PUBLIC DISCLOSURE

June 14, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples Bank & Trust Company of Hazard
RSSD #814711

524 Main Street
Hazard, Kentucky 41701

Federal Reserve Bank of Cleveland
P.O. Box 6387
Cleveland, Ohio 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 more-than-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;
- A reasonable penetration among individuals of different income (including low- and moderate-income individuals) levels and businesses of different sizes;
- No complaints filed against the bank since the previous CRA examination; and,
- The bank's community development performance demonstrates an adequate responsiveness to the 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 March 23, 2004 resulted in an overall rating of "Satisfactory."

SCOPE OF EXAMINATION

The CRA public evaluation is based on the level of the bank's lending within its assessment area, including the distribution to borrowers of different income levels and to small businesses of different revenue sizes, and is based on loans originated from January 1, 2008 to December 31, 2009. In addition, the bank's community development activity from the same period was evaluated using the interagency intermediate small bank examination procedures. Under this examination method, the bank is evaluated by considering lending and community development activity. The lending test includes the analysis of the following:

- The loan-to-deposit ratio;
- The volume of loans extended inside and outside of the bank's assessment areas;
- The geographic distribution of loans in the bank's assessment area, including low- and moderate-income census tracts;
- The extent of lending to borrowers of different income levels, including low- and moderate-income borrowers and businesses and farms of different sizes, including small businesses and small farms; and,
- The bank's record of taking action in response to written complaints about its performance in helping to meet credit needs in its assessment areas.

The loan products evaluated included motor vehicle loans, mortgage loans, and small business loans. Although Peoples Bank & Trust Company of Hazard (Peoples) is not a Home Mortgage Disclosure Act (HMDA) reporter because it does not have any offices in a metropolitan statistical area, consumer mortgage loans were reviewed because they are a significant loan product for the bank. Motor vehicle loans were the largest consumer loan category and reviewed on their own because of the relatively large number of loans originated during the assessment period. Peoples did not originate any agricultural loans during the evaluation period; therefore, these were not considered. Motor vehicle loans accounted for 64.0% of loans during the evaluation period and received the most weight, followed by mortgage loans at 27.3% and small business loans at 8.7%.

The geographic distribution of motor vehicle loans was evaluated by comparing the percentage of these loans made in each geography type (moderate- and middle-income tracts) to the percentage of households in these tracts. For mortgage loans, geographic distribution was assessed by comparing the percentage of loans made in each geography type to the percentage of owner-occupied units in each geographic category. Small business loans were compared to the percentage of businesses with each geographic income category, regardless of the business' revenue.

The borrower distribution for motor vehicle loans was assessed by comparing the percentage of loans made to consumers in each income category (low-, moderate-, middle-, and upper-income) to the percentage of households in each income category. The borrower distribution for mortgage loans was evaluated by comparing the percentage of loans made to consumers in each income category to the percentage of families in each income category. Poverty levels were also considered in the borrower distribution for motor vehicle and mortgage loans. Although poverty level is determined by both income and family size, a larger proportion of consumers at poverty levels are in the low-income category and, to some extent, the moderate-income category. Borrowers at poverty level often do not qualify for loans, which impacts the bank's ability to lend these consumers.

The borrower distribution for small business loans was assessed by comparing the percentage of loans made to businesses in each revenue category (less than or equal to $1 million or greater than $1 million) to the percentage of total business in each revenue category. Lending to businesses with revenues of $1 million or less was weighted the most heavily in this analysis.

Borrower distribution was given more weight than geographic distribution, as there is greater variety among borrowers of different income levels than tracts. The fact that the majority of tracts were moderate-income was considered; however, this also made the assessment area more homogeneous in terms of tract composition, while borrowers of all income levels reside in the assessment area.

The community development test involved an analysis of the following factors:

- The number and dollar amount of community development loans;
- The number and dollar amount of qualified investments;
- The extent to which the bank provided community development services; and,
- The bank's responsiveness to the needs of its assessment area through community development activities.

DESCRIPTION OF INSTITUTION

Peoples is a full-service retail bank headquartered in Hazard, Kentucky. As of March 31, 2010, Peoples had total assets of $283 million, which represents an increase of 1.2% from March 31, 2009. Peoples is the sole subsidiary of Hazard Bancorp.

Loans represented 76.5% of total assets. Securities and federal funds sold constituted most of the remaining assets. Peoples is both a commercial and consumer lender. Commercial loans, including real estate-secured, unsecured, and secured by other collateral, represented the largest loan category as of March 31, 2010, with 49.0% of loans. Consumer real estate loans also constituted a significant portion of loans, with 35.4% of loans secured by 1-4 residences. Other consumer loans, such as unsecured and automobile loans, comprised 13.4% of the portfolio.

Peoples' assessment area consists of Breathitt, Knott, Leslie, Letcher, Owsley, and Perry Counties in southeastern Kentucky. None of these counties are in a metropolitan statistical area. Of the 32 tracts in the assessment area, 22 are moderate-income and 10 are middle-income geographies. All of the middle-income tracts are distressed because of poverty and underserved due to being remote and rural. The three middle-income tracts in Letcher County and the four middle-income tracts in Perry County are also distressed due to loss of population.

All of Peoples' seven offices are in Perry County. Four branches are in moderate-income geographies and three offices, including the main office, are in middle-income tracts. All of the offices have ATMs, except for one branch in a moderate-income geography.

Peoples ranked first in the number of deposits in the county, with 43.7% of the market share. Community Trust Bank, Inc., headquartered in Pikeville, Kentucky, had the next largest market share, followed by 1st Trust Bank Inc. and First Federal Savings and Loan Association, which are both located in Hazard. Whitaker Bank Inc. (Lexington) also has two offices in the county.

The bank's assessment area complies with the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income census tracts. The bank's asset size and financial condition indicate that it has the ability to effectively meet the credit needs of its assessment area. There are no legal or other impediments that would hamper the bank's ability to meet the credit needs of the community.

The following table illustrates the demographics of the bank's assessment area.

Combined Demographics Report

The Peoples Bank - Hazard KY

Assessment Area(s): NonMSA

Income Categories	**Tract Distribution**		**Families by Tract Income**		**Families < Poverty Level as % of Families by Tract**		**Families by Family Income**	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	10,561	34.4
Moderate-income	22	68.8	18,043	58.7	5,558	30.8	5,687	18.5
Middle-income	10	31.3	12,697	41.3	2,755	21.7	5,164	16.8
Upper-income	0	0.0	0	0.0	0	0.0	9,328	30.3
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	**32**	**100.0**	**30,740**	**100.0**	**8,313**	**27.0**	**30,740**	**100.0**

	Housing Units by Tract	**Housing Types by Tract**						
		Owner-Occupied			**Rental**		**Vacant**	
		#	**%**	**%**	**#**	**%**	**#**	**%**
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	26,615	19,204	58.9	72.2	4,463	16.8	2,948	11.1
Middle-income	19,671	13,382	41.1	68.0	4,162	21.2	2,127	10.8
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	**46,286**	**32,586**	**100.0**	**70.4**	**8,625**	**18.6**	**5,075**	**11.0**

	Total Businesses by Tract		**Businesses 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	1,636	50.4	1,430	50.0	89	44.3	117	61.9
Middle-income	1,613	49.6	1,429	50.0	112	55.7	72	38.1
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	**3,249**	**100.0**	**2,859**	**100.0**	**201**	**100.0**	**189**	**100.0**
	Percentage of Total Businesses:			**88.0**		**6.2**		**5.8**

DESCRIPTION OF INSTITUTION'S OPERATIONS IN SOUTHEASTERN KENTUCKY

People's assessment area consists of 32 tracts in southeastern Kentucky, with the eastern boundary of the assessment area bordering Virginia. The assessment area consists of six counties: Breathitt, Knott, Leslie, Letcher, Owsley, and Perry. Of the 32 census tracts, 22 are moderate-income and 10 are middle-income geographies. All 10 middle-income tracts are distressed due to poverty and underserved because of their remote and rural locations. Seven of the middle-income tracts are also distressed because of population loss.

All six counties are located in Appalachia and are members of the Appalachian Regional Commission (ARC).[1] The ARC is a partnership between federal, state, and local governments to promote regional economic development. The ARC is managed through multi-county local development districts. All six counties in Peoples' assessment area are covered by the Kentucky River Area Development District in Hazard.

Two community contacts were conducted in conjunction with this evaluation. The first contact was made with an organization that provides various services to low- and moderate-income individuals in Letcher, Knott, Leslie, and Perry Counties. The individual contacted serves as housing director and noted that the local economy has suffered, especially when two factories shut down in the past 18 months. According to the contact, the housing stock in the area is substandard, making rehabilitation and weatherization the greatest needs for housing. The contact indicated that the housing supply for moderate-income individuals is lacking. These people do not qualify for housing assistance and cannot afford many properties in the area, especially since homes are more expensive in these four counties as compared to other areas in Kentucky, because it is difficult to find level land on which to build.

The second contact was made with an organization that provides assistance to homeowners and renters statewide. The contact stated that the rural areas of Kentucky primarily need multi-family housing and stressed the importance of financial institutions providing funding for these types of properties. He also indicated that there is a strong network of non-profit agencies in eastern Kentucky to support individuals living there. The contact stated that there has been an increased demand for rentals, which is indicative of a declining economic environment. He indicated that financial institutions have provided a great deal of financial assistance to homeowners and renters; however, there are opportunities for more financial literacy programs that help individuals learn what is needed to buy a home.

The fact that the entire assessment area consists of moderate-income or distressed and underserved middle-income tracts was a major factor in evaluating Peoples' performance during this evaluation period. Other factors considered in the evaluation include the poverty level and declines in the local population. Peoples' ability to lend is likely impacted by the poverty level, while community development activities could also be due to limited opportunities and projects.

1 Appalachian Regional Commission: www.arc.gov

Population Characteristics

The total population in Peoples' assessment area was 105,675, as of the 2000 U.S. Census. Of the total population, 24.4% were age 17 and younger, 9.5% were age 18 to 24, 54.2% were age 25 to 64, and 11.8% were age 65 and older.

In the estimates provided by the ARC, the population of the six counties declined 2.9% from 2000 to 2008. The following table illustrates the population estimates for the six counties in 2008 and compared to the population in 2000.

County Name	2000 Population	Estimated 2008 Population	Percentage Change
Breathitt	16,100	15,813	-1.8
Knott	17,649	17,385	-1.5
Leslie	12,401	11,639	-6.1
Letcher	25,277	23,890	-5.5
Owsley	4,858	4,634	-4.6
Perry	29,390	29,241	-0.6
Totals	*105,675*	*102,602*	*-2.9*

Income Characteristics

The median family income of the assessment area in 2000 was $24,412, which was significantly lower than the median family income and the Commonwealth of Kentucky's median family income of $40,939. The following table illustrates the changes in median family income for the six counties in the assessment area from 2000 to 2010.[2]

County Name	2000 Median Family Income	2010 Median Family Income	Percentage Change
Breathitt	$23,721	$30,700	29.4
Knott	$24,930	$32,300	29.6
Leslie	$22,225	$28,800	29.6
Letcher	$24,869	$32,300	29.5
Owsley	$18,034	$23,400	29.8
Perry	$26,718	$34,600	29.5

The income growth rate in all the counties was approximately 30%, which is similar to the growth rate for the entire commonwealth. The statewide median family income grew 29.5% since 2000. Although the pace of growth was about the same, the income levels still remain much lower than the Commonwealth as a whole. The median family income (MFI) for Perry County, the highest of the six, is 34.7% lower than Kentucky's MFI, while the income level for Owsley County, the lowest of the six counties, is 55.8% lower than the commonwealth's level.

2 www.huduser.org

In 2000, 31.2% of households lived in poverty, which was substantially higher than the statewide figure of 16.2%. The percentage of families living in poverty was 27.0%, more than twice Kentucky's overall rate of 12.7%. A considerable percentage of people (8.9%) received public assistance. According to the United States Department of Agriculture,[3] poverty rates remained approximately the same from 2000 to the estimated 2008 rate. Poverty rates in the six counties were significantly higher than the statewide figure in 2000 and 2008, indicating that poverty is a significant issue for the area. The following table shows poverty rates in the six counties in 2000 and 2008 compared to statewide.

Geography	Percentage of Persons in Poverty – 2000	Estimated Percentage of Persons in Poverty - 2008
Breathitt County	33.2	31.5
Knott County	31.1	30.2
Leslie County	32.7	30.0
Letcher County	27.1	29.4
Owsley County	45.4	37.6
Perry County	29.1	27.2
Commonwealth of Kentucky	15.8	17.3

Housing Characteristics

There were 46,286 housing units in the assessment area as of the 2000 Census. Owner-occupied properties comprised 70.4% of the units. The owner-occupancy rate for the assessment area was higher than Kentucky's rate of 64.3%. Of the housing units, 63.8% were one-to-four family dwellings, 2.8% were multi-family dwellings, and 33.3% were mobile homes.

The housing affordability ratio for the assessment area was 55.0%. This ratio is calculated by dividing the median household income by the median housing value. The housing affordability ratio for the assessment area is higher than the Commonwealth of Kentucky's ratio of 42.0%. This indicated that owning a home in the assessment area is less of a challenge for low- and moderate-income borrowers than the Commonwealth as a whole. The median housing value for the assessment area was $36,024, which was significantly lower than the Commonwealth of Kentucky's median value of $79,600. Within the six counties in the assessment area, the highest median value was in Perry County while the lowest was in Leslie County. The median housing values for the counties in the assessment area were as follows:

- Breathitt $32,000
- Knott $36,200
- Leslie $29,900
- Letcher $35,700
- Owsley $34,500
- Perry $41,300

3 www.ers.usda.gov

The median age of housing in the assessment area was 25 years as of the 2000 Census. This was comparable to the median age of housing in all the counties in the assessment area and for Kentucky overall. The median age of housing was all in the 20-year range. The median housing values by county and for the Commonwealth were as follows:

- Breathitt: 23
- Knott: 23
- Leslie: 21
- Letcher: 26
- Owsley: 24
- Perry: 24
- Kentucky: 27

The vacancy rate for housing in the assessment area was 11.0%, which indicates there could have been an oversupply in housing or the existing housing was in poor condition. Although the vacancy rate was high, it was comparable to the statewide rate of 9.2%. The vacancy rate was highest in Owsley County at 15.7% and the lowest in Breathitt County at 9.4%.

The median gross rent in the assessment area was $297 as of 2000, which was substantially lower than the median gross rent for the Commonwealth of Kentucky, which was $445. All of the median gross rents for the six counties were within $25 of the assessment area's median. The median gross rent for the counties was as follows:

- Breathitt: $297
- Knott: $293
- Leslie: $278
- Letcher: $309
- Owsley: $276
- Perry: $302

Rental units represented 18.6% of the units in the assessment area. Rental costs were greater than 30.0% of income for 26.5% of the area's renters. This is an indication that rents are about the same in the assessment area as compared to the Commonwealth of Kentucky, where 31.0% of renters paid more than 30% of their income to cover rent.

According to Sperling's Best Places,[4] the median cost of a home in Hazard, Kentucky is $79,830 and home values have depreciated by 2.0% in the past year. Compared to the rest of the nation, the cost of living in Hazard is 29.9% lower than average.

4 www.bestplaces.net

According to RealtyTrac,[5] there were 7,148 properties in Kentucky that were in foreclosure in April 2010, which meant one in 1,672 housing units had received a foreclosure notice. There was only one foreclosure filing in the entire assessment area as of April 2010. The foreclosure was filed in Knott County, resulting in one in every 382 housing units receiving a foreclosure notice.

Labor, Employment, and Economic Conditions[6]

The largest industries in Breathitt County by the number of people employed are services, trade/transportation/utilities, and public administration. Major employers include Appalachian Regional Manufacturing, a packaging company, and The Jackson Breathitt County Time Voice, a weekly newspaper.

The top industries in Knott County by persons employed are trade/transportation/utilities, information, and services. Troublesome Creek Times, a weekly newspaper, and Appalachia Truss Inc. are amongst the employers in the county.

The largest industries in Leslie County are mining, trade/transportation/utilities, and services. Begley Lumber Co. Inc. is a major employer in the county. Pine Mountain Lumber LLC, B J Services Company USA (a provider of pumping services), and Standard Laboratories Inc. (which tests air and soil quality) are among the largest employers in the county.

The services industry employs the most people in Owsley County, followed by public administration and manufacturing. Wolfe Creek Metal and Thomas Brothers Sawmill Inc. are major employers in the county.

The largest industries by persons employed in Perry County are trade/transportation/utilities, mining, and services. Skyes Enterprises Inc., a call center, and American Woodmark Corporation, which manufactures kitchen and bathroom cabinets, employ over 800 people in the county.

The unadjusted unemployment rates from April 2010 for the counties in the assessment area were as follows[7]:

- Breathitt: 11.0%
- Knott: 12.5%
- Leslie: 13.2%
- Letcher: 11.0%
- Owsley: 11.0%
- Perry: 11.2%

The unemployment rates for all of the counties were higher than both the statewide rate of 10.2% and the nationwide rate of 9.5%.

5 www.realtytrac.com
6 Commonwealth of Kentucky, Cabinet for Economic Development
7 www.workforcekentucky.ky.gov

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Lending Test

The bank is rated "Satisfactory" under the lending test.

Loan-to-Deposit Ratio

A financial institution's loan-to-deposit ratio compares the institution's aggregate loan balances outstanding to its total deposits outstanding. The 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 $100 million and $300 million with three or more full service banking offices and not located in a metropolitan statistical area.

Peoples' loan-to-deposit ratio is considered more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank averaged 86.7% over the past 25 quarters of operation and is above the peer group average ratio of 79.7%. Peoples' entire assessment area consists of moderate-income and underserved and/or distressed tracts; therefore, the higher loan-to-deposit ratio indicates that Peoples is using its deposits to lend to individuals in the assessment area, thereby demonstrating its capacity to meet the credit needs of its area.

The following table illustrates Peoples' quarterly loan-to-deposit ratios for 25 quarters since the previous evaluation with the average loan-to-deposit ratios for the same period:

Loan-to-Deposit Ratios				
As of Date	**Net Loans (000s)**	**Total Deposits (000s)**	**Bank Ratio**	**Peer Ratio**
March 31, 2010	214,646	247,218	86.8%	76.4%
December 31, 2009	215,537	250,863	85.9%	77.6%
September 30, 2009	209,245	244,014	85.8%	79.8%
June 30, 2009	208,115	245,655	84.7%	80.1%
March 31, 2009	209,373	244,032	85.8%	79.4%
December 31, 2008	217,238	242,842	89.5%	82.0%
September 30, 2008	224,967	247,176	91.0%	82.9%
June 30, 2008	221,022	250,226	88.3%	81.3%
March 31, 2008	222,509	249,427	89.2%	79.5%
December 31, 2007	222,010	249,320	89.0%	80.6%
September 30, 2007	218,379	248,530	87.9%	81.1%
June 30, 2007	219,628	242,828	90.4%	80.6%
March 31, 2007	210,716	242,209	87.0%	79.2%
December 31, 2006	214,296	240,522	89.1%	79.8%
September 30, 2006	210,634	235,638	89.4%	81.5%
June 30, 2006	205,314	228,201	90.0%	81.2%
March 31, 2006	200,032	232,389	86.1%	79.2%
December 31, 2005	192,868	227,394	84.8%	79.3%
September 30, 2005	191,893	227,201	84.5%	80.5%
June 30, 2005	193,753	223,399	86.7%	80.1%
March 31, 2005	190,609	223,598	85.2%	78.3%
December 31, 2004	191,124	221,891	86.1%	78.3%
September 30, 2004	184,156	221,137	83.3%	79.0%
June 30, 2004	177,465	218,918	81.1%	78.0%
March 31, 2004	171,065	216,885	78.9%	76.0%
Quarterly Loan-to-Deposit Ratio Average Since Previous Evaluation			**86.7%**	**79.7%**

Lending in the Assessment Area

Peoples' small business, mortgage, and motor vehicle loans were analyzed to assess the volume of lending inside and outside of the assessment area. The following table demonstrates that the majority of loans, both by volume (89.8%) and dollar amount (82.8%), were made within the 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	63	86.3	14,154	84.1	10	13.7	2,670	15.9
Mortgage	196	85.2	9,890	83.4	34	14.8	1,965	16.6
Consumer	497	92.2	7,325	79.4	42	7.8	1,899	20.6
Total	756	89.8	31,370	82.8	86	10.2	6,535	17.2

Geographic Distribution

People’s overall geographic distribution for lending is considered reasonable. Motor vehicle, mortgage, and small business loans are comparable to the proxies used to approximate the demand for loans in the assessment area. In addition, the census tracts comprising the bank’s assessment area are either considered moderate-income or distressed due to poverty or underserved due to being remote and rural. Therefore, the institution is limited in its lending opportunities.

Based upon the analysis of the bank’s lending, no significant gaps were noted. During the evaluation period, the bank did not originate loans in nine moderate-income tracts and two middle-income tracts. All of the tracts with no lending were located outside of Perry County (Peoples' branch network is located only in Perry County). According to 2000 U.S. Census data, 63.7% of households in moderate-income tracts were below the poverty level and 61.8% of households in moderate-income tracts were receiving public assistance. These factors severely limit the institution’s ability to lend. In addition, the middle-income tracts that did not have any lending were considered distressed due to poverty and underserved due to their remote/rural location; thus, these factors negatively impact the institution’s ability to lend in these tracts.

Motor Vehicle Loans

The geographic distribution for motor vehicle loans is considered good, although lending in the moderate income tracts are less than the proxy. It is important to note that 63.7% of households in moderate-income tracts are below poverty, which negatively impacts the bank’s ability to originate loans in moderate-income tracts.

Peoples originated 497 motor vehicle loans totaling $7.32 million for the evaluation period. Of the 497 loans originated, 39.6% were originated in moderate income tracts, which was less than the percentage of total households within moderate-income tracts at 57.5%. The bank originated 60.4% of its motor vehicle loans in middle-income tracts, which exceeded the percentage of total households in middle-income tracts at 42.5%.

Mortgage Loans

The geographic distribution for mortgage loans is considered good, although lending in the moderate income tracts was less than the percentage of owner-occupied housing units by tracts. A significant portion of the population that resides in moderate-income tracts is unemployed (11.64%), which makes it difficult for the institution to originate mortgage loans in these tracts. Peoples originated 196 mortgage loans during the evaluation period totaling $9.89 million. Of the 196 loans originated, 43.4% were made in moderate-income tracts, which was less than the percentage of owner-occupied housing units by tract at 58.9%. The bank originated 56.6% of its loans in middle-income tracts, which exceeded the proxy at 41.1%.

Small Business Loans

The geographic distribution for small business loans is considered good.

Peoples originated 63 small business loans during the evaluation period totaling $14.15 million. Of the 63 loans originated, 44.4% were made in moderate-income tracts, which was comparable to the percentage of total businesses in moderate-income tracts at 50.4%. The bank originated 55.6% of its small business loans in middle-income tracts, which exceeded the proxy at 49.6%.

Borrower Distribution

Motor vehicle loans, mortgage loans, and small business loans were compared to the demographic and economic proxies to determine the extent of lending to borrowers of different income levels and business of different revenue sizes. This analysis determined that Peoples has a reasonable penetration amidst borrowers of different income levels and businesses of different revenue sizes.

Motor Vehicle Loans

The borrower distribution for motor vehicle loans is considered adequate, although lending to low- and moderate-income borrowers was significantly less than the percentage of households by income. According to 2000 U.S. Census data, 31.2% of the households were below the poverty level, which negatively affected the bank's ability to lend. In addition, the lending data was somewhat skewed, as 45.3% of its motor vehicle originations contained unknown incomes.

The bank originated 67 loans (13.5%) to low-income borrowers, which was less than the percentage of households by income at 35.20%. The bank originated 58 loans (11.7%) to moderate-income borrowers, which was less than the proxy at 17.1%. The bank made 13.7% of its loans to middle-income borrowers, which was comparable to the proxy at 15.6%. Lending to upper-income borrowers at 15.9% was lower than the proxy at 32.2%.

Mortgage Loans

The borrower distribution for mortgage loans is considered adequate, although lending to low- and moderate-income borrowers was significantly lower than the percentage of families by family income. The median family income for the assessment area was $24,412, as of the 2000

U.S. Census, which was significantly lower than Kentucky's median family income at $40,939; thus, the lower-income levels negatively impacted the institution's ability to originate mortgage loans. Furthermore, the lending data was somewhat skewed, as 55.1% of the mortgage loans originated contained unknown incomes.

Peoples originated nine loans (4.6%) to low-income borrowers, which was less than the percentage of families by family income at 34.4%. The bank originated 18 loans (9.2%) to moderate-income borrowers which was less than the proxy at 18.5%. The bank made 11.2% of its loans to middle-income borrowers and 19.9% of its loans to upper-income borrowers which were less than the proxy at 16.8% and 30.3%, respectively.

Small Business Loans

The borrower distribution for small business loans is considered good. Small business lending was comparable to the percentage of small businesses in the assessment area.

An analysis of small business lending was conducted to determine the extent of lending to businesses of different revenue sizes, including small businesses. Peoples originated 85.7% of its loans to businesses with revenues of $1 million or less. This was comparable to the percentage of small businesses in the assessment area at 88.0%. The loan size was also considered, as smaller loans are generally commensurate with the borrowing needs of smaller business. This review showed that 65.1% of small business loans were for loan amounts of $100,000 or less.

Community Development Test

The bank made a high level of community development loans during the evaluation period; however information obtained from community contacts indicate that financial literacy programs are needed in the area. Specifically, a contact noted that additional programs are needed to help educate consumers about the requirements for purchasing a home, especially with the current economic conditions. Although Peoples' level of community development loans is excellent, its failure to provide any community development services, especially those related to financial literacy, have resulted in overall "Satisfactory" rating for the community development test.

The community development loans made by the bank were for various purposes, including improving utilities and infrastructure, and providing funds to several health care providers in the region. Since the entire assessment area consists of moderate-income and distressed/underserved middle-income tracts, these loans helped to stabilize this economically depressed area. Further, the fact that Peoples was able to find opportunities for community development loans demonstrates a commitment to improve the areas it serves.

Peoples made nine qualified community development loans totaling $7.3 million during the evaluation period. Two loans were to construct utilities, specifically water and gas lines, in moderate- and/or distressed and underserved middle-income tracts. Another loan was made to purchase fire-fighting equipment in Perry County, which consists entirely of moderate- and distressed/underserved middle-income tracts. Four loans were originated to medical facilities that serve mostly low- and moderate-income persons. Another loan was made to an agency that provides services to mentally challenged adults with low- and moderate-incomes. Since Peoples originated at least an adequate level of community development loans in its assessment area, a community development loan for $2.5 million made outside of the assessment area was also considered in reviewing the bank's community development activities. Therefore, Peoples made an excellent level of community development loans.

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 maintains fair lending policies and procedures and has an effective fair lending program.

APPENDIX A

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 B

ASSESSMENT AREA MAP

The Peoples Bank
Assessment Area: NonMSA