



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 24, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers National Bank of Cynthiana
Charter Number 2560

Main & Pike Streets
Cynthiana, KY 41031

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.

The rating for Farmers National Bank of Cynthiana (FNB) is **satisfactory** based on the following information:

- FNB's average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the assessment areas' (AAs) credit needs.
- A majority of FNB's loans were made within the two AAs.
- FNB's distribution of loans reflects reasonable penetration among businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion of business loans throughout the AAs.
- FNB did not receive any complaints related to CRA during the evaluation period.

SCOPE OF EXAMINATION

FNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test for FNB covers its performance from January 1, 2007 through June 30, 2009.

To measure the bank's performance of meeting the credit needs of its AA, we reviewed both the dollar amount and the number of loans originated during the evaluation period to determine the bank's primary lending products. We determined, and bank management concurred, FNB's primary loan product was business loans. We selected a sample of business loans in the period from January 1, 2007 through June 30, 2009, as this is representative of the bank's lending strategy since the last CRA examination on March 1, 2004.

DESCRIPTION OF INSTITUTION

Farmers National Bank of Cynthiana (FNB) is a full-service intrastate bank headquartered in Cynthiana, Kentucky. As of June 30, 2009, FNB had total assets of \$151 million and tier one capital of \$20 million. FNB is wholly owned by Farmers National Bancorp of Cynthiana, a two-bank holding company with consolidated assets of \$220 million. In addition to the main office in Harrison County, FNB operates five branches. One branch is located in Bourbon County and the remaining offices are in Harrison County. All bank offices accept deposits and originate loans. FNB has two ATMs, with one at the Bourbon County branch and the other one at the Southside branch in Harrison County. Neither ATM accepts deposits.

Since the last CRA examination, FNB has not opened or closed any branches, and there have not been any significant changes to FNB's corporate structure, including merger or acquisition activities.

FNB offers a full range of deposit and loan products and services. Business loans are FNB's primary focus, with residential loans, farm loans, and consumer loans representing a small dollar portion of the loan portfolio. FNB does not originate home mortgage loans to sell on the secondary market.

As of June 30, 2009, FNB reported total loans of \$97 million and had a net loans and leases to total assets ratio of 63%. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Product June 30, 2009	
Loan Category	% of Outstanding Dollars
Business Loans	74.83%
Home Loans	12.70%
Farm Loans	8.94%
Consumer Loans	2.40%
Other Loans	1.13%

There are no legal or financial impediments to FNB's ability to meet the credit needs of its AA.

The bank was rated **satisfactory** at its last CRA examination dated March 1, 2004.

DESCRIPTION OF ASSESSMENT AREAS

FNB has two assessment areas (AA) in central Kentucky, which are described below.

Harrison County Assessment Area

Harrison County is a non-MSA AA. It meets the requirements of the regulation, and does not arbitrarily exclude any low-or moderate-income areas.

Below is a summary of some demographic information for this AA:

Demographic Information for the Harrison County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	5	0%	0%	20.00%	80.00%
Population by Geography	17,983	0%	0%	15.71%	84.29%
Owner-Occupied Housing by Geography	4,945	0%	0%	14.94%	85.06%
Businesses by Geography	1,300	0%	0%	14.92%	85.08%
Farms by Geography	113	0%	0%	9.73%	90.27%
Family Distribution by Income Level	5,060	12.23%	12.85%	21.46%	53.46%
Household Distribution by	7,006	17.26%	11.68%	17.56%	53.51%

Income Level				
Census Median Family Income (MFI)	\$32,884	Median Housing Value	\$82,995	
HUD-Adjusted MFI: 2008	\$41,000	Families Below the Poverty Level	9.45%	
HUD- Adjusted MFI: 2007	\$39,100	Households Below the Poverty Level	12.79%	
		Unemployment Rate	See below	

Source: 2000 U.S. Census Data
Numbers may not add to exactly 100% due to rounding.

Harrison County is a rural area in central Kentucky with a population of 17,983 according to the 2000 U.S. Census. The AA has five census tracts (CTs) with four designated as upper-income, and one as middle-income. FNB operates five of its six branch locations within Harrison County.

The economy of the non-MSA AA is weakening. Unemployment rates increased throughout 2007 and 2008. According to the U.S. Department of Labor, the 2007 and 2008 unemployment rates for Harrison County were 5.0% and 6.3%, respectively. Unemployment rates continue to rise in 2009 and are now above the state and national unemployment rates. As of June 30, 2009, the unemployment rate in the non-MSA AA was 12.2%. The state and national unemployment rates were 11% and 9.4%, respectively.

Harrison County is largely a bedroom community for workers commuting to jobs in Scott and Fayette Counties. Employment opportunities within Harrison County revolve around manufacturing positions. 3M continues to be the county's largest employer. 3M manufactures office supplies and employs approximately 530 individuals. Other major employers include Bullard (safety equipment), E-Z Pack (truck manufacturer), and the Board of Education.

Competition from other financial institutions in the non-MSA AA is average. The bank's competitors include two local community banks and a branch of a large regional institution. FNB holds approximately 35% of the deposit share in Harrison County.

A community contact familiar with the area's credit needs indicated an ongoing need for small business loans. The contact did not identify any credit needs that were not being addressed by local financial institutions.

Fayette County, Bourbon County, and Scott County MSA AA

FNB's second AA is a portion of the Fayette County/Lexington MSA. This AA includes all of Fayette, Bourbon, and Scott Counties. It meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate income areas.

Demographic Information for the Fayette County MSA AA						
	#	% Low	% Moderate	% Middle	% Upper	NA
Geographies (Census Tracts)	74	12.16%	21.62%	40.54%	24.32%	1.35%
Population by Geography	312,933	9.37%	21.04%	39.91%	29.54%	0.14%

Owner-Occupied Housing by Geography	73,396	3.65%	17.80%	42.89%	35.65%	0.00%
Businesses by Geography	29,477	12.90%	17.71%	35.02%	34.13%	0.23%
Farms by Geography	1,312	4.65%	16.08%	40.47%	38.80%	0.00%
Family Distribution by Income Level	78,191	20.79%	16.96%	21.39%	40.87%	0.00%
Household Distribution by Income Level	128,197	23.51%	16.00%	17.77%	42.71%	0.00%
Census Median Family Income (MFI)	\$51,365	Median Housing Value		\$114,287		
HUD-Adjusted MFI: 2008	\$63,500	Families Below the Poverty Level		8.38%		
HUD- Adjusted MFI: 2007	\$59,800	Households Below the Poverty Level		12.69%		
		Unemployment Rate		See below		

Source: 2000 U.S. Census Data

Census Tract Information: One of the seventy-four CTs in AA was not designated in any of the four CT categories (i.e., one of the 74 CTs is listed as NA).

Numbers may not add to exactly 100% due to rounding.

The MSA AA is also located in central Kentucky and contains a variety of rural and metropolitan areas. One of the bank's branches is located in the MSA AA in southeastern Bourbon County, which is contiguous to Fayette and Scott Counties.

The overall economic condition of the MSA-AA is relatively stable. As of June 2009, the average unemployment rate across the AA was 9.73%. The unemployment rate for each county was Fayette County 8.5%, Bourbon County 10.2%, and Scott County 10.5%. All of the above unemployment rates fall below the Kentucky unemployment rate of 11%.

The local economy is well respected for retail trade, manufacturing, and services. Major employers located in each of the following counties include:

- **Fayette County:** The largest single employer in Fayette County is the University of Kentucky (UK). UK employs approximately 12,000 individuals and serves approximately 26,000 students. Lexmark International, Inc. is another large employer that manufactures printers and information processing supplies. Lexmark International, Inc. employs approximately 3,300 individuals. Other large employers include Trane Company (air handling equipment), ACS (scanning and data capture), L-3 Communications Integrated Systems (contractor logistics), and the Fayette County government including the Fayette County Public Schools.
- **Bourbon County:** While a portion of workers in Bourbon County commute to jobs in surrounding counties, one the county's largest employers is CMWA. CMWA manufactures automotive wheels and employs 450 individuals. Other large employers include Mallinckrodt-Baker Inc. (high purity chemicals), and Monessen Hearth Systems (fireplace manufacturer).
- **Scott County:** The largest single employer in Scott County is Toyota Motor Manufacturing. Toyota manufactures automobiles and employs over 7,000 individuals. Johnson Controls, Inc. (automotive parts), and, Louisville Forge and Gear Works, LLC (steel forging) also continue to be large employers.

The financial institutions are highly competitive in the MSA AA. The bank's competitors include numerous local community banks and several branches of seven large regional institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

FNB's performance under the lending test is satisfactory. All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

FNB's average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the AA's credit needs. The bank's average net loan-to-deposit ratio was 64% over the 22 quarters since the last CRA examination. This ratio ranged from a quarterly low of 51% on June 30, 2005 to a quarterly high of 85% on June 30, 2009.

The bank's average net loan-to-deposit ratio is similar to its primary competitor in Harrison County, which is where five of FNB's six offices are located. However, FNB ranked seventh among eight similarly situated banks in the combined AAs. The average net loan-to-deposit ratios for the other seven banks over the same 22 quarters ranged from 63% to 105%.

Loan-to-Deposit Ratios	
Institution	Average
The Farmers National Bank of Cynthiana	63.65%
Bank # 1	90.77%
Bank # 2	85.16%
Bank # 3	88.49%
Bank # 4	63.28%
Bank # 5	97.52%
Bank # 6	104.73%
Bank # 7	92.60%

Lending in Assessment Areas

A majority of FNB's loans were made within the AAs. Table 1 details lending within the AAs by number and dollar amount of loans. Eighty-three percent of the numbers of loans originated in the period from January 1, 2007 through June 30, 2009 were to borrowers within the AAs.

Table 1 – Lending in the AAs (The two AAs are combined for this analysis)										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Totals	25	83.33	5	16.67	30	10,961	75.73	3,513	24.27	14,474

Source: Based on a sample of thirty new/renewed loans from January 1, 2007 through June 30, 2009.

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

FNB's distribution of loans reflects reasonable penetration among businesses of different sizes. For the overall rating, more weight was given to the MSA AA because the majority of FNB's loans are in the MSA AA.

Business Loans in Harrison County non-MSA AA

Table 2A shows FNB's distribution of loans to small businesses reflects excellent penetration in Harrison County. Our sample showed 100% of the number of business loans was to small businesses (i.e., businesses with annual revenues of \$1 million or less). Demographic data reveals 51% of businesses reported annual revenues of \$1 million or less, while 46% of businesses did not report.

Table 2A - Borrower Distribution of Loans to Businesses in the non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	51.31%	2.23%	46.46%	100%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100%

Source: CRA Wiz data for 2008 and business loan data sampled from January 1, 2007 through June 30, 2009.

Business Loans in the Fayette County MSA AA

Table 2B shows FNB's distribution of loans to businesses reflects reasonable penetration to small businesses. Our sample showed 75% of the number of business loans was to small businesses (i.e., businesses with annual revenues of \$1 million or less). Demographic data reveals 63% of businesses reported annual revenues of \$1 million or less, while 33% of businesses did not report.

Table 2B – Borrower Distribution of Loans to Businesses in the MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	62.76%	4.72%	32.52%	100%
% of Bank Loans in AA by #	75.00%	25.00%	0.00%	100%
% of Bank Loans in AA by \$	65.26%	34.74%	0.00%	100%

Source: CRA Wiz data for 2008 and business loan data sampled from January 1, 2007 through June 30, 2009.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion of business loans throughout the AAs. There were no conspicuous lending gaps identified within the AAs.

Business Loans in Harrison County non-MSA AA

The analysis of the geographic distribution of loans in the non-MSA AA is not meaningful because there are no low- or moderate-income census tracts in Harrison County. Table 3A shows the loans in the middle- and upper-income census tracts.

Table 3A - Geographic Distribution of Loans to Businesses in non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans
Business	N/A	N/A	N/A	N/A	20.00%	5.00%	80.00%	95.00%

Source: CRA Wiz data for 2008 and business loan data sampled from January 1, 2007 to June 30, 2009.

Business Loans in Fayette County MSA AA

The geographic distribution of loans in the MSA AA reflects excellent dispersion of business loans in low-or moderate-income census tracts. Table 3B shows 45% of the number of business loans was to businesses located in a low- or moderate-income census tract. Demographic data shows 31% of all businesses are located in a low- or moderate-income census tract.

Table 3B - Geographic Distribution of Loans to Businesses in MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans
Business	12.90%	10.00%	17.71%	35.00%	35.02%	45.00%	34.13%	10.00%

Source: CRA Wiz data for 2008 and business loan data sampled from January 1, 2007 to June 30, 2009.

Census Tract Information: One of the CTs in the MSA AA was not designated in any of the four CT categories. Therefore, the four combined CTs will not add to 100% (it is 0.24% short).

Responses to Complaints

FNB has not received any CRA complaints during this 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.