

# **PUBLIC DISCLOSURE**

October 17, 2016

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Peoples Bank and Trust Company of Hazard  
RSSD #814711

524 Main Street  
Hazard, Kentucky 41701

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 major factors and criteria contributing to this rating include:

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs;
- A substantial majority of loans and other lending-related activities are inside the assessment area;
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area;
- The distribution of loans to borrowers reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income);
- The distribution of loans to businesses reflects a reasonable penetration among businesses of different revenue sizes given the demographics of the assessment area; and,
- There were no CRA-related complaints filed against the bank since the previous CRA examination.

The previous CRA examination conducted August 20, 2012 resulted in a "Satisfactory" performance rating.

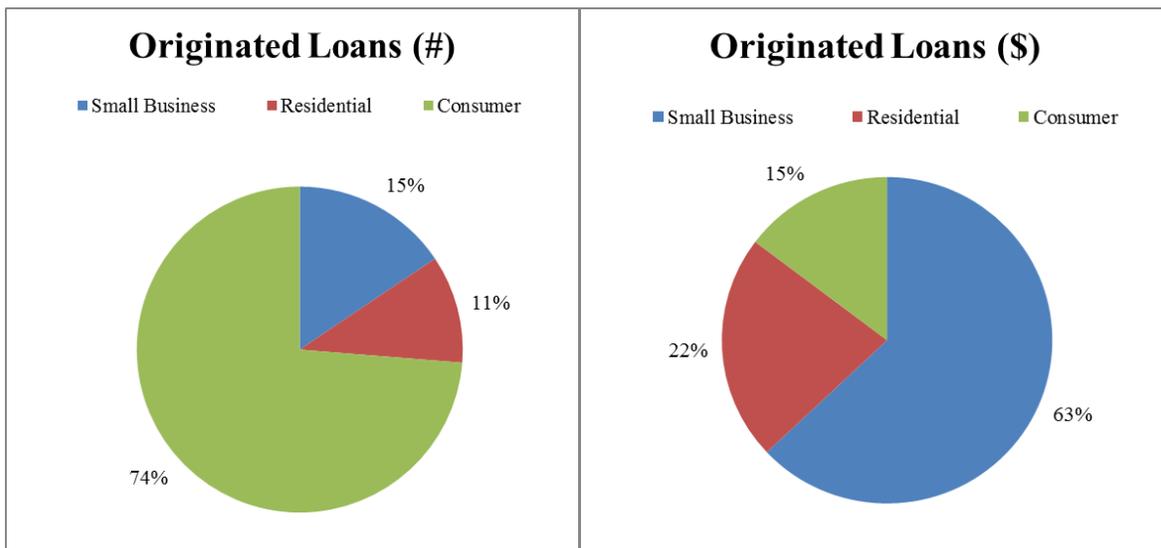
### SCOPE OF EXAMINATION

The Peoples Bank and Trust Company of Hazard (Peoples) Community Reinvestment Act (CRA) performance was evaluated using the interagency small bank examination procedures under Regulation BB.

Peoples' CRA performance was evaluated based on lending data for the period of January 1, 2015 to June 30, 2016. The products evaluated included consumer loans and small business loans. Consumer loans are comprised of residential loans, secured consumer loans, and unsecured consumer loans.

The following table and charts illustrate the volume and distribution of loans originated by Peoples during the evaluation period.

Loan Type	Number of Loans	Dollar Amount of Loans (000s)
Small Business	109	19,808
Residential	75	7,023
Consumer	516	4,625
<b>Total</b>	<b>700</b>	<b>31,456</b>



Based on the total loan volume by number and dollar amount and the composition of the loan portfolio, small business loans received the most weight, followed by consumer and residential loans.

For the purpose of this evaluation, geographic and borrower distribution were weighted equally, as all but one tract was low-, moderate-, or middle-income and distressed and underserved.

### DESCRIPTION OF INSTITUTION

Peoples is the sole subsidiary of Hazard Bancorp and is located in Hazard, Kentucky. As of June 30, 2016, Peoples reported \$267 million in total assets, a decrease of 8.6% since the previous CRA evaluation. The decrease in assets is mainly attributable to a decrease in commercial and individual loans.

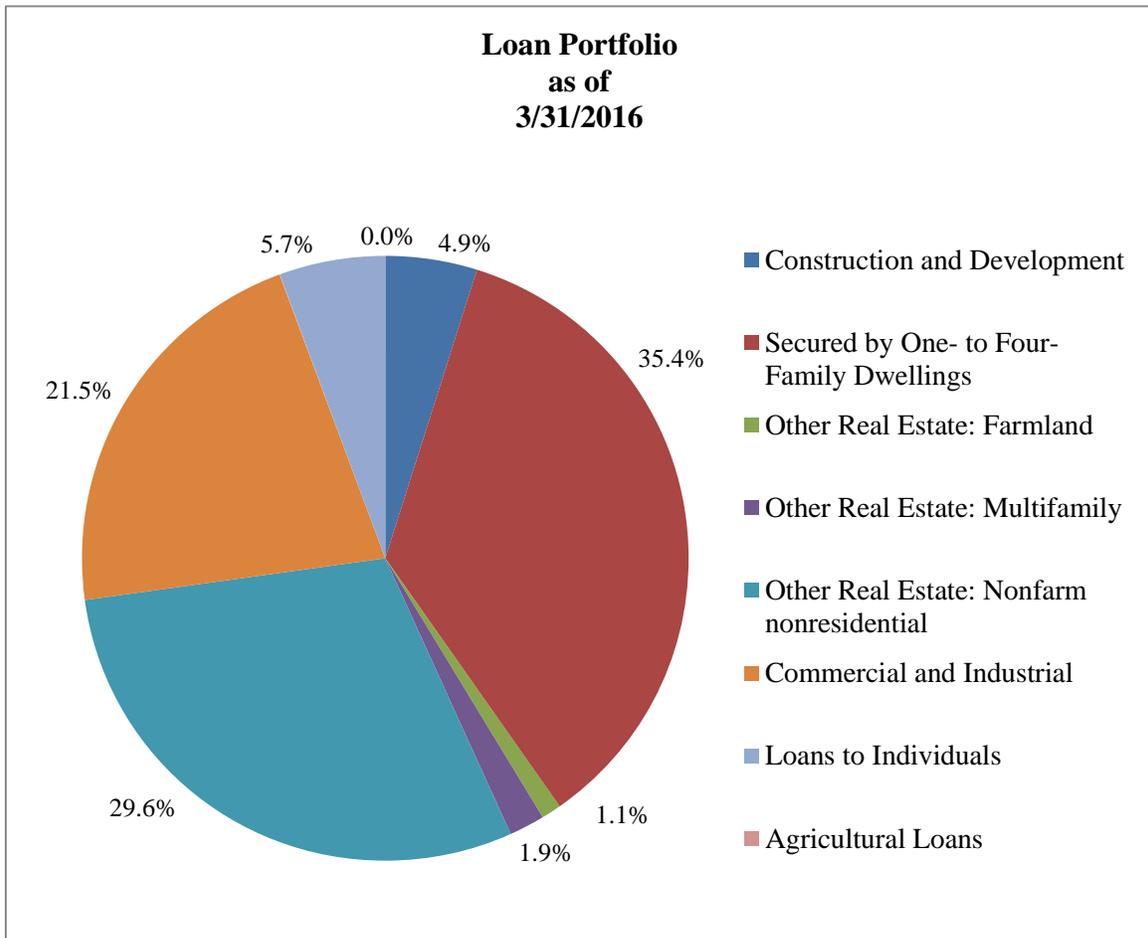
Peoples is a full-service retail bank offering deposit accounts and residential mortgage, consumer, and commercial loan products. Peoples operates seven branch offices and six full-service ATMs throughout the assessment area and the main office is located in a middle-income tract in Hazard in Perry County. Peoples has six other offices located in Perry County: three in Hazard and one in Vicco that are in moderate-income tracts and two in Hazard that are in middle-income tracts. Since the previous evaluation, Peoples has not opened or closed any branch offices or ATMs.

As of June 30, 2016, net loans and leases represented \$199 million, or 74.5%, of total assets. Net loans and leases decreased by 6.7% since the previous CRA evaluation.

The following table and chart illustrate the volume and distribution of loans originated within Peoples' assessment area.

COMPOSITION OF LOAN PORTFOLIO						
Loan Type	3/31/2016		12/31/2015		12/31/2014	
	\$ (000s)	Percent	\$ (000s)	Percent	\$ (000s)	Percent
Construction and Development	9,888	4.9%	10,504	5.1%	1,641	0.8%
Secured by One- to Four- Family	71,699	35.4%	73,640	35.6%	69,715	32.7%
Other Real Estate: Farmland	2,161	1.1%	2,061	1.0%	0	0.0%
Other Real Estate: Multifamily	3,843	1.9%	741	0.4%	453	0.2%
Other Real Estate: Nonfarm nonresidential	59,915	29.6%	51,227	24.8%	61,818	29.0%
Commercial and Industrial	43,656	21.5%	56,294	27.2%	64,945	30.5%
Loans to Individuals	11,453	5.7%	12,238	5.9%	14,692	6.9%
Agricultural Loans	0	0.0%	0	0.0%	0	0.0%
<i>Total</i>	<i>\$202,615</i>	<i>100.00%</i>	<i>\$206,705</i>	<i>100.00%</i>	<i>\$213,264</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.



There are no legal or financial constraints preventing Peoples from meeting the credit needs of its assessment area consistent with its asset size, business strategy, resources, and local economy.

## DESCRIPTION OF ASSESSMENT AREA

Peoples has one assessment area consisting of the entirety of Breathitt, Knott, Leslie, Letcher, Owsley, and Perry Counties, which are located in a non-metropolitan statistical area. Peoples' assessment area consists of 32 census tracts comprised of one low-, 13 moderate-, 17 middle-, and one upper-income census tracts. Peoples' main office is located in a middle-income census tract.

Perry County had the largest population of all counties in the assessment area, with Hazard as the county seat. According to the 2010 U.S. Census Bureau Report, the population in Perry County was 28,712, whereas the population of Letcher County was 24,519; Knott County was 16,346; Breathitt County was 13,878; Leslie County was 11,310, and Owsley County was 4,755. As of 2016, all of the 17 middle-income tracts located in Peoples' assessment area were designated as underserved and distressed due to poverty and unemployment.

As of June 30, 2015, the Federal Deposit Insurance Corporation (FDIC) reported 10 insured financial institutions operating within Breathitt, Knott, Leslie, Letcher, Owsley, and Perry Counties. The FDIC's market share report indicates that Peoples ranked second, holding 18.31% of the market share of deposits.<sup>1</sup> The following table illustrates the deposit market share for the top ten financial institutions in the assessment area.

#	Financial Institution	Deposit Market Share
1	Community Trust Bank, Inc.	19.30%
2	Peoples Bank & Trust Company of Hazard	18.31%
3	1st Trust Bank, Inc.	11.05%
4	Whitaker Bank	10.99%
5	Bank of Hindman	10.64%
6	Citizens Bank & Trust Co. of Jackson	8.67%
7	Hyden Citizens Bank	7.41%
8	The First National Bank of Jackson	6.90%
9	First Federal Savings and Loan Association	4.09%
10	Farmers State Bank	2.64%

<sup>1</sup> <http://www2.fdic.gov/sod/sodMarketBank.asp>

### Community Contacts

Two community contact interviews were conducted to provide additional information regarding the credit needs of the local community and context to the demographic and economic characteristics discussed. One community contact was with an organization that focuses on housing assistance. According to the contact, current economic conditions are difficult due to the decline of the coal industry which has had an overall impact on the local economy, as there has been a downturn in other industries, including shopping and other services.

The contact also noted significant levels of poverty in the community and indicated that local financial institutions are active in the community and sponsorships.

The second contact was with a community development organization. According to the contact, the decline of the coal industry created significant unemployment that resulted in several middle-income families relocating to other areas. The contact also stated that the housing market is not strong because many homes are going back on the market and the job market is poor. The contact stated there is a need to help those who are unemployed, as well as those who would want to start a small business. According to the contact, local financial institutions are active in the community.

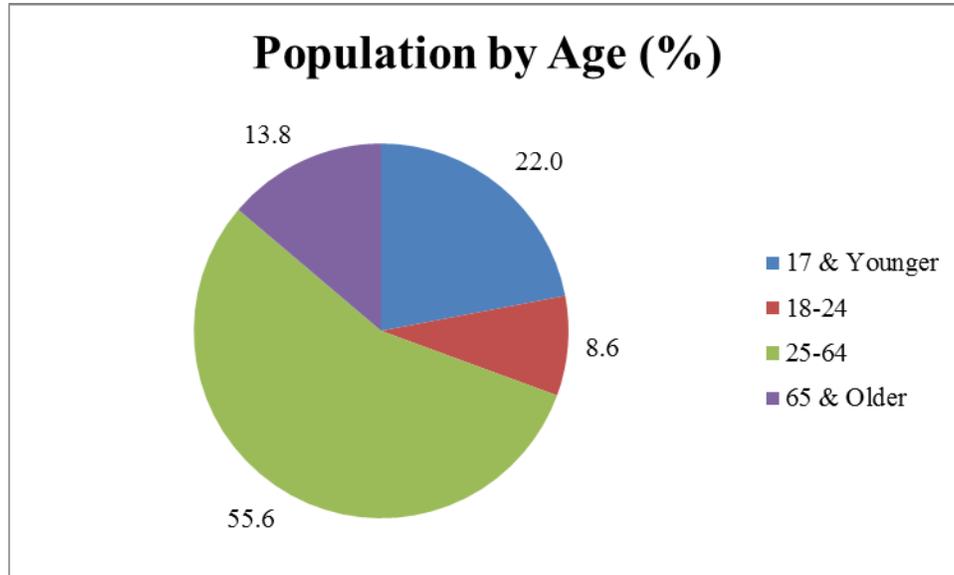
### Population Characteristics

According to the 2010 U.S. Census Bureau Report, the total population in the assessment area was 99,520. The following table shows the 2010 and estimated 2014 population of the six counties within Peoples' assessment area, as well as the estimated population change.<sup>2</sup>

County	2010 Population	2014 Population	Population Percent Change
Breathitt	13,878	13,409	-3.4%
Knott	16,346	15,892	-2.8%
Leslie	11,310	10,918	-3.5%
Letcher	24,519	23,359	-4.7%
Owsley	4,755	4,508	-5.2%
Perry	28,712	27,597	-3.9%
<b>Total</b>	<b>99,520</b>	<b>95,683</b>	

Approximately 22.0% of the population is under 18, which is the legal age to enter into a contract, while 64.2% of the population is between the ages of 18 and 64 and more likely to have credit needs. The following chart illustrates the population by age within the assessment area.

2 American Fact Finder, <http://factfinder2.census.gov>



**Income Characteristics**

According to 2010 U.S. Census data, the median family income for the assessment area was \$36,351, which is below Kentucky’s median family income of \$52,046. Based on 2015 U.S. Department of Housing and Urban Development (HUD) data, the 2015 estimated median family income level is detailed in the following table.<sup>3</sup>

**Borrower Income Levels  
 Kentucky State Non-Metro**

HUD Estimated Median Family Income		Low 0 - 49.99%	Moderate 50% - 79.99%	Middle 80% - 119.99%	Upper 120% - & above
<b>2015</b>	<b>\$46,900</b>	0 - \$23,449	\$23,450 - \$37,519	\$37,520 - \$56,279	\$56,280 - & above

The assessment area contains 37,608 households, of which 25,895 are designated as families. Low- and moderate-income families represent 32.0% and 16.2% of all families in this assessment area, respectively, with 23.7% of families below the poverty level compared to Kentucky’s rate of 13.5%. According to data from the Economic Research Service of the United States Department of Agriculture (USDA), household poverty rates for the counties in Peoples’ assessment area were as follows:

<sup>3</sup> <http://www.huduser.org/portal/datasets/il/il13/index.html>

County	2013 Poverty Rate	2014 Poverty Rate	Change
Breathitt	33.90%	33.00%	-2.65%
Knott	28.30%	33.70%	19.08%
Leslie	29.20%	33.00%	13.01%
Letcher	27.10%	30.10%	11.07%
Owsley	42.00%	45.10%	7.38%
Perry	26.90%	27.50%	2.23%
<b>Kentucky</b>	<b>18.80%</b>	<b>19.00%</b>	1.06%
<b>United States</b>	<b>15.80%</b>	<b>15.50%</b>	-1.90%

As illustrated in the chart above, 2014 poverty rates in Breathitt, Knott, Leslie, Letcher, Owsley, and Perry Counties exceeded the rates for Kentucky and the U.S. In addition, all counties experienced an increase in poverty rates from 2013 to 2014, while Breathitt County experienced a decrease of 2.65%. These relatively high poverty rates could indicate that individuals, especially those that are low-income or moderate-income may have difficulty in having enough financial resources to obtain loans.

**Labor, Employment and Economic Characteristics**

According to the Kentucky Cabinet for Economic Development, the following table identifies the employment sectors and major employers in Peoples’ assessment area, but is not limited to the following:<sup>4</sup>

<sup>4</sup> [http://www.thinkkentucky.com/Locating\\_Expanding/Community\\_Profiles.aspx](http://www.thinkkentucky.com/Locating_Expanding/Community_Profiles.aspx)

County	Primary Employment Sectors	Major Employers
Breathitt	Services; Trade, Transportation, and Utilities; Public Administration; Financial Activities; and Manufacturing	Appalachian Regional Manufacturing, Jackson Wholesale Company, The Wells Group LLC, Dotweld, The Jackson Breathitt County Times Voice, Kentucky Explorer, Combs Custom Manufacturing
Knott	Services; Trade, Transportation, and Utilities; Public Administration; and Information	Troublesome Creek Times, Design De SIGN
Leslie	Mining; Trade, Transportation, and Utilities; Public Administration; Services; and Information	BPM Lumber LLC, 4M Lumber LLC, Leslie County News
Letcher	Trade, Transportation, and Utilities; Services; Public Administration; Financial Activities; and Manufacturing	BPM Lumber LLC, Healthcare National Marketing Inc, Mountain Aggregates Pine Mountain Quarry, Drill Steel Service Inc, Standard Laboratories Inc, Taylor Metal Roofing & Siding Inc, Superior Printing & Publishing, Hall Equipment & Supply Co Inc, The Wells Group LLC, The Mountain Eagle LP, Bluegrass Materials Company LLC, Kentucky Mist Distillery, Mine Signs & Decals
Owsley	Services; Public Administration; Financial Activities; and Trade, Transportation, and Utilities	Booneville Sentinel Inc, Wolfe Creek Metal
Perry	Trade, Transportation, and Utilities; Services; Public Administration; Financial Activities and Construction	Sykes Enterprises Inc, Whyne Supply, AAA Mine Service, Home Lumber Ready-Mix, Home Lumber Co Inc, UPS, Hazard Herald, Martin Signs

The following table shows the 2014 and 2015 average annual unemployment rate for the counties in the assessment area and reflects an increasing trend over the two-year period, with the largest increase in Owsley County.

**Unemployment Rates**  
**Assessment Area: Peoples Bank & Trust Company of Hazard, KY**

Area	Years - Annualized	
	2014	2015
Breahitt Co.	9.4 (R)	10.3 (R)
Knott Co.	8.3 (R)	11.0 (R)
Leslie Co.	9.1 (R)	11.9 (R)
Letcher Co.	10.1 (R)	12.8 (R)
Owsley Co.	8.4 (R)	11.9(R)
Perry Co.	8.2 (R)	9.8 (R)
<b>Kentucky</b>	<b>4.9 (D)</b>	<b>5.5 (D)</b>
<b>National</b>	<b>5.4</b>	<b>4.8</b>

Not Seasonally Adjusted

Data extracted on: August 16, 2016

D: Reflects revised population controls and model reestimation

R: Data were subject to revision on April 15, 2016

## Housing Characteristics

There were 45,946 housing units in the assessment area, based on the 2010 U.S. Census. Within the assessment area, 60.4% of the units were owner-occupied, 21.4% were rental units, 31.3% were mobile homes, and 18.1% were vacant. The owner-occupancy rate is lower in comparison to Kentucky's rate, where 61.3% of the units were owner-occupied. The housing type includes 97.3% single family and 2.7% multi-family homes. The income tract distribution of housing is 1.7% low-, 31.1% moderate-, 65.8% middle-, and 1.4% upper-income census tracts.

The median age of the housing stock in the assessment area was 34 years, with 17.8% of the stock built before 1950. In comparison, the median statewide age is 33 years. Within the assessment area, the median age of housing stock was 35 years in low-income tracts and 33 years in moderate-income tracts. The age of the housing stock is approximate to the state and may indicate minimal opportunities for home improvement-type lending.

The median housing value in the assessment area is \$55,324, with an affordability ratio of 49.2%. The higher the affordability ratio, the more affordable a home is considered. The housing affordability ratio is calculated by dividing median household income by the median housing value. The housing stock in the assessment area was more affordable than in Kentucky at 35.6%. Furthermore, based on the 2015 median family income for the Kentucky non-MSA of \$46,900, approximately 69.4% of the homes valued up to \$85,958 in the assessment area would be considered affordable for low-income individuals and 85.0% of the homes valued up to \$137,532 would be considered affordable for moderate-income individuals. These percentages were calculated assuming a housing expense ratio equal to 28.0% of gross income for a 4.0% fixed-rate, 30-year loan.

According to RealtyTrac,<sup>5</sup> one in every 6,211 properties in Breathitt County, one in every 5,264 in Leslie County, and one in every 11,553 in Letcher County were in foreclosure in August 2016. These counties had lower property foreclosure ratios than Kentucky's ratio of one in every 2,047 properties. Foreclosure data for Knott, Owsley, and Perry Counties was unavailable.

According to Sperling's Best Places,<sup>6</sup> the following table depicts the median home cost, housing, appreciation in the prior year, and cost of living for all counties in Peoples' assessment area. The cost of living in all the counties in Peoples' assessment area is lower than the 87.6% cost of living for Kentucky.

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<sup>5</sup> [www.realtytrac.com](http://www.realtytrac.com)

<sup>6</sup> <http://bestplaces.net>

County	Median Home Cost	Housing Appreciation	Cost of Living
Breathitt	\$50,600	-1.2%	73.2%
Knott	\$57,600	-1.1%	74.8%
Leslie	\$50,700	-1.0%	73.2%
Letcher	\$56,700	-1.2%	74.6%
Owsley	\$60,500	-1.1%	75.6%
Perry	\$64,800	-1.1%	76.1%
<b>Kentucky</b>	<b>\$125,100</b>	<b>0.5%</b>	<b>87.6%</b>

The median gross rent in the assessment area was \$449, with 19.0% of the rents under \$350 a month, according to the 2010 U.S. Census. The median gross rent in the county was substantially lower than Kentucky's \$601.

The following table further illustrates the demographics of Peoples' assessment area.

## Combined Demographics Report

Assessment Area(s): Peoples Bk and Trust

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	1	3.1	464	1.8	205	44.2	8,293	32
Moderate-income	13	40.6	8,091	31.2	2,197	27.2	4,198	16.2
Middle-income	17	53.1	16,994	65.6	3,665	21.6	4,192	16.2
Upper-income	1	3.1	346	1.3	72	20.8	9,212	35.6
Unknown-income	0	0	0	0	0	0	0	0
<b>Total Assessment Area</b>	<b>32</b>	<b>100.0</b>	<b>25,895</b>	<b>100.0</b>	<b>6,139</b>	<b>23.7</b>	<b>25,895</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-Occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		#	%	%	#	%	#	%
Low-income	766	428	1.5	55.9	207	27	131	17.1
Moderate-income	14,598	8,725	31.4	59.8	2,984	20.4	2,889	19.8
Middle-income	29,875	18,222	65.6	61	6,505	21.8	5,148	17.2
Upper-income	707	397	1.4	56.2	140	19.8	170	24
Unknown-income	0	0	0	0	0	0	0	0
<b>Total Assessment Area</b>	<b>45,946</b>	<b>27,772</b>	<b>100.0</b>	<b>60.4</b>	<b>9,836</b>	<b>21.4</b>	<b>8,338</b>	<b>18.1</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
		#	%	#	%	#	%	#
Low-income	118	3.8	108	3.8	9	4.2	1	1.8
Moderate-income	824	26.5	758	26.7	58	27	8	14.3
Middle-income	2,115	68.1	1,922	67.8	146	67.9	47	83.9
Upper-income	49	1.6	47	1.7	2	0.9	0	0
Unknown-income	0	0	0	0	0	0	0	0
<b>Total Assessment Area</b>	<b>3,106</b>	<b>100.0</b>	<b>2,835</b>	<b>100.0</b>	<b>215</b>	<b>100.0</b>	<b>56</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>91.3</b>		<b>6.9</b>		<b>1.8</b>
	<b>Total Farms by Tract</b>	<b>Farms by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
		#	%	#	%	#	%	#
Low-income	0	0	0	0	0	0	0	0
Moderate-income	24	45.3	24	47.1	0	0	0	0
Middle-income	28	52.8	26	51	2	100	0	0
Upper-income	1	1.9	1	2	0	0	0	0
Unknown-income	0	0	0	0	0	0	0	0
<b>Total Assessment Area</b>	<b>53</b>	<b>100.0</b>	<b>51</b>	<b>100.0</b>	<b>2</b>	<b>100.0</b>	<b>0</b>	<b>.0</b>
<b>Percentage of Total Farms:</b>				<b>96.2</b>		<b>3.8</b>		<b>.0</b>

2015 FFIEC Census Data and 2015 D&B Information

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Peoples' performance under the lending test is considered satisfactory. The loan-to-deposit ratio is reasonable. Peoples made a substantial majority of loans inside its assessment area. The geographic distribution of lending is reasonable, as well as the borrower distribution of lending.

### Loan-to-Deposit Ratio

A financial institution's loan-to-deposit (LTD) 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 LTD ratios and dividing the total by the number of quarters.

The following table shows Peoples quarterly LTD ratios for 17 quarters since the previous evaluation, along with the average LTD for peer banks for the same period.

Peoples B & TC Loan-to-Deposit Ratios						
AS OF DATE	PEOPLES B & TC	1ST TR BK INC	CITIZENS B & TC	HYDEN CITIZENS BK	BANK OF HINDMAN	CUSTOM PEER
June 30, 2016	82.23	98.55	86.23	68.23	43.88	74.22
March 31, 2016	81.03	89.76	85.01	63.65	40.78	69.80
December 31, 2015	81.85	95.10	84.81	66.61	36.04	70.64
September 30, 2015	82.17	95.77	88.95	68.42	33.41	71.64
June 30, 2015	81.31	92.55	82.40	66.72	31.79	68.37
March 31, 2015	83.02	87.57	84.40	64.78	32.76	67.38
December 31, 2014	83.26	86.25	88.19	68.86	35.89	69.80
September 30, 2014	84.71	92.58	85.82	68.91	35.38	70.67
June 30, 2014	85.13	90.79	85.53	68.52	37.18	70.51
March 31, 2014	84.83	90.09	80.94	70.51	41.03	70.64
December 31, 2013	84.97	89.68	83.46	71.59	40.51	71.31
September 30, 2013	85.24	81.57	84.49	67.02	41.73	68.70
June 30, 2013	84.39	78.07	82.18	67.47	41.67	67.35
March 31, 2013	84.91	70.31	82.53	65.53	39.68	64.51
December 31, 2012	84.72	71.33	86.46	68.28	42.22	67.07
September 30, 2012	84.31	79.59	84.38	70.93	41.56	69.12
June 30, 2012	82.74	79.63	87.18	67.98	35.74	67.63
<b>Quarterly Loan-to-Deposit Ratio Average Since the Previous Evaluation</b>	<b>83.58</b>	<b>86.42</b>	<b>84.88</b>	<b>67.88</b>	<b>38.31</b>	<b>69.37</b>

Peoples has averaged 83.6% over the past 17 quarters of operation and exceeded the custom peer group average ratio of 69.4%.<sup>7</sup> Further, its ratio performance has been relatively consistent throughout the evaluation period with a slight decrease since the previous evaluation.

Peoples' LTD ratio is reasonable given its size, financial condition, and assessment area credit needs.

**Lending in the Assessment Area**

Peoples’ small business, consumer, and residential loans were analyzed to determine the volume of lending inside and outside its assessment area. The following table shows the distribution of loans made inside and outside Peoples’ assessment area

**Lending Inside and Outside the Assessment Area**

Exam: Peoples Bank & Trust Company of Hazard, KY

Loan Type - Description	Inside				Outside				Total	
	#	%	\$(000s)	%	#	%	\$(000s)	%	#	\$(000s)
RL - Residential Loans	70	93.3	6,058	86.3	5	6.7	964	13.7	75	7,023
XX - Consumer Loans	492	95.3	4,280	92.5	24	4.7	345	7.5	516	4,625
<b>Total Consumer related</b>	<b>562</b>	<b>95.1</b>	<b>10,338</b>	<b>88.8</b>	<b>29</b>	<b>4.9</b>	<b>1,309</b>	<b>11.2</b>	<b>591</b>	<b>11,648</b>
SB - Small Business	90	82.6	15,845	80.0	19	17.4	3,962	20.0	109	19,808
<b>Total Small Bus. related</b>	<b>90</b>	<b>82.6</b>	<b>15,845</b>	<b>80.0</b>	<b>19</b>	<b>17.4</b>	<b>3,962</b>	<b>20.0</b>	<b>109</b>	<b>19,808</b>
<b>TOTAL LOANS</b>	<b>652</b>	<b>93.1</b>	<b>26,184</b>	<b>83.2</b>	<b>48</b>	<b>6.9</b>	<b>5,272</b>	<b>16.8</b>	<b>700</b>	<b>31,456</b>

As the aforementioned table indicates, a substantial majority of Peoples’ loans were made inside its assessment area by both number (93.1%) and dollar amount (83.2%).

**Geographic Distribution of Lending**

Peoples’ geographic distribution of lending is reasonable. The bank made loans in 24 out of its 32 tracts, which indicates some lending gaps in the assessment area; however, Peoples is impacted by the area’s historical economic weaknesses and high levels of poverty and unemployment. The census tracts with no lending were all located at the edge of the assessment area, geographically far from most branches. The following chart depicts the total loans originated by each tract income level and the number and percentage of census tracts with no lending activity.

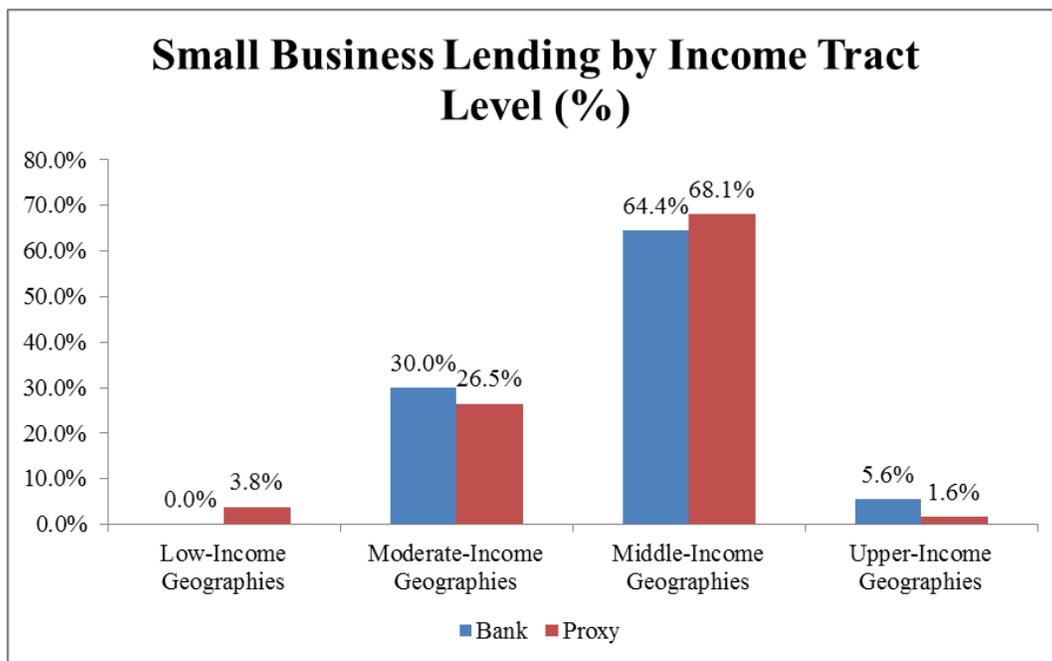
Total Loan Types Originated in Assessment Area by Tract Income Level					
Geographies	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
# (%) of Tracts in Assessment Area	1 (3.13%)	13 (40.62%)	17 (53.12%)	1 (3.13%)	32
# (%) of Total Originated Loans	1 (0.15%)	193 (29.60%)	438 (67.18%)	20 (3.07%)	652
# (%) of Tracts with Lending	1 (100.00%)	8 (61.54%)	14 (82.35%)	1 (100%)	24
# (%) of Tracts without Lending	0 (0.00%)	5 (38.46%)	3 (17.65%)	0 (0.00%)	8

As previously mentioned, there is only one low-income and one upper-income tract in the assessment area. The majority of Peoples’ branches are located in moderate- and middle-income tracts. Additionally, all of the 17 middle-income tracts located in Peoples’ assessment area were designated as underserved and distressed due to poverty and unemployment. All of these factors were considered when evaluating Peoples’ geographic distribution of lending.

### Small Business Lending

Peoples originated 90 small business loans in the assessment area during the review period. Of the 90 loans, there were no loans made in low-, 27 loans in moderate-, 58 loans in middle-, and five loans in upper-income census tracts. Peoples' performance was compared to the number of businesses within the assessment area (proxy).

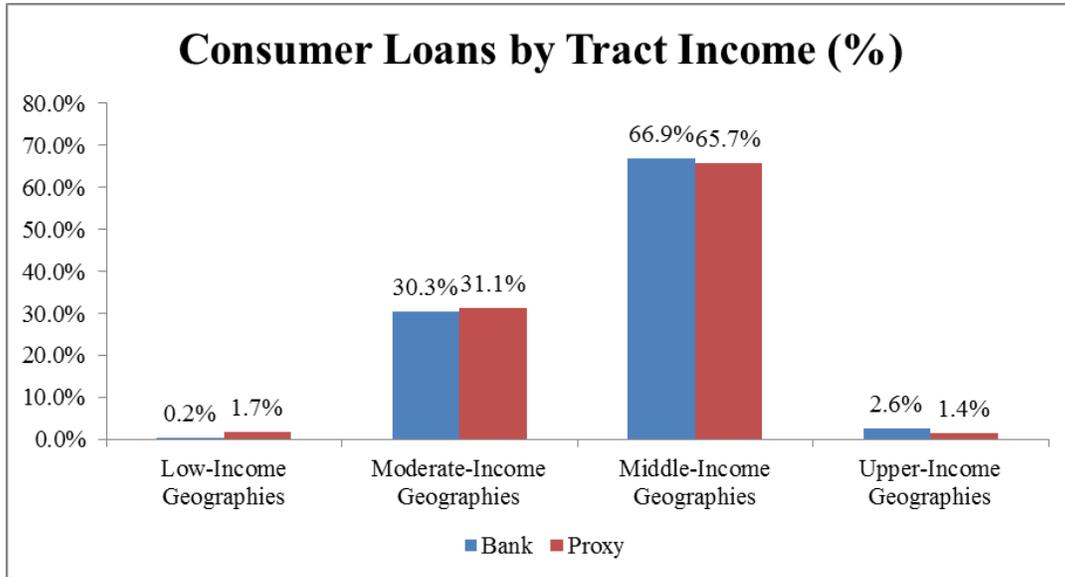
As shown in the graph below, Peoples' performance of lending was well below proxy in low-, slightly above in moderate-, slightly below in middle-, and well above in upper-income tracts. Overall, Peoples' geographic distribution for small business loans is considered good.



### Consumer Lending

Peoples originated a total of 492 consumer loans in the assessment area during the evaluation period. Of the 492 loans, there was one loan in low-, 149 loans in moderate-, 329 loans in middle-, and 13 loans were made in upper-income census tracts. Peoples' performance was compared to the number of households within the assessment area (proxy). Poverty levels, unemployment, and general economic conditions in the assessment area were also considered, which could limit lending opportunities.

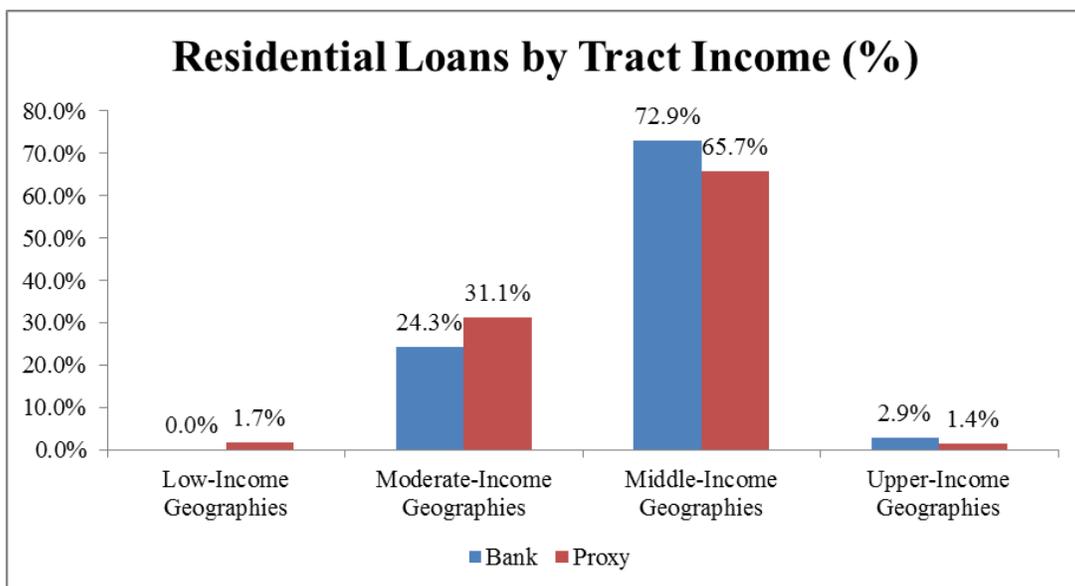
As shown in the graph below, Peoples' lending performance was well below proxy in low-, slightly below in moderate-, slightly above in middle-, and well above in upper-income tracts. Overall, Peoples' geographic distribution for consumer loans is considered good.



**Residential Lending**

Peoples originated a total of 70 residential loans in the assessment area during the evaluation period. Of the 70 loans, there were no loans in low-, 17 loans in moderate-, 51 loans in middle-, and two loans in upper-income census tracts. Peoples’ performance was compared to the number of households within the assessment area (proxy). Poverty levels, unemployment, and general economic conditions in the assessment area, which could limit lending opportunities, were also considered.

As shown in the graph below, Peoples’ performance of lending was well below proxy in low-, slightly below in moderate-, slightly above in middle-, and well above in upper-income tracts. Overall, Peoples’ geographic distribution for residential loans is considered good.

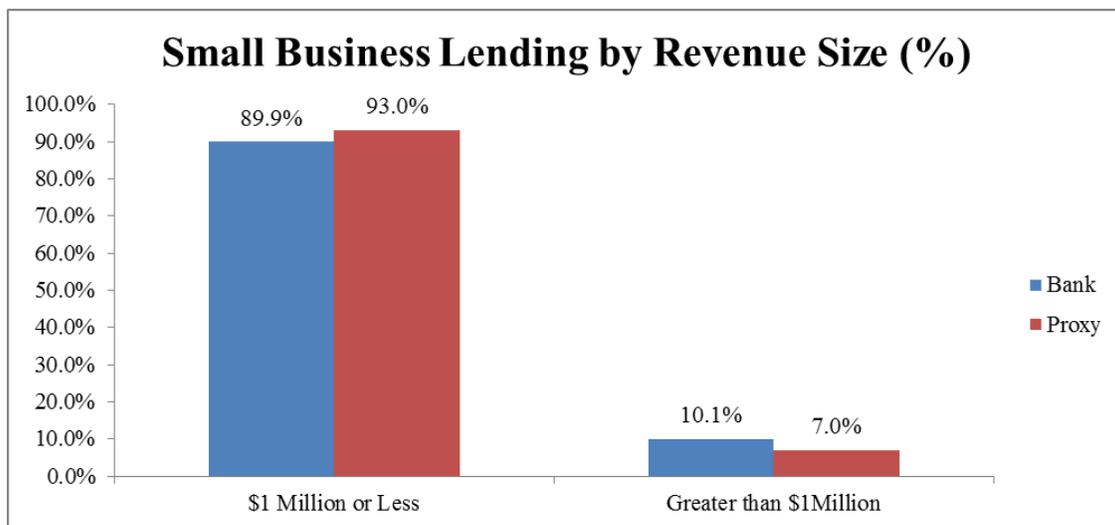


### **Borrower Distribution of Lending**

The distribution of loans is considered reasonable based on borrower’s income and for businesses of different revenue sizes. Specifically, Peoples’ level of lending to small businesses is good with a majority of business loans being made for amounts less than \$1 million. This evaluation revealed a gap in Peoples’ levels of residential lending to low- income borrowers. Peoples is impacted by the area’s historical economic weaknesses in addition to high levels of poverty and unemployment. These factors were considered when evaluating the distribution of Peoples’ loans to borrowers of different income levels.

#### ***Small Business Lending***

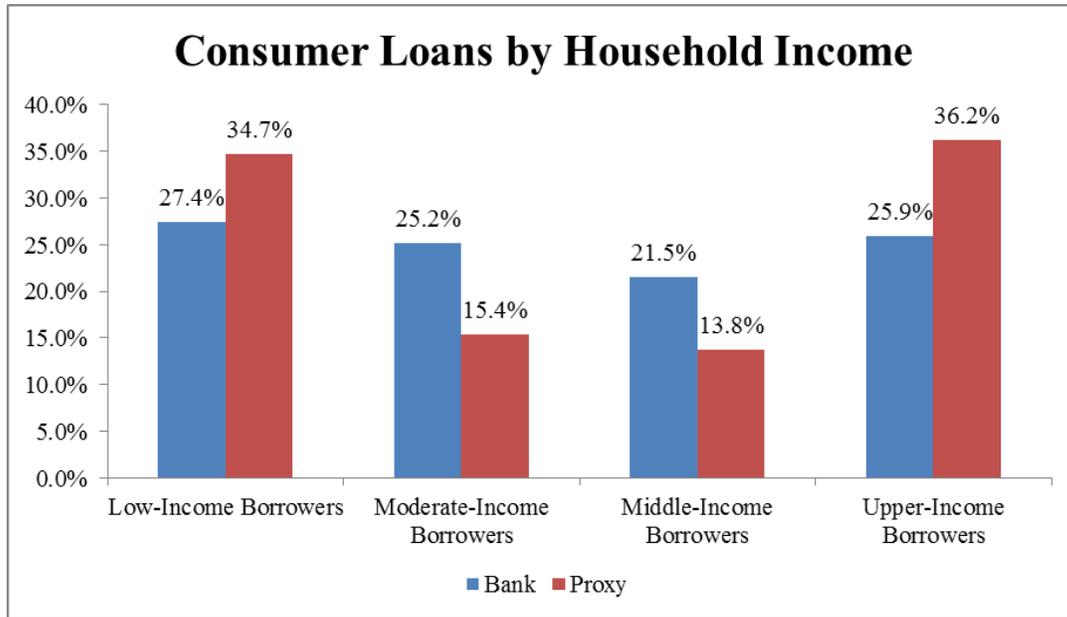
Peoples originated 90 small businesses loans in the assessment area for which business revenues were reported. Of these 90 loans, 62 (69%) were to small businesses with revenues of \$1 million or less. Loan amounts were also considered, as smaller loans are generally commensurate with the borrower needs of smaller businesses. Of the 90 total small business loans originated within the assessment area, 72.2% of the loans were for amounts of \$100,000 or less. The following chart depicts Peoples’ small business lending. Overall, the distribution of loans based on the revenue size for small business lending is considered good.



#### ***Consumer Lending***

Peoples originated a total of 492 consumer loans in the assessment area during the evaluation period. The borrower analysis was based on a sample of 135 loans, rather than the universe of 492 loans. Of the 135 loans, 37 loans were made to low-, 34 to moderate-, 29 to middle-, and 35 to upper-income borrowers. Peoples’ borrower distribution performance was compared to the number of households in the assessment area by income level (proxy). Poverty levels, unemployment, and general economic conditions in the assessment area, which could limit lending opportunities, were also considered.

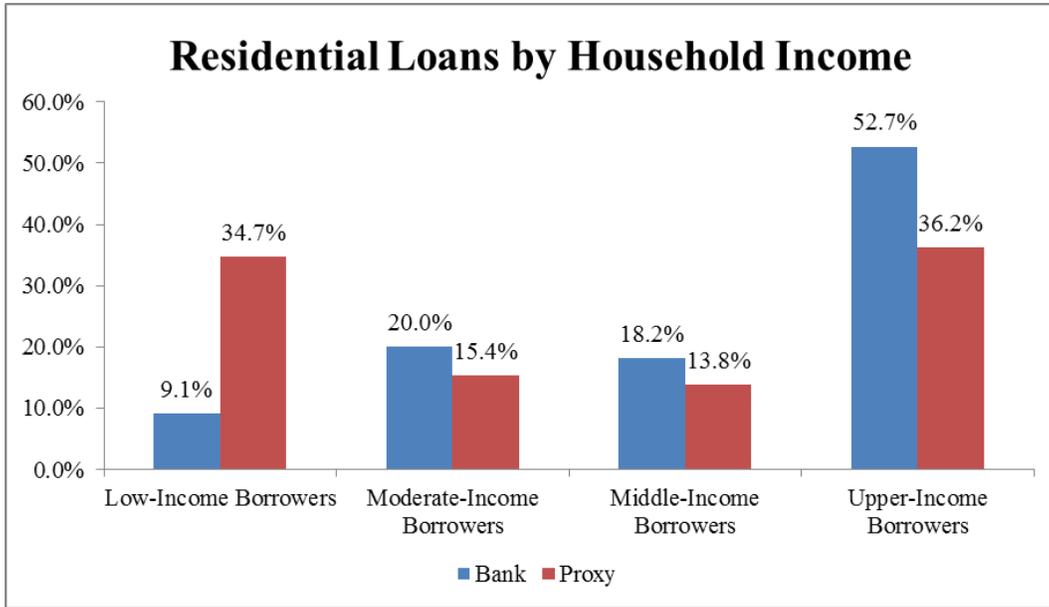
As shown in the graph below, Peoples' performance of lending was slightly below proxy for low-, well above for moderate-, well above for middle-, and below for upper-income borrowers. Overall, Peoples' borrower distribution for consumer loans is considered good.



### *Residential Mortgage Lending*

Peoples originated a total of 70 residential loans in the assessment area during the evaluation period. The borrower analysis was based on a sample of 55 loans, rather than the universe of 70 loans. Of the 55 loans, five of the loans were made to low-, 11 to moderate-, ten to middle-, and 29 to upper-income borrowers. Peoples' borrower distribution performance was compared to the number of households in the assessment area by income level (proxy). Consideration was given to the facts that 23.7% of families in the assessment area are below poverty and 69.4% of housing would be available to low-income borrowers. Unemployment, and general economic conditions in the assessment area, which could limit lending opportunities, were also considered.

As shown in the following graph, Peoples' performance of lending was well below proxy for low-, above for moderate-, above for middle-, and above for upper-income borrowers. Overall, Peoples' borrower distribution for residential loans is considered good.



**Response to Consumer Complaints**

No CRA-related complaints were filed against Peoples during the evaluation period.

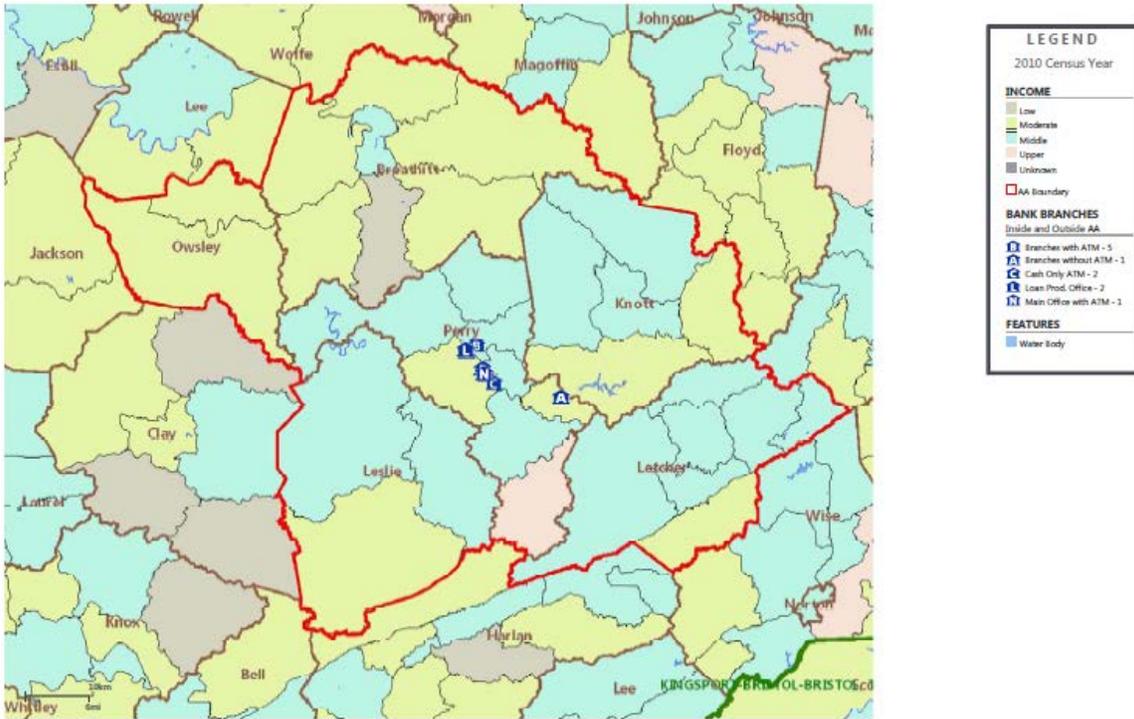
**Fair Lending or Other Illegal Credit Practices Review**

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified during this evaluation period.

## APPENDIX A

### ASSESSMENT AREA MAP

Assessment Area: Peoples B & TC of Hazard, KY



## APPENDIX B

### LENDING TABLES

#### CRA Loan Distribution Table

Exam: Peoples Bank & Trust Company of Hazard, KY

Assessment Area/Group: Peoples Bk and Trust

Income Categories	SMALL BUSINESS				SMALL FARM				SMALL BUS. SECURED BY REAL ESTATE			
	#	%	\$(000s)	%	#	%	\$(000s)	%	#	%	\$(000s)	%
	<b>By Tract Income</b>											
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	27	30.0%	8,412	53.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Low/Moderate Total	27	30.0%	8,412	53.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Middle	58	64.4%	6,410	40.5%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Upper	5	5.6%	1,024	6.5%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	90	100.0%	15,845	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
	<b>By Revenue</b>											
Total \$1 Million or Less	62	68.9%	10,962	69.2%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Over \$1 Million	7	7.8%	968	6.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Not Known	21	23.3%	3,915	24.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	90	100.0%	15,845	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
	<b>By Loan Size</b>											
\$100,000 or less	65	72.2%	2,337	14.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
\$100,001 - \$250,000	14	15.6%	2,165	13.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	7	7.8%	2,716	17.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	4	4.4%	8,627	54.4%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	90	100.0%	15,845	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
	<b>By Loan Size and Revenue \$1 Million or Less</b>											
\$100,000 or less	43	69.4%	1,580	14.4%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
\$100,001 - \$250,000	12	19.4%	1,862	17.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	4	6.5%	1,757	16.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	3	4.8%	5,762	52.6%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	62	100.0%	10,962	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%

\*Information based on 2010 ACS data

### Consumer Loan Distribution Table

Exam: Peoples Bank & Trust Company of Hazard, KY

Assessment Area/Group :Peoples Bk and Trust

	CONSUMER LOANS							
	By Tract Income				By Borrower Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	<b>Consumer Loans</b>							
Low	1	0.2%	5	0.1%	37	7.5%	97	2.3%
Moderate	149	30.3%	1,569	36.7%	34	6.9%	182	4.2%
Low/Moderate Total	150	30.5%	1,574	36.8%	71	14.4%	279	6.5%
Middle	329	66.9%	2,645	61.8%	29	5.9%	309	7.2%
Upper	13	2.6%	61	1.4%	35	7.1%	411	9.6%
Unknown	0	0.0%	0	0.0%	357	72.6%	3,281	76.6%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	492	100.0%	4,280	100.0%	492	100.0%	4,280	100.0%
	<b>Residential Loans</b>							
Low	0	0.0%	0	0.0%	5	7.1%	172	2.8%
Moderate	17	24.3%	1,499	24.7%	11	15.7%	546	9.0%
Low/Moderate Total	17	24.3%	1,499	24.7%	16	22.9%	719	11.9%
Middle	51	72.9%	4,489	74.1%	10	14.3%	687	11.3%
Upper	2	2.9%	70	1.1%	29	41.4%	2,864	47.3%
Unknown	0	0.0%	0	0.0%	15	21.4%	1,788	29.5%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	70	100.0%	6,058	100.0%	70	100.0%	6,058	100.0%
	<b>Consumer Loan Totals</b>							
Low	1	0.2%	5	0.0%	42	7.5%	270	2.6%
Moderate	166	29.5%	3,069	29.7%	45	8.0%	728	7.0%
Low/Moderate Total	167	29.7%	3,073	29.7%	87	15.5%	998	9.7%
Middle	380	67.6%	7,135	69.0%	39	6.9%	996	9.6%
Upper	15	2.7%	131	1.3%	64	11.4%	3,276	31.7%
Unknown	0	0.0%	0	0.0%	372	66.2%	5,069	49.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	562	100.0%	10,338	100.0%	562	100.0%	10,339	100.0%

## APPENDIX C

### GLOSSARY OF TERMS

**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.