



PUBLIC DISCLOSURE

September 29, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers National Bank
Charter Number 12456

5290 Scottsville Road
Bowling Green, Kentucky 42103

Office of the Comptroller of the Currency

10200 Forest Green Blvd
STE 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: Satisfactory

The Farmers National Bank (FNB) has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- The average loan-to-deposit (LTD) ratio is reasonable given FNB's size, financial condition, and the credit needs of its assessment areas (AAs).
- A substantial majority of FNB's loans were originated to borrowers within its AAs.
- FNB's record of lending to borrowers of different incomes (including low- and moderate-income) and to businesses of different sizes reflects reasonable penetration.
- FNB's residential lending in low- and moderate-income census tracts reflects excellent dispersion. FNB's business lending in low- and moderate-income census tracts reflects poor dispersion.

SCOPE OF THE EVALUATION

FNB's record was evaluated under the OCC's Small Bank Examination Procedures. The lending test evaluated FNB's record of meeting the credit needs of its AAs through its lending activities.

The CRA evaluation covers the period between June 15, 2009 and September 29, 2014. The lending test included a random sample of loans originated by FNB between January 1, 2012 and December 31, 2013. The scope of the lending test included a review of FNB's primary loan products: business loans and residential real estate mortgages. We determined the primary loan products by reviewing available lending reports for the representative timeframe and through discussions with management. Business lending carried the most weight in the analysis, as business lending accounted for 57 and 50 percent of total lending in 2012 and 2013, respectively. To analyze the primary loan products, we selected a random sample from the loan portfolio using source documents to collect the data.

DESCRIPTION OF INSTITUTION

FNB is a community bank with offices in Warren and Allen Counties in Kentucky. There have been no significant changes to FNB's corporate structure, including merger and acquisition activities, since its last CRA Performance Evaluation, dated June 15, 2009. The bank received a satisfactory rating in its 2009 evaluation. FNB is a wholly-owned subsidiary of FNB Financial Corporation, a one-bank holding company. FNB's primary focus continues to be commercial and industrial loans, residential real estate loans, and construction and land development loans. FNB sold its controlling interest in H. E. Morehead Insurance Company in May 2012.

There are no legal or financial impediments that hinder FNB's ability to meet the credit needs in its AAs. FNB offers a full-range of loan and deposit services.

FNB’s main office is located in Bowling Green, Kentucky. FNB also has two branches in Bowling Green (Warren County) and two branches in Scottsville, Kentucky (Allen County). Since the previous CRA evaluation, FNB opened a branch at 1595 Veterans Memorial Highway, Scottsville, Kentucky, on March 15, 2010. FNB closed a branch located at 107 North Court Street, Scottsville, Kentucky, on March 23, 2012. FNB did not relocate any branch offices.

As of June 30, 2014, FNB had total assets of \$243 million, of which net loans comprised 59.33 percent. The following table reflects the composition of FNB’s loan portfolio based on the June 30, 2014 Consolidated Report of Condition and Income (call report).

Loan Type	Dollar (000's)	%
Residential Mortgage Loans	58,807	40.37
Commercial & Industrial Including Commercial Real Estate	68,725	47.18
Construction & Land Development	11,862	8.14
Individuals	6,263	4.31
TOTAL	145,657	100.00

Source(s): June 30, 2014 call report.

FNB provides a wide-range of traditional deposit and loan products. The main office and branches are located in areas accessible to its entire communities. Lobby and drive-up hours are reasonable to meet customer needs. FNB has an ATM at each office location. There are no free standing ATMs.

Customers have 24-hour access to their accounts through telephone banking and the internet (<http://www.fnbankky.com>). Internet and phone banking services include review of account balances and transactions, access to loan account information, transfers between FNB accounts, and the payment of loans. Internet banking customers also have bill-pay capability. FNB offers Visa debit cards that provide customers with access to their accounts at point-of-sale or ATM locations.

DESCRIPTION OF THE ASSESSMENT AREAS

FNB is located in south central Kentucky. FNB’s main office is located in Bowling Green, Kentucky, which is approximately 66-miles north of Nashville, Tennessee, and 114 miles southwest of Louisville, Kentucky. Bowling Green is located on I-65, a major north-south interstate highway, which also passes through Nashville and Louisville. Scottsville is located 25 miles southeast of Bowling Green on U.S. Route 231. Bowling Green and Scottsville are the county seats of Warren and Allen Counties, respectively. Other towns located in Warren County include the cities of Oakland, Plum Springs, and Woodburn. Other towns located in Allen County include the unincorporated towns of Adolphus and Holland. Allen County’s southern border is the Tennessee State line.

FNB has two AAs. The Metropolitan Statistical Area (MSA) AA includes all 24 census tracts in Warren County, Kentucky, which is part of the Bowling Green MSA. There are

four low-income census tracts (CTs), one moderate-income CT, 11 middle-income CTs, and eight upper-income CTs in Warren County.

The non-MSA AA includes all six CTs in Allen County, Kentucky. Allen County contains five middle-income CTs and one upper-income CT. There are no low- or moderate-income CTs in the non-MSA AA. The Warren County and Allen County AAs are contiguous.

Bowling Green serves as the county seat of Warren County. The population for Warren County at the 2010 United States Census (2010 U.S. Census) was 113,792. The local employment base remains largely unchanged since the previous CRA Performance Evaluation. Employment remains diversified with principal industries being manufacturing, health care, and education. Major employers are Western Kentucky University, Commonwealth Health Corporation, Warren County Board of Education, General Motors Manufacturing, Bowling Green Metal Forming, Fruit of the Loom, and Trace Die Cast. The chief agricultural products are corn, tobacco, wheat, hay, and soybeans. Natural resources include limestone and hardwood timber.

Based on family distribution by income levels of the 26,879 families residing in the Warren County AA, 5,780 (21.50 percent) and 4,420 (16.44 percent) are low- and moderate-income families, respectively. According to the Bureau of Labor Statistics, as of December 31 2013, the unemployment rate in Warren County was 7.0 percent. This rate was below the unemployment rates for the State of Kentucky (8.3 percent) and the national average (7.4 percent).

Demographic Information for Warren County, Kentucky Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	24	16.67	4.17	45.83	33.33
Population by Geography	113,792	13.02	3.86	47.97	35.15
Owner-Occupied Housing by Geography	26,033	3.93	3.32	48.42	44.33
Businesses by Geography	9,834	13.34	2.04	49.12	35.50
Farms by Geography	561	3.57	1.43	51.87	43.14
Distribution of Low- and Moderate-Income Families throughout AA Geographies	10,200	16.25	7.28	53.95	22.51
Median Family Income (MFI) FFIEC Estimated Median Family Income (MFI) for 2013 Households Below the Poverty Level	= \$54,856 = \$58,300 = 17%		Median Housing Value Unemployment Rates (2010 US Census)		= \$134,540 = 4.07%

Source(s): 2010 U.S. Census and 2013 Federal Financial Institutions Examination Council (FFIEC) estimated median family income.

Based on the family distribution by income levels of the 5,526 families residing in the Allen County AA, 1,190 (21.53 percent) and 841 (15.22 percent) are low- and moderate-

income families, respectively. According to the Bureau of Labor Statistics, as of December 31, 2013, the unemployment rate for the State of Kentucky (8.3 percent) and the national average (7.4 percent) were better than the unemployment rate in Allen County (8.4 percent).

Scottsville serves as the county seat of Allen County. The population for Allen County at the 2010 census was 19,956. Allen County’s employment base remains largely unchanged since the previous Performance Evaluation. Principal industries include manufacturing and agriculture. Major employers in the county include Dollar General Corporation, Medical Center of Scottsville, J.M. Smuckers Co., Sumitomo Electric Wiring Systems, and Halton Company, Inc. The chief agricultural products are tobacco and livestock. Natural resources in the AA remain stable and include the Barren River Reservoir and hardwood timber.

Demographic Information for Allen County, Kentucky Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	6	0	0	83.33	16.67
Population by Geography	19,956	0	0	86.46	13.54
Owner-Occupied Housing by Geography	5,843	0	0	87.42	12.58
Businesses by Geography	1,373	0	0	88.35	11.65
Farms by Geography	166	0	0	84.94	15.06
Family Distribution by Income Level	5,526	21.53	15.22	22.26	40.99
Distribution of Low- and Moderate-Income Families throughout AA Geographies	2,031	0	0	90.94	9.06
Median Family Income (MFI) FFIEC Estimated Median Family Income (MFI) for 2013 Households Below the Poverty Level	= \$43,212 = \$44,700 = 21%		Median Housing Value Unemployment Rates (2010 US Census)		= \$90,290 = 5.77%

Source(s): 2010 U.S. Census and 2013 FFIEC estimated median family income.

As of June 30, 2013, 20 financial institutions, with 57 offices within the Warren County, AA, had nearly \$1.9 billion in deposits. FNB had the 9th largest share of the local deposit market with \$77 million in deposits (4 percent of market deposits). Of the 15 banks headquartered in Kentucky in the AA, FNB controlled the 6th largest deposit market share. Branch Banking & Trust Co. (BB&T), a large bank headquartered in Winston-Salem, North Carolina, had the largest deposit market share with \$393 million in deposits (21 percent). U.S. Bank, NA, another large bank headquartered in Minneapolis, Minnesota, had \$296 million in deposits (16 percent). Of the 15 Kentucky-based banks, American Bank & Trust Company, Inc., headquartered in Bowling Green, had \$233 million in deposits (12 percent).

As of June 30, 2013, four financial institutions, with seven offices within the Allen County AA, had \$183 million in deposits. At \$119 million, or 65 percent, FNB controlled the largest share of the local deposit market, followed by US Bank, NA with \$29 million in deposits (16 percent).

In the two AAs combined, FNB had \$196 million in deposits of \$2.07 billion, or a 9 percent deposit market share.

The AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas. The Allen County AA carried the most weight in the analysis, as 61 percent of FNB’s deposits come from the Allen County AA. There are no natural boundaries within the AAs that hinder accessibility.

Based on community contacts familiar with the credit needs of the AAs, FNB provides satisfactory access to credit.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The LTD ratio is reasonable given FNB’s size, financial condition, and the AA credit needs. FNB’s average LTD ratio for the 20 quarters since the last CRA Performance Evaluation was 73 percent, which is a slight increase from the last CRA Performance Evaluation when the LTD ratio averaged 70 percent.

We compared FNB to four similarly situated banks. These banks are comparable to FNB in asset size, deposit size, number of offices, and major lending products. FNB’s LTD ratio was in line with the other banks. The table below shows the average LTD ratios of the other banks for the period under review ranging from 73 percent to 95 percent.

Institution	Average LTD Ratio
The Farmers National Bank	72.79%
Bank of Edmonson County	79.82%
South Central Bank of Bowling Green, Inc.	80.63%
Citizens First Bank, Inc.	88.71%
American Bank & Trust Company Inc.	95.23%

Lending in the Assessment Area

A substantial majority of FNB loans are in the bank’s AAs.

Lending in Allen County AA and Warren County AA										
	Inside Assessment Area				Outside Assessment Area				Total	
	Count	%	Amount	%	Count	%	Amount	%	Count	Amount
Home Purchase	91	93.81	\$10,297	81.37	6	6.19	\$2,357	18.63	97	\$12,654
Refinancing	224	93.72	\$26,112	89.87	15	6.28	\$2,943	10.13	239	\$29,055
Home Improvement	88	83.81	\$1,279	80.80	17	16.19	\$304	19.20	105	\$1,583
Total Home	403	91.38	\$37,688	87.06	38	8.62	\$5,604	12.94	441	\$43,292
Total Business	36	90.00	\$11,158	66.18	4	10.00	\$5,702	33.82	40	\$16,860
Total All Loans	439	91.27	\$48,846	81.20	42	8.73	\$11,306	18.80	481	\$60,152

Source(s): All Home Mortgage Disclosure Act (HMDA) reportable residential loans originated during 2012 and 2013 and a sample of business loans originated in 2012 and 2013. No 2010 U.S. Census information used in this table.

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

Given the demographics of the AAs, FNB’s record of lending to borrowers of different incomes and to businesses of different sizes reflects reasonable penetration.

Lending to moderate-income borrowers in the Warren County AA is reasonable. Lending to low-income borrowers is poor. However, given the small number of low-income borrowers in the AA, overall lending to low- and moderate-income borrowers reflects reasonable penetration.

Lending to moderate-income borrowers in the Allen County AA is excellent. Lending to low-income borrowers is poor. However, as with the Warren County AA, given the small number of low-income borrowers in the AA, overall lending to low- and moderate-income borrowers reflects reasonable penetration.

Borrower Distribution of Residential Real Estate Loans in Warren County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	21.50	5.71	16.44	11.43	18.94	17.14	43.11	51.28
Home Improvement	21.50	4.55	16.44	25.00	18.94	22.73	43.11	47.73
Refinance	21.50	13.95	16.44	16.28	18.94	30.23	43.11	39.53

Source(s): 2010 U.S. Census data, all HMDA reportable residential loans originated during 2012 and 2013, and a sample of business loans originated in 2012 and 2013.

Borrower Distribution of Residential Real Estate Loans in Allen County AA								
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
Home Purchase	21.53	7.69	15.22	28.21	22.26	12.82	40.99	51.28
Home Improvement	21.53	9.76	15.22	24.39	22.26	21.95	40.99	43.90
Refinance	21.53	13.68	15.22	23.93	22.26	30.77	40.99	31.62

Source(s): 2010 U.S. Census data, all HMDA reportable residential loans originated during 2012 and 2013, and a sample of business loans originated in 2012 and 2013.

FNB’s record of lending to businesses of different sizes is satisfactory when compared to area demographics in both AAs.

Borrower Distribution of Loans to Businesses in Warren County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.38	4.16	25.46	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%

Source(s): 2013 Business Geodemographic data, all HMDA reportable residential loans originated during 2012 and 2013, and a sample of business loans originated in 2012 and 2013.

Borrower Distribution of Loans to Businesses in Allen County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.47	1.53	22.00	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%

Source(s): 2013 Business Geodemographic data, all HMDA reportable residential loans originated during 2012 and 2013, and a sample of business loans originated in 2012 and 2013.

Geographic Distribution of Loans

FNB’s geographic distribution of residential real estate loans in Warren County AA in low- and moderate-income CTs reflects excellent dispersion throughout the AA. The bank’s lending exceeded the area demographics for both purchase and refinance loans in the low-income CTs and also exceeded demographics for purchase loans in the moderate-income CTs.

There are no low- or moderate-income CTs in the Allen County AA. Geographic analysis was not performed, as it would not have been meaningful.

Geographic Distribution of Residential Real Estate Loans in Warren 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
Home Purchase	3.93	4.08	3.32	6.12	48.42	48.98	44.33	40.82
Home Improvement	3.93	2.22	3.32	0.00	48.42	51.11	44.33	46.67
Refinance	3.93	4.17	3.32	2.08	48.42	59.38	44.33	34.38

Source(s): 2010 U.S. Census data, 2013 Business Geodemographic data, all HMDA reportable residential loans originated in 2012 and 2013, and a sample of business loans originated in 2012 and 2013.

FNB’s record of geographic distribution of loans to businesses in low- and moderate-income census tracts reflects poor dispersion throughout the AA. However, the market is highly competitive. FNB maintains three of 57 bank branches in the AA, or five percent of branches in the market. Additionally, 19 of 57 (33 percent) of the bank branches in the AA are large national banks, which are not similarly situated to FNB.

2012-2013 Geographic Distribution of Loans to Businesses in Warren 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
Businesses	13.34	5.00	2.04	0	49.12	30	35.50	65.00

Source(s): 2010 U.S. Census data, 2013 Business Geodemographic data, all HMDA reportable residential loans originated in 2012 and 2013, and a sample of business loans originated in 2012 and 2013.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), the OCC must consider in its CRA ratings evidence of discriminatory or other illegal credit practices in any geography by FNB or in any AA by an affiliate whose loans have been considered as part of FNB’s lending performance.

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