

PUBLIC DISCLOSURE

August 16, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples Bank and Trust Company of Madison County
RSSD: 746513

419 Chestnut Street
Berea, Kentucky 40403

Federal Reserve Bank of Cleveland

P.O. Box 6387
Cleveland, OH 44101-1387

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 institution is rated: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

The major factors and criteria contributing to this rating include:

- A reasonable loan-to-deposit ratio, given the bank's size, financial condition, and assessment area credit needs;
- A majority of loans and other lending-related activities are in the assessment area;
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area;
- There is a reasonable penetration among individuals of different income (including low-and moderate-income individuals) levels and businesses of different sizes;
- There have been no complaints filed against the bank since the previous CRA examination; and,
- The bank's community development performance demonstrates adequate responsiveness to community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area.

The previous CRA evaluation, conducted July 10, 2006, resulted in an overall rating of "Satisfactory" and was evaluated under the small bank performance standards.

SCOPE OF EXAMINATION

Peoples Bank & Trust Company of Madison County's (Peoples) lending performance was evaluated using loan data for the period of January 1, 2009 through December 31, 2009. The lending products reviewed for this evaluation included mortgage loans, consumer loans, small business loans, and small farm loans. Home mortgage loans included purchase, refinance, and home improvement loans. Consumer loans included motor vehicle, other secured, and unsecured loans.

Mortgage loans accounted for 34.5% of total loan volume, followed by small business loans at 30.9% of total loan volume, consumer loans at 28.9% of total loan volume, and small farm loans at 5.7% of loan volume during this review period. Based on volume and dollar amount of originations, mortgage loans received the greatest weight for this analysis, followed by small business, consumer, and small farm loans.

The level and extent of the bank's involvement in community development activities for the period of July 10, 2006 through August 16, 2010 was reviewed as part of this evaluation. Specifically, community development loans, investments and services occurring since the previous examination were reviewed for the community development test.

The bank has one assessment area, which received a full scope review.

Three interviews with community representatives were conducted during the course of the evaluation. Details from these interviews are presented in subsequent sections of this performance evaluation.

DESCRIPTION OF INSTITUTION

Peoples is a full-service retail bank located in Berea, Kentucky. Peoples is a subsidiary of Whitaker Bank Corporation of Kentucky and an affiliate of Whitaker Bank in Lexington, Kentucky. The bank operates ten branches (a 42.8% increase in branches since the previous examination), with nine of those branches having ATMs. In addition, there are six standalone ATMs. The increase in branches was due to the acquisition of Berea National Bank in January 2006.

According to the Uniform Bank Performance Report dated June 30, 2010, the bank had total assets of \$428 million. The asset-size of the institution increased 25.9% between June 2006 and June 2010. The increase in total investments, 149.1% between June 2006 and June 2010, was the main reason for the increase in asset-size. Peoples had invested 138.3% more between June 2006 and June 2010 in U.S. Treasury and agency securities.

Peoples provides a full range of personal and business deposit and loan products, internet banking, and telephone banking services. According to the June 30, 2010 Uniform Bank Performance Report,¹ Peoples had deposits of \$336 million and loans of \$269.1 million. Loans represented 63.4% of the bank's average assets and are comprised of residential real estate loans at 51.3%, commercial loans at 44.8%, consumer loans at 3.2%, and agricultural loans at 0.5% of average gross loans. The table below indicates the composition of the bank's loan portfolio based on selected dates:

COMPOSITION OF LOAN PORTFOLIO						
Loan Type	6/30/2010		12/31/2009		12/31/2008	
	\$ (000s)	Percent	\$ (000s)	Percent	\$ (000s)	Percent
Construction and Development	34,936	12.8%	33,309	12.5%	37,361	14.0%
Secured by One- to Four- Family Dwellings	109,590	40.2%	110,483	41.3%	111,729	42.0%
Other Real Estate:						
Farmland	9,861	3.6%	10,429	3.9%	9,271	3.5%
Multifamily	14,596	5.4%	13,197	4.9%	14,590	5.5%
Nonfarm nonresidential	84,808	31.1%	81,113	30.3%	72,936	27.4%
Commercial and Industrial	8,234	3.0%	8,415	3.1%	9,145	3.4%
Loans to Individuals	8,816	3.2%	8,847	3.3%	9,575	3.6%
Agricultural Loans	1,439	0.5%	1,490	0.6%	1,408	0.5%
<i>Total</i>	<i>\$272,280</i>	<i>100.00%</i>	<i>\$267,283</i>	<i>100.00%</i>	<i>\$266,015</i>	<i>100.00%</i>

* This table does not include the entire loan portfolio. Specifically, it excludes loans to depository institutions, bankers acceptances, lease financing receivables, obligations of state and political subdivisions, and other loans that do not meet any other category. Contra assets are also not included in this table.

The bank's asset size and financial condition indicate that it has the ability to meet the credit needs of its assessment area effectively. There are no legal or other impediments that would hamper the bank's ability to meet community credit needs.

¹ www.fdic.gov

DESCRIPTION OF INSTITUTION'S OPERATIONS IN KENTUCKY NONMETROPOLITAN STATISTICAL AREA

Peoples has one assessment area, which is comprised of Madison and Rockcastle Counties. As a result, the bank's assessment area consists of a total of 18 income tracts comprised of one low-income tract, one moderate-income tract, eight middle-income tracts, and eight upper-income tracts. A map of the assessment area is located in Appendix C.

According to the June 30, 2009 FDIC deposit market share report, Peoples ranked first in Madison County with 35.8% of the deposit market share. Madison Bank ranked second with 13.3%, followed by PNC Bank NA, formerly National City Bank, with 10.7%. Within Rockcastle County, Peoples ranked third with 5.3% of the market. Rockcastle County has a highly concentrated market share primarily held by two institutions, Citizens Bank and Community Trust Bank, with 54.9% and 36.7% of the market, respectively. Within the city of Berea, Peoples had 77.3% of the market share, with the next closest institution being U.S. Bank with 6.4%. Peoples has the fourth largest market share within the city of Richmond at 13.7% of the market share. Madison Bank and PNC Bank NA held 17.9% and 16.0% of the market share, respectively.

Three community contacts were conducted within the bank's assessment area. All three of the contacts' geographical focus included Madison and Rockcastle Counties. The contacts explained that Madison County has a more developed business community than Rockcastle County. One contact noted that there has been a significant increase in the number of small business starts during the last couple of years primarily due to individuals becoming unemployed and going into self-employment. Additionally, the contact mentioned that many small businesses were having difficulty in qualifying for credit due to more strict underwriting guidelines. The second contact noted that there was a need within both counties for more affordable housing and infrastructure. The contact discussed the fact that long-term capital investments were needed due to the significant time frames required to complete housing/infrastructure projects in the region. The third contact explained that there is a need for multifamily housing in rural areas. In addition, the contact stated that there is difficulty finding large investors to develop properties in rural areas. The third contact indicated that local financial institutions could participate in statewide tax credit programs to develop housing or provide lending assistance for property development.

Population Characteristics

According to the 2000 U.S. Census, the total population within this assessment area is 87,454, which represents 2.2% of the State of Kentucky's population. The low-income census tract comprises 4.9% of the assessment area population, with 2.2% in the moderate-income tract, 42.0% in middle-income tracts, and 50.9% in upper-income tracts. Of the total population, 77.6% are age 18 or older.

According to Workforce Kentucky,² Madison County had a population of 83,258 in the year 2009 and Rockcastle County had a population of 16,504 based on the Kentucky annual census. Madison County has grown 17.5% from a population of 70,872 since the 2000 U.S. Census. In Rockcastle County, the 2000 U.S. Census population was 16,582, representing a decline in the population of 0.47% compared to estimates in July 2009. The table³ below represents the population estimates during a four-year period from July 1, 2009 – July 1, 2006 and provides the April 1, 2000 U.S. Census population figures by county.

Geographic Area	Population Estimates				April 1, 2000	
	July 1, 2009	July 1, 2008	July 1, 2007	July 1, 2006	Estimates Base	Census
Madison County	83,258	82,277	81,275	80,738	70,872	70,872
Rockcastle County	16,504	16,637	16,571	16,536	16,582	16,582

The table⁴ below represents the population estimates by county and major city during a three-year period from July 1, 2009 – July 1, 2007 and provides the April 1, 2000 U.S. Census population figures by county.

Geographic Area	Population Estimates			April 1, 2000	
	July 1, 2009	July 1, 2008	July 1, 2007	Estimates Base	Census
Madison County					
Richmond city	33,458	32,943	32,489	27,559	27,152
Berea city	14,749	14,511	14,238	11,219	9,851
Rockcastle County					
Brodhead city	1,176	1,185	1,181	1,193	1,193
Livingston city	223	224	224	228	228
Mount Vernon city	2,561	2,581	2,571	2,592	2,592

Income Characteristics

Based on the 2000 U.S. Census, the median family income for the bank’s assessment area is \$38,652, which is below the Commonwealth of Kentucky’s median family income of \$40,939. The median household income for the bank’s assessment area is \$30,885, which is below the Commonwealth of Kentucky’s median household income of \$33,672.

There are 33,727 households, of which 23,080 are designated as families and 3,115 (13.5%) of families are below poverty. Of the families living below poverty level as a percentage of families by tract income, 31.0% reside in the low-income tract, 36.6% reside in the moderate-income tract, and 17.1% and 9.5% of families living below poverty level reside in middle- and upper-income tracts, respectively.

2 www.workforcekentucky.ky.gov

3 <http://www.census.gov/popest/estbygeo.html>

4 <http://www.census.gov/popest/estbygeo.html>

Of the households in this assessment area receiving public assistance, 9.6% are in the moderate-income tract. Also, 56.8% of households receiving public assistance reside in middle-income tracts. There were no households receiving public assistance in the low-income tract. Of the renters with a rent cost greater than 30.0% of their income, 2.3%, 5.3%, and 43.6% reside in low-, moderate-, and middle-income tracts, respectively.

Housing Characteristics

According to the 2000 U.S. Census, there are 36,984 housing units in the assessment area, of which 58.0% are owner-occupied, 33.2% are rental units, and 8.8% are vacant. One-to-four family units comprise 87.2% of the total housing units in the assessment area. Of the total housing units, 5.6% of those in the low-income tract, 19.4% of those in the moderate-income tract, 57.2% of those in middle-income tracts, and 62.0% of those in upper-income tracts are owner-occupied. College dormitory housing is occupied by 5.41% of the total population.

The median age of the housing stock is 22 years, with the oldest housing stock in the moderate-income tract at 45 years and 30 years in the low-income tract. The housing stock in middle- and upper-income tracts is 22 and 20 years, respectively. The age of the housing stock for these areas indicates an opportunity for home improvement-type lending in low- and moderate-income tracts.

Renters with rent costs greater than 30.0% of median family income was 33.3% in the bank's assessment area, which means rents are above the Commonwealth of Kentucky's rate at 31.0%. The median gross rent amount in the assessment area is \$419, which is slightly less than the Commonwealth of Kentucky's at \$445.

The housing affordability ratio, calculated by dividing median family income by median housing value was 39.0% in the bank's assessment area. This figure indicates that housing affordability is lower within the assessment area when compared to the Commonwealth of Kentucky's ratio at 42.0%. The median housing value in the assessment area is \$78,268.

According to Sperling's Best Places,⁵ the median cost of a home in Berea and Richmond, Kentucky was \$108,700 and \$131,570, respectively. Both cities experienced no appreciation/depreciation in home costs since the previous year.

According to RealtyTrac,⁶ foreclosure filings were reported on 1,695 Kentucky properties or one in every 1,133 housing units in June 2010. Comparatively, there were 34 properties in Madison County or one in every 1,000 housing units and two properties in Rockcastle County or one in 2,223 households that received a foreclosure filing.

5 www.bestplaces.net

6 www.realtytrac.com

7 www.workforcekentucky.ky.gov

Labor, Employment, and Economic Characteristics

For Madison County, the two largest educational providers are Berea College (Berea, KY) and Eastern Kentucky University (Richmond, KY). There are no significant providers of advanced education located in Rockcastle County.

Specific industry and occupational data for Rockcastle and Madison Counties was not available; rather, data for the Commonwealth of Kentucky is provided. According to the fastest-growing industry statistics, the Individual and Family Services industries will be the largest in the state by 2016, employing an estimated 13,963. The second largest industry will be management and technical consulting at an estimated 10,139 employees.

The following table lists the unadjusted unemployment rates for this assessment area, according to Workforce Kentucky:

Unemployment Rates*			
Area	2010		
	April	May	June*
Madison County	8.50%	8.60%	8.50%
Rockcastle County	10.70%	10.90%	10.40%
Kentucky	10.20%	10.10%	10.10%
United States	9.50%	9.30%	9.60%
<i>*Not Seasonally Adjusted</i>		<i>**Preliminary</i>	

The unemployment rate for Madison County continues to trend below the state and national averages. The unemployment rate for Rockcastle County remains slightly above the state and national averages.

The following demographic table illustrates the bank’s entire assessment area.

Combined Demographics Report

Peoples Bank & Trust

Assessment Area(s): NonMSA KY

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	1	5.6	174	0.8	54	31.0	4,092	17.7
Moderate-income	1	5.6	382	1.7	140	36.6	3,430	14.9
Middle-income	8	44.4	10,237	44.4	1,748	17.1	4,240	18.4
Upper-income	8	44.4	12,287	53.2	1,173	9.5	11,318	49.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	18	100.0	23,080	100.0	3,115	13.5	23,080	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	396	22	0.1	5.6	302	76.3	72	18.2
Moderate-income	1,070	208	1.0	19.4	716	66.9	146	13.6
Middle-income	16,758	9,579	44.7	57.2	5,481	32.7	1,698	10.1
Upper-income	18,724	11,613	54.2	62.0	5,775	30.8	1,336	7.1
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	36,948	21,422	100.0	58.0	12,274	33.2	3,252	8.8
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	15	0.5	13	0.4	1	0.6	1	1.1
Moderate-income	178	5.5	165	5.5	7	4.0	6	6.4
Middle-income	1,147	35.2	1,047	35.0	62	35.8	38	40.4
Upper-income	1,921	58.9	1,769	59.1	103	59.5	49	52.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	3,261	100.0	2,994	100.0	173	100.0	94	100.0
Percentage of Total Businesses:			91.8		5.3		2.9	
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	51	44.0	49	43.4	2	66.7	0	0.0
Upper-income	65	56.0	64	56.6	1	33.3	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	116	100.0	113	100.0	3	100.0	0	0.0
Percentage of Total Farms:			97.4		2.6		0.0	

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Lending Test

The lending test rating is satisfactory.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is a measure of an institution's lending volume relative to its capacity to lend and is derived by adding the quarterly loan-to-deposit ratios and dividing the total by the numbers of quarters. Peoples' peer group consists of all insured commercial banks having assets between \$300 million and \$1 billion.

Peoples' loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank averaged 82.7% over the past 17 quarters of operation and is slightly below the aggregate of all lenders group average ratio of 86.8%. The bank's loan-to-deposit ratio has historically lagged behind peer and has done so for the previous 14 quarters. The bank's biggest change in the quarterly loan-to-deposit ratio occurred during the quarter ending December 31, 2006 and the quarter ending March 31, 2007. During this time span, there was a 7.4% decrease in the loan-to-deposit ratio. This was primarily due to 3.1% decrease in total loans (with every loan category experiencing a decline) and a corresponding 5.7% increase in total deposits. The biggest driver to the increase in total deposits was time deposits for \$100,000 or more, which increased 8.8% quarter over quarter.

Bank Quarterly Loan-to-Deposit Ratios				
As of Date	Net Loans (000s)	Total Deposits (000s)	Bank Ratio	Peer Ratio
30-Jun-10	269,123	335,983	80.1%	80.4%
31-Mar-10	267,277	332,743	80.3%	80.9%
31-Dec-09	264,506	325,836	81.2%	82.7%
30-Sep-09	265,596	320,558	82.9%	84.8%
30-Jun-09	263,693	320,216	82.3%	86.0%
31-Mar-09	261,308	316,210	82.6%	86.8%
31-Dec-08	263,818	314,483	83.9%	89.3%
30-Sep-08	260,800	310,140	84.1%	91.1%
30-Jun-08	256,750	316,955	81.0%	91.0%
31-Mar-08	253,438	322,990	78.5%	89.5%
31-Dec-07	252,090	316,986	79.5%	89.4%
30-Sep-07	252,983	314,750	80.4%	88.6%
30-Jun-07	242,386	310,296	78.1%	87.9%
31-Mar-07	243,174	296,560	82.0%	86.6%
31-Dec-06	250,953	280,625	89.4%	86.8%
30-Sep-06	247,431	278,273	88.9%	87.6%
30-Jun-06	250,151	275,859	90.7%	87.0%
Quarterly Loan-to-Deposit Ratio Average Since Previous Evaluation			82.7%	86.8%

Peoples' loan-to-deposit ratio was compared to the following local peer banks: Community Trust Bank, Cumberland Valley National Bank & Trust, and Madison Bank. The local peer banks were chosen based on asset size, deposit market share within Peoples' market area, number of branch offices, and total deposits. The following table indicates financial information as of June 30, 2010:

Institution Name	RSSD ID	Financial Information As of June 30, 2010		
		Total Assets	Net Loans and Leases	Total Deposits
PEOPLES B&TC OF MADISON CTY	746513	\$ 428,035	\$ 269,123	\$ 335,983
COMMUNITY TR BK INC	509811	\$3,194,250	\$ 2,406,532	\$ 2,583,296
CUMBERLAND VALLEY NB&TC	647218	\$ 414,401	\$ 230,842	\$ 336,612
MADISON BK	2552099	\$ 139,996	\$ 103,242	\$ 115,824

Reviewing the ratios below, Peoples' average quarterly loan-to-deposit ratio is below Community Trust Bank (which has a substantially greater branch and asset base) and Madison Bank (which has a smaller asset and branch structure). Peoples' loan-to-deposit ratio is greater than Cumberland Valley National Bank, which has a similar asset size and branch structure. Therefore, considering the bank's lending-related activity, size, financial condition, and assessment area credit needs, Peoples' loan-to-deposit ratio is reasonable.

Peer Quarterly Loan-to-Deposit Ratio (%) Comparison				
As of Date	PEOPLES B&TC OF MADISON CTY	COMMUNITY TR BK INC	CUMBERLAND VALLEY NB&TC	MADISON BK
30-Jun-10	80.1%	93.2	68.6	89.1
31-Mar-10	80.3%	94.1	65.7	90.6
31-Dec-09	81.2%	97.2	68.2	83.8
30-Sep-09	82.9%	98.1	69.5	93.9
30-Jun-09	82.3%	97.6	69.9	93.4
31-Mar-09	82.6%	96.4	71.0	96.8
31-Dec-08	83.9%	98.9	79.0	98.6
30-Sep-08	84.1%	99.4	80.7	99.7
30-Jun-08	81.0%	98.1	81.3	96.3
31-Mar-08	78.5%	96.0	78.4	97.4
31-Dec-07	79.5%	95.6	77.1	92.5
30-Sep-07	80.4%	94.3	73.0	87.4
30-Jun-07	78.1%	92.3	71.5	86.3
31-Mar-07	82.0%	87.1	67.3	88.2
31-Dec-06	89.4%	91.1	68.6	92.0
30-Sep-06	88.9%	93.0	71.3	94.0
30-Jun-06	90.7%	91.9	69.4	101.7
Average	82.7%	95.0	72.4	93.0

Lending in the Assessment Area

The following table illustrates that 87.5% percent of loans and other lending-related activities are in the assessment area. Therefore, a majority of loans as measured by volume were originated inside the bank's assessment area.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside the Assessment Area				Outside the Assessment Area			
	# of Loans	%	\$ (000s)	%	# of Loans	%	\$ (000s)	%
Small Business	528	88.6	30,727	67.9	68	11.4	14,538	32.1
Small Farm	97	75.2	4,072	80.8	32	24.8	966	19.2
Consumer	495	88.7	3,195	88.3	63	11.3	424	11.7
Mortgage	589	87.8	53,547	91.8	82	12.2	4,769	8.2
Total	1,709	87.5	91,541	81.6	245	12.5	20,697	18.4

Geographic Distribution of Lending

During this evaluation period, Peoples originated \$3.2 million in consumer loans, \$53.5 million in mortgage loans, \$30.7 million in small business loans, and \$4.1 million in small farm loans in this assessment area.

Peoples' geographic distribution of loans reflects a reasonable dispersion throughout its assessment area.

Within the assessment area, there is one low- and moderate- income tract each representing 5.6% of the tracts and eight middle- and upper-income tracts each comprise 44.4% of the assessment area.

During the evaluation period, the bank did not originate a loan in the low-income census tract. This census tract is primarily comprised of 22 owner occupied units at 5.6% and 302 rental housing at 76.3% of total housing units. In addition, the ratio of total families compared to total population is 4.0% within this census tract, which is located in Richmond, Kentucky. Further, Eastern Kentucky University is located in this census tract, with housing in the moderate-income tract. The demographic makeup of a public university with on-campus student residency creates limited lending opportunities for the bank in the low- and moderate-income tracts. As result, minimal weight was placed on these tracts.

Within Rockcastle County, there are four middle-income distressed census tracts. Each of the four tracts are distressed due to poverty and the current year designation is the same as the previous year. Peoples originated 113 total loans within these four census tracts during the evaluation period, representing 6.6% of total lending.

Mortgage Loans

A lower level of owner-occupied units and low housing values limits the bank's lending opportunities in the low- and moderate-income tracts. The geographic distribution of mortgage lending is good.

Peoples originated 589 mortgage loans for approximately \$53.5 million during this evaluation period. The bank made 18 (3.1%) mortgage loans in the moderate-income tract, which was above the percentage of owner-occupied housing units at 1.0%. Therefore, the bank's lending in the moderate-income tract is excellent.

The bank originated 36.3% of its mortgage loans in middle-income tracts, which was below the percentage of owner-occupied housing units at 44.7%. In addition, the bank originated 60.6% of its loans in upper-income tracts, which exceeded the percentage of owner-occupied units at 54.2%.

Small Business Loans

Penetration throughout the assessment area is adequate.

During the evaluation period, Peoples originated 528 small business loans in an aggregate amount of \$30.7 million, of which 16 (3.0%) loans were originated in the moderate-income tract, which was less than the 5.5% of small businesses located in this tract. Therefore, the bank's lending was considered adequate. The bank originated 37.5% and 59.5% of its small business loans in middle- and upper-income tracts, compared to the percentage of small businesses located in these tracts at 35.0% and 59.1%, respectively.

Consumer Loans

The geographic distribution of consumer lending is adequate.

Peoples originated 495 consumer loans for approximately \$3.2 million during this evaluation period. The bank made 8 (1.6%) consumer loans in the moderate-income tract, which was less than the percentage of households at 2.8%. Therefore, the bank's lending in the moderate-income tract is adequate.

The bank originated 41.8% of its consumer loans in middle-income tracts, which was below the percentage of households at 44.7%. In addition, the bank originated 56.6% of its loans in upper-income tracts, which exceeded the percentage of households at 51.6%.

Small Farm Loans

During the evaluation period, Peoples originated 97 loans in an aggregate amount of \$4.1 million. There are no farms located in the low- or moderate-income census tracts; subsequently, no small-farm loans were originated in these tracts. The bank originated 46.4% and 53.6% of its small farm loans in middle- and upper-income tracts, compared to the percentage of small farms located in these tracts at 43.4% and 56.6%, respectively.

Distribution by Borrower Income and Revenue Size of the Business

Due to the composition of the assessment area census tracts, the borrower distribution of lending received more weight during the evaluation than the geographic distribution of lending.

Peoples' borrower distribution of loans reflects a reasonable penetration among individuals of different income (including low- and moderate-income) levels and businesses and farms of different sizes.

Mortgage Loans

The borrower distribution of mortgage loans is adequate.

Peoples originated 42 (7.1%) mortgage loans to low-income borrowers, which is significantly less than the percentage of low-income families in this assessment area at 17.7%. The borrower distribution of mortgage loans to low-income borrowers is poor. Peoples originated 68 (11.5%) mortgage loans to moderate-income borrowers, which is less than the percentage of moderate-income families at 14.9%. The borrower distribution of mortgage loans to moderate-income borrowers is adequate.

Peoples made 15.8% of its mortgage loans to middle-income borrowers and 61.1% of its mortgage loans to upper-income borrowers, compared to the percentage of middle- and upper-income families at 18.4% and 49.0% respectively.

Small Business Loans

Of the 528 small business loans, 508 (96.2%) were originated to businesses with less than \$1 million in revenue (small business), compared to 91.8% of total assessment area businesses with revenues less than a \$1 million. Lending to small businesses is excellent.

A further analysis shows that 87.9% of the bank's small business loans were extended in an amount of \$100,000 or less. Since smaller-size loans are generally commensurate with the borrowing needs of small businesses, this analysis demonstrates Peoples is meeting the credit needs of the assessment area.

Consumer Loans

The borrower distribution for consumer loans is good.

100 (20.2%) of the bank's consumer loans were made to low-income borrowers, which was less than the 22.5% of low-income households. Consumer lending to low-income borrowers is considered good. 116 (23.4%) of the bank's consumer loans were made to moderate-income borrowers, which was greater than the 13.0% of moderate-income households. Consumer lending to moderate-income borrowers is excellent.

23.0% of the bank's consumer loans were made to middle-income borrowers, which was significantly greater than the 16.4% of middle-income households, while 28.3% of the bank's consumer loans were made to upper-income borrowers, which was significantly less than the 48.2% of upper-income households.

Small Farm Loans

Of the 97 small farm loans, 97 (100.0%) were originated to farms with less than \$1 million in revenue (small farms), compared to 97.4% of total assessment area farms with revenues less than a \$1 million. Lending to small farms is excellent.

Further analysis shows that 93.8% of the bank's small farm loans were extended in an amount of \$100,000 or less. Since smaller size loans are generally commensurate with the borrowing needs of small farms, this demonstrates Peoples is meeting the credit needs of the assessment area.

Response to Consumer Complaints

There were no CRA-related complaints that were filed against Peoples during this evaluation period.

Community Development Test

Peoples' community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, considering its capacity and the need and availability of community development opportunities in its assessment area.

Community Development Loans

Peoples made one loan totaling \$250,000 that qualified for community development purposes to an organization whose primary purpose is to promote economic development within the bank's assessment area.

Qualified Investments

For this evaluation period, the bank made two donations and one investment totaling \$2,450,750. The bank made donations in the amount of \$22,750, which were utilized to provide services to low- and moderate-income individuals. Additionally, an investment of \$2,428,000 was utilized to benefit distressed middle-income census tracts to improve the economic positions of the municipalities involved for clean water and maintaining efficient sewer systems in those communities.

Community Development Services

In general, the branch distribution is representative of the makeup of the geographies. Although there are no branches located in the low- and moderate-income tracts, there are two branches located at the eastern bypass that are less than two miles from both low- and moderate-income tracts. Therefore retail services are considered reasonably accessible. In addition, as mentioned above, Eastern Kentucky University is located in the low- and moderate-income tracts, which includes the campus and housing, therefore limiting the service opportunities for the bank. Peoples retail delivery services are located in the middle and upper-income tracts, 4 (40%) of the branches are located in middle-incomes tracts and 6 (60%) are located in the upper-income tracts. Further, the bank's employees reach out to the community through participation in various local community development organizations, in order to provide community development services to sectors of the community in need.

Services include serving as director of the Berea Chamber of Commerce and serving on the board of directors of the Berea Industrial Authority by providing financial expertise.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank continues the use of fair lending policies and procedures and has an effective fair lending training program.

APPENDIX A
TABLES

Borrower Distribution of Small Loans to Businesses and Farms							
Assessment Area/Group: NonMSA KY							
	Total Loans		Businesses/Farms with Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size		
	#	% of Total	% of Businesses/Farms	% Bank Loans	\$100,000 or Less	>\$100,001 to \$250,000	>\$250,001 to \$1,000,000
Small Business	528	84.5	91.8	96.2	87.9	7.0	4.2
Small Farm	97	15.5	97.4	100.0	93.8	3.1	2.1

Geographic Distribution of Small Loans to Businesses and Farms										
Assessment Area/Group: NonMSA KY										
	Total Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies	
	#	% of Total	% of Businesses/Farms	% Bank Loans	% of Businesses/Farms	% Bank Loans	% of Businesses/Farms	% Bank Loans	% of Businesses/Farms	% Bank Loans
Small Business	528	84.5	0.5	0.0	5.5	3.0	35.2	37.5	58.9	59.5
Small Farm	97	15.5	0.0	0.0	0.0	0.0	44.0	46.4	56.0	53.6

APPENDIX B

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or,
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
 - a. Rates of poverty, unemployment, and population loss; or,
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of a geography.

APPENDIX C

ASSESSMENT AREA MAP

The Peoples Bank and Trust Company
NonMSA KY

