



SMALL BANK

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

PUBLIC DISCLOSURE

March 17, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Tri-County National Bank
Charter Number 20068**

**820 Master Street
Corbin, KY 40701**

**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 Tri-County National Bank in Corbin, Kentucky prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 1, 2004. 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 significant 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.
- 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.
- The average loan-to-deposit ratio is reasonable, considering the bank's size, financial condition, and assessment area credit needs.

DESCRIPTION OF INSTITUTION

Tri-County National Bank (TCNB) is a full-service intrastate bank 100% owned by Tri-County Bancorp, Inc, a one-bank holding company headquartered in Corbin, Kentucky. As of December 31, 2003, the bank had \$92 million in total assets, \$79 million in deposits, \$64 million in loans, and approximately \$8 million in Tier One Capital. The bank offers traditional banking products and services and operates four full-service offices. In addition, the bank has three Automated Teller Machines (ATMs), which are cash dispensing only. Both the offices and the ATM's are accessible to all segments of the community.

The bank's primary lending focus is home mortgage loans and consumer loans. TCNB also makes loans to small businesses and farms in the area. As of December 31, 2003, net loans represented approximately 68% of the bank's average assets. The loan portfolio mix is as follows: 1-4 family residential mortgages 62%, total commercial real estate loans 18%, consumer loans 12%, farm-related real estate loans 3%, construction and development loans 3%, and multifamily loans of approximately 2%.

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 March 22, 1999. The bank received a rating of satisfactory. This CRA evaluation will cover the time period of January 2002 to December 2003.

DESCRIPTION OF KNOX COUNTY, LAUREL COUNTY, AND WHITLEY COUNTY

TCNB has identified all of Knox County, part of Laurel County (census tracts #9710 and #9711), and parts of Whitley County (census tracts #9801, #9802, #9803, and #9805) 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 AA is located in the non-metropolitan portion of the State of Kentucky.

For this examination, we will be using two sets of information: the 1990 census and the 2000 census. For our analysis of borrower distribution, we will be using the 2000 census information for our review of the 2002/2003 loans. For our analysis of geographic distribution, we will be using both sets of information for a comparison of the 2002 and 2003 distribution of loans among the different census tracts. The 1990 U.S. Census divided the assessment area into fourteen census tracts (CT's): one low-income, seven moderate-income, five middle-income, and one upper-income geographies. This determination was based on the Kentucky 1990 Median Family Income for a non-metropolitan area of \$36,300. The 2000 U.S. Census divided the assessment area into thirteen census tracts (CT's): seven moderate-income, five middle-income, and one upper-income geographies. This was based on the Kentucky 2000 Median Family Income for a non-metropolitan area of \$38,600.

The City of Corbin was established at the junction of Laurel, Knox, and Whitley Counties and is referred to as the Tri-County area. Corbin has a large population and a broad economic base. This is reflected in the fact that the city of Corbin is located in CT's numbered 9801, 9802, 9710, and 9904, all of which are middle- and upper-income CT's.

According to the 2000 U.S. Census, the population of the assessment area, as described above, is 67,553. The 2000 population of the AA was comprised of 25,255 households, of which 13,398, or 51%, are considered to have low- or moderate-incomes. In addition, the percentage of households in the AA living below the poverty level is approximately 28%, and 33% of the households receive social security benefits. The median family income for the assessment area is \$27,571.

The economy of the assessment area is stable with employment typically based in light industrial companies and the services industry. Corbin and the Tri-County area are situated on or close to I-75, a major interstate. Consequently, manufacturing is a major component of the local economy and the majority of the employment opportunities revolve around factory positions. Specifically, major employers in the area include: CSX Transportation (railroad), CTA Acoustics (automotive insulation & acoustical materials), Metal Products, Inc (metal doors & frames), Pepsi-Cola Bottling Company (soft drinks), Southeastern Kentucky Rehabilitation Industries, Inc (rehabilitative services), TCO, Inc (motor vehicle headlights), The Baptist Regional Hospital, and the Board of Education. In addition, there are a variety of smaller manufacturers located throughout the assessment area plus a regional Wal-Mart distribution center located in nearby London, Kentucky. The unemployment rate has been improving. According to the U.S. Department of Labor, the most current unemployment rate for the Knox, Whitley, and Laurel County labor market is 6.7% for December 2003 and is now just slightly higher than the state (6.2%) and national (6.0%) unemployment rates. .

Competition is considered strong and involves competition from banks, credit unions, and finance companies.

A community contact familiar with the area's credit needs indicated all local banks are active in the community and are 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.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending in Assessment Area

A substantial majority of loans and other lending-related activities are in TCNB's assessment area. The analysis shows 100% of the number and 100% 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 JAN 2002 THROUGH DEC 2003				
	Number of Loans	Percentage of loans	Dollar Amt of Loans \$(000's)	Percentage of Loans
Within the Assessment Area	20	100.00%	\$541	100.00%
Outside the Assessment Area	0	0.00%	\$ 0	0.00%
Totals	20	100.00%	\$541	100.00%

* Source: Randomly selected sample of loans originated between Jan 2002 and December 2003.

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). To reach this conclusion, the OCC analyzed the bank's lending activity by selecting a random sample of forty loans of each of the bank's primary loan types. Primary loan types were determined by reviewing the number and dollar amount of loans outstanding. The primary loan types identified for this analysis included 1-4 family residential mortgages and consumer loans. See the tables below for details.

"Table INC-1 Home Mortgage Loans" shows the percentage of TCNB's home mortgage loans to low- and moderate-income borrowers to be comparable to the percentage of families in the assessment area with low- and moderate-income. Low-income borrowers received 30% of the number of home mortgage loans and moderate-income borrowers received approximately 23% of the number of home mortgage loans. TCNB's mortgage lending is reasonable considering the identified home mortgage credit needs in the community.

Table INC-1 Home Mortgage Loans

1-4 FAMILY MORTGAGES					
Borrower Income Level	Sampled Between January 1, 2002 and December 31, 2003				% of Families within each Income Category
	# of Loans	%	\$ (000's)	%	
Low	12	30.00%	\$ 335	19.20%	31.10%
Moderate	9	22.50%	\$ 358	20.52%	19.71%
Middle	8	20.00%	\$ 375	21.48%	19.74%
Upper	11	27.50%	\$ 677	38.80%	29.44%
Total	40	100.00%	\$1,745	100.00%	100.00%

* Source: Randomly selected sample of 1-4 family residential mortgages (home purchase loans) originated between January 2002 and December 2003 from within the bank's assessment area.

** Note: This information is based upon the 2000 U. S. Census.

“Table INC-2 Consumer Loans” shows the overall percentage of TCNB’s consumer loans to low- and moderate-income borrowers to be comparable to the percentage of households in the assessment area with low- and moderate-income. Low-income borrowers received approximately 28% of the number of consumer loans. Moderate-income borrowers received approximately 38% of the number of consumer loans.

Table INC-2 Consumer Loans

CONSUMER LOANS					
Borrower Income Level	Sampled Between January 1, 2002 and December 31, 2003				% of Households within each Income Category
	# of Loans	%	\$ (000's)	%	
Low	11	27.50%	\$ 82	26.80%	34.49%
Moderate	15	37.50%	\$ 81	26.47%	16.54%
Middle	7	17.50%	\$ 68	22.22%	17.27%
Upper	7	17.50%	\$ 75	24.51%	31.70%
Total	40	100.00%	\$306	100.00%	100.00%

* Source: Randomly selected sample of consumer loans originated between January 2002 and December 2003 from within the bank's assessment area.

** Note: This information is based upon the 2000 U. S. Census.

We did not review farm and business loans as agricultural and commercial lending are not considered to be primary loan types for this bank and an analysis would not be meaningful.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects excellent dispersion throughout the assessment area. TCNB'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 from each of the bank's primary loan types for both 2002 and 2003 and comparing the results to both the 1990 census and the 2000 census (see tables below). The geographic distribution of loans made in 2002 were compared to geographies identified during the 1990 U.S. Census and the geographic distribution of loans made in 2003 were compared to geographies identified during the 2000 U.S. Census. The primary loan types include 1-4 family home purchase loans and consumer loans.

Analysis of Geographic Distribution of 2002 loans:

"Table GEO-1 Home Mortgage Loans Made in 2002" shows TCNB has excellent penetration in making mortgage loans in the low- and moderate-income census tracts. For TCNB, there is one low-income census tract and seven moderate-income census tracts out of the fourteen census tracts identified within the assessment area (as designated by the 1990 U.S. Census). These census tracts contain approximately 46% of all owner-occupied housing in the assessment area and the sample selected for TCNB showed 70% of the number and 81% of the dollar amount of their 1-4 Family mortgages were made to borrowers located in these low- and moderate-income census tracts.

Table GEO-1 Home Mortgage Loans Made in 2002

Geographic Distribution of 1-4 Family Mortgage Loans By Geography Income Designation Originated Between January 1, 2002 – December 31, 2002					
Income Level of Census Tract Areas	1-4 Family Loan Originations				Distribution of Owner Occupied Housing
	# of Loans	%	\$ (000's)	%	
Low & Moderate	14	70.00%	\$619	80.60%	46.02%
Middle & Upper	6	30.00%	\$149	19.40%	53.98%
Total	20	100.00%	\$768	100.00%	100.00%

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

** Note: This information is based upon the 1990 U. S. Census.

“Table GEO-2 Consumer Loans Made in 2002” shows TCNB has excellent penetration in making consumer loans in the low- and moderate-income census tracts. For TCNB, there is one low-income census tract and seven moderate-income census tracts out of the fourteen census tracts identified within the assessment area (as designated by the 1990 U.S. Census). These census tracts contain approximately 48% of all households in the assessment area and the sample selected for TCNB showed 60% of the number and 50% of the dollar amount of their consumer loans were made to borrowers located in the low- and moderate-income census tracts.

Table GEO-2 Consumer Loans Made in 2002

Geographic Distribution of Consumer Loans By Geography Income Designation Originated Between January 1, 2002 – December 31, 2002					
Income Level of Census Tract Areas	Consumer Loans Originations				Distribution of Households
	# of Loans	%	\$ (000's)	%	
Low & Moderate	12	60.00%	\$ 85	50.30%	47.57%
Middle & Upper	8	40.00%	\$ 84	49.70%	52.43%
Total	40	100.00%	\$169	100.00%	100.00%

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

** Note: This information is based upon the 1990 U. S. Census.

Analysis of Geographic Distribution of 2003 loans:

“Table GEO-3 Home Mortgage Loans Made in 2003” shows TCNB has reasonable penetration in making mortgage loans in the moderate-income census tracts. For TCNB, there are seven moderate-income census tracts out of the thirteen census tracts identified within the assessment area (as designated by the 2000 U.S. Census). These census tracts contain approximately 45% of all owner-occupied housing in the assessment area and the sample selected for TCNB showed 45% of the number and 45% of the dollar amount of their 1-4 Family mortgages were made to borrowers located in the moderate-income census tracts.

Table GEO-3 Home Mortgage Loans Made in 2003

Geographic Distribution of 1-4 Family Mortgage Loans By Geography Income Designation Originated Between January 1, 2003 – December 31, 2003					
Income Level of Census Tract Areas	1-4 Family Loan Originations				Distribution of Owner Occupied Housing
	# of Loans	%	\$ (000's)	%	
Moderate	9	45.00%	\$444	45.45%	45.16%
Middle & Upper	11	55.00%	\$533	54.55%	54.84%
Total	20	100.00%	\$977	100.00%	100.00%

* Source: Randomly selected sample of 1-4 family residential mortgages originated between January 1, 2003 and December 31, 2003 from within the bank's assessment area.

** Note: This information is based upon the 2000 U. S. Census.

“Table GEO-4 Consumer Loans Made in 2003” shows TCNB has reasonable penetration in making consumer loans in the low- and moderate-income census tracts. For TCNB, there are seven moderate-income census tracts out of the thirteen census tracts identified within the assessment area (as designated by the 2000 U.S. Census). These census tracts contain approximately 46% of all households in the assessment area and the sample selected for TCNB showed 45% of the number and 42% of the dollar amount of their consumer loans were made to borrowers located in the moderate-income census tracts.

Table GEO-4 Consumer Loans Made in 2003

Geographic Distribution of Consumer Loans By Geography Income Designation Originated Between January 1, 2003 – December 31, 2003					
Income Level of Census Tract Areas	Consumer Loans Originations				Distribution of Households
	# of Loans	%	\$ (000's)	%	
Moderate	9	45.00%	\$ 58	42.34%	45.63%
Middle & Upper	11	55.00%	\$ 79	57.66%	54.37%
Total	20	100.00%	\$137	100.00%	100.00%

* Source: Randomly selected sample of consumer loans originated between January 1, 2003 and December 31, 2003 from within the bank's assessment area.

** Note: This information is based upon the 2000 U. S. Census.

Analysis of Geographic Distribution of Farm/Business Loans:

We did not review farm and business loans as agricultural and commercial lending are not considered to be primary loan types for this bank and an analysis would not be meaningful.

Loan-to-Deposit Ratio

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

TCNB's average net loan-to-deposit ratio for the twenty quarters since the last CRA evaluation is 74.45%. The loan-to-deposit ratio has decreased since the last CRA evaluation and as of December 31, 2003 is 79.42%.

The OCC identified a few local competitors as well as four similarly situated financial institutions operating in markets similar to TCNB's market. The similarly situated banks are comparable to TCNB in asset and deposit size and major lending products. For these identified banks (i.e. peer), the loan-to-deposit ratios ranged from 42% to 93% with an average ratio of approximately 71%.

Institution	Average
TCNB	74.45%
Bank #1 (local competitor)	69.84%
Bank #2	42.27%
Bank #3	77.51%
Bank #4	93.00%
Bank #5	66.47%

Responses to Complaints

TCNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending Review

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