is based on 1990 census data, unless otherwise indicated.

Type of Information	AA	
Population	50,045	
Kentucky HUD Adjusted MSA/Non-MSA Median Family Income – 2002	\$64,300	
Families in AA:		
Income Levels of Families	#	%
Low	2,675	19%
Moderate	2,922	21%
Middle	3,834	27%
Upper	4,579	33%
Total Families within AA	14,010	100%
Median Home Value:	\$60,374	
Median Year Built:	1970	
Businesses in the AA:	#	%
Under \$1 Million Revenue	734	68%
Over \$1 Million Revenue	46	4%
Revenue not reported	301	28%
Total	1,081	100%

The following demographic information on the bank's AA is based on 2000 census data, unless otherwise indicated.

Type of Information	AA	
Population	64,435	
Kentucky HUD Adjusted MSA/Non-MSA Median Family Income – 2003	\$64,000	
Families in AA:		
Income Levels of Families	#	%
Low	3,170	17%
Moderate	3,470	19%
Middle	5,063	28%
Upper	6,460	36%
Total Families within AA	18,163	100%
Median Home Value:	\$109,597	
Median Year Built:	1980	
Businesses in the AA:		
	#	%
Under \$1 Million Revenue	1,890	69%
Over \$1 Million Revenue	121	4%
Revenue not reported	726	27%
Total	2,737	100%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given FNB's size, financial condition, and AA credit needs. The bank's average net loan-to-deposit ratio for the twenty-four quarters since the last CRA evaluation is 85%. Currently, FNB's net loan-to-deposit ratio is 92%. There are no other banks considered similarly situated and comparable to FNB in asset size, market, and major lending products operating in the AA. FNB's ratio is higher than its national peer group, which is 76%.

Lending in Assessment Area

A majority of loans and other lending-related activities are in FNB's AA. The analysis shows 74% of the number and 79% of the dollar amount of loan originations in 2002 were to borrowers inside the AA. In 2003, 74% of the number and 74% of the dollar amount of loan originations were also to borrowers inside the AA. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting residential real estate loans from the 2002 and 2003 Home Mortgage Disclosure Act Data Listing Report (HMDA) and selecting a random sample of business loans originated in 2002 and 2003. See the table below for details.

LOAN ORIGINATIONS BETWEEN JAN 1, 2002 AND DEC 31, 2002				
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Loans
Within the AA	69	74%	\$ 7,978	79%
Outside the AA	24	26%	\$ 2,171	21%
Totals	93	100%	\$10,149	100%

* Source: 2002 HMDA of 1-4 family residential loans and a random sample of commercial loans originated in 2002.

LOAN ORIGINATIONS BETWEEN JAN 1, 2003 AND DEC 31, 2003				
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Loans
Within the AA	98	74%	\$ 8,858	74%
Outside the AA	35	26%	\$ 3,087	26%
Totals	133	100%	\$11,945	100%

* Source: 2003 HMDA of 1-4 family residential loans and a random sample of commercial loans originated in 2003.

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

The distribution of loans, given the demographics of the AA, reflects excellent 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. The primary loan types for this analysis included 1-4 family residential mortgages and business loans. See the tables below for details.

Table INC-1 1-4 Family Residential Loans shows the percentage of FNB's home purchase and refinance loans to low- and moderate-income borrowers is higher than the percentage of families in the AA with low and moderate incomes. Together, low- and moderate-income borrowers received 43% of the number of 1-4 family residential loans. FNB's mortgage lending for the purpose of purchasing or refinancing a home is excellent considering the identified home mortgage credit needs in the community.

Table INC-1 1-4 Family Residential Loans

1-4 FAMILY RESIDENTIAL LOANS					
Borrower Income Level	Loan Originations Between Jan 1, 2002 and Dec 31, 2003				Percentage of Families within each Income Category
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$ (000's)	Percentage of Dollars	
Low	24	16%	\$ 1,436	10%	17%
Moderate	40	27%	\$ 2,894	20%	19%
Middle	44	29%	\$ 4,351	31%	28%
Upper	42	28%	\$ 5,517	39%	36%
Total	150	100%	\$14,198	100%	100%

* Source: 2002 & 2003 HMDA of 1-4 family residential loans originated within the bank's AA.

** Further segmentation of home mortgage lending activity by purpose was not necessary for this analysis.

Table INC-2 Business Loans indicates the percentage of FNB's business loans extended to companies considered small in size (revenues under \$1 million) exceeds the percentage of businesses in the AA with revenues under \$1 million. Of the total number of business loans sampled, 100% were to small businesses. Demographics indicate 69% of all businesses in the AA have revenues less than \$1 million. FNB's business lending performance is excellent considering the demographics of the area.

Table INC-2 Business Loans

BUSINESS LOANS					
Business Income Levels in Revenues	Loan Originations Between Jan 1, 2002 and Dec 31, 2003				Percentage of Businesses in the AA
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars	
< \$1 Million	17	100%	\$2,635	100%	69%
> \$1 Million	0	0%	\$ 0	0%	4%
Not Reported	0	0%	\$ 0	0%	27%
Total	17	100%	\$2,635	100%	100%

* Source: Randomly selected sample of commercial loans originated in 2002 and 2003 within the bank's AA.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects satisfactory 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 CT's which comprise the AA. We did note a conspicuous gap in business lending to moderate-income CT's in 2003. This was due to a low volume of bank loan originations caused by the lack of businesses located in the moderate-income geographies. In addition, competition is at a high level and the bank is only represented by a loan production office. 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 (both purchase and refinance) and business loans. See the tables below for details.

Table GEO-1 1-4 Family Residential Loans shows FNB has excellent penetration in making home purchase and refinance loans in the moderate-income census tracts. These geographies contain 24% of all owner-occupied housing in the AA. The loans reviewed for FNB showed 41% of the number and 39% of the dollar amount were made to borrowers located in the moderate-income census tracts.

Table GEO-1 1-4 Family Residential Loans

Geographic Distribution of 1-4 Family Residential Loans By Geography Income Designation Originated Between January 1, 2002 – December 31, 2002					
Income Level of Census Tracts	1-4 Family Residential Loans				Distribution of Owner Occupied Housing
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Moderate	25	41%	\$2,502	39%	24%
Middle	36	59%	\$3,978	61%	76%
Total	61	100%	\$6,480	100%	100%

* Source: 2002 HMDA of 1-4 family residential loans originated within the bank's AA.

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

Table GEO-2 1-4 Family Residential Loans shows FNB has satisfactory penetration in making home purchase and refinance loans in the moderate-income census tracts. These geographies contain 11% of all owner-occupied housing in the AA. The loans reviewed for FNB showed 16% of the number and 15% of the dollar amount were made to borrowers located in the moderate-income census tracts.

Table GEO-2 1-4 Family Residential Loans

Geographic Distribution of 1-4 Family Residential Loans By Geography Income Designation Originated Between January 1, 2003 – December 31, 2003					
Income Level of Census Tracts	1-4 Family Residential Loans				Distribution of Owner Occupied Housing
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Moderate	14	16%	\$1,125	15%	11%
Middle	72	81%	\$6,382	82%	76%
Upper	3	3%	\$ 211	3%	13%
Total	89	100%	\$7,718	100%	100%

* Source: 2003 HMDA of 1-4 family residential loans originated within the bank's AA.

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

Table GEO-3 Business Loans shows FNB has satisfactory penetration in making business loans in the moderate-income census tracts. These geographies contain 35% of all businesses in the AA. The loans reviewed for FNB showed 25% of the number and 9% of the dollar amount of the business loans were made to borrowers located in the moderate-income census tracts.

Table GEO-3 Business Loans

Geographic Distribution of Business Loans By Geography Income Designation Originated Between January 1, 2002 – December 31, 2002					
Income Level of Census Tracts	Business Loans				Distribution of Businesses in the AA
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Moderate	2	25%	\$ 132	9%	35%
Middle	6	75%	\$1,366	91%	65%
Total	8	100%	\$1,498	100%	100%

* Source: Randomly selected sample of commercial loans originated within the bank's AA.
 ** Note: The AA has no low- or upper-income census tract geographies.

Table GEO-4 Business Loans shows FNB did not make any business loans in the moderate-income census tracts. The lack of penetration was due to a low volume of bank loan originations caused by a low number of businesses located in the moderate-income geographies. In addition, competition is at a high level, and the bank is only represented by a loan production office in the moderate-income census tract. These geographies only contain 14% of all businesses in the AA.

Table GEO-4 Business Loans

Geographic Distribution of Business Loans By Geography Income Designation Originated Between January 1, 2003 – December 31, 2003					
Income Level of Census Tracts	Business Loans				Distribution of Businesses in the AA
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Moderate	0	0%	\$ 0	0%	14%
Middle	9	100%	\$1,137	100%	64%
Upper	0	0%	\$ 0	0%	22%
Total	9	100%	\$1,137	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.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

Fair Lending Review

An analysis of recent years' public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. We found no evidence of illegal discrimination or other illegal credit practices. Based on its analysis of the information, the OCC decided a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.