

PUBLIC DISCLOSURE

November 5, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Germantown
13162**

**6361 Brooksville – Germantown Road
Germantown, Kentucky 41044**

**Federal Deposit Insurance Corporation
Atlanta Regional Office
Division of Supervision and Consumer Protection
10 Tenth Street, NE, Suite 800
Atlanta, Georgia 30309**

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 **Bank of Germantown** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 5, 2002**. 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 CRA performance depicts a satisfactory practice of providing for the credit needs of its assessment area. The rating is supported by the following information.

- An analysis of loan originations reveals that the bank has an acceptable record of extending both residential real estate loans and consumer loans to borrowers of all income levels, including to low- and moderate-income individuals.
- The analysis also indicates that both residential real estate loans and consumer loans are reasonably dispersed throughout the bank's assessment area.
- A good majority of both residential real estate loans and consumer loans analyzed were extended within the bank's assessment area.
- The average net loan to deposit ratio reflects an adequate volume of lending, given the bank's size and resources.

DESCRIPTION OF INSTITUTION

Bank of Germantown is a well-established small community bank with total assets of \$26,687,000 as of June 30, 2002. The bank operates three offices located in rural Bracken County in north central Kentucky. The main office is located in the city of Germantown, and the two branches are located in the cities of Brooksville and Augusta. The bank is also a wholly-owned subsidiary of Premier Financial Bancorp, Inc., Huntington, West Virginia, a multi-bank holding company with total assets of just over \$694 million as of June 30, 2002.

Bank of Germantown has only two lending officers, who both work from the Germantown Main Office. While loan applications are accepted at both branch offices, they are evaluated and processed only at the main office. Lending products are typical for a small, rural institution with limited resources. These products include consumer, mortgage, business, and farm loans. A wide variety of consumer loans are offered. Fixed-rate residential mortgage loans for various purposes are also offered; however, the term of this type of loan is limited to 1, 3, or 5 years, with a balloon payment at the end of the term. No adjustable-rate mortgage loans are offered, nor does the bank offer an open-end credit product, such as home equity lines of credit or credit cards. Business loans and agricultural loans for a variety of purposes are also offered. The following table depicts the bank's loan portfolio, by type of loan, as of June 30, 2002.

Bank of Germantown – Loan Distribution as of June 30, 2002		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	464	2.3
Secured by Farmland	1,834	9.0
1-4 Family Residential	5,789	28.6
Multi-Family (5 or more) Residential	0	0.0
Commercial	5,060	25.0
Total Real Estate Loans	13,147	64.9
Commercial and Industrial	3,143	15.5
Agricultural	823	4.1
Consumer	3,126	15.5
Other	6	<0.03
Less: Unearned Income	0	0.0
Total Loans	20,245	100.0

Source: Report of Condition

As depicted above, business lending (which consists of commercial real estate and commercial and industrial loans) makes up the largest percentage of loans with 40.5 percent. One to four family residential real estate lending makes up the next largest percentage at 28.6 percent. Consumer lending makes up the next largest percentage with 15.5 percent.

While the above percentages indicate business lending as the most prominent type of lending, there is actually a greater need for both residential real estate loans and consumer loans within the bank's assessment area. This statement is supported by the following data. The bank's assessment area is primarily rural in nature with very little commercial development. Consequently, there is a low business loan demand within the assessment area. Because of this low local business loan demand, the bank's Board of Directors decided that it would purchase portions of business loans originated by affiliate institutions located outside the bank's assessment area. This is evidenced by an analysis of bank's business loan portfolio. Specifically, as of June 30, 2002, there were a total of 112 business loans on the bank's books. Of these 112 loans, only 36 were originated to businesses within the bank's assessment area. The remaining 77 loans were originated by affiliate institutions located outside the bank's assessment area. This practice is considered reasonable given the limited opportunity for business lending within the assessment area. Therefore, considering the previous comments, residential real estate loans and consumer loans were the two products chosen for review at this evaluation.

Bank of Germantown has a limited number of competitors within its assessment area. The First National Bank of Brooksville is the only other Bracken County-based financial institution. There is also one branch of a regional financial institution located in Augusta. Management also indicated that the bank receives competition from financial institutions in the adjoining Mason and Robertson County markets. There are two financial institutions based in Mason County, and five branches of regional institutions located in these counties. Other than this competition, no legal or financial impediments exist which would prohibit Bank of Germantown from helping to meet the credit needs of the community.

DESCRIPTION OF BRACKEN, ROBERTSON, AND MASON COUNTIES

Management has defined the bank's assessment area as all of Bracken and Robertson Counties, and parts of Mason County, Kentucky. This area is part of a five-county non-metropolitan area of north central Kentucky known as the "Buffalo Trace Area". The assessment area is contiguous and conforms to CRA regulation requirements. It consists of the following eight BNAs: BNAs 9501, 9502, and 9503 in Bracken County; BNA 9701 in Robertson County; and, BNAs 9602, 9603, 9604, and 9605 in Mason County. All these geographies, except for BNA 9604, are considered middle-income geographies. BNA 9604 is an upper-income geography. There are no low- or moderate-income geographies. The bank's Germantown Main Office and the Brooksville Branch Office are located in BNA 9503. The Augusta Branch Office is located in BNA 9501.

According to U.S. Census data, the population of the assessment area for the year 2000 is 23,860. This is an increase of approximately 3.4 percent over the 1990 population of 23,073. Augusta is the largest city with a population of 1,381. Brooksville has the next highest population with 692, and Germantown has a population of only 220. There is very little commercial development in these cities, and the remainder of the assessment area is very rural in nature with undeveloped rolling hills and farmland being the predominant features.

U.S. Census data also indicates that the 1990 statewide non-metropolitan Median Family Income (MFI) was \$22,542. Department of Housing and Urban Development (HUD) estimates statewide non-metropolitan MFI for 2000, 2001 and 2002 to be \$34,600, \$35,900, and \$36,300, respectively. For purposes of this evaluation, BNA income level classifications used in the “Geographic Distribution of Loans” section of this evaluation are based upon the 1990 income data. However, the HUD-estimated 2000, 2001 and 2002 income 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 CRA definition for each income level is defined in the following table. For brevity, only 1990 and 2002 figures are shown.

INCOME LEVEL	PERCENT OF MFI	1990 RANGE	2002 RANGE
Low-income	Less than 50%	Under \$11,271	Under \$18,150
Moderate-income	50% to less than 80%	\$11,271 - \$18,033	\$18,151 - \$29,039
Middle-income	80% to less than 120%	\$18,034 - \$27,050	\$29,040 - \$43,559
Upper-income	120% and over	\$27,051 and over	\$43,560 and over

The following table reflects the number of assessment area families within the various income level ranges based upon 1990 census data. The information is used for comparative purposes to assess performance in lending to borrowers of different income levels, as detailed in the “Lending to Borrowers of Different Incomes and Businesses of Different Sizes” section of this evaluation.

Assessment Area Families by Income Level		
Income Level	Number of Families	Percent of Families
Low	1,425	22.1
Moderate	884	13.7
Middle	1,317	20.5
Upper	2,813	43.7
Totals	6,439	100.0

Source: U.S. Census

The assessment area's economy has been somewhat stagnant over recent years. Tobacco and cattle farming continue to be the area's prominent industries. However, according to a local community contact involved in economic development, because of the decline in the tobacco farming industry over recent years, many area farmers now have to sustain other employment to supplement their farm income. The contact further indicated that many former farmers have ceased farming altogether. The contact further stated that the assessment area is a "bedroom community" for the nearby larger cities in northern and central Kentucky, such as Lexington, Georgetown, and several cities in the Cincinnati, Ohio-Northern, Kentucky Metropolitan Statistical Area. Specifically, the contact indicated that people are moving into the more rural areas of Bracken, Robertson, and Mason Counties while seeking employment in these larger cities. The aforementioned larger cities have experienced significant economic growth over recent years and provide much greater employment opportunities than does the assessment area and are easily commutable from all communities within the assessment area. The contact's statements are validated by the slight growth in the assessment area's population in the 1990s, as stated above, as well as other U.S. labor statistics. Specifically, labor statistics show that approximately 2,200 workers commute outside the assessment area for employment, while only approximately 250 workers commute into the assessment area for employment.

Other than farming, there is very little industry in the assessment area. The largest employer is Clopay Corporation, a surgical supply manufacturer, who employs approximately 200 workers. The remaining employers have less than 50 workers and are mainly small retail firms who provide relatively lower wage jobs. Unemployment rates for the assessment area are comparable to the statewide average; however, again, many residents commute outside the assessment area for employment. It should be noted that there is significantly more commercial development in Mason County; however, most of this development is in the city of Maysville, which is just outside the bank's assessment area.

According to the community contact, the lack of economic growth within the assessment area is attributable to the following factors. First, the assessment area has historically been reliant on the tobacco farming industry, which has steadily declined over recent years. In addition, the county has a limited supply of available flat land for industrial development. Much of the assessment area, particularly in southern Bracken and Robertson Counties, has a hilly terrain and a poor highway system. Finally, much of the assessment area has poor infrastructure (water and sewer service), as compared to other areas of northern and central Kentucky. These factors have made it difficult for local community leaders to attract new industry into the area.

As far as housing credit needs are concerned, the community contact indicated that there has been very little residential development in the assessment area in recent years. The contact was able to identify only one residential development project, the Beaumont Subdivision, in western Mason County over the past few years. However, homes in this subdivision would be not be affordable for low or moderate-income individuals. The contact did state, however, that there has been a trend toward remodeling older homes in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation of the bank's lending performance is based upon a review of all residential real estate and consumer loans originated since January 1, 2000, and were still outstanding as of June 30, 2002. The review included 101 residential real estate loans totaling \$5,104,558 and 434 consumer loans totaling \$2,885,779.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

When considering both types of loans analyzed, the bank has an adequate record of extending loans to borrowers of all income levels, including low- and moderate-income borrowers.

The following table displays the lending distribution of the residential real estate loans reviewed. Loans extended only within the bank's assessment area are included. For comparative purposes, the table also includes the percentages of families within each income level according to the 1990 census data.

RESIDENTIAL REAL ESTATE LOANS					
INCOME LEVEL	PERCENT OF FAMILIES	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	22	10	13	200,162	6
Moderate	14	22	27	854,421	25
Middle	20	22	27	981,707	28
Upper	44	27	33	1,398,978	41
TOTALS	100	81	100	\$3,435,268	100

As shown in the above table, the bank's lending percentage (both by number and dollar amount) to low-income borrowers is somewhat lower than the percent of assessment area families in this income category. This lower lending percentage is primarily due to the following factors. First, as previously stated the bank offers only 1, 3, and 5-year term fixed-rate mortgages with a balloon payment at the end of the term. Because of the low interest rate environment, many low income borrowers most likely would desire a longer-term (up to 30 years) fixed-rate mortgages, which the bank does not offer. Consequently, management contends that many low-income borrowers may be seeking residential loans at other financial institutions, which do offer longer term fixed-rate mortgages. Another factor contributing to the lower lending percentage to low-income borrowers is the fact that the percent of families in the above table includes both families who own their own residence and those who reside in rental units. Therefore, since approximately 30 percent of the housing units are rental units, a number of the assessment area's low-income families may not have been in the housing market during the assessment period.

Considering these factors, the bank's residential real estate lending percentages to low-income borrowers is considered reasonable. Moreover, the bank's lending performance to moderate-income borrowers is very good in comparison with the percentage of families in this income category.

The following table displays the lending distribution of the consumer loans analyzed. Loans extended only within the bank's assessment area are included. For comparative purposes, the table also includes the percentages of families within each income level according to the 1990 census data.

CONSUMER LOANS					
INCOME LEVEL	PERCENT OF FAMILIES	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
Low	22	126	33	540,271	24
Moderate	14	107	28	536,250	23
Middle	20	73	19	470,851	21
Upper	44	75	20	731,849	32
TOTALS	100	381	100	\$2,279,221	100

As shown in the above table, the bank's lending percentages to both low and moderate-income borrowers is somewhat higher than the percent of families in these income categories. These higher lending percentages indicate that the bank has a very good record of extending consumer loans to both low- and moderate-income borrowers. However, this lending performance is somewhat tempered by the fact that consumer loans make up only about 16 percent of the bank's total loan base. Conversely, residential real estate lending makes up about 29 percent of the loan portfolio, therefore, residential real estate lending was given the most consideration in assessing performance under this criterion.

Geographic Distribution of Loans*

The bank has an acceptable record of extending loans throughout the assessment area.

In assessing performance under this criterion, loans that were extended only within the assessment area during the assessment period were analyzed. The following table displays the dispersion of residential real estate loans reviewed. For comparative purposes, the percentages of owner-occupied housing units (OOHUs) located within each BNA are also included.

RESIDENTIAL REAL ESTATE LOANS					
BNA & Income Designation	PERCENT OF OOHU	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
BNA 9501 (Middle)	11	17	21	674,519	19.6
BNA 9502 (Middle)	7	9	11	400,516	11.7
BNA 9503 (Middle)	17	34	42	1,701,399	49.5
BNA 9602 (Middle)	15	0	0	0	0
BNA 9603 (Middle)	17	0	0	0	0
BNA 9604 (Upper)	16	12	15	435,767	12.7
BNA 9605 (Middle)	7	1	1	10,000	0.3
BNA 9701 (Middle)	10	8	10	213,067	6.2
TOTAL	100	81	100	\$3,435,268	100.0

The following table displays the geographic distribution of the consumer loans reviewed. For comparative purposes, the percentages of population located within each BNA are also included.

CONSUMER LOANS					
BNA & Income Designation	PERCENT OF POP.	NUMBER	PERCENT	DOLLAR AMOUNT	PERCENT
BNA 9501 (Middle)	11	57	15	358,315	16
BNA 9502 (Middle)	7	11	3	57,585	3
BNA 9503 (Middle)	16	216	57	1,215,016	53
BNA 9602 (Middle)	16	7	2	23,861	1
BNA 9603 (Middle)	19	13	3	148,726	6
BNA 9604 (Upper)	15	52	14	371,270	16
BNA 9605 (Middle)	7	5	1	13,348	1
BNA 9701 (Middle)	9	20	5	91,100	4
TOTAL	100	381	100	\$2,279,221	100

As shown in the above two tables, the largest percentages of both residential real estate and consumer loans were extended in BNAs 9503 and 9501, respectively. This is considered reasonable considering that all three of the bank's offices are located in these two geographies. The lowest lending penetration occurred in BNAs 9602, 9603, and 9605. This is especially true for residential real estate loans, as no loans were extended BNAs 9602 or 9603, and only one loan was extended in BNA 9605. BNAs 9602, 9603, and 9605 are geographically closer to the city of Maysville in Mason County, where several competing financial institutions are located. Moreover, these financial institutions offer a wider variety of residential real estate products than does the subject institution.

*Note: Since the assessment area has no low or moderate-income geographies, little consideration was given to this criterion when assessing the bank's overall CRA rating.

Lending in the Assessment Area

The bank has a good record of extending both residential real estate and consumer loans within the assessment area.

The following tables indicate the number and dollar amount of all reviewed loans extended both inside and outside the assessment area.

RESIDENTIAL REAL ESTATE LOANS				
LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	81	80	3,435,268	67
Outside Assessment Area	20	20	1,669,290	33
TOTAL	101	100	\$5,104,558	100

CONSUMER LOANS				
LOCATION	NUMBER	PERCENT	AMOUNT	PERCENT
Inside Assessment Area	381	88	2,279,221	79
Outside Assessment Area	53	12	606,558	21
TOTAL	434	100	\$2,885,779	100

As shown in the above two tables, the bank has originated a majority of both residential and consumer loans within the assessment area. It is also important to note that the bank has greatly improved its residential real estate lending within the assessment area since the previous evaluation of December 1, 1997. At that evaluation, only 20 percent of the residential real estate

loans reviewed were extended within the assessment area. At that time, management was encouraged to improve its performance under this criterion. The much higher percentage extended within the assessment at this evaluation demonstrates management's willingness to now serve its assessment area's credit needs before seeking loans elsewhere.

Loan to Deposit Ratio

Bank of Germantown's loan-to-deposit (LTD) ratio indicates a reasonable responsiveness to community credit needs.

The bank's average net LTD ratio, based on nineteen quarters (December 1997 through June 2002) since the previous evaluation is approximately 72 percent. As a comparison, the one other assessment area based financial institution, First National Bank, Brooksville, Kentucky (FNB), had a 88 percent average loan-to-deposit ratio. However, FNB has a somewhat higher asset base and loan composition. Therefore, given the size and resource of the subject bank, its lending activity is considered reasonable.

Response to Complaints

The bank has not received any CRA-related complaints since the previous evaluation. Therefore, this factor was not considered in assigning an overall rating.

COMPLIANCE WITH ANTI-DISCRIMINATORY LAWS AND REGULATIONS

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.