



SMALL BANK

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

PUBLIC DISCLOSURE

April 16, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Somerset National Bank
Charter Number 23358**

**1846 South Highway 27
Somerset, KY 42501**

**Comptroller of the Currency
Louisville Field Office
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.

INSTITUTION'S CRA RATING:

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **Somerset National Bank and Trust Company, Somerset, Kentucky** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 16, 2007**. 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 satisfactory penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans is considered excellent, given the community's credit needs and demographics in relation to the bank's location and capacity to lend. There were no conspicuous gaps in lending.

DESCRIPTION OF INSTITUTION

Somerset National Bank (SNB) is a full-service intrastate bank 100 percent owned by First Corbin Bancorp, Inc. and headquartered in Somerset, Kentucky. On April 19, 2004, SNB merged with affiliate McCreary National Bank. As of December 31, 2006, SNB had \$160 million in total assets, \$155 million in deposits, \$140 million in loans and \$14 million in Tier One capital. The bank offers traditional banking products and services including a program that offers 105 percent of value for home purchase by low income borrowers. The bank has six locations: the main office, two branches with drive-thru facilities in Somerset, one branch with a drive-thru facility in Science Hill, one branch with a drive-thru facility in Pine Knot, and one branch with a drive-thru facility in Whitley City. SNB has six Automated Teller Machines (ATMs) with one located at the main office and one at each of the branches. The bank is accessible to all segments of the community.

The bank's primary lending focus is home mortgage loans and business loans. SNB also makes loans to consumers and farmers in the area. As of December 31, 2006, net loans represented approximately 78 percent of the bank's average assets. The loan portfolio mix is as follows: 1-4 family residential mortgages 40 percent, commercial loans 32 percent, construction and

development loans 14 percent, consumer loans 7 percent, farm-related loans 4 percent, and other loans 3 percent.

There are no legal or financial circumstances that impact the bank's ability to meet community credit needs. The last CRA evaluation was performed on January 27, 2003. The bank received a rating of Satisfactory. This CRA evaluation period covers February 1, 2003 to March 31, 2007 and the testing period covers January 1, 2005 to March 31, 2007.

DESCRIPTION OF PULASKI AND MCCREARY COUNTIES

SNB has identified Pulaski and McCreary Counties as its assessment area (AA) for CRA purposes. 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 assessment area includes both counties in their entirety, which is located in the non-metropolitan portion of the State of Kentucky. The 2000 U.S. Census divided the assessment area into fifteen census tracts (CTs), with five moderate-income geographies, nine middle-income geographies, and one upper-income geography. There are no low-income CTs in the assessment area. This determination was based on the Kentucky 2000 Median Family Income for a non-metropolitan area of \$39,300.

Pulaski and McCreary Counties are rural counties in Southeastern Kentucky with a total population of 73,297 according to the 2000 U.S. Census. That number has risen to approximately 75,203 in 2003. The 2000 population of the AA was comprised of 29,207 households, of which 7,115, or 24 percent, are considered to have low- or moderate-incomes. In addition, the percentage of households in the AA living below the poverty level is approximately 23 percent. Other significant factors to consider include: 5 percent of the households receive public assistance and 34 percent are on social security.

Pulaski and McCreary Counties both have unemployment levels higher than the state average (7.9 percent and 12.1 percent versus 6.6 percent, as of February 2007). The assessment area is rural and has seen several company closings in recent years. Pulaski County has introduced two Industrial Parks and a Technology Complex designed to attract industrial and technology-based companies to the county. The Chamber of Commerce lists five industrial firms employing over 300, including Toyotetsu America, Super Service, The Adanta Group, Outdoor Venture Corporation, and Eagle Hardwood. Other major employers include federal, state, and local governments, hospitals, and schools.

The bank's major competition in and around the Pulaski and McCreary County area consists of other banks and finance companies. Competition is heavy and many financial institutions service the assessment area. According to the Federal Deposit Insurance Corporation (FDIC) website, ten banks with 36 offices operate in these counties. These offices hold a combined total of \$1 billion in deposits, as of June 30, 2006, and SNB has a 13 percent market share. The competition includes two large regional banks with total deposits ranging from \$2 billion to \$51 billion and

three community banks with total deposits ranging from \$97 million to \$600 million.

A community contact familiar with the area's credit needs indicated all local banks are active in the community and are very willing to provide financing for potential projects. The contact did not identify any credit needs in the AA that were not being addressed by the banks or through other sources.

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

Type of Information	AA	
Total Population in AA	73,297	
Kentucky HUD Adjusted Median Family Income – 2006	\$39,300	
Families in AA:		
Income Levels of Families	#	%
Low	4,991	24%
Moderate	4,176	20%
Middle	4,506	21%
Upper	7,480	35%
Total Families within AA	21,153	100%
Median Home Value:	\$58,043	
Median Year Built:	1976	
Businesses in AA:	#	%
Under \$1 Million Revenue	3,191	54
Over \$1 Million Revenue	237	4
Revenue Not Reported	2,506	42
Total	5,934	100

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Somerset National Bank's loan-to-deposit ratio indicates a satisfactory level of lending activity given SNB's size, financial condition, and assessment area credit needs. The bank's average net loan-to-deposit ratio for the sixteen quarters since the last CRA evaluation is 81 percent. The loan-to-deposit ratio has increased since the last CRA evaluation and as of December 31, 2006 was 89 percent.

The OCC identified two other banks considered similarly situated and comparable to SNB in asset and deposit size, major lending products, and number of offices operating in the assessment area. Although these banks have slightly higher average loan-to-deposit ratios during the same period, SNB's lending responsiveness to community credit needs is considered satisfactory given the relatively good economic conditions and the high level of competition in the assessment area. SNB's ratio is higher than its national peer group, which is 80 percent.

Institution	Average
Somerset National Bank	81.40%
Bank #1	89.42%
Bank #2	86.46%

Lending in Assessment Area

A majority of loans and other lending-related activities are in SNB's assessment area. The analysis shows 88 percent of the number and 57 percent of the dollar amount of loan originations were to borrowers inside the assessment area. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of 30 residential and 30 business loans originated between January 1, 2005 and March 31, 2007. See the following table for details.

Loan Originations Between January 1, 2005 and March 31, 2007										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	29	97	1	3	30	\$2,150 (000's)	98	\$ 43 (000's)	2	\$ 2,193
Business	24	80	6	20	30	\$6,061	50	\$6,133	50	\$12,194
Totals	53	88	7	12	60	\$8,211	57	\$6,176	43	\$14,387

* Source: Random sample of residential real estate and commercial loans originated between January 1, 2005 and March 31, 2007.

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 a random sample of 30 1-4 family residential mortgages and 30 business loans originated between January 1, 2005 and March 31, 2007. See the following tables for details.

Table INC-1 1-4 Family Residential Loans shows the percentage of SNB's residential loans to low-income borrowers is slightly lower than the demographic comparator but exceeds the demographic comparator to moderate-income borrowers. SNB's residential mortgage lending performance is reasonable given the credit needs of the AA.

Table INC-2 Business Loans indicates the percentage of SNB's business loans extended to companies considered small in size (revenues under \$1 million) exceeds the percentage of businesses in the assessment area with revenues under \$1 million. Of the total number of business loans sampled, 67 percent were to small businesses. Demographics indicate 54 percent of all businesses in the assessment area have revenues less than \$1 million. However, in this AA the percentage of businesses with unreported revenue is high at 42 percent. SNB's business lending performance is reasonable considering the demographic comparator.

Table INC-1 1-4 Family Residential Loans

1-4 FAMILY RESIDENTIAL LOANS					
Borrower Income Level	Loan Originations Between Jan 1, 2005 and Mar 31, 2007				Percentage of Families within each Income Category
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$ (000's)	Percentage of Dollars	
Low	7	23%	\$ 101	8%	24%
Moderate	7	23%	\$ 176	14%	20%
Middle	5	17%	\$ 216	17%	21%
Upper	11	37%	\$ 763	61%	35%
Total	30	100%	\$1,256	100%	100%

* Source: Randomly selected sample of 1-4 family residential loans originated within the bank's assessment area.

** Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.

Table INC-2 Business Loans

BUSINESS LOANS					
Business Income Level in Revenues	Loan Originations Between Jan 1, 2005 and Mar 31, 2007				Percentage of Businesses in the AA
	Number of Loans	Percentage of Loans	Dollar Amt of Loans \$(000's)	Percentage of Dollars	
< \$1 Million	20	67%	\$4,516	61%	54%
> \$1 Million	10	33%	\$2,876	39%	4%
Not Reported	0	0%	\$ 0	0%	42%
Total	30	100%	\$7,392	100%	100%

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

Geographic Distribution of Loans

The overall geographic distribution of loans reflects excellent dispersion throughout the assessment area. SNB's lending activity extends throughout the assessment area. Based on random sampling, we did not note any conspicuous gaps in lending. 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 SNB has excellent penetration in originating residential loans in the moderate-income census tracts. The percentage of loans is more than demographics and considered excellent given 62 percent of all families in the AA are located in the middle-income tracts.

Table GEO-2 Business Loans shows SNB has satisfactory penetration in making business loans in the moderate-income census tracts considering the demographic comparator. These geographies contain 17 percent of all businesses in the assessment area. The loans reviewed for SNB showed 17 percent of the number and 14 percent of the dollar amount of the business loans 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, 2005 and March 31, 2007					
Income Level of Census Tracts	1-4 Family Residential Loans				Distribution of Owner Occupied Housing
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Moderate	10	33%	\$ 355	16%	25%
Middle	18	60%	\$ 1,321	61%	62%
Upper	2	7%	\$ 491	23%	13%
Total	30	100%	\$ 2,167	100%	100%

* Source: Randomly selected sample of 1-4 family residential loans originated within the bank's assessment area.

** Further segmentation of home mortgage lending activity by purpose was not available from the data used for this analysis.

Table GEO-2 Business Loans

Geographic Distribution of Business Loans By Geography Income Designation Originated Between January 1, 2005 and March 31, 2007					
Income Level of Census Tracts	Business Loans				Distribution of Businesses in the AA
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Moderate	5	17%	\$1,050	14%	17%
Middle	19	63%	\$4,120	56%	66%
Upper	6	20%	\$2,222	30%	17%
Total	30	100%	\$7,392	100%	100%

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

Responses to Complaints

SNB has not received any complaints about its performance in helping meet assessment area credit needs 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.