

PUBLIC DISCLOSURE

April 21, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kentucky Bank & Trust of Greenup County
22437-3**

**Post Office Box K
Russell, Kentucky 41169**

**Federal Deposit Insurance Corporation
Division of Compliance and Consumer Affairs
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Memphis, Tennessee 38137**

NOTE: 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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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Kentucky Bank & Trust Company of Greenup County** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **April 21, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The bank's average loan to deposit ratio of 75 percent demonstrates reasonable lending performance and a willingness to extend loans. A majority of all types of lending activity is located within the bank's assessment area. Loans are satisfactorily extended to borrowers all of income levels, including low- and moderate individuals. The bank also has a good record of lending to businesses of all sizes, including small businesses. The bank has an adequate geographic dispersion of lending throughout the assessment area.

DESCRIPTION OF INSTITUTION

Kentucky Bank & Trust of Greenup County, Russell, Kentucky is a \$93,451,000 full service lender with its main office located in the city of Ashland, Kentucky. The bank is a subsidiary of Kentucky Bancshares, Inc. a one-bank holding company located in Russell, Kentucky. The Ashland main office location has been opened only since October of 1997. Until that time, the Russell branch office served as the main office of the bank. The bank has four other branch offices located throughout Greenup County, Kentucky.

Since the previous evaluation, the bank has experienced steady loan growth, mainly in the residential real estate area. The bank has a multi-faceted marketing approach to lending, as demonstrated by the loan portfolio composition. As of December 31, 1997, the bank's loan portfolio is distributed as follows:

LOAN TYPE	AMOUNT	PERCENT
Residential Real Estate	\$22,757,000	46
Commercial & Commercial Real Estate	\$14,637,000	30
Consumer	\$10,767,000	21
All Other Loans	\$1,226,000	3
TOTAL	\$49,387,000	100

There are no legal impediments or other financial factors that impact the bank's ability to help meet community needs.

DESCRIPTION OF GREENUP AND BOYD COUNTIES

The bank's assessment area is all of Greenup County, and portions of northern and central Boyd County, located in extreme northeastern Kentucky. This area is part of the Huntington, WV - Ashland, KY - Ironton, OH Metropolitan Statistical Area (MSA). Most of the cities within the assessment area are located along the Big Sandy and Ohio Rivers. The largest city is Ashland with a 1990 population of 23,622. The next largest city is Flatwoods with a 1990 population of 7,799. There are several other smaller cities and communities located along the aforementioned rivers. The remainder of the assessment area is rural in nature, with rolling hills located mainly in the western part of both Boyd and Greenup Counties. The only major highway is Interstate 64 which traverses east and west through the southern portion of the assessment area. U.S. 23 runs north and south along the rivers.

According to the 1990 U.S. census data, the population of the assessment area was 63,044. Between 1980 and 1990, both Boyd County and Greenup County have experienced a decline in population of 7.9 percent and 6.1 percent, respectively. Moreover, according to the Kentucky Department for Economic Development, this declining trend is expected to continue. The reduction in population is mainly a result of the lack of sufficient employment opportunities within the area. The decline in the population has also contributed to a stable housing market. Limited new construction is noted. In addition, much of the rural parts of the assessment area contain older homes, with the median age of the housing stock in the assessment area being 31 years.

Unemployment rates for Boyd and Greenup Counties have historically been higher than the state's average unemployment rates. The February 1998 unemployment rates for Boyd and Greenup Counties averaged 6.8 percent, as compared to the state average unemployment rate of 5.0 percent. The manufacturing sector makes up the largest majority of the assessment area's economy, with A.K. Steel Company and Ashland Petroleum Company being the largest employers. According to a local community contact, these employers have reduced their workforce over the past few years. Many of these displaced workers have either relocated to other areas or started their own small business. This displacement has created a greater credit need for small businesses in the area. In addition, the area is expected to get an Industrial Parkway which would connect Interstate 64 in southwestern Boyd County to Wurtland in northern Greenup County. This highway is expected to promote economic development and provide better employment opportunities.

Competition in the area consists of several branches of regional banks, several savings banks, and three Ashland-area based financial institutions. Many of these banks have opened branches in various parts of the assessment area over the past few years, which has resulted in a very competitive environment for the financial industry.

According to data obtained from the U.S. Census Bureau, the 1990 MSA Median Family Income (MFI) was \$26,374. For purposes of this evaluation, census tract income level classifications are based upon this figure. Assessment area income levels are defined in the following table.

INCOME LEVEL	PERCENT OF MFI	1990 RANGE
Low-income	Less than 50%	Under \$13,187
Moderate-income	50% to less than 80%	\$13,188 - \$21,098
Middle-income	80 % to less than 120%	\$21,099 - \$31,648
Upper-income	120 percent and over	\$31,649 and over

The assessment area has fourteen census tracts: Boyd County - 301, 302, 303, 307, 308, 309, 310; and all census tracts of Greenup County - 401 through 407. Census tracts 301, 302, 308 and 407 are designated as moderate-income geographies. Census tracts 307 and 401 are upper-income and the remaining census tracts are all middle-income geographies. There are no low-income census tracts. The bank's office locations are as follows: Ashland office, census tract 301; Russell office, census tract 401; Greenup office, census tract 405; Flatwoods office, census tract 402; and the South Shore office, census tract 406.

The Department of Housing and Urban Development (HUD) estimated 1996, 1997, and 1998 MSA MFI is \$31,700, \$32,800, and \$32,900, respectively. These figures were used to define various income levels of borrowers in the "Lending to Borrowers of Different Incomes and Businesses of Different Sizes" section of this evaluation. The following table shows the various income levels for those years.

INCOME LEVEL	PERCENT OF MFI	1996 RANGE	1997 RANGE	1998 RANGE
Low-income	Less than 50%	Under \$15,850	Under \$16,400	Under \$ 16,450
Moderate-income	50% to less than 80%	\$15,851 - \$25,359	\$16,400- \$26,239	\$16,450 - \$26,319
Middle-income	80% to less than 120%	\$25,360 - \$32,039	\$26,240- \$39,359	\$26,320 - \$39,479
Upper-income	120% and over	\$32,040 and over	\$39,360 and over	\$39,480 and over

The 1996 figures were used in evaluating the 1996 residential real estate lending by the bank. The 1997 figures were used in evaluating the 1997 and 1998 residential real estate lending by the bank. The 1998 figures were used in evaluating the consumer lending of the bank.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

The bank's average quarterly net loan to deposit ratio from September 30, 1995 through December 31, 1997 was 75 percent. Currently, the bank does not sell loans on the secondary market. The range of the loan to deposit ratios for similarly situated financial institutions within the assessment area during the same period was 59 percent to 84 percent, with the average being 72 percent. Given the local economic conditions and the competitive concerns, the bank's loan to deposit ratio demonstrates reasonable lending performance.

Lending in the Assessment Area

In assessing performance under this criterion, samples of residential real estate loans, consumer loans, and business loans were analyzed. The residential real estate loan samples were taken from the 1996, 1997, and 1998 Home Mortgage Disclosure Act Loan Application Registers.

During 1996, the bank extended 44 residential real estate loans. The following table displays the results of the analysis.

LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	40	91	\$4,444,000	95
Outside Assessment Area	4	9	\$244,000	5
TOTAL	44	100	\$4,688,000	100

During 1997, the bank extended 47 residential real estate loans and year-to-date 1998, the bank extended 23 residential real estate loans. All 70 loans are included in the following analysis.

LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	48	69	\$7,538,000	78
Outside Assessment Area	22	31	\$2,162,000	22
TOTAL	70	100	\$9,700,000	100

The consumer loans were taken from a period of September 30, 1997 through March 31, 1998. During that time period, 156 consumer loans were originated, of which, 52 were sampled. The following table reflects the results of the analysis.

LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	42	81	\$413,308	83
Outside Assessment Area	10	19	\$82,009	17
TOTAL	52	100	\$495,317	100

The business loan sample was taken from a period of September 1, 1995 through March 31, 1998. During that time frame, the bank originated 44 business loans. The following table shows the results of the analysis:

Business Loans (All 44 were sampled):

LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	36	82	\$6,743,525	65
Outside Assessment Area	8	18	\$3,608,599	35
TOTAL	44	100	\$10,352,124	100

As shown in the above tables, a majority of the bank's lending activity, both by number and dollar volume, was extended inside the assessment area. The highest percentage of loans extended within the assessment area was the 1996 residential lending. The lowest percentage of lending within the assessment area was the 1997 residential real estate lending. However, when combining 1996 and 1997 real estate lending, the bank extended 88 of 114 loans or 77 percent (by number) within the assessment area. In addition, the bank has a satisfactory record of extending both business and consumer lending within the assessment area. Overall, lending within the assessment area is considered good.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

In assessing performance under this criterion, the residential real estate loans, consumer loans, and business loans that were extended within the assessment area were analyzed.

The following table displays the bank's lending performance with regard to lending to borrowers of different income levels of the 40 residential real estate loans extended in 1996.

INCOME LEVEL	NUMBER	PERCENT	AMOUNT	PERCENT
Low-income	3	7	\$36,000	3
Moderate-income	5	13	\$127,000	9
Middle-income	7	17	\$276,000	16
Upper-income	25	63	\$4,005,000	72
TOTAL	40	100	\$4,444,000	100

The following table displays the bank's lending performance regarding the 48 residential real estate loans extended in 1997 and year-to-date 1998.

INCOME LEVEL	NUMBER	PERCENT	AMOUNT	PERCENT
Low-income	3	6	\$46,000	1
Moderate-income	8	17	\$259,000	3
Middle-income	7	15	\$301,000	4
Upper-income	30	62	\$6,932,000	92
TOTAL	48	100	\$7,538,000	100

For comparative purposes for both the residential real estate and consumer lending, an analysis of the number of families within various income ranges obtained from the 1990 census data was performed. The analysis reveals the following distribution of families by income level in the assessment area.

INCOME LEVEL	NUMBER	PERCENT
Low-income	4,115	23
Moderate-income	2,693	15
Middle-income	3,288	18
Upper-income	8,035	44
TOTAL	18,131	100

A further comparison of the bank's real estate lending activity is compared to aggregate financial institution real estate lending activity within the bank's assessment area for 1996. During 1996, financial institutions originated 2,098 loans totaling \$101,915,000 within the assessment area. Of these, 265 loans totaling \$11,345,000 did not have income information available, therefore, are excluded from the analysis below.

The following table displays the results of the analysis of these loans (AGGREGATE DATA).

INCOME LEVEL	NUMBER	PERCENT	AMOUNT	PERCENT
Low-income	133	7	\$2,727,000	3
Moderate-income	286	16	\$8,115,000	9
Middle-income	419	23	\$14,762,000	16
Upper-income	995	54	\$64,966,000	72
TOTAL	1,833	100	\$90,570,000	100

Results of the Real Estate Lending Activity:

In 1996 and 1997/1998 combined, the bank's residential real estate lending to low-income borrowers was 7 percent and 6 percent (by number), respectively. These percentages are significantly below the 23 percent of low-income families within the assessment area. However, the bank's low-income borrower lending percentages are comparable to lending levels achieved by aggregate institutions in 1996. Further analysis shows that the bank's residential real estate lending to moderate-income borrowers was 13 percent and 17 percent (by number) for 1996 and 1997/1998, respectively. These percentages are comparable to 15 percent of moderate-income families within the assessment area and the 16 percent lending level of all institutions to moderate-income borrowers within the assessment area. In addition, management stated that the bank is going to start offering longer term fixed-rate mortgages through secondary market lending during 1998. This loan product should result in a higher percentage of loans being extended to low- and moderate-income borrowers.

The following table displays the results of the 42 consumer loans extended during the assessment period.

INCOME LEVEL	NUMBER	PERCENT	AMOUNT	PERCENT
Low-income	5	14	\$26,558	6
Moderate-income	7	17	\$33,415	8
Middle-income	14	33	\$97,664	24
Upper-income	15	36	\$255,671	62
TOTAL	42	100	\$413,308	100

As shown above, the percentage of consumer loans extended to low income borrowers is 14

percent, which is somewhat lower than the 23 percent of low-income families within the assessment area. However, consumer lending to moderate-income borrowers is 17 percent, which compares favorably with the 15 percent of moderate-income families within the assessment area. Aggregately, the bank extended 31 percent of its consumer loans to low- and moderate income borrowers, which is slightly lower than the 38 percent of low- and moderate-income families in the assessment area. Overall, consumer lending to low- and moderate income borrowers is considered reasonable.

The following table reflects the results of the analysis of the 36 business loans extended within the assessment area during the assessment period.

GROSS REVENUES	NUMBER	PERCENT	AMOUNT	PERCENT
Less than \$100,000	18	50	\$2,180,567	32
\$100,001 - \$250,000	5	14	\$633,711	10
\$250,001 - \$1,000,000	3	8	\$1,170,000	17
Greater than \$1,000,000	10	28	\$2,759,247	41
TOTAL	36	100	\$6,743,525	100

As shown above, 26 of 36 (72 percent) business loans analyzed were extended to businesses with gross annual revenues of \$1,000,000 or less. Further analysis shows that 18 of 26 (69 percent) of the small business loans extended were to businesses with gross revenues of less than \$100,000. Given that several small businesses are located throughout the assessment area, these percentages are considered reasonable.

Overall, when considering all three types of lending analyzed above, the bank has a satisfactory record of lending to borrowers of different incomes levels and businesses of different sizes.

Geographic Distribution of Loans

In assessing performance under this criterion, the samples of residential real estate loans and consumer loans extended within the assessment area were analyzed. The following tables illustrate the results of these analyses. For comparative purposes, the percentage of the assessment area's population and/or households within each census tract income designation are also included.

1996 Residential Real Estate Loans:

CENSUS TRACTS	NUMBER	PERCENT	AMOUNT	PERCENT	PERCENT OF HOUSEHOLDS
Moderate - 4	5	13	\$118,000	3	12
Middle - 8	22	55	\$1,406,000	32	73
Upper - 2	13	32	\$2,920,000	65	15
TOTAL	40	100	\$4,444,000	100	100

1997/1998 Residential Real Estate Loans:

CENSUS TRACTS	NUMBER	PERCENT	AMOUNT	PERCENT	PERCENT OF HOUSEHOLDS
Moderate - 4	1	2	\$150,000	2	12
Middle - 8	29	60	\$2,889,000	38	73
Upper - 2	18	38	\$4,499,000	60	15
TOTAL	48	100	\$7,538,000	100	100

For comparative purposes, an analysis of aggregate institution lending activity within the bank's assessment area for 1996 was performed. During 1996, a total of 2,098 loans were reported within the assessment area. The following table displays the results of the geographic distribution of lending.

1996 Residential Real Estate Loans (Aggregate Data):

CENSUS TRACTS	NUMBER	PERCENT	AMOUNT	PERCENT
Moderate - 4	207	10	\$6,105,000	6
Middle - 8	355	17	\$69,037,000	68
Upper - 2	1,536	73	\$26,773,000	26
TOTAL	2,098	100	\$101,915,000	100

Results of the Residential Real Estate Lending Within the Assessment Area:

In 1996, the bank extended 5 of 40 (13 percent) of its residential real estate loans within the four

moderate-income census tracts. This percentage is comparable to the 12 percent of households that reside in these areas. This percentage is also slightly higher than the aggregate institutions' 10 percent lending level within these census tracts. Noteworthy is the fact that 4 of the 5 loans extended within the moderate-income census were extended in census tract 407 in Greenup County. However, a mitigating factor for the low penetration in the other three moderate-income census tracts is the fact that the bank has been in the Boyd County market only since September of 1997. As stated in the "Description of Greenup and Boyd Counties" above, three of the four moderate-income census tracts are in Boyd County.

For 1997/1998, the bank extended only one loan (2 percent) in the moderate-income census tracts. This loan was extended in census tract 302, which is in Boyd County. This percentage is far below both the percentage of households in the moderate census tracts, as well as the 1996 aggregate lender performance levels.

Consumer Loans:

CENSUS TRACT	NUMBER	PERCENT	AMOUNT	PERCENT	PERCENT OF POPULATION
Moderate - 4	10	24	\$35,454	9	14
Middle - 8	26	66	\$199,373	48	72
Upper -2	6	14	\$178,481	43	14
TOTAL	42	100	\$413,308	100	100

The bank has an excellent penetration of the moderate-income census tracts within the assessment area for consumer lending. Nine of the ten loans extended in these census tracts were extended within census tract 407 in Greenup County.

Overall, when considering both residential real estate and consumer lending, the geographic distribution of loans is deemed reasonable.

COMPLIANCE WITH ANTIDISCRIMINATORY LAWS AND REGULATIONS

No violations of substantive antidiscriminatory laws and regulations were identified during the examination.