



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 31, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Salyersville National Bank
Charter Number 8905**

**202 E. Maple Street
PO Box 158
Salyersville, KY 41465**

**Comptroller of the Currency
West Virginia Field Office
500 Lee Street, East
Suite 730
Charleston, WV 25301**

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 bank's loan-to-deposit ratio is reasonable.
- A majority of the bank's loans were originated within their assessment area.
- The overall borrower distribution of residential and consumer loans is adequate.
- The geographic distribution of loans reflects adequate dispersion throughout the assessment area.
- No public complaints related to CRA have been filed since the last CRA examination.

DESCRIPTION OF INSTITUTION

Salyersville National Bank (SNB) is located in the town of Salyersville, Kentucky in the eastern part of the state. SNB is 100% owned by SNB Bancorp, Inc., a one bank holding company. Salyersville is the seat of Magoffin County, and the County is defined by the Board of Directors as the bank's assessment area (AA). A community bank with \$84 million in assets, SNB has a main office and single branch both located within the town of Salyersville. SNB has not closed or opened any branches since the last CRA examination.

SNB offers full service banking at both locations, each with lobby and drive-thru facilities. The bank's products include a variety of traditional deposit and loan products, and twenty-four hour telephone banking and on-line Internet bill payment services. The bank operates a deposit-taking automatic teller machine at its branch location. During the evaluation period, SNB has not undergone any significant changes in its corporate structure. There are no legal or financial impediments to SNB's ability to meet the credit needs of its assessment area. The Bank received a Satisfactory rating at the last CRA examination dated March 8, 1999.

As of December 31, 2003, SNB's assets totaled \$84.7 million with net loans comprising 44% of that total. The following table reflects the composition of SNB's loan portfolio based on loans the bank originated or purchased between January 2000 and December 2002. Based on the number and dollars of loans, SNB's primary loan products include 1-4 family residential credits and consumer credits; consequently, we considered these two loan types in our evaluation and assessment of the bank's CRA performance.

While the evaluation period includes analysis of performance through December 2003, the loan samples do not include any loans originated during 2003 due to CRA requirements relative to Census 2000 data. Loans originated in 2003 must be evaluated using year 2000 Census data. The OCC determined that Small Bank CRA exams conducted during 2004 may exclude loans originated during 2003 to avoid multiple lending analyses provided management agrees it is appropriate. We discussed the impact of the new Census 2000 data with management, and they agreed that there have been no significant changes in the bank's lending practices, and limiting our sample as such would not adversely impact the CRA assessment.

Product Category	Loan Originations 01/01/2000 – 12/31/2002			
	Number	Percent	Dollar (000's)	Percent
R.E. - 1-4 Family – First Lien	237	22.40%	\$10,251,351	35.05%
Other Consumer	656	62.00%	\$5,928,866	20.28%
Commercial & Industrial	99	9.36%	\$4,261,729	14.57%
Nonfarm/Nonresidential	35	3.31%	\$6,969,515	23.84%
Construction/Land Development	26	2.46%	\$1,436,021	4.91%
Multifamily Residence	2	.19%	\$331,731	1.13%
Non Consumer	2	.19%	\$42,499	.14%
R.E. – 1-4 Family – Jr. Lien	1	.09%	\$22,000	.08%
Total	1,058	100.00	\$29,243,712	100.00

Source: Data Collected by the Bank

DESCRIPTION OF MAGOFFIN COUNTY

SNB's assessment area (AA) is comprised of the geographic boundary of Magoffin County, located in eastern Kentucky. The AA has four block numbering areas (BNAs), one defined as a low-income tract and the remaining three tracts moderate-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. Competition within the AA consists of another national bank and a savings association with branches operating in the single-county assessment area. The majority of the depositor market share is divided between the three banks of Citizens National Bank, Family Bank FSB, and Salyersville NB.

Institution Name	Total Assets (000's) 12/31/03	Deposit Market Share Inside of Market 6/30/03
Salyersville National Bank	\$84,706	73.76%
Family Bank FSB	\$96,380	17.82%
Citizens NB of Paintsville	\$324,927	8.42%

Source: Data Reported to the Federal Financial Institutions Examination Council on the Consolidated Reports of Condition and Income; Federal Deposit Insurance Corporation's Market Share Report

The population of Magoffin County is 13,077 according to 1990 census information, and Salyersville itself has a population of 1,917. The local economy was historically linked to the coal industry and is still affected by its cyclical nature. Presently, educational, health and social service industries provide 23.6% of employment and retail trade provides 14.2% of employment. The County also has one manufacturing company that builds mining equipment, but the largest portion of the population commutes to jobs outside the County. The year-to-date 2004 unemployment rate for Magoffin County is the highest in the state at 13.3%, according to the Bureau of Labor Statistics. This is extremely high given the state average of 5.3% and the

national unemployment rate average of 5.6%. The high rate is attributed to very limited employment opportunities in the area and a depressed local economy.

COMMUNITY CONTACTS

One community contact was made with a resident who is a local businessman and a retired local government employee. The contact noted positive lending experiences in the community and specifically with SNB. The contact identified local entrepreneurial loans as a specific credit need within the assessment area but also indicated that the banking industry was positively addressing this need.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

SNB's loan-to-deposit ratio is reasonable given the bank's size and financial condition. We considered bank data and found that SNB is similarly situated to Family Bank FSB and Citizens NB of Paintsville. Both banks are considered SNB's primary competitors in terms of location and products offered; however, loan-to-deposit data for Family Bank was not available as it is a Federal Savings Bank. The chart below depicts comparative data for Salyersville NB and Citizens NB, although market share of the two institutions is considerably different.

Institution Name	Quarterly Average Loan-to-Deposit Ratio Twenty Quarters Beginning March 31, 1999
Salyersville National Bank	60.48%
Citizens NB of Paintsville	62.23%

Source: Data Reported to the Federal Financial Institutions Examination Council on the Consolidated Reports of Condition and Income

Lending in Assessment Area

SNB originated a majority of loans sampled within the AA. SNB collects information regarding the borrower's geographic location and income for each residential real estate and consumer loan originated. We selected a sample of each of these two primary loan types from the entire population of loans originated between January 1, 1999 and December 31, 2002. We used the bank-coded income information to determine the distribution of loans within the assessment area based on borrowers income and bank-coded geographic information, which we verified for accuracy. The following table summarizes the results of our review.

Table 1 - Lending in Magoffin County, KY										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	22	84.62%	4	15.38%	26	\$1,035,064	68.40%	\$478,254	31.60%	\$1,513,318
Consumer	31	91.18%	3	8.82%	34	\$277,858	90.99%	\$27,510	9.01%	\$305,368
Totals	53	88.33%	7	11.67%	60	\$1,312,922	72.19%	\$505,746	27.81	\$1,818,686

Source: Loan Sample.

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

The following table illustrates the distribution of residential real estate loans by the borrower's income level. Our review revealed that the number of residential real estate loans made to low- and moderate-income families is reasonable when compared with the percentage of families in each of those income levels. Although the number of residential real estate loans made to low-income borrowers in the Magoffin County AA is significantly less than the percentage of families in that area, this can be attributed to the high unemployment rate within the County. Additionally, demographic data indicates that 40.72% of households within SNB's AA are below poverty level, making it more difficult for applicants to qualify for a loan.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Magoffin County, KY								
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
Residential R.E.	41.38%	18.18%	18.19%	18.18%	15.55%	40.90%	24.88%	22.74%

Source: Loan Samples & 1990 U.S. Census data.

The following table illustrates the distribution of consumer loans by the borrower's income level compared with the percentage of households that are within each of those income levels. The distribution of consumer loans made to low- and moderate-income families is reasonable, given the high unemployment level and that 40.72% of households are below the poverty level. Statistical data also indicates that as of 2001, median household income and the County's per capita personal income both fell well below the state and national averages.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	37.62%	16.67%	18.64%	36.67%	15.77%	26.67%	27.97%	19.00%

**40.72% of AA Households are Below Poverty Level*

Source: Loan samples & 1990 U.S. Census data.

Geographic Distribution of Loans

We used the same segmentation discussed in the previous section of this Evaluation to analyze performance in lending to low- and moderate-income geographies within the AA. The geographic distribution of loans reflects reasonable dispersion throughout SNB's AA. We evaluated the lending distribution within the AAs, considering branch locations, competition, market conditions, and demographic information. We did not identify any unexplained conspicuous gaps. There are no middle- or upper-income geographies in the AA.

The following table shows the geographic distribution of residential real estate loans among geographies of different income levels compared to the percentage of owner occupied housing. The distribution of loans between geographies in the Magoffin County AA is adequate. The distribution of loans to borrowers in low-income geographies was lower than the percentage of owner occupied housing, however this is primarily due to the aforementioned unemployment and poverty levels within the AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential R.E.	13.03%	9.09%	86.97%	90.91%	0%	0%	0%	0%

Source: Loan samples & 1990 U.S. Census data.

The table below illustrates the geographic distribution of consumer loans among geographies of different income levels compared to the percentage of households in each income tract. The distribution of loans between geographies in the Magoffin County AA is satisfactory. The graph shows no loans to borrowers of low-income geographies compared to 11% of households in low-income tracts. As previously mentioned, this can be attributed to the high unemployment rate,

high poverty level, and general economic downturn within the AA.

Table 3B - Geographic Distribution of Consumer Loans in Magoffin County, KY								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	11%	0%	89%	100%	0%	0%	0%	0%

Source: Loan samples & 1990 U.S. Census data.

Responses to Complaints

Since the March 8, 1999 CRA examination, SNB has not received any CRA-related complaints.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.