



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 27, 2003

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.

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INSTITUTION'S CRA RATING

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Somerset National Bank in Somerset, Kentucky** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 27, 2003**. The agency rates the 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:

- A substantial majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and reasonable levels of lending to businesses of different sizes.
- Geographic distribution of loans is considered excellent, considering 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.
- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.

DESCRIPTION OF INSTITUTION

Somerset National Bank (SNB) is a full-service intrastate bank 100% owned by Somerset Bancorp, Inc. and headquartered in Somerset, Kentucky. As of September 30, 2002, the bank had \$94 million in total assets, \$86 million in deposits, \$61 million in loans and \$7 million in Tier One capital. The bank offers traditional banking products and services including a program for first-time homebuyers that include low-and-moderate income families. The bank has a main office and two drive-thru facilities in Somerset, Kentucky. SNB has two Automated Teller Machines with one located at the main office and the other at the Clifty Road drive-thru. The bank is accessible to all segments of the community.

The bank's primary lending focus is home mortgage loans and consumer loans. SNB also makes loans to small businesses and farms in the area. As of September 30, 2002, net loans represented approximately 65% of the bank's average assets. The loan portfolio mix is as follows: 1-4 family residential mortgages 56%, total commercial real estate loans 18%, consumer loans 13%, construction and development loans 4%, farm-related real estate loans 3%, multifamily loans 4%, agriculture loans less than 1% and other loans 1%.

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 15, 1998. The bank received a rating of Satisfactory. This CRA evaluation will cover the time period of February 1998 to February 2003.

DESCRIPTION OF PULASKI COUNTY

SNB has identified Pulaski County, Kentucky, as its assessment area for CRA purposes. The assessment area appears appropriate in relation to the location of the bank's offices and does not arbitrarily exclude any low- or moderate-income areas. The assessment area delineation is in conformance with the regulatory requirements of CRA.

The assessment area includes Pulaski County in its entirety, which is located in the non-metropolitan portion of the State of Kentucky. The 1990 U.S. Census divided the assessment area into eleven Block Numbering Areas (BNA's), with two moderate-income, eight middle-income, and one upper-income geographies. There are no low-income BNA's in Pulaski County. This determination was based on the Kentucky 1990 Median Family Income of \$22,542.

Pulaski County is a rural county in Southeastern Kentucky with a total population of in 49,489 according to the 1990 U.S. Census. That number has risen to approximately 56,774 in 2001. The 1990 population of McCreary County was comprised of 18,895 households, of which 7,894, or 41%, are considered to have low- or moderate-incomes. In addition, the percentage of households in Pulaski County receiving public assistance is approximately 12%. Other significant factors to consider include: 24% of the households live below the poverty level and 33% are on social security.

The economy of the assessment area is considered to be overall stable. Pulaski County shows stable growth in housing construction and sales with overall retail sales considered stable. Unemployment rates have increased due to recent company closings and are higher than both the state (5.4%) and national averages (6%). According to the U.S. Department of Labor, the most current unemployment rate for the assessment area is 6.6 percent (December 2002).

The majority of the employment opportunities revolve around factory and hospital work with some agriculture-related jobs. Specifically, major employers in Pulaski County include state and county government, Pulaski County School System (Board of Education), Lake Cumberland Regional Hospital, The Communities of Oakwood/Mental Health Facility, Toyotetsu America Inc. (automotive parts), Crane and Crane Fiat (plumbing parts), and Kingsford Charcoal Company.

Competition is considered strong and involves competition from both banks and finance companies. Local competition consists of eight banks and a variety of finance companies.

A community contact familiar with the area's credit needs indicated that all banks in Pulaski County 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 county that were not being addressed by the banks or through other sources.

The following additional demographic information covering the bank's assessment area, Pulaski County, is based on 1990 census data unless otherwise noted.

Type of Information	AA	
Population		
1990 Census Information	49,489	
2000 Census Information	56,774	
Kentucky HUD Adjusted Median Family Income - 2002	\$36,300	
Families in AA:		
Income Levels of Families	#	%
Low	3,367	23.14%
Moderate	2,504	17.20%
Middle	2,981	20.48%
Upper	5,702	39.18%
Total Families within AA	14,554	100.00%
Households in AA:		
Income levels of households	#	%
Low	5,025	26.60%
Moderate	2,869	15.18%
Middle	3,483	18.43%
Upper	7,518	39.79%
Total Households within AA	18,895	100.00%
Median Home Value:		
1990 Census Information	\$43,689	
2000 Census Information	\$74,100	
Median Year of Homes Built:	1970	
Farms in the Assessment Area:	#	%
Under \$1 Million Revenue	173	97.75%
Over \$1 Million Revenue	3	1.69%
Revenue not reported	1	0.56%
Total	177	100.00%
Businesses in the Assessment Area:	#	%
Under \$1 Million Revenue	2,343	71.30%
Over \$1 Million Revenue	206	6.27%
Revenue not reported	737	22.43%
Total	3,286	100.00%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending in Assessment Area

A substantial majority of loans and other lending-related activities are in SNB's assessment area. The analysis shows 85% of the number and approximately 89% of the dollar amount of loan originations sampled 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 twenty loans originated since the last CRA examination. See table below for details.

SAMPLE OF LOAN ORIGINATIONS FROM FEB 1998 THROUGH DEC 2002				
	Number of Loans	Percentage of loans	Dollar Amt of Loans \$(000's)	Percentage of Loans
Within the Assessment Area	17	85.00%	\$525	88.53%
Outside the Assessment Area	3	15.00%	\$ 68	11.47%
Totals	20	100.00%	\$593	100.00%

* Source: Randomly selected sample of loans originated between February 1998 and December 2002.

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

The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of twenty loans of each of the bank's primary loan types. The primary loan types for this analysis included 1-4 family residential mortgages – purchase and refinance, commercial, and consumer loans. See the tables below for details.

“Table INC-1 Home Purchase Loans” shows the percentage of SNB's home purchase loans to low- and moderate-income borrowers slightly exceeds the percentage of families in the assessment area with low- and moderate-income. Both low- and moderate-income borrowers received 30% each of the number of home purchase loans. SNB's mortgage lending for the purpose of purchasing a home is reasonable considering the identified home mortgage credit needs in the community.

“Table INC-2 Mortgage Refinance Loans” shows the percentage of SNB’s refinance loans to low- and moderate-income borrowers is comparable to the percentage of families in the assessment area with low- and moderate-income. Both low- and moderate-income borrowers received 20% each of the number of refinance loans. Overall, SNB’s mortgage lending with the purpose of refinancing is reasonable considering the identified home mortgage credit needs in the community.

“Table INC-3 Consumer Loans” shows the overall percentage of SNB’s consumer loans to low- and moderate-income borrowers is comparable to the percentage of households in the assessment area with low- and moderate-income. Low-income borrowers received 25% of the number of consumer loans. Moderate-income borrowers received 30% of the number of consumer loans.

“Table INC-4 Business Loans” shows a significant majority of SNB’s business lending (approximately 80% of our sample) is to businesses that are small in size. These numbers are slightly higher than the number of small businesses in the assessment area. Demographics indicate 71% of all businesses in the assessment area have revenues less than \$1 million. SNB’s business lending performance is excellent considering the demographics of the area.

Table INC-1 Home Purchase Loans

1-4 FAMILY MORTGAGES – HOME PURCHASE					
Borrower Income Level	Sampled Between January 1, 2001 and December 31, 2002				% of Families within each Income Category
	# of Loans	%	\$ (000's)	%	
Low	6	30.00%	\$ 284	23.53%	23.14%
Moderate	6	30.00%	\$ 316	26.18%	17.20%
Middle	5	25.00%	\$ 330	27.34%	20.48%
Upper	3	15.00%	\$ 277	22.95%	39.18%
Total	20	100.00%	\$1,207	100.00%	100.00%

* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans) originated between January 1, 2001 and December 31, 2002 from within the bank’s assessment area.

Table INC-2 Mortgage Refinance Loans

1-4 FAMILY MORTGAGES – REFINANCE					
Borrower Income Level	Sampled Between January 1, 2001 and December 31, 2002				% of Families within each Income Category
	# of Loans	%	\$ (000's)	%	
Low	4	20.00%	\$158	16.05%	23.14%
Moderate	4	20.00%	\$120	12.18%	17.20%
Middle	8	40.00%	\$423	42.94%	20.48%
Upper	4	20.00%	\$284	28.83%	39.18%
Total	20	100.00%	\$985	100.00%	100.00%

* Source: Randomly selected sample of 1-4 family residential mortgages (refinanced loans) originated between January 1, 2001 and December 31, 2002 from within the bank's assessment area.

Table INC-3 Consumer Loans

CONSUMER LOANS					
Borrower Income Level	Sampled Between January 1, 2001 and December 31, 2002				% of Households within each Income Category
	# of Loans	%	\$ (000's)	%	
Low	5	25.00%	\$ 43	16.86%	26.60%
Moderate	6	30.00%	\$ 72	28.24%	15.18%
Middle	7	35.00%	\$133	52.15%	18.43%
Upper	2	10.00%	\$ 7	2.75%	39.79%
Total	20	100.00%	\$255	100.00%	100.00%

* Source: Randomly selected sample of consumer loans originated between January 2001 and December 2002 from within the bank's assessment area.

Table INC-4 Business Loans

BUSINESS LOANS					
Revenue Range	Sampled Between January 1, 2001 and December 31, 2002				% of Businesses within the assessment area
	# of Loans	%	\$ (000's)	%	
\$1 Million or Less	16	80.00%	\$1,947	79.83%	71.30%
Greater than or Equal to \$1 Million	4	20.00%	\$ 492	20.17%	6.27%
Revenue not Reported	0	0.00%	\$ 0	0.00%	22.43%
Total	20	100.00%	\$2,439	100.00%	100.00%

* Source: This reflects a sample of the business loans Somerset National Bank had outstanding as of December 31, 2002. All of the loans shown above are from within the 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. There were no conspicuous gaps in lending. To reach this conclusion, the OCC analyzed the bank’s lending activity by selecting a random sample of twenty loans of each of the bank’s primary loan types (see tables below). The primary loan types included 1-4 family residential mortgages – purchase and refinance, and consumer loans. An analysis of the bank’s commercial loans and farm loans were not part of our sample, as the numbers would not provide a meaningful analysis. While commercial loans make up approximately 18% of the dollar amount of the bank’s total loan portfolio, these loans only constitute approximately 3% of the bank’s total number of loans. Agriculture loans make up less than 1% of the bank’s total loan portfolio in regards to both dollar and number of loans.

“Table GEO-1 Home Purchase Loans” shows SNB has excellent penetration in making mortgage loans in the moderate-income BNA’s. These geographies contain 15% of all owner-occupied housing in the assessment area and the sample selected for SNB showed that 25% of the number and 24% of the dollar amount of their 1-4 Family mortgages were made to borrowers located in the moderate-income BNA’s.

“Table GEO-2 Mortgage Refinance Loans” shows that SNB has excellent penetration in making home mortgage refinance loans in the moderate-income BNA’s. These geographies contain 15% of all owner-occupied housing in the assessment area and the sample selected for SNB showed that 20% of the number and 17% of the dollar amount of their 1-4 family mortgages were made to borrowers located in the moderate-income BNA’s.

“Table GEO-3 Consumer Loans” shows that SNB has reasonable penetration in making consumer loans in the moderate-income BNA’s. These geographies contain 14% of all households in the assessment area and the sample selected for SNB showed that 15% of the number and 35% of the dollar amount of their consumer loans were made to borrowers located in the moderate-income BNA’s.

Table GEO-1 Home Purchase Loans

Geographic Distribution of 1-4 Family Mortgage Loans By Geography Income Designation Originated Between January 1, 2001 – December 31, 2002					
Income Level of Block Numbering Areas	1-4 Family Home Purchase Loans				Distribution of Owner Occupied Housing
	# of Loans	%	\$ (000's)	%	
Moderate	5	25.00%	\$ 292	24.19%	15.09%
Middle	14	70.00%	\$ 848	70.26%	71.57%
Upper	1	5.00%	\$ 67	5.55%	13.34%
Total	20	100.00%	\$1,207	100.00%	100.00%

* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans) originated between January 1, 2001 and December 31, 2002 from within the bank’s assessment area.

** Note: The assessment area has no low-income geographies.

Table GEO-2 Mortgage Refinance Loans

Geographic Distribution of 1-4 Family Mortgage Loans By Geography Income Designation Originated Between January 1, 2001 – December 31, 2002					
Income Level of Block Numbering Areas	1-4 Family Mortgage Refinance Loans				Distribution of Owner Occupied Housing
	# of Loans	%	\$ (000's)	%	
Moderate	4	20.00%	\$164	16.65%	15.09%
Middle	14	70.00%	\$701	71.17%	71.57%
Upper	2	10.00%	\$120	12.18%	13.34%
Total	20	100.00%	\$985	100.00%	100.00%

* Source: Randomly selected sample of 1-4 family residential mortgages (refinance loans) originated between January 1, 2001 and December 31, 2002 from within the bank's assessment area.

** Note: The assessment area has no low-income geographies.

Table GEO-3 Consumer Loans

Geographic Distribution of Consumer Loans By Geography Income Designation Originated Between January 1, 2001 – December 31, 2002					
Income Level of Block Numbering Areas	Consumer Loans				Distribution of Households
	# of Loans	%	\$ (000's)	%	
Moderate	3	15.00%	\$ 90	35.29%	14.12%
Middle	11	55.00%	\$ 93	36.47%	71.97%
Upper	6	30.00%	\$ 72	28.24%	13.91%
Total	20	100.00%	\$255	100.00%	100.00%

* Source: Randomly selected sample of consumer loans originated between January 1, 2001 and December 31, 2002 from within the bank's assessment area.

** Note: The assessment area has no low-income geographies.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

SNB's average net loan-to-deposit ratio for the nineteen quarters since the last CRA evaluation is 78.39%. The loan-to-deposit ratio has increased since the last CRA evaluation and as of September 30, 2002 was 69.40%.

The OCC identified eight similarly situated financial institutions operating in Kentucky markets similar to SNB's market. The banks are comparable to SNB in asset and deposit size, major lending products, and number of offices. For these similarly situated banks (peer), the loan-to-deposit ratios ranged from 41% to 87% with an average ratio of 68%.

Institution	Average
Somerset National Bank	78.39%
Bank #1	75.95%
Bank #2	66.06%
Bank #3	87.46%
Bank #4	41.03%
Bank #5	54.42%
Bank #6	79.46%
Bank #7	63.23%
Bank #8	66.10%

Responses to Complaints

Somerset National Bank has not received any complaints about its performance in helping to meet assessment area 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. 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. The latest comprehensive fair lending examination was performed as of January 13, 1998.