FORM 8-K

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FILER

TRANS FINANCIAL BANCORP INC

CIK:**704469**| IRS No.: **611048868** | State of Incorp.:**KY** | Fiscal Year End: **1231**
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SIC: **6022** State commercial banks

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BOWLING GREEN KY 42101
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED) December 27, 1993

Trans Financial Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Kentucky	0-13030	61-1048868
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

500 East Main Street, Bowling Green, Kentucky 42101
(Address of principal executive offices) (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (502) 781-5000

(Former name or former address, if changed since last report)

INFORMATION TO BE INCLUDED IN THE REPORT

ITEM 5. OTHER EVENTS

On December 27, 1993, Trans Financial Bancorp, Inc. ("Trans Financial") entered into a definitive Agreement and Plan of Reorganization and related Plan of Merger (collectively, the "Merger Agreement") with Peoples Financial Services, Inc., Cookeville, Tennessee, a bank and thrift holding company organized under the laws of Tennessee ("Peoples Financial"), pursuant to which Peoples Financial will merge with and into Trans Financial and each outstanding share of Peoples Financial will be exchanged for 5.5 shares of Trans Financial common stock, for aggregate consideration of approximately 1.3 million shares of Trans Financial common stock. Peoples Financial owns 100% of the outstanding capital stock of Peoples Bank & Trust of the Cumberlands, Cookeville, Tennessee, and Citizens Federal Savings Bank, Rockwood, Tennessee. At September 30, 1993, Peoples Financial reported total consolidated assets of approximately $120 million.

Upon consummation of the acquisition, Peoples Bank & Trust of the Cumberlands and Citizens Federal Savings Bank will be wholly-owned subsidiaries of Trans Financial. Consummation of the transactions contemplated by the Merger Agreement is conditioned on, among other things, the approval of the Merger Agreement by the shareholders of Peoples Financial and the receipt of all required regulatory approvals.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

A. Financial Statements

The following consolidated financial statements of Peoples Financial, notes related thereto and report of independent auditors thereon are filed as a part of this Report:

[1] Independent Auditors' Report;

[2] Consolidated Balance Sheets as of December 31, 1992 and 1991;

[3] Consolidated Statements of Earnings for the years ended December 31, 1992, 1991 and 1990;

[4] Consolidated Statements of Stockholders' Equity for the years ended December 31, 1992, 1991 and 1990;

[5] Consolidated Statements of Cash Flows for the years ended December 31, 1992, 1991 and 1990;

[6] Notes to Consolidated Financial Statements;

[7] Consolidated Balance Sheet as of September 30, 1993 (unaudited) and December 31, 1992 (unaudited);

[8] Consolidated Statements of Operations for the three months ended September 30, 1993 and 1992 (unaudited) and the nine months ended September 30, 1993 and 1992 (unaudited);

[9] Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 1993 and 1992 (unaudited);

[10] Consolidated Statements of Cash Flows for the nine months ended September 30, 1993 and 1992 (unaudited); and

[11] Notes to Consolidated Financial Statements.

The following consolidated financial statements of Citizens Federal Savings Bank, notes related thereto and report of independent auditors thereon are filed as a part of this Report:

[11] Independent Auditors' Report;

[12] Consolidated Balance Sheets as of December 31, 1992 and 1991;

[13] Consolidated Statements of Operations for the years ended December 31, 1992, 1991 and 1990;

[14] Consolidated Statements of Retained Earnings for the years ended December 31, 1992, 1991 and 1990;

[15] Consolidated Statements of Cash Flows for the years ended December 31, 1992, 1991 and 1990; and

[16] Notes to Consolidated Financial Statements.

B. Exhibits

The following exhibits are filed as a part of this report:

2(a) Agreement and Plan of Reorganization between Trans Financial Bancorp, Inc. and Peoples Financial Services, Inc. dated as of December 27, 1993.

2(b) Plan of Merger between Trans Financial Bancorp, Inc. and Peoples Financial Services, Inc. dated as of December 27, 1993.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Trans Financial Bancorp, Inc.

By: /s/ Douglas M. Lester

Douglas M. Lester

Title: President and Chief Executive Officer

Date: January 6, 1994

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Financial Statements

December 31, 1992 and 1991

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Peoples Financial Services, Inc.:

We have audited the accompanying consolidated balance sheets of Peoples Financial Services, Inc. and subsidiary as of December 31, 1992 and 1991, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1992. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Financial Services, Inc. and subsidiary as of December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1992, in conformity with generally accepted accounting principles.

KPMG Peat Marwick

February 4, 1993

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 1992 and 1991

<TABLE>
<CAPTION>

ASSETS		1992	1991
<S>	<C>		<C>
Cash and cash equivalents:			
Cash and due from banks	$	4,783,758	2,328,953
Federal funds sold		1,350,000	2,225,000
Total cash and cash equivalents		6,133,758	4,553,953
Securities (note 2):			
Investment (approximate market value of $14,442,000 and $10,430,000 at December 31, 1992 and 1991, respectively)		14,045,896	9,839,612
Available for sale (approximate market value of $1,533,000 at December 31, 1991)		-	1,500,000
Total securities		14,045,896	11,339,612
Loans receivable, net (note 3)		41,635,724	37,490,203
Accrued interest receivable		584,184	586,123
Premises and equipment, net (note 5)		1,692,198	1,245,079
Due from Resolution Trust Corporation (note 6)		-	2,507,853
Other assets (notes 6 and 8)		181,230	86,466
	$	64,272,990	57,809,289
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits (note 7)		56,441,121	51,190,992
Accrued interest payable		205,962	293,301
Current income taxes payable (note 8)		344,168	92,726
Accrued expenses and other liabilities		46,861	108,521
Total liabilities		57,038,112	51,685,540
Stockholders' equity (notes 6, 9, 10, and 11):			
Common stock, par value $10.00, authorized 1,000,000 shares; issued 205,552 shares		2,055,520	2,055,520
Capital surplus		3,083,280	3,083,280
Retained earnings		2,096,078	984,949
Total stockholders' equity		7,234,878	6,123,749
Commitments and contingencies (notes 4, 6, and 11)			
	$	64,272,990	57,809,289

</TABLE>

See accompanying notes to consolidated financial statements.

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Earnings

Years ended December 31, 1992, 1991 and 1990

<TABLE>
<CAPTION>

		1992	1991	1990
<S>	<C>		<C>	<C>
Interest income:				
Interest and fees on loans	$	4,407,436	3,741,589	2,275,543
Interest on securities		895,486	726,848	490,124
Interest on mortgage-backed securities		196,668	228,818	219,017
Interest on Federal funds sold		99,956	122,437	183,090
Interest on deposits with banks		-	-	36,739
Total interest income		5,599,546	4,819,692	3,204,513
Interest expense on deposits (note 7)		2,145,124	2,546,989	1,785,408

Net interest income	3,454,422	2,272,703	1,419,105
Provision for loan losses (note 3)	240,000	311,000	123,296
Net interest income after provision for loan losses	3,214,422	1,961,703	1,295,809
Other operating income:			
Service charges on deposit accounts	324,370	288,670	214,418
Other loan fees	40,442	33,685	19,350
Gain on sale of securities, net	28,868	17,808	3,374
Other operating income	58,347	92,784	64,840
Total other operating income	452,027	432,947	301,982
Other operating expenses:			
Compensation and benefits	844,201	655,182	443,992
Occupancy and equipment	248,532	215,270	177,793
Federal deposit insurance premiums	126,746	83,431	30,325
Data processing service fees	157,978	148,829	99,698
Stationery and supplies	114,293	89,248	69,368
Professional Fees	75,639	75,388	7,813
Postage	66,015	49,499	26,564
Other operating expenses	236,924	200,890	116,381
Total other operating expenses	1,870,328	1,517,737	971,934
Earnings before income taxes	1,796,121	876,913	625,857
Income tax expense (note 8)	684,992	336,685	238,083
Net earnings	$ 1,111,129	540,228	387,774
Per share data:			
Weighted average common shares outstanding	205,552	205,552	205,552
Earnings per common share	$ 5.41	2.63	1.89

</TABLE>
See accompanying notes to consolidated financial statements.

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1992, 1991 and 1990

<TABLE>
<CAPTION>

<S>	<C> COMMON STOCK	<C> CAPITAL SURPLUS	<C> RETAINED EARNINGS	<C> TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1989	$ 2,055,520	3,083,280	56,947	5,195,747
Net earnings for 1990	-	-	387,774	387,774
Balance at December 31, 1990	2,055,520	3,083,280	444,721	5,583,521
Net earnings for 1991	-	-	540,228	540,228
Balance at December 31, 1991	2,055,520	3,083,280	984,949	6,123,749
Net earnings for 1992	-	-	1,111,129	1,111,129
Balance at December 31, 1992	$ 2,055,520	3,083,280	2,096,078	7,234,878

</TABLE>

See accompanying notes to consolidated financial statements.

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 1992, 1991 and 1990

<TABLE>
<CAPTION>

	1992	1991	1990
Cash flows from operating activities:			
Net earnings	$ 1,111,129	540,228	387,774
Adjustments to reconcile net earnings to net cash and cash equivalents provided (used) by operating activities:			
Amortization of deferred loan origination fees	(18,247)	(17,566)	(20,095)
Amortization (accretion) of premiums or discounts on securities	1,260	3,656	(9,115)
Accretion of discount on loans acquired	(476,315)	(173,743)	-
Provision for loan losses	240,000	311,000	123,296
Gain on sale of securities, net	(28,868)	(17,808)	(3,374)
Depreciation and amortization of premises and equipment	118,401	108,795	104,400
Proceeds from sale of securities available for sale	4,536,809	-	-
Purchases of securities available for sale	(2,509,735)	-	-
Decrease (increase) in accrued interest receivable	1,939	(89,400)	(209,973)
Decrease (increase) in other assets	(94,764)	7,426	(35,900)
(Decrease) increase in accrued interest payable	(87,339)	4,792	54,780
(Decrease) increase in income taxes payable	251,442	(60,894)	127,759
Decrease in accrued expenses and other liabilities	(61,660)	(414,771)	(17,903)
Total adjustments	1,872,923	(338,513)	113,875
Net cash and cash equivalents provided by operating activities	2,984,052	201,715	501,649
Cash flows from investing activities:			
Net increase in loans	(3,890,959)	(3,278,538)	(8,017,650)
Principal payments on mortgage-backed securities	1,165,949	212,776	203,829
Proceeds from sales of mortgage-backed securities	-	1,389,846	1,087,585
Purchases of mortgage-backed securities	(2,668,334)	(1,285,700)	(1,911,120)
Purchases of investment securities	(4,703,365)	(4,407,891)	(6,744,297)
Proceeds from maturities and calls of investment securities	1,500,000	-	1,350,000
Proceeds from sales of investment securities	-	1,755,313	2,944,522
Purchases of premises and equipment	(565,520)	(176,638)	(74,273)
Net cash and cash equivalents received from purchase of assets and liabilities	2,507,853	4,798,807	-
Net cash and cash equivalents used by investing activities	(6,654,376)	(992,025)	(11,161,404)
Cash flows from financing activities:			
Net increase in deposits	5,250,129	1,789,803	10,199,805
Net increase (decrease) in cash and cash equivalents	1,579,805	999,493	(459,950)
Cash and cash equivalents at beginning of period	4,553,953	3,554,460	4,014,410
Cash and cash equivalents at end of period	$ 6,133,758	4,553,953	3,554,460

</TABLE>

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued

<TABLE>
<CAPTION>

	1992	1991	1990
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 767,658	1,572,965	1,225,079
Income taxes	451,519	284,042	105,091
Supplemental disclosures of noncash investing			

and financing activities:			
Foreclosures of loans during the period	$ -	70,396	-
Interest credited to deposits	1,670,766	1,262,533	794,058
Investment securities transferred to securities available for sale	506,532	1,500,000	-

</TABLE>

On May 31, 1991, the Company purchased certain assets of Tennessee Federal Savings Bank in conjunction with the purchase, liabilities were assumed as follows (see note 6):

<TABLE>

<S>	<C>
Fair value of assets acquired	$ 15,885,594
Due from Resolution Trust Corporation	2,902,406
Liabilities assumed	$ 18,788,000

</TABLE>

See accompanying notes to consolidated financial statements.

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1992 and 1991

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Peoples Financial Services, Inc. (the "Company") was organized in March, 1990, for the purpose of becoming a holding company for Peoples Bank and Trust of the Cumberlands (the "Bank"). The Bank is a state chartered bank organized in June 1988. The accounting and reporting policies of Peoples Financial Services, Inc. and subsidiary conform to generally accepted accounting principles. The following is a description of the more significant of those policies which the Company follows in preparing and presenting its consolidated financial statements.

(a) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Peoples Financial Services, Inc. and Peoples Bank and Trust of the Cumberlands, its wholly-owned subsidiary. All significant intercompany transactions and balances are eliminated in consolidation.

(b) CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include cash, interest-bearing deposits in other banks, and federal funds sold. Generally federal funds are sold for one-day periods.

Cash and due from banks include legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve Bank and other banks in the amount of $204,000 and $67,000 at December 31, 1992 and 1991, respectively.

(c) SECURITIES

Securities are classified as investment securities or securities available for sale and primarily consist of U.S. Treasury securities, obligations of U.S. Government agencies and mortgage-backed securities. Mortgage-backed securities are comprised substantially of participating interests in pools of long-term first mortgage loans originated and serviced by the issuers of the securities.

Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold securities until maturity, they are classified as investments and carried at amortized historical cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale and carried at the lower of cost or market value. Securities held for indefinite periods of time include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and resultant prepayment risk changes.

Premiums and discounts are amortized using the straight-line method, which approximates the interest method, over the remaining period to contractual maturity, adjusted for prepayments. Gains and losses on the sale of securities available for sale are determined using the specific identification method and are included in other operating income, including adjustments to lower of aggregate cost or market.

(Continued)

(d) LOANS RECEIVABLE

Loans receivable are recorded at the unpaid principal balance owed by borrowers less deferrals, unearned interest, the allowance for loan losses and purchase discounts. Discounts on loans purchased are accreted to interest income using the interest method over the remaining period to contractual maturity, adjusted for prepayments. Unearned income on consumer loans is recognized over the lives of the loans using the interest method.

The allowance for loan losses is based upon analyses of the loans receivable portfolio and is maintained at a level considered adequate by management to provide for probable loan losses. The analyses include management's consideration of such factors as economic conditions, loan portfolio characteristics, prior loan loss experiences, and results of reviews of the portfolio. The allowance is increased by provisions charged against income and reduced by net charge-offs. While management believes it has established the allowance for possible loan losses in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current economic environment, there can be no assurance that in the future the Bank's regulators or its economic environment will not require further increases in the allowance.

Loans which management has doubts as to the borrower's ability to repay principal or interest are placed on nonaccrual status. Interest payments received on nonaccrual loans are recognized as income on a cash basis.

(e) LOAN ORIGINATION AND COMMITMENT FEES AND RELATED COSTS

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized in income using the interest method, over the contractual lives of the loans, adjusted for estimated prepayments based on the Bank's historical prepayment experience. Commitment fees and costs relating to commitments whose likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment of yield. Deferred fees relating to loans on nonaccrual status are not amortized.

(f) INCOME TAXES

Deferred income taxes are recognized for income and expense items that are reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable to the year of the calculation.

In February 1992, the Financial Accounting Standards Board (FASB) issued SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires a change from the deferred method to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is more likely than not to be realized.

(Continued)

The Company will adopt SFAS No. 109 in the first quarter of 1993. Upon adoption, the principles of this statement may be applied retroactively through restatement of previously issued statements, or on prospective basis through a cumulative effect of change in accounting principle. It is estimated that adoption of SFAS No. 109 will result in an incremental increase in the net deferred tax asset of approximately $80,000, subject to any valuation allowance, the precise amount of which has not been determined. It is expected that this amount will be reported separately as the cumulative effect of a change in accounting principle in the consolidated statement of earnings and will result in an increase in net earnings for the year ending December 31, 1993.

(G) PREMISES AND EQUIPMENT

Premises and equipment are carried at cost, less accumulated depreciation and amortization. These assets are depreciated using accelerated methods under the guidelines of the Internal Revenue Service. The difference between depreciation calculated using the accelerated method and that under generally accepted accounting principles is insignificant.

(2) SECURITIES

THE AMORTIZED COST AND ESTIMATED MARKET VALUES OF INVESTMENT SECURITIES ARE AS FOLLOWS:

<TABLE>
<CAPTION>

	DECEMBER 31, 1992			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
<S>	<C>	<C>	<C>	<C>
U.S. Treasury securities	$ 152,935	-	(1,935)	151,000
U.S. Government agency securities	10,385,725	412,900	(70,625)	10,728,000
Mortgage-backed securities	3,417,236	48,225	(3,461)	3,462,000
Other securities	90,000	11,000	-	101,000

Total investment securities	$	14,045,896	472,125	(76,021)	14,442,000

		DECEMBER 31, 1991			
		AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
U.S. Government agency securities	$	7,858,762	484,238	-	8,343,000
Mortgage-backed securities		1,890,850	100,150	-	1,991,000
Other securities		90,000	6,000	-	96,000
Total investment securities	$	9,839,612	590,388	-	10,430,000

</TABLE>

(Continued)

The carrying values and estimated market values of securities available for sale are as follows:

<TABLE>
<CAPTION>

		DECEMBER 31, 1991			
		CARRYING VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
<S>	<C>		<C>	<C>	<C>
U.S. Government agency securities available for sale	$	1,500,000	33,000	-	1,533,000

</TABLE>

The amortized cost and estimated market value of investment debt securities at December 31, 1992, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<TABLE>
<CAPTION>

		AMORTIZED COST	ESTIMATED MARKET VALUE
<S>	<C>		<C>
U.S. Treasury, government agency and other securities:			
Maturing within one to five years		2,804,430	2,896,000
Maturing within five to ten years		7,824,230	8,084,000
		10,628,660	10,980,000
Mortgage-backed securities		3,417,236	3,462,000
Totals	$	14,045,896	14,442,000

</TABLE>

Proceeds from sales of debt securities during 1992 were $4,536,809. Gross gains of $28,868 were realized on those sales. Proceeds from sales of debt securities during 1991 were $3,145,159. Gross losses of $985 and gross gains of $18,793 were realized on those sales. Proceeds from sales of debt securities during 1990 were $4,032,107. Gross losses of $14,876 and gross gains of $18,250 were realized on those sales.

Certain securities with an amortized cost of approximately $3,000,000 at December 31, 1992 and $2,750,000 at December 31, 1991, were pledged to secure certain savings deposits.

(Continued)

(3) LOANS RECEIVABLE

Loans receivable at December 31, are summarized as follows:

<TABLE>
<CAPTION>

	1992	1991
Commercial	$ 21,403,108	16,026,858
Real estate mortgage	8,287,117	11,118,296
Consumer	14,257,831	13,060,674
	43,948,056	40,205,828
Less:		
Allowance for loan losses	(573,128)	(453,121)
Discount on loans purchased	(1,425,908)	(1,880,735)
Unearned discounts	(297,594)	(347,820)
Net deferred loan origination fees	(15,702)	(33,949)
	$ 41,635,724	37,490,203

</TABLE>

Activity in the allowance for loan losses is summarized as follows:

<TABLE>
<CAPTION>

	1992	1991	1990
Balance at beginning of period	$ 453,121	245,000	157,500
Provision charged to income	240,000	311,000	123,296
Loan losses, net:			
Loans charged off	(129,575)	(106,790)	(37,484)
Recoveries	9,582	3,911	1,688
Net loan losses	(119,993)	(102,879)	(35,796)
Balance at end of period	$ 573,128	453,121	245,000

</TABLE>

At December 31, 1992 and 1991, loans on which the accrual of interest had been discontinued totaled $98,000 and $71,074, respectively. During the years ended December 31, 1992 and 1991, gross interest income that would have been recorded on loans accounted for on a nonaccrual basis if the loans had been current throughout the periods, and the amount of interest income that was recorded for such loans during these periods was not material. There were no commitments to lend additional funds to borrowers on nonaccrual status.

In the ordinary course of business, the Bank makes loans to directors and executive officers and their related interests. Such loans were made on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other borrowers and did not involve more than the normal risk of collectibility or present other unfavorable features. Loans to directors and executive officers and their related interests are as follows:

<TABLE>

Balance at December 31, 1990	$ 2,451,604

Advances		1,861,509
Repayments		(2,094,133)
Decrease due to resignation of director		(452,959)
Balance at December 31, 1991		1,766,021
Advances		2,426,617
Repayments		(2,319,318)
Balance at December 31, 1992	$	1,873,320

</TABLE>

(Continued)

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(4) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contractual notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Outstanding standby letters of credit as of December 31, 1992 and 1991, amounted to $142,000 and $190,000, respectively. Outstanding commitments to lend at fixed and variable rates were $530,000 and $623,000 at December 31, 1992. Outstanding commitments to lend at variable rates were $1,600,000 at December 31, 1991. The fixed-rate commitments at December 31, 1992 ranged from 6.5% To 9.0%. Undisbursed advances on customer lines of credit were $4,275,000 at December 31, 1992 and $3,700,000 at December 31, 1991. The outstanding standby letters of credit, commitments and undisbursed customer lines of credit generally have terms of one year or less. The Bank does not anticipate any losses as a result of these transactions.

Most of the Company's business activity is with customers located within the state of Tennessee. A majority of the loans are secured by residential or commercial real estate or other personal property. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. The Company grants residential, consumer, and commercial loans to customers primarily throughout east Tennessee.

(CONTINUED)

(5) PREMISES AND EQUIPMENT

Premises and equipment, less accumulated depreciation at December 31, are summarized as follows:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>
Land	$ 592,233	452,233
Buildings	859,734	605,109
Land improvements	58,836	56,186
Furniture, fixtures, and equipment	597,091	435,116
Automobile	5,000	-
	2,112,894	1,548,644
Less accumulated depreciation	420,696	303,565
	$1,692,198	1,245,079

</TABLE>

(6) ACQUISITIONS

On February 1, 1993, the Company sold 31,225 shares of newly-issued common stock in connection with the acquisition of Citizens Federal Savings Bank, Rockwood, Tennessee, (CFSB) pursuant to a definitive agreement entered into by the Company and CFSB in May, 1992. In connection with the acquisition, the Company and CFSB adopted a Plan of Conversion/Acquisition (Plan) whereby CFSB was converted from a federally-chartered mutual institution to a federally-chartered stock institution. Pursuant to the Plan, shares of capital stock of the Company were offered initially for subscription to eligible members of CFSB and to certain other persons as of specified dates and subject to various subscription priorities as provided in the Plan. The capital stock was offered at a price determined by the Company's Board of Directors based upon an appraisal made by an independent appraisal firm. The offering raised gross proceeds of approximately $1,405,000, all of which was used in the acquisition of CFSB. This business combination will be accounted for as a pooling-of-interests and, accordingly, the Company's historical financial statements presented in future reports will be restated to include the accounts and results of operations of CFSB.

In connection with the offering the Company filed a registration statement with the Securities and Exchange Commission. As of December 31, 1992, the Company had incurred costs of $96,856 associated with the offering, which are included in other assets. All costs incurred associated with the sale of stock and acquisition were deferred and deducted from the proceeds of the sale of stock.

The following unaudited pro forma data summarizes the combined results of operations of the Company and CFSB as if the combination had been consummated on December 31, 1992.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1992	1991	1990
<S>	<C>	<C>	<C>
Net interest income	$ 4,793,760	3,437,359	2,424,185
Net interest income after provision for loan losses	4,455,324	2,967,850	2,149,560
Net earnings	1,228,461	577,349	409,925
Earnings per share	$ 4.69	2.28	1.64

</TABLE>

Earnings per share is based upon the number of shares of the Company's stock outstanding for each period and the earnings of the Company. Earnings per share will include the earnings from CFSB beginning from February 1, 1993, the date of conversion of CFSB to a stock institution.

(Continued)

On May 31, 1991, the Company's Bank subsidiary acquired and assumed from the Resolution Trust Corporation (RTC) certain assets and liabilities of the former Tennessee Federal Savings Bank, Bartlett, Tennessee (TFSB). The Bank paid to the RTC $414,000 for the right to acquire and assume certain assets and liabilities of TFSB. The aggregate amount of liabilities assumed approximated $18,788,000 and the assets acquired approximated $15,886,000, including $11,450,000 of net loans. Also acquired was $2,829,000 in cash equivalents and $1,575,000 in federal funds sold. As part of the purchase and assumption agreement with the RTC, the Bank's excess in the fair value of liabilities assumed from the RTC over the fair value of assets acquired is funded by the RTC. The Bank has recorded a receivable of $2,507,853 at December 31, 1991 due from the RTC to recognize the net liabilities assumed and other miscellaneous items due from the RTC. Since the RTC paid cash to the Bank for the difference between the fair value of liabilities and assets, no goodwill was recorded in connection with this acquisition. Discount recorded on loans amounted to $2,053,000. The discount is being accreted to yield a constant rate over the expected life of the loans acquired. The amount due from the RTC was received in 1992 and included $400,000 paid by the RTC to the Bank as consideration for a settlement and release agreement between the RTC and the Bank with respect to the purchase and assumption agreement.

The transaction was accounted for as a purchase whereby assets acquired and liabilities assumed were recorded at their estimated fair market value as of the acquisition date. Results of operations of the acquired assets and liabilities have been included in the Company's consolidated statements of earnings since acquisition.

(7) DEPOSITS

Deposits at December 31, are summarized as follows:

<TABLE>
<CAPTION>

	1992	1991
<S>	<C>	<C>
Noninterest bearing demand	$ 8,245,238	4,236,509

NOW accounts	6,515,722	5,030,690
Money Market accounts	3,417,311	3,292,310
Regular savings	7,530,218	5,178,973
Certificates of deposit of $100,000 or more	5,651,855	5,732,998
Other certificates of deposit	25,080,777	27,719,512
	----------	----------
	$56,441,121	51,190,992
	===========	==========

</TABLE>

Interest expense on deposits is summarized as follows:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
NOW	$ 171,156	144,906	89,652
Money market	165,076	94,878	42,273
Regular savings	354,481	285,040	195,817
Certificates of deposit of $100,000 or more	215,000	421,384	553,092
Other certificates of deposit	1,239,411	1,600,781	904,574
	---------	---------	---------
	$2,145,124	2,546,989	1,785,408
	=========	=========	=========

</TABLE>

(8) INCOME TAXES

Income tax expense is summarized as follows:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
Federal:			
Current	$ 590,750	289,151	219,592
Deferred	(17,201)	(10,887)	(19,972)
	--------	--------	-------
	573,549	278,264	199,620
State current	111,443	58,421	38,463
	--------	--------	-------
Total	$ 684,992	336,685	238,083
	========	========	=======

</TABLE>

Deferred income taxes included in other assets result from timing differences in the recognition of income and expense for tax and financial statement purposes. Included in other assets are deferred income tax benefits of $48,060, $30,859 and $19,972 at December 31, 1992, 1991 and 1990, respectively. The sources of these timing differences and their tax effects are as follows:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
Loan loss provision in excess of amount allowed for tax purposes	$ (22,109)	(13,151)	(36,986)
Other, net	4,908	2,264	17,014
	--------	--------	-------
Deferred income tax benefit	$ (17,201)	(10,887)	(19,972)
	========	=======	========

</TABLE>

The actual income tax expense amounts differ from the "expected" tax expense as follows:

<TABLE>

		1992	1991	1990
Computed "expected" income tax expense	$	610,681	298,150	212,791
Increases (reductions) in taxes resulting from:				
State income tax, net of Federal income tax effect		73,552	38,558	25,386
Other, net		759	(23)	(94)
Total income tax expense	$	684,992	336,685	238,083

</TABLE>

(9) RESTRICTIONS ON DIVIDENDS

Dividends paid by the Bank are the primary source of funds available for payment of normal operating expenses of the Company. Applicable Tennessee statutes and regulations impose restrictions on the amounts that may be declared by a subsidiary bank. Under the most restrictive of the statutes and regulations, the subsidiary bank could declare dividends up to approximately $3,700,000 and $2,900,000 at December 31, 1992 and 1991, respectively.

(Continued)

(10) CAPITAL REQUIREMENTS

Regulatory capital guidelines of the Federal Reserve Board for bank holding companies which were in effect at December 31, 1992, required a minimum of 5.5 percent for a primary capital ratio (essentially equity plus the allowance for loan losses), 6.0 percent for a total capital ratio (primary capital plus qualifying debt), and 8.0 percent risk-based capital. The risk-based guideline is based on the assignment of risk weights to assets and off-balance sheet items depending on the level of credit risk associated with them. The Company's capital ratios were in excess of the minimum regulatory requirements at December 31, 1992.

(11) STOCK OPTIONS

A senior officer of the Company, as part of his employment contract, has the option to purchase 2,000 shares of common stock at the original issue price of $25 per share. This option may be exercised after the officer completes ten years of continuous service with the Company. The option may not be exercised before 1998.

(12) PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed financial information of Peoples Financial Services, Inc. (Parent Company organized in March, 1990) is as follows:

<TABLE>
<CAPTION>

BALANCE SHEETS

ASSETS	1992	1991
Cash	$ 2,266	11,488
Investment in bank subsidiary	7,222,766	6,097,828
Other assets	9,846	14,433
Total assets	$ 7,234,878	6,123,749

STOCKHOLDERS' EQUITY		
Common stock	$ 2,055,520	2,055,520
Capital surplus	3,083,280	3,083,280
Retained earnings	2,096,078	984,949
Total stockholders' equity	$ 7,234,878	6,123,749

</TABLE>

PEOPLES FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

STATEMENTS OF EARNINGS	1992	1991	1990
<S>	<C>	<C>	<C>
Income:			
Dividends from subsidiary	$ -	10,000	25,000
Expenses:			
Miscellaneous operating expenses	13,809	5,984	3,096
Income (loss) before equity in undistributed earnings of subsidiary	(13,809)	4,016	21,904
Equity in undistributed earnings of subsidiary	1,124,938	536,212	365,870
Net earnings	$ 1,111,129	540,228	387,774

STATEMENTS OF CASH FLOWS	1992	1991	1990
Cash flows from operating activities:			
Net earnings	$ 1,111,129	540,228	387,774
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Undistributed earnings of subsidiary	(1,124,938)	(536,212)	(365,870)
Decrease in other assets	-	1,238	(22,932)
Amortization of deferred organization cost	4,587	4,587	2,675
Net cash (used) provided by operating activities	(9,222)	9,841	1,647
Net (decrease) increase in cash and cash equivalents	(9,222)	9,841	1,647
Cash and cash equivalents at beginning of period	11,488	1,647	-
Cash and cash equivalents at end of period	$ 2,266	11,488	1,647

</TABLE>

PEOPLES FINANCIAL SERVICES, INC.
Consolidated Balance Sheets at September 30, 1993 and December 31, 1992
(unaudited)
<TABLE>
<CAPTION>

	Sept. 30, 1993	Dec. 31, 1992
ASSETS		
<S>	<C>	<C>
Cash and cash equivalents:		
Cash and due from banks	$ 4,530,703	$ 5,364,730

Interest-earning deposits	988,908	2,863,642
Federal funds sold	5,011,028	1,480,282
Total cash and cash equivalents	10,530,639	9,708,654
Securities:		
Investments (approximate market value of $33,522,423 at Sept. 30, 1993; $32,314,000 at Dec. 31, 1992	32,805,163	31,420,127
Investments available for sale (market value of $3,911,943 at September 30, 1993)	3,778,440	-
Total securities	36,583,603	31,420,127
Loans receivable, net	66,085,352	65,321,045
Loans held for sale, at book value which approximates market value	1,868,297	758,935
Accrued interest receivable	1,027,326	923,341
FHLB - Cincinnati stock	244,000	268,600
Real estate owned, net	875,082	892,535
Premises and equipment, net	2,331,263	2,355,461
Other assets	372,698	561,160
TOTAL ASSETS	$119,918,260	$112,209,858
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$107,521,482	$102,124,650
Advance payments by borrowers for property taxes and insurance	402,132	107,447
Accrued interest payable	331,920	239,579
Accrued income taxes payable	148,540	344,168
Accrued expenses and other liabilities	278,300	247,995
TOTAL LIABILITIES	108,682,374	103,063,839
STOCKHOLDERS' EQUITY:		
Common Stock, par value $10, authorized 1,000,000 shares; issued 236,777 at September 30, 1993 and 205,552 shares at December 31, 1992	2,367,770	2,055,520
Capital Surplus	3,665,315	3,083,280
Retained earnings	5,202,801	4,007,219
TOTAL STOCKHOLDERS' EQUITY	11,235,886	9,146,019
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$119,918,260	$112,209,858

</TABLE>
See accompanying notes to consolidated financial statements.

PEOPLES FINANCIAL SERVICES, INC.
Consolidated Statement of Operations
(unaudited)
<TABLE>
<CAPTION>

<S>	Three months ended September 30, 1993 <C>	Three months ended September 30, 1992 <C>	Nine months ended September 30, 1993 <C>	Nine months ended September 30, 1992 <C>
Interest Income:				
Interest and fees on loans	$1,689,363	$1,627,791	$5,010,825	$5,076,213
Interest on mortgage-backed securities	162,983	178,216	539,929	429,462
Interest on deposits with banks	7,214	11,636	24,937	30,106
Interest on securities and federal funds sold	443,590	405,658	1,243,119	1,164,438
Total interest income	2,303,150	2,223,301	6,818,810	6,700,219
Interest expense	969,195	1,092,944	2,954,935	3,405,135
Net interest income	1,333,955	1,130,357	3,863,875	3,295,084
Provision for loan losses	6,666	123,420	157,166	284,233
Net interest income after provision for loan losses	1,327,289	1,006,937	3,706,709	3,010,851

Non-interest income:				
Service charges on deposits	135,189	113,653	388,666	311,123
Gain on sale of loans receivable	89,603	79,423	153,638	61,093
Gain (loss) on call and sale of investment securities	25,875	(96,286)	53,451	(48,561)
Other loan fees	48,714	42,104	132,270	131,983
Other operating income	29,404	25,547	130,854	70,640
Total non-interest income	328,785	164,441	858,879	526,278
Non-interest expenses:				
Compensation and benefits	395,334	305,319	1,130,859	877,100
Occupancy and equipment	130,019	123,309	363,507	291,327
Federal deposit insurance premiums	76,184	61,223	213,648	182,771
Data processing servicing fees	79,678	70,213	217,787	212,170
Professional fees	22,142	9,316	111,886	82,729
Stationery and supplies	45,028	37,636	138,120	98,385
Provision for loss on investments held for sale	-	-	-	166,270
Other	180,580	(39,768)	441,673	135,872
Total non-interest expenses	928,965	567,248	2,617,480	2,046,624
Earnings before income taxes	727,108	604,130	1,948,108	1,490,505
Income tax expense	299,025	203,937	779,850	562,540
Earnings before cumulative effect of change in accounting principle	428,083	400,193	1,168,258	927,965
Cumulative effect of change in accounting principle	-	-	27,324	-
Net earnings	$ 428,083	$ 400,193	$1,195,582	$ 927,965
Per share data:				
Weighted average shares outstanding	233,308	205,552	233,308	205,552
Net earnings per share (1)	$1.83	$1.95	$5.01	$4.51

- ------------------
</TABLE>

(1) Earnings per share includes the earnings of Citizens Federal beginning February 1, 1993, the date of the conversion of Citizens Federal to a stock institution.

See accompanying notes to consolidated financial statements.

Peoples Financial Services, Inc.
Consolidated Statements of Stockholders' Equity
For the Nine Months Ended September 30, 1993 and 1992
(unaudited)

<TABLE>
<CAPTION>

<S>	- Common Stock- Shares <C>	Amount <C>	Capital Surplus <C>	Retained Earnings <C>	Total <C>
Balance at December 31,1992	205,552	$2,055,520	$3,083,280	$4,007,219	$9,146,019
Net income for the nine months ended September 30, 1993	-	-	-	1,195,582	1,195,582
Shares issued in connection with acquisition	31,225	312,250	582,035	-	894,285
Balance at September 30, 1993	236,777	$2,367,770	$3,665,315	$5,202,801	$11,235,886

Balance at

December 31,1991	205,552	$2,055,520	$3,083,280	$2,779,832	$7,918,632
Net income for the nine months ended September 30,1992	-	-	-	927,965	927,965
Balance at September 30, 1992	205,552	$2,055,520	$3,083,280	$3,707,797	$8,846,597

</TABLE>

See accompanying notes to consolidated financial statements.

PEOPLES FINANCIAL SERVICES, INC.
Consolidated Statements of Cash Flows
(Unaudited)

<TABLE>
<CAPTION>

Increase (decrease) in cash and due from banks	Nine Months Ended September 30, 1993	1992
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	$1,195,582	927,965
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation and amortization - premises and equipment	228,409	129,228
Amortization of deferred loan origination points	(8,694)	33,187
Amortization (accretion) of premiums or discounts on securities	(147,311)	(34,623)
Accretion of discount on loans acquired	(527,901)	(464,221)
Provision for loan losses	157,166	284,233
Mortagage loans originated for resale	(8,270,676)	(8,379,440)
Proceeds from sale of loans	7,314,952	8,379,440
(Gain) loss on sale of securities	53,451	(48,561)
Gain on sale of loans	(153,638)	(61,093)
Proceeds from sale of real estate owned	17,453	-
Purchases of securities available for sale	(5,535,489)	(3,925,344)
Principal payments and disposals of securities available for sale	1,703,598	4,548,070
Provision for loss on securities available for sale	-	166,270
Repayment of amount due from Resolution Trust Corporation	-	2,507,853
Decrease in other assets	84,477	283,360
Increase in other liabilities	221,703	97,564
Net cash provided (used) by operating activities	(3,666,918)	4,443,888
Cash flows from investing activities:		
Increase in federal funds sold	(3,530,746)	(4,104,758)
(Increase) decrease in interest-bearing deposits in financial institutions	1,874,734	(969,867)
Proceeds from maturities and redemptions of investment securites	10,737,080	3,786,058
Proceeds form sale of investment securities	1,799,675	9,070,572
Purchases of investment securities	(13,774,480)	(16,047,214)
Redemptions of Federal Home Loan Bank stock	24,600	8,400
Net increase in portfolio loans	(384,878)	191,301
Purchases of premises and equipment	(204,211)	(560,723)
Net cash used by investing activities	(3,458,226)	(8,626,231)
Cash flows from financing activities:		
Proceeds form sale of common stock	894,285	-
Increase in deposits	5,396,832	6,919,491
Principal payments on bonds payable	-	(1,368,000)
Net cash provided by financing activities	6,291,117	5,551,491
Net increase (decrease) in cash	(834,027)	1,369,148
Cash and due from banks at beginning of period	5,364,730	2,803,660
Cash and due from banks at end of period	$4,530,703	4,172,808
Cash paid during period for:		

Interest	$2,862,594	3,399,798
Income taxes	1,481,650	489,419
	==========	=========
Non-cash activities:		
Real estate acquired in settlement of loans	$ 75,201	-
	==========	=========

</TABLE>

Notes to Unaudited Consolidated Financial Statements

(1.) Peoples Financial Services, Inc.

Peoples Financial Services, Inc. (the Company), chartered by the state of Tennessee, was formed in 1989 for the purpose of becoming a holding company for Peoples Bank & Trust of the Cumberlands (Peoples). Peoples is a state chartered bank organized in June, 1988. On February 1, 1993, the Company consummated the acquisition of Citizens Federal Savings Bank (CFSB) of Rockwood, Tennessee, upon its conversion from a federal mutual to a federal stock savings bank, resulting in CFSB being held as a wholly owned subsidiary of the Company. The acquisition of CFSB was accounted for as a pooling of interest. See note 4.

(2.) Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and therefore do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and statement of cash flows in conformity with generally accepted accounting principles. However, all adjustments which are, in the opinion of management, necessary for the fair presentation of the interim financial statements have been included. All such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the results which may be expected for the entire year.

(3.) Earnings per Share

Earnings per share is calculated by dividing earnings of the company by the weighted-average common shares outstanding of the company's stock. Earnings per share includes the earnings from CFSB beginning February 1, 1993, the date of conversion of CFSB to a stock institution.

The following is a calculation of weighted-average shares:

<TABLE>
<CAPTION>

<S>	<C>
Shares outstanding at December 31, 1992	205,552
Weighted-average common shares issued February 1, 1993	27,756
Weighted-average common shares	233,308

</TABLE>

(4.) Acquisition

On February 1, 1993, the Company sold 31,225 shares of newly-issued common stock at $45 per share in connection with the acquisition of CFSB pursuant to a definitive agreement entered into by the Company and CFSB in May, 1992. In connection with the acquisition, the Company and CFSB adopted a Plan of Conversion/Acquisition (Plan) whereby CFSB was converted from a federally-chartered mutual institution to a federally-chartered stock institution. Pursuant to the Plan, shares of capital stock of the Company were offered initially for subscription to eligible members of CFSB and to certain other persons as of specified dates and subject to various subscription priorities as provided in the Plan. The capital stock was offered at a price determined by the Company's Board of Directors based upon an appraisal made by an independent appraisal firm. All of the gross proceeds raised in the offering were used in the acquisition of CFSB. This business combination has been accounted for as a pooling-of-interests and, accordingly, the Company's historical consolidated financial statements for the periods prior to the combination have been restated to include the accounts and results of operations of CFSB.

In connection with the offering, the Company filed a registration statement with the Securities and Exchange Commission. The offering raised gross proceeds of $1,405,125. All costs incurred associated with the sale of stock were deferred and deducted from the proceeds of the sale of the stock and totalled $510,840. Costs associated with the acquisition in the amount of $30,248 were charged to operations during the year ended December 31, 1992.

The results of operations previously reported by the separate enterprises and the combined amounts presented in the accompanying consolidated financial statements are summarized below.

<TABLE>
<CAPTION>

	One Month Ended January 31, 1993 (unaudited)	Years ended December 31, 1992	1991
<S>	<C>	<C>	<C>
Net interest income:			
Peoples Financial	$277,494	$3,454,422	$2,272,703
CFSB	124,437	1,279,117	1,164,656
Combined	401,931	4,733,539	3,437,359
Net interest income after provision for loan losses:			

</TABLE>

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>
Peoples Financial	257,494	3,214,422	1,961,703
C F S B	116,937	1,255,681	1,006,147
Combined	374,431	4,470,103	2,967,850
Net earnings:			
Peoples Financial	81,162	1,111,129	540,228
C F S B	26,235	117,332	37,121
Combined	107,397	1,228,461	577,349

</TABLE>

For the purpose of granting eligible members of CFSB a priority in the unlikely event of future liquidation, CFSB at the time of conversion established a liquidation account equal to its retained earnings as of the date of the latest consolidated balance sheet used in the Company's final conversion prospectus. In the event of future liquidation of the converted CFSB (and only in such event), an eligible deposit account holder who continues to maintain his deposit account shall be entitled to receive a distribution from the liquidation account in the proportionate amount of the adjusted balance of deposit accounts held at that time before any liquidation distributions may be made with respect to capital stock. After the conversion, no dividends may be paid to the stockholder of CFSB (Peoples Financial) if such dividends reduce retained earnings of CFSB below the amount required for the liquidation account.

(5.) Loans Receivable

Loans receivable at September 30, 1993 and December 31, 1992 are summarized as follows:

<TABLE>
<CAPTION> <S> <C> <C>

	Sept. 30,	Dec. 31,

	1993	1992
Commercial	21,362,000	$21,766,000
Real estate mortgage	40,148,000	26,871,000
Consumer	8,909,000	20,194,000
Sub-total	70,419,000	$68,831,000

</TABLE>

<TABLE>
<CAPTION>

<S>	<C>	<C>
Less:		
Allowance for loan losses	$1,075,000	$ 922,000
Discount on loans purchased	1,059,000	1,425,000
Unearned discounts	304,000	373,000
Net deferred loan origination fees	27,000	31,000
Loans receivable, net	$67,954,000	$66,080,000

</TABLE>

Activity in the allowance for loan losses is summarized as follows:

<TABLE>
<CAPTION>

	Sept. 30, 1993	Dec. 31, 1992
<S>	<C>	<C>
Balance at beginning of period	$ 922,000	$835,000
Provision charged to income	157,000	263,000
Loan losses, net:		
Loans charged off	-21,000	-190,000
Recoveries	17,000	14,000
Net loan losses	-4,000	-176,000
Balance at end of period	$1,075,000	$922,000

</TABLE>

At September 30, 1993 and December 31, 1992, loans on which the accrual of interest had been discontinued totaled $160,718 and $161,429, respectively. During the nine months ended September 30, 1993 and the fiscal year ended December 31, 1992, gross interest income that would have been recorded on loans accounted for on a nonaccrual basis if the loans had been current throughout the periods, and the amount of interest income that was recorded for such loans during these periods, was not material. There were no commitments to lend additional funds to borrowers on nonaccrual status.

(6.) Income Taxes

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes," which requires a change from the deferred method of accounting for income taxes of Accounting Principles Board Opinion No. 11, to the asset and liability method of accounting for income taxes. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between

financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The cumulative amount, net of a valuation allowance in the amount of $44,489, is $27,324, or $.12 per share, and is shown as the cumulative effect of change in accounting principle in the consolidated income statements. Prior years' financial statements have not been restated to apply the provisions of SFAS No. 109.

At September 30, 1993, deferred tax assets, net of a valuation allowance of $44,489, were $175,086, and deferred tax liabilities were $9,164. The Company believes that the deferred tax assets, net of the valuation allowance, will be realized.

CITIZENS FEDERAL SAVINGS BANK
AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Consolidated Financial Statements

December 31, 1992 and 1991

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Citizens Federal Savings Bank
Rockwood, Tennessee

We have audited the accompanying consolidated Balance Sheets Of Citizens Federal Savings Bank and subsidiaries (the Bank) as of December 31, 1992 and 1991, and the related consolidated statements of operations, retained earnings, and cash flows for each of the years in the three-year period then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the overall accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 16, the Bank entered into a supervisory agreement with the Office of Thrift Supervision in 1991. To comply with the agreement's requirement to increase regulatory capital ratios, the Bank entered into an acquisition agreement under which the Bank would convert from mutual to stock form and be acquired by Peoples Financial Services, Inc., as discussed in note 15. The conversion and acquisition was consummated on February 1, 1993, and resulted in an increase of capital above the requirement set forth in the supervisory agreement. Failure to comply with the remaining provisions of the agreement could expose the Bank to possible further regulatory sanctions and enforcement actions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Federal Savings Bank and subsidiaries at December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the years in the three-year period then ended, in conformity with generally accepted accounting principles.

KPMG Peat Marwick

February 26, 1993

CITIZENS FEDERAL SAVINGS BANK AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Consolidated Balance Sheets

December 31, 1992 and 1991

<TABLE>
<CAPTION>

ASSETS	1992	1991
Cash	$ 580,972	474,707
Interest bearing deposits in other banks	2,993,924	1,022,373
Investments held for sale (note 17)	-	2,232,661
Investment securities (note 2):		
U.S. Government and agency obligations, at amortized cost (approximate market value of $11,148,000 in 1992 and $6,219,000 in 1991)	11,012,304	6,164,660
Mortgage-backed securities (estimated market value of $6,724,000 in 1992 and $9,138,000 in 1991) (notes 3 and 9)	6,361,927	8,800,812
Loans held for sale (note 4)	758,935	-
Loans receivable, net (note 4)	23,685,321	23,748,624
Accrued interest receivable, net:		
Loans	141,311	215,512
Investments	149,510	71,630
Mortgage-backed securities	48,336	38,864
Funds held by trustee (note 9)	-	614,510
Real estate owned, net (note 5)	892,535	952,297
Office properties and equipment (note 7)	663,263	678,444
Investment in Federal Home Loan Bank stock, at cost	268,600	271,200
Other assets	379,930	186,468
	$47,936,868	45,472,762
LIABILITIES AND RETAINED EARNINGS		
Liabilities:		
Savings deposits (note 8)	45,683,529	41,686,576
Bonds payable (note 9)	-	1,368,000
Accrued interest payable	33,617	130,194
Advance payments by borrowers for property taxes and insurance	107,447	58,456
Accrued expenses and other liabilities	201,134	435,727
Total liabilities	46,025,727	43,678,953
Retained earnings - restricted (notes 10, 12, 13, 15 and 16)	1,911,141	1,793,809
Commitments (notes 11, 14, 15, and 16)		
	$47,936,868	45,472,762

</TABLE>

See accompanying notes to consolidated financial statements.

CITIZENS FEDERAL SAVINGS BANK AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Consolidated Statements of Operations

Years ended December 31, 1992, 1991 and 1990

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
Interest income:			
First mortgage loans	$ 1,637,361	1,840,722	1,901,419
Consumer and other loans	686,374	852,093	1,149,458
Investments	602,307	600,682	580,540
Mortgage-backed securities	648,956	754,237	796,921
Other interest-bearing assets	48,502	120,268	93,160
Total interest income	3,623,500	4,168,002	4,521,498
Interest expense:			
Deposits (note 8)	2,281,026	2,805,030	3,210,980
Other borrowed money	63,357	198,316	305,438
Total interest expense	2,344,383	3,003,346	3,516,418
Net interest income	1,279,117	1,164,656	1,005,080
Provision for loan losses (note 4)	23,436	158,509	151,329
Net interest income after provision for loan losses	1,255,681	1,006,147	853,751
Non-interest income:			
Loan fees and service charges	132,508	129,432	128,264
Income from real estate operations, net	1,754	128,484	236,512
Deposit servicing fees	107,785	92,784	104,585
Gain on sale of loans	81,371	26,349	-
Gain on sale of office properties and equipment	750	25,581	-
Gain (loss) on sale of real estate owned	-	(582)	(65,559)
Gain (loss) on sale of investments and mortgage-backed securities	(51,896)	-	10,928
Other operating income	24,237	24,104	31,877
Total non-interest income	296,509	426,152	446,607
Non-interest expense:			
Compensation and benefits	473,722	495,786	480,526
Occupancy and equipment	172,644	174,406	205,644
Supplies, communications, and other office expenses	80,957	56,184	60,528
Federal deposit insurance premiums	117,239	118,214	103,364
Data processing	127,399	121,521	133,745
Provision for losses on real estate owned (note 5)	75,000	46,191	97,000
Other operating expenses	281,104	284,914	263,809
Total non-interest expense	1,328,065	1,297,216	1,344,616
Earnings (loss) before income tax expense	224,125	135,083	(44,258)
Income tax expense (benefit) (note 10)	106,793	97,962	(66,409)
Net earnings (note 12)	$ 117,332	37,121	22,151

</TABLE>
See accompanying notes to consolidated financial statements.

CITIZENS FEDERAL SAVINGS BANK AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Consolidated Statements of Retained Earnings

Years ended December 31, 1992, 1991, and 1990

<TABLE>

<S>	<C>
Balance at January 1, 1990	$ 1,734,537

Net earnings for 1990	22,151
Balance at December 31, 1990	1,756,688
Net earnings for 1991	37,121
Balance at December 31, 1991	1,793,809
Net earnings for 1992	117,332
Balance at December 31, 1992	$1,911,141

</TABLE>
See accompanying notes to consolidated financial statements.

CITIZENS FEDERAL SAVINGS BANK AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Consolidated Statements of Cash Flows

Years ended December 31, 1992, 1991, and 1990

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
Cash flows from operating activities:			
Net earnings	$ 117,332	37,121	22,151
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Amortization of deferred loan origination fees	(2,160)	(3,509)	(19,457)
Premiums and discounts on loans, mortgage-backed securities and investment securities, net	99,992	(224,730)	(179,049)
Accretion of discount on loans to facilitate sales of real estate owned	(15,569)	(17,784)	(26,365)
Provision for loan losses and losses on real estate	98,436	204,700	248,329
Loans originated for sale	(11,849,151)	(2,366,182)	(1,994,431)
Proceeds from sale of loans	11,171,587	2,392,531	1,994,431
Gain on sale of loans	(81,371)	(26,349)	-
Dividends on Federal Home Loan Bank stock	(11,700)	(16,800)	(28,300)
Loss on sale of real estate owned	-	582	65,559
Purchases of mortgage-backed securities	-	-	(880,763)
Proceeds from sales of mortgage-backed securities	-	-	973,188
Net (gain) loss on sales of securities	51,896	-	(10,928)
Net gain on sale of office properties and equipment	(750)	(25,581)	-
Depreciation of office properties and equipment	59,167	64,780	83,031
Deferred income taxes	56,938	(15,408)	-
(Decrease) increase in accrued expenses and other liabilities	(291,531)	235,741	(53,638)
Decrease in accrued interest payable	(96,577)	(87,305)	(62,545)
(Increase) decrease in:			
Accrued interest receivable	(13,151)	60,346	52,160
Funds held by trustee	614,510	56,765	27,451
Other assets	(193,462)	48,189	60,797
Refundable federal income taxes	-	20,128	78,814
Total adjustments	(402,896)	300,114	328,284
Net cash and cash equivalents provided (used) by operating activities	(285,564)	337,235	350,435
Cash flows from investing activities:			
Net repayments of loans	42,027	2,358,882	1,572,930
Purchases of office properties and equipment	(43,986)	(20,988)	(500)
Purchases of investment securities	(7,126,212)	(2,675,000)	-
Proceeds from sales of investment securities	3,060,700	-	-
Proceeds from maturities of investment securities	1,300,000	2,000,000	-
Proceeds from sales of real estate owned	-	31,985	796,901
Purchases of mortgage-backed securities	(250,319)	(1,155,816)	-
Proceeds from sales of mortgage - backed securities	614,329	-	-
Principal receipts on mortgage-backed securities	2,073,516	971,209	1,043,482
Principal receipts on loans to facilitate sales of real estate	331	3,766	-

Redemption of Federal Home Loan Bank stock	14,300	38,000	55,800
Proceeds from sale of office properties and equipment	750	288,356	-
Net cash and cash equivalents provided (used) by investing activities	(314,564)	1,840,394	3,468,613

</TABLE>

CITIZENS FEDERAL SAVINGS BANK AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Consolidated Statements of Cash Flows (Continued)

<TABLE>
<CAPTION>

<S>	<C> 1992	<C> 1991	<C> 1990
Cash flows from financing activities:			
Net increase (decrease) in savings deposits	$ 3,996,953	(1,302,217)	(2,217,328)
Net increase (decrease) in advance payments by borrowers	48,991	(58,336)	(11,264)
Repayments of bonds	(1,368,000)	(976,000)	(986,000)
Net cash and cash equivalents provided (used) by financing activities	2,677,944	(2,336,553)	(3,214,592)
Net increase (decrease) in cash and cash equivalents	2,077,816	(158,924)	604,456
Cash and cash equivalents at beginning of period	1,497,080	1,656,004	1,051,548
Cash and cash equivalents at end of period	$ 3,574,896	1,497,080	1,656,004
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 710,080	1,049,415	1,258,680
Cash paid for income taxes	122,405	66,000	12,500
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Transfer of investment securities to investments held for sale	$ 879,938	-	-
Transfer of mortgage-backed securities to investments held for sale	588,514		
Real estate acquired in settlement of loans	-	-	36,492
Loans to facilitate sales of real estate owned:			
Qualifying for recognition of sale	-	-	549,113
Not qualifying for recognition as a sale	-	-	1,135,572

</TABLE>

See accompanying notes to consolidated financial statements.

CITIZENS FEDERAL SAVINGS BANK AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Notes to Consolidated Financial Statements

December 31, 1992 and 1991

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of Citizens Federal Savings Bank and its subsidiaries (the Bank) conform to generally accepted accounting principles and to general practice within the thrift industry, where applicable, and to accounting rules prescribed by the Office of Thrift Supervision. The following is a description of the more significant of those policies which the Bank follows in preparing and presenting its consolidated financial statements.

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Citizens Federal Savings Bank and its wholly-owned subsidiaries, Citizens Capital Corporation and Citizens Service Corporation. All significant intercompany balances are eliminated in consolidation.

During 1992 and 1990, respectively, Citizens Capital Corporation and Citizens Service Corporation, formerly wholly-owned subsidiaries, were merged into Citizens Federal Savings Bank. Citizens Capital Corporation and Citizens Service Corporation have been included in the consolidated financial statements since their incorporation, and the mergers do not affect the comparability of the accompanying consolidated financial statements.

(B) CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents consist of cash on hand and interest-bearing deposits with banks, with original maturities of less than ninety days.

(C) INVESTMENT SECURITIES AND INVESTMENTS HELD FOR SALE

Investments consist of U.S. Government and agency obligations. Management determines the appropriate classification of investments at the time of purchase. If management has the intent and the Bank has the ability at the time of purchase to hold securities until maturity, they are classified as investment securities and carried at amortized historical cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as held for sale and carried at the lower of cost or market value. Securities held for indefinite periods of time include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, the need to increase regulatory capital, and other similar factors.

Discounts are accreted and premiums are amortized into interest income by a method which approximates the interest method over the remaining contractual terms of the respective securities. Gains and losses from the sale of investments are determined using the specific identification method.

(D) MORTGAGE-BACKED SECURITIES

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by the issuers of the securities. These securities are carried at cost, adjusted for accretion of discounts and amortization of premiums, since it is management's intention and the Bank has the ability to hold them to maturity. Discounts are accreted and premiums are amortized into interest income by a method which approximates the interest method over the remaining contractual terms of the respective securities adjusted for actual prepayments. Gains and losses from the sale of mortgage-backed securities are determined using the specific identification method.

(Continued)

(E) LOANS RECEIVABLE AND LOANS HELD FOR SALE

Loans receivable are stated at unpaid principal balances, net of discounts, deferred loan origination fees, and the allowance for loan losses. Loans held for sale are carried at the lower of cost or fair value. Management determines the appropriate classification at the date of origination.

Unamortized discounts on consumer loans are recognized over the contractual lives of the loans using a method which approximates the interest method.

Uncollectible interest on loans that are contractually ninety days or more past due is charged off or an allowance is established. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

(F) LOAN ORIGINATION FEES AND RELATED COSTS

Loan origination fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized in income using the interest method over the contractual lives of the loans, adjusted for expected prepayments and loan sales. If deferred fees are associated with a loan placed on nonaccrual status, amortization of the fees is ceased.

(G) LOAN SERVICING FEES

Fees arising from servicing loans for others are recognized as earned.

(H) OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on a straight-line basis over the estimated useful lives of the related assets.

(I) REAL ESTATE OWNED

Real estate acquired either through loan foreclosure or in-substance foreclosure is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair value at the date of foreclosure. Costs relating to developing and improving property are capitalized, whereas costs relating to holding property are expensed.

Valuations are periodically performed by management. If the carrying value of a property exceeds its fair value, an allowance is established through a provision for losses charged to earnings.

(J) ALLOWANCE FOR LOSSES ON LOANS AND REAL ESTATE OWNED

Provisions for losses on loans and accrued interest are charged to earnings when it is determined that the investment in such assets is greater than their fair value.

The allowance for estimated loan losses is based upon analyses of the loan receivable portfolio and is maintained at a level considered adequate by management to provide for potential loan losses. The analyses include management's consideration of such factors as economic conditions, loan portfolio characteristics, prior loan loss experiences, and results of reviews of the portfolio.

Management believes that the allowances for losses on loans and real estate owned are adequate. While management uses available information to recognize losses on loans and real estate owned, future additions to the allowances may be necessary based on changes in future economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and real estate owned. Such agencies may require the Bank to recognize additions to the allowances based on their judgments of information available to them at the time of their examination.

(K) INVESTMENTS REQUIRED BY LAW

The Bank, as a member of the Federal Home Loan Bank system, is required to acquire and hold shares of stock in the Federal Home Loan Bank, subject to certain minimum levels. The stock is carried at cost and dividends are recognized as income when received.

(L) TAXES ON INCOME

Deferred income taxes are provided on items which are reported in different years for tax purposes than for financial statement purposes.

Statement of Financial Accounting Standards No. 109, Accounting for

Income Taxes, was issued by the Financial Accounting Standards Board in February 1992. Statement 109 requires a change from the deferred method to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under Statement 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Statement 109 must be adopted in 1993. Upon adoption, the provisions of the Statement may be applied without restating prior years' financial statements or may be applied retroactively by restating any number of consecutive prior years' financial statements. The Bank has not determined the impact that Statement 109 will have on its consolidated financial statements or the method that it will use to initially apply the Statement.

(M) DEFERRED EXPENSES

Deferred debt issuance costs, adjusted for amortization, are classified as other assets. These costs are recognized on a straight-line method over the contractual term of the related debt. As early retirement of the debt occurs, the amortization period is adjusted to coincide with the expected term of the debt.

(Continued)

CITIZENS FEDERAL SAVINGS BANK AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Notes to Consolidated Financial Statements

(2) INVESTMENT SECURITIES

Investment securities are summarized as follows:

<TABLE>
<CAPTION>

	December 31, 1992			
	BOOK VALUE	APPROXIMATE MARKET VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
U. S. Treasury securities	$ 9,052,840	9,210,000	174,358	17,198
Obligations of other U. S. government agencies and corporations	1,959,464	1,938,000	3,627	25,091
	$11,012,304	11,148,000	177,985	42,289

	December 31, 1991			
	BOOK VALUE	APPROXIMATE MARKET VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
U. S. Treasury securities	$ 5,489,660	5,526,000	155,676	119,336
Obligations of other U. S. government agencies and corporations	675,000	693,000	18,000	-
	6,164,660	6,219,000	173,676	119,336

</TABLE>

Management expects to recover the full book value of these investment securities upon their maturities.

Investment securities held at December 31, 1992, mature on the following schedule:

	BOOK VALUE	APPROXIMATE MARKET VALUE
Within 1 year	$ 1,777,721	1,799,000

After 1 year through 5 years	8,468,613	8,585,000
After 5 years through 10 years	765,970	764,000
	$ 11,012,304	11,148,000

At December 31, 1992 and 1991, certain investment securities with par values totaling $1,000,000 were pledged to secure savings deposits. In addition, certain investments with par values totaling $1,500,000 at December 31, 1992, and $500,000 at December 31, 1991, were pledged to secure a commitment of funds from the Federal Home Loan Bank.

(Continued)

(3) MORTGAGE-BACKED SECURITIES

Mortgage-backed securities consisted of the following:

<TABLE>
<CAPTION>

	December 31, 1992			
	Book value	Estimated market value	Gross unrealized gains	Gross unrealized losses
<S>	<C>	<C>	<C>	<C>
GNMA certificates	$1,877,366	1,942,000	70,896	6,262
FHLMC certificates	971,034	1,064,000	92,966	-
FNMA certificates (note 9)	3,513,527	3,718,000	204,473	-
Total mortgage-backed securities	$6,361,927	6,724,000	368,335	6,262

	DECEMBER 31, 1991			
	Book value	Estimated market value	Gross unrealized gains	Gross unrealized losses
GNMA certificates	$2,643,587	2,809,000	165,413	-
FHLMC certificates	1,153,003	1,197,000	43,997	-
FNMA certificates (notes 9 and 14)	5,004,222	5,132,000	138,854	11,076
Total mortgage-backed securities	$8,800,812	9,138,000	348,264	11,076

</TABLE>

The book value and approximate market value of mortgage-backed securities by contractual maturity as of December 31, 1992 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<TABLE>
<CAPTION>

	Book value	Approximate market value
<S>	<C>	<C>
Maturing within five years	$367,126	442,000
Maturing within five to ten years	56,356	57,000
Maturing after ten years	5,938,445	6,225,000
	$6,361,927	6,724,000

</TABLE>

Proceeds from the sales of mortgage-backed securities during the year ended December 31, 1990 were $973,188. There were no sales in 1991. Gross gains recognized for 1990 were $10,928. No gross losses were recognized in 1990.

(Continued)

(4) LOANS RECEIVABLE AND LOANS HELD FOR SALE

Loans receivable at December 31, are summarized as follows:

	1992	1991
Loans secured by first mortgages on real estate:		
Principal balances:		
Secured by one-to-four family residences	$ 15,318,049	14,627,301
Secured by other properties	936,193	1,405,062
Construction loans	1,867,000	858,918
Partially guaranteed by VA or insured by FHA	-	-
Commercial participation	1,274,918	1,280,865
	19,396,160	18,172,146
Less:		
Loans held for sale	758,935	-
Loans in process	811,850	319,002
Net deferred loan origination fees	15,077	17,237
Total first mortgage loans	17,810,298	17,835,907
Consumer and other loans:		
Consumer	5,411,573	5,703,038
Commercial	362,978	163,536
Loans on savings deposits	385,092	381,432
Signature	139,140	243,722
	6,298,783	6,491,728
Less:		
Unearned income	75,035	196,535
Total consumer and other loans	6,223,748	6,295,193
Less allowance for loan losses	348,725	382,476
	$ 23,685,321	23,748,624

Loans held for sale at December 31, 1992 are carried at book value, which approximates market value.

(Continued)

Activity in the allowance for loan losses at December 31, is summarized as follows:

1992	1991	1990

<S> <C> <C> <C>

Balance at beginning of period	$ 382,476	309,846	323,437
Provisions charged against income	23,436	158,509	151,329
Chargeoffs	(96,814)	(159,877)	(219,091)
Recoveries	39,627	73,998	54,171
Balance at end of period	$ 348,725	382,476	309,846

</TABLE>

The following is a summary of the principal balances of loans on nonaccrual status at December 31:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
Loans contractually past due 90 days or more and/or on nonaccrual status:			
Residential	$ 153,000	123,000	221,000
Consumer and commercial	42,000	20,000	89,000
	$ 195,000	143,000	310,000

</TABLE>

During the years ended December 31, 1992, 1991, and 1990, interest income of approximately $10,365, $13,826, and $31,636, respectively, was not recorded related to loans accounted for on a nonaccrual basis. No income was recorded on loans in nonaccrual status during 1992, 1991, and 1990. As of December 31, 1992, there were no commitments to extend additional credit to borrowers who had loans in nonaccrual status.

In the ordinary course of business, the Bank makes loans to directors and executive officers and their related interests. Such loans were made on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other borrowers and did not involve more than the normal risk of collectibility or present other unfavorable features. Loans to directors and executive officers and their related interests are as follows:

<TABLE>

<S>	<C>
Balance at December 31, 1990	$ 239,067
Repayments	(64,388)
Balance at December 31, 1991	174,679
Advances	150,819
Repayments	(149,826)
Balance at December 31, 1992	$ 175,672

</TABLE>

(Continued)

(5) REAL ESTATE OWNED

Real estate owned at December 31, consists of the following:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>
Foreclosed real estate	$ 638,704	-
Loans to facilitate the sale of foreclosed real estate	550,831	1,174,297
Less allowance for losses	(297,000)	(222,000)
	$ 892,535	952,297

</TABLE>

Loans to facilitate the sale of foreclosed real estate are accounted for under the deposit method, as these sales did not meet the minimum down payment requirements necessary for sales recognition.

The activity in the allowance for estimated losses on real estate owned consists of the following:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
Allowance at beginning of year	$ 222,000	175,809	78,809
Provision for estimated losses	75,000	46,191	97,000
Allowance at end of year	$ 297,000	222,000	175,809

</TABLE>

(6) LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans are $17,242,761 and $11,962,090 at December 31, 1992 and 1991, respectively.

(7) OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment, less accumulated depreciation, consist of the following at December 31:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>
Land	$ 105,500	105,500
Office buildings and improvements	982,613	973,291
Furniture, fixtures, and equipment	505,214	470,550
Automobiles	10,184	16,884
	1,603,511	1,566,225
Less accumulated depreciation	940,248	887,781
	$ 663,263	678,444

</TABLE>

(Continued)

CITIZENS FEDERAL SAVINGS BANK AND SUBSIDIARIES
ROCKWOOD, TENNESSEE

Notes to Consolidated Financial Statements

(8) SAVINGS DEPOSITS

Savings deposit balances at December 31, are summarized as follows:

<TABLE>
<CAPTION>

	1992		1991	
<S>	Amount <C>	Percent <C>	Amount <C>	Percent <C>
Noninterest-bearing demand deposits	$ 127,709	0.3%	113,492	0.3%
N.O.W. accounts and Super N.O.W. accounts at 3.0%	3,687,614	8.1	2,893,897	6.9
Passbook savings at 3.75%	10,447,197	22.8	6,815,703	16.4
	14,262,520	31.2	9,823,092	23.6
Certificates				
3.0% to 3.9%	8,654,240	18.9	-	-
4.0% to 4.9%	7,832,565	17.1	1,149,347	2.8

5.0% to 5.9%	3,960,991	8.7	10,990,229	26.4
6.0% to 6.9%	4,004,177	8.8	7,183,394	17.2
7.0% to 7.9%	2,852,780	6.2	6,420,260	15.4
8.0% to 8.9%	2,949,518	6.5	4,683,893	11.2
9.0% to 9.9%	993,181	2.2	1,262,804	3.0
10.0% to 10.9%	173,557	0.4	173,557	0.4
Total Certificates	31,421,009	68.8%	31,863,484	76.4
	$45,683,529	100.0%	41,686,576	100.0%
Weighted average cost of savings deposits	5.21%		6.66%	

</TABLE>

Scheduled maturities of certificates are as follows:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
1 month to 12 months	$ 18,711,645	24,665,676	24,923,718
12 months to 24 months	5,885,905	3,721,646	4,545,742
24 months to 36 months	2,514,144	1,299,986	1,759,708
Over 36 months	4,309,315	2,176,176	2,015,884
	$ 31,421,009	31,863,484	33,245,052

</TABLE>

Certificates with face values greater than or equal to $100,000 were $3,690,694 and $5,199,097 at December 31, 1992 and 1991, respectively.

(Continued)

Interest expense on deposits for the years ended December 31, 1992, 1991, and 1990, is summarized as follows:

<TABLE>
<CAPTION>

<S>	1992 <C>	1991 <C>	1990 <C>
N.O.W. accounts and Super N.O.W. accounts	$ 113,272	133,946	153,066
Passbook savings	342,693	337,408	338,522
Certificates of deposit	1,825,061	2,333,676	2,719,392
	$ 2,281,026	2,805,030	3,210,980

</TABLE>

(9) BONDS PAYABLE

During 1985, the Bank initiated a long-range restructuring program which resulted in the formation of Citizens Capital Corporation, a wholly-owned subsidiary. In conjunction with the restructuring, the Bank exchanged approximately $12.8 million in first mortgage loans for guaranteed mortgage pass- through certificates issued by the Federal National Mortgage Association (FNMA certificates) with an effective yield of approximately 8.8 percent. The FNMA certificates were transferred to Citizens Capital Corporation, which issued approximately $9.6 million in bonds payable, secured by the FNMA certificates. The bonds bore interest at 11.375 percent, and were scheduled to mature on February 1, 2003.

During 1992, the Bank paid in full its obligation under the bonds prior to the merger of Citizens Capital Corporation into the Bank. The FNMA certificates held by Citizens Capital Corporation were transferred to the Bank.

(10) INCOME TAXES

Components of income tax expense (benefit) for the years ended December 31, 1992, 1991, and 1990, are as follows:

	1992	1991	1990
Current	$ 49,861	113,370	(66,409)
Deferred	56,932	(15,408)	-
	$ 106,793	97,962	(66,409)

Net operating loss carryforwards available to offset taxable income for state tax purposes in future years amounted to approximately $946,000 at December 31, 1992. These carryforwards expire as follows:

Tax year ended December 31,	
2003	$ 156,000
2004	725,000
2005	65,000
	$ 946,000

(Continued)

Deferred income taxes result from timing differences in the recognition of income and expenses for tax and financial statement purposes. The sources of these timing differences and their tax effects are as follows:

	1992	1991	1990
Deferred compensation	$ 55,018	(18,572)	(7,389)
Difference in recognition of loan fees	736	1,369	7,588
Interest income reported in different periods for tax and financial statement purposes	-	-	(10,513)
FHLB stock dividend not currently recognized for tax purposes	2,958	6,600	11,037
Gain on FHLB stock redeemed	(1,780)	(4,805)	(4,178)
Other, net	-	-	3,455
Deferred income tax expense (benefit)	$ 56,932	(15,408)	-

The reasons for the differences between actual income tax expense (benefit) and the amounts computed by applying the U.S. Federal income tax rate to the earnings (loss) before income tax expense (benefit) are as follows:

	1992	1991	1990

Computed "expected" federal income tax expense (benefit)	$ 76,202	45,931	(15,048)
Increase (reduction) in taxes resulting from:			
Tax bad debt deduction (greater) less than financial statements	30,591	52,031	(51,361)
Actual income tax expense (benefit)	$ 106,793	97,962	(66,409)

The Bank is allowed a special bad debt deduction for tax purposes limited generally to the greater of 8% of otherwise taxable income or actual loss experience. The Bank used the experience method in 1992, 1991, and 1990. If the amounts that qualify as deductions for Federal income tax purposes under the percentage method are later used for purposes other than for bad debt losses, they will be subject to Federal income tax at the then current corporate rate. Retained earnings at December 31, 1992 and 1991, includes approximately $550,000 and $475,000, respectively, for which federal income tax has not been provided.

(11) EMPLOYEE BENEFITS AND DEFERRED COMPENSATION

The Bank has a noncontributory, defined-benefit retirement plan for substantially all eligible employees. The Bank is a member of the Financial Institutions Retirement Fund, which is a nonprofit pension trust through which the Federal Home Loan Bank, savings banks and similar institutions may cooperate in providing for the retirement of their employees. No contributions were required in 1992, 1991, and 1990. The Bank's policy is to fund pension costs as accrued.

As of December 31, 1991 the Bank had recorded a liability for deferred directors' compensation of $161,820. In January 1992, the Bank paid its deferred compensation obligation to its directors and terminated all deferred compensation agreements. Deferred compensation expense amounted to $0, $61,679 and $28,563 for the years ended December 31, 1992, 1991 and 1990, respectively.

(Continued)

(12) RECONCILIATION OF RETAINED EARNINGS AND NET EARNINGS (LOSS)

To fairly state the accompanying consolidated financial statements in accordance with generally accepted accounting principles, certain adjustments are reflected which had not been made in the Bank's books and reports filed with the Office of Thrift Supervision. The following reconciliation provides details of the nature and amount of such adjustments.

	RETAINED EARINGS	NET EARNINGS FOR YEAR ENDED		
	DECEMBER 31, 1992	DECEMBER 31, 1992	1991	1990
Per reports submitted to the Office of Thrift Supervision	$ 1,911,141	117,332	37,121	85,652
Adjustment of tax accounts	-	-	-	69,038
To adjust provision for possible losses on loans and real estate owned	-	-	-	(97,000)
To adjust deferred compensation liabilities	-	-	-	(10,943)
To record net loss on sale of real estate owned	-	-	-	(65,213)
To record accretion of discount on loans to facilitate sales of real estate	-	-	-	26,365
To reverse accrual of supervisory examination fee	-	-	-	18,000
Other adjustments	-	-	-	(3,748)

Balance in accordance with generally accepted accounting principles	$ 1,911,141	117,332	37,121	22,151

</TABLE>

(13) FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT OF 1991

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was signed into law on December 19, 1991. FDICIA includes provisions requiring "prompt corrective action" for insured depository institutions that do not meet certain capitalization criteria. Regulations implementing the prompt corrective action provisions of FDICIA became effective on December 19, 1992. In addition to the prompt corrective action requirements, FDICIA includes significant changes to the legal and regulatory environment for insured institutions, including reductions in insurance coverage for certain kinds of deposits, increased supervision by the federal regulatory agencies, increased reporting requirements for insured institutions, and new regulations concerning internal controls, accounting, and operations.

The prompt corrective action regulations define specific capital categories based on an institution's capital ratios. The capital categories, in declining order, are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." To be considered "adequately capitalize," an institution must generally have a leverage ratio of at least 4%, a Tier 1 risk-based capital ratio of at least 4%, and a total risked-based capital ratio of at least 8%. An institution is deemed to be "critically undercapitalized" if it has a tangible equity ratio of 2% or less.

After consideration of the capital infusion received on February 1, 1993, as discussed in note 15, the Bank meets the criteria for "adequately capitalized" as defined by FDICIA and the minimum capital level required by the supervisory agreement discussed in note 16.

(Continued)

(14) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and undisbursed lines of credit. The commitments involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and unused lines of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include property, plant, or equipment.

The Bank had outstanding commitments to originate loans of approximately $633,000 at December 31, 1992. The commitments were composed entirely of fixed rate loans with interest rates ranging from 7.5% to 8.875%. The Bank had undisbursed advances on customer lines of credit of approximately $594,000 and $215,000 at December 31, 1992 and 1991, respectively. There were no commitments to purchase or sell loans at December 31, 1992.

Most of the Bank's business activity is with customers located within Roane County and adjacent counties in East Tennessee. A majority of the loans are secured by residential or commercial real estate or other commercial property. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrower. The Bank grants residential, consumer, and commercial loans to customers in Roane County and adjacent counties.

The Bank has four loans with an aggregate net carrying value of $2,122,771 at December 31, 1992 that are secured by commercial real estate located in Texas, Mississippi, Virginia, and Florida.

(continued)

(15) CONVERSION/ACQUISITION

In order to increase its regulatory capital levels to comply with the supervisory agreement described in note 16, on May 20, 1992, the Bank entered into an acquisition agreement under which the Bank would convert from mutual to stock form and be acquired by Peoples Financial Services, Inc. (Peoples). Previously, in April 1992, the Bank filed an application with the OTS to convert from mutual to stock form under the modified conversion regulations, but the OTS determined that the Bank could not utilize the modified conversion regulations. Under the terms of the agreement with Peoples, shares of Peoples common stock were offered to eligible members of Citizens Federal. Any shares not purchased by eligible members of Citizens Federal were sold through a direct community offering by Peoples. At the time of the acquisition by Peoples, Citizens Federal converted from a Federally-chartered mutual savings bank to a Federally-chartered stock savings bank. The acquisition by Peoples received approval from all required regulatory authorities and was consummated on February 1, 1993. As a result of the stock offering, gross proceeds of approximately $1,405,000 were generated.

As of December 31, 1992, the Bank had incurred $367,567 of costs associated with the conversion / acquisition, of which $30,248 was charged to operations and $337,219 had been deferred. All deferred conversion costs have been netted against the proceeds of the stock offering by Peoples subsequent to the conversion / acquisition. After netting deferred conversion costs against the proceeds of the stock offering, the Bank increased its capital by approximately $896,000. As a result of the capital infusion, the Bank increased its tangible capital above the level required by the supervisory agreement.

For the purpose of granting eligible members of the Bank a priority in the event of future liquidation, the Bank at the time of conversion established a liquidation account equal to its retained earnings as of the date of the latest consolidated balance sheet used in the final conversion offering circular. In the event of future liquidation of the converted bank (and only in such event), an eligible deposit account holder who continues to maintain his deposit account shall be entitled to receive a distribution from the liquidation account, in the proportionate amount of the adjusted balance from deposit accounts held at that time, before any liquidation distributions may be made with respect to capital stock. After the conversion, no dividends may be paid to stockholders if such dividends reduce retained earnings of the Bank below the amount required for the liquidation account.

(16) SUPERVISORY AGREEMENT

The Bank entered into a supervisory agreement with the Office of Thrift Supervision in September 1991. The agreement requires the Bank to:

- Plan for an increase in tangible capital to at least five percent of total assets by December 31, 1992.

- Plan for the reduction of classified assets, which are principally comprised of loans secured by commercial real estate located outside Tennessee (note 14), to less than 100% of tangible capital plus general valuation allowances by December 31, 1992.

- Modify certain lending and operating practices. None of the required modifications is expected to significantly impact operations or earnings.

Management has taken substantive steps to comply with each of the requirements discussed above.

(Continued)

(17) INVESTMENTS HELD FOR SALE

At December 31, 1991, investments held for sale were carried at their cost of $2,232,661, which approximated their market value. These securities were sold in January, 1992; gross proceeds from these sales were $2,243,922, and gross gains of $11,261 were recognized.

Proceeds from the sale of securities during the year ended December 31, 1992 were $3,060,700. Gross gains of $37,076 and gross losses of $88,972 were recognized on such sales. There were no sales of investments during 1991 or 1990.

EXHIBIT INDEX

EXHIBIT		SEQUENTIALLY NUMBERED PAGE
2(a)	Agreement and Plan of Reorganization between Trans Financial Bancorp, Inc. and Peoples Financial Services, Inc. dated as of December 27, 1993.	
2(b)	Plan of Merger between Trans Financial Bancorp, Inc. and Peoples Financial Services, Inc. dated as of December 27, 1993.	

Exhibit 2(a)

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION ("Agreement") is made and entered into as of this 27th day of December, 1993 between TRANS FINANCIAL BANCORP, INC., a Kentucky corporation ("Corporation"), and PEOPLES FINANCIAL SERVICES, INC., a Tennessee corporation ("PFS").

W I T N E S S E T H :

The Boards of Directors of Corporation and PFS have approved, and deem it advisable and in their respective shareholders' best interests to consummate, the business combination transaction (the "Merger") provided for herein and in the Plan of Merger between Corporation and PFS executed of even date herewith and incorporated by reference herein as if fully set out herein (the "Plan of Merger" or the "Plan");

Corporation and PFS are willing to make certain representations, warranties and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

For federal income tax purposes, it is intended that the Merger qualify as a reorganization under the provisions of Section 368 of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, in consideration of the premises and of the respective representations, warranties, agreements and undertakings herein contained, the parties hereby agree as follows:

ARTICLE 1

DEFINITIONS

"BHCA" shall mean the Bank Holding Company Act of 1956, as amended.

"Closing" shall mean the closing of the transactions contemplated herein and in the Plan of Merger, and "Closing Date" shall mean the date and time specified pursuant to Section 2.2 hereof as the date of the Closing.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Commission" shall mean the Securities and Exchange Commission.

"Corporation Common Stock" shall mean the common stock, no par value, of Corporation.

"Corporation Financial Statements" shall mean (i) the audited consolidated balance sheets (including related notes) of Corporation as of December 31, 1992, 1991 and 1990 and the related audited consolidated statements of income, changes in shareholders' equity and cash flows (including related notes) for the years ended December 31, 1992, 1991 and 1990, and the unaudited consolidated balance sheet as of September 30, 1993 and the related unaudited consolidated statements of income, changes in shareholders' equity and cash flows (including related notes) of Corporation for the nine months ended September 30, 1993, and (ii) the consolidated balance sheets and related consolidated statements of income, changes in shareholders' equity and cash flows (including related notes) of Corporation with respect to periods ending subsequent to September 30, 1993.

"Corporation Subsidiary" shall mean each company or other organization of which at least a majority of the securities or other interests is directly or indirectly owned or controlled by Corporation.

"Effective Time" is defined at Section 2.1.

"Federal Reserve" shall mean the Board of Governors of the Federal Reserve System.

"KCBA" shall mean the Kentucky Business Corporation Act.

"KDFI" shall mean the Kentucky Department of Financial Institutions.

"OTS" shall mean the Office of Thrift Supervision.

"PFS Common Stock" is defined at Section 4.1.B.

"PFS Financial Statements" shall mean (i) the audited consolidated balance sheets (including related notes) of PFS as of December 31, 1992, 1991 and 1990, the related audited consolidated statements of income, changes in shareholders' equity, and statements of cash flows (including related notes) for the years ended December 31, 1992, 1991 and 1990, and the unaudited balance sheet as of September 30, 1993 and the consolidated statements of income, changes in shareholders' equity and cash flows (including related notes) of PFS for the nine months ended September 30, 1993, (ii) the audited balance sheets (including related notes) of Citizens Federal Savings Bank as of December 31, 1992, 1991 and 1990, the related audited statements of income, changes in retained earnings, and the statements of cash flows (including related notes) for the years ended December 31, 1992, 1991 and 1990, and (iii) the consolidated balance sheet and related consolidated

statements of income, changes in shareholders' equity and cash flows (including related notes) of PFS with respect to periods ending subsequent to September 30, 1993.

"PFS Subsidiary" is defined at Section 4.1C.

"Previously Disclosed" shall mean disclosed prior to the execution hereof in the letter dated of even date herewith from the party making such disclosure and delivered to the other party contemporaneously with the execution hereof.

"Proxy Statement/Prospectus" shall mean the proxy statement/prospectus together with any supplements thereto sent to the shareholders of PFS to solicit their votes in connection with this Agreement and the Plan of Merger.

"Registration Statement" shall mean the registration statement with respect to the Corporation Common Stock to be issued in connection with the Merger as declared effective by the Commission under the Securities Act of 1933, as amended.

"Securities Laws" shall mean [i] the Securities Act of 1933, as amended (the "Securities Act"); the Securities Exchange Act of 1934, as amended (the "Exchange Act"); the Investment Company Act of 1940, as amended; the Trust Indenture Act of 1939, as amended; and the rules and regulations of the Commission promulgated thereunder, and [ii] all applicable state securities laws.

"TBCA" shall mean the Tennessee Business Corporation Act.

"TDFI" shall mean the Tennessee Department of Financial Institutions.

ARTICLE 2
THE MERGER

2.1 Effective Time of Merger. Upon the terms and conditions set forth in this Agreement and the Plan of Merger, Articles of Merger (the "Articles of Merger") shall be duly prepared and executed by Corporation and PFS, and thereafter delivered to the Secretary of State of the Commonwealth of Kentucky and the Secretary of State of the State of Tennessee for filing, as provided in the KCBA and the TBCA, on the Closing Date. The Merger shall become effective upon the filing with the Kentucky Secretary of State and with the Tennessee Secretary of State, or at such time and date thereafter as is provided in the Articles of Merger (the "Effective Time").

2.2 Closing. The closing of the Merger (the "Closing") will take place at 10:00 a.m. on a date to be specified by Corporation

(the "Closing Date"), which shall be no later than the fifth business day following the last to occur of [i] the effective date of the last order, approval, or exemption of any federal or state regulatory agency approving or exempting the Merger if such action is required, and [ii] the expiration of all required waiting periods after the filing of all notices to all federal or state regulatory agencies required for consummation of the Merger, at the offices of Wyatt, Tarrant & Combs, 2800 Citizens Plaza, Louisville, Kentucky, or at such other date and time, and at such other place, as may be mutually agreed upon by Corporation and PFS.

ARTICLE 3
COVENANTS

3.1 Shareholders' Meeting. This Agreement and the Plan of Merger shall be submitted for approval to the shareholders of PFS at a meeting to be called and held in accordance with the applicable provisions of law and the Articles of Incorporation and Bylaws of PFS (the "Meeting"). PFS shall cause the Meeting to be held as promptly as practicable and shall disseminate to its shareholders all materials required of it under law to be disseminated in connection with the consideration by the shareholders of this Agreement and the Plan. The Board of Directors of PFS shall recommend that its shareholders adopt and approve this Agreement and the Plan of Merger at the Meeting and shall take all action necessary or helpful to secure a vote of shareholders in favor of the Merger. Immediately after the Meeting, PFS shall notify Corporation of the results of the Meeting.

3.2 Proxy Statement/Prospectus. As promptly as practicable after the date hereof, Corporation and PFS shall prepare the Proxy Statement/Prospectus to be mailed to the shareholders of PFS in connection with the Merger and to be filed by Corporation as part of the Registration Statement. Corporation and PFS shall cooperate with each other in order to facilitate the preparation, filing and clearance of the Registration Statement and the Proxy Statement/Prospectus under the Securities Laws. Each of Corporation and PFS will promptly advise the other if it determines that any information furnished by it to the other specifically for use in the Registration Statement, including the Proxy Statement/Prospectus included therein, is or becomes false or misleading in any material respect. In no event shall either party hereto be liable for, and each party shall indemnify and hold the other harmless from, any untrue statement of a material fact or omission to state a material fact in the Registration Statement made in reliance upon, and in conformity with, written information concerning the other party furnished by such other party specifically for use in the Registration Statement. Corporation will advise PFS, promptly after it receives notice thereof, of the time when the Registration Statement or any post-effective amendment

thereto has become effective or any supplement or amendment has been filed, of the issuance of any stop order, of the suspension of the qualification of the Corporation Common Stock issuable in connection with the Merger or offering or sale in any jurisdiction, or the initiation or threat of any proceeding for any such purpose, or of any request by the Commission for the amendment or supplement of the Registration Statement or for any additional information. Corporation shall take all actions necessary to register or qualify the shares of Corporation Common Stock to be issued in the Merger pursuant to all applicable state "blue sky" or securities laws and shall maintain such registrations or qualifications in effect for all purposes hereof.

3.3 Cooperation. PFS and Corporation shall proceed expeditiously and cooperate fully in making application for all necessary regulatory approvals, in the procurement of any other consents and approvals, and in the taking of any other action and the satisfaction of all other requirements prescribed by law or otherwise, necessary for consummation of the Merger on the terms provided herein and in the Plan of Merger. Corporation shall, and PFS shall, and shall cause each PFS Subsidiary to, use all reasonable efforts (i) to take, or cause to be taken, all actions necessary to comply promptly with all legal requirements which may be imposed on such party with respect to the Merger and to consummate the transactions contemplated by this Agreement and the Plan of Merger, and (ii) to obtain (and to cooperate with the other party to obtain) any consent, authorization, order or approval of, or any exemption by, any governmental entity or any other public or private third party which is required to be obtained or made by such party in connection with the Merger and the transactions contemplated by this Agreement and the Plan of Merger. Each of PFS and Corporation shall cooperate fully with, and provide true, complete and accurate information to, the other in connection with their requests and applications for consents and governmental clearance, approvals, licenses or permits, if any, which are necessary for the Merger and Corporation's ownership and operation of PFS's business following the Merger.

3.4 Conduct of Business Prior to Closing. Except with the prior written consent of Corporation or as expressly contemplated or permitted by this Agreement, during the period from the date of this Agreement and continuing until the earlier of the Effective Time or the date this Agreement is terminated, neither PFS nor any PFS Subsidiary shall:

A. conduct its business other than in the usual, regular and ordinary course or fail to use its best efforts to preserve its business organization intact or to keep available to Corporation the services of its present officers and employees or to preserve the good will of its customers and others having business relations with it;

B. fail to comply in all material respects with all applicable laws and regulations which relate to the conduct of its business;

C. amend its articles of incorporation or association or bylaws;

D. except upon the exercise of outstanding options to purchase 3,111 shares of PFS Common Stock, issue any shares of authorized capital stock or securities convertible into such shares, or purchase, redeem, retire or otherwise acquire any of its outstanding shares, or sell or give any option or right to purchase, hypothecate, pledge or otherwise encumber or dispose of any such shares or any shares held in treasury, if any, make or effect any other change in the structure or composition of its capital stock or agree to do any of the foregoing;

E. in the case of PFS only, declare or pay any dividends or otherwise make distributions with respect to its capital stock;

F. except as Previously Disclosed, enter into, adopt, amend or terminate any employee benefit plan, except as required by law, or enter into any employment agreement with any person or, except in a manner consistent with past practices, grant any increase in the compensation (including bonus and benefit plans and all other non-cash compensation) of any of its employees;

G. solicit or encourage (including by way of furnishing nonpublic information) inquiries, or authorize or permit any of its officers, directors, employees, advisors or representatives to solicit or encourage, or take any other action to facilitate any inquiries or the making of any proposal which constitutes, or may reasonably be expected to lead to, any takeover proposal (as defined below) or agree to or endorse any takeover proposal, or participate in an discussions or negotiations, or provide third parties with any nonpublic information, relating to any such inquiry or proposal. As used in this Agreement, "takeover proposal" shall mean any tender or exchange offer, proposal for a merger, consolidation or other business combination involving

PFS or any PFS Subsidiary or any proposal or offer to acquire in any manner a substantial equity interest in, or a substantial portion of the assets of, PFS or any PFS Subsidiary other than the transactions contemplated by this Agreement;

H. borrow or agree to borrow any amount of funds or incur any obligation or liability except in the ordinary course of business consistent with prior practice, or guarantee or agree to guarantee any material obligations of others except for letters of credit and guaranties of signatures in the ordinary course of business;

I. except in the ordinary course of business, cancel any indebtedness owing to it or any claims that it might have possessed, waive any material rights of substantial value or sell, lease, encumber, otherwise dispose of, or agree to sell, lease, encumber or otherwise dispose of any of its assets;

J. except as Previously Disclosed, amend, modify or terminate any material agreement or contract other than in the ordinary course of business or commit any act or omit to do any act that would cause a breach of any lease, contract or commitment to which it is a party or by which its property or business is bound or affected, or which would have a material adverse effect on its financial condition, operations or assets; or

K. enter into or agree to enter into any agreement or contract that would have been required to be Previously Disclosed pursuant to this Agreement, other than such contracts and agreements entered into in the ordinary course of business.

3.5 Access to Information. Upon reasonable notice, Corporation and PFS shall each (and shall cause each of their respective subsidiaries to) afford to the officers, employees, accountants, counsel and other representatives of the other, access, during normal business hours during the period prior to the Effective Time, to all its properties, books, contracts, commitments and records and, during such period, each of Corporation and PFS shall (and shall cause each of their respective subsidiaries to) make available to the other (i) a copy of each report, schedule, registration statement and other document filed or received by it during such period pursuant to the requirements of the Securities Laws or federal or state banking laws (other than reports or documents that such party is not permitted to disclose under applicable law) and (ii) all other information concerning its business, properties and personnel as such other party may reasonably request. Corporation and PFS shall each, and each shall cause its directors, officers, attorneys and advisors to, maintain the confidentiality of all information obtained in such investigation (including information obtained prior to the date hereof) which is not otherwise publicly disclosed, other than as a result of a disclosure by the other party or the other party's representatives (unless such information (i) thereafter becomes lawfully obtainable from other sources or (ii) is required to be disclosed in any application required to be filed hereunder with any governmental agency or authority and confidential treatment of such information is requested), and to return all such information, and not retain any copies, extracts, or other reproductions in whole or in part, if this Agreement is terminated pursuant to Article 6, said undertakings to survive any termination of this Agreement pursuant to Article 6. No investigation by either Corporation or PFS shall affect the representations and warranties to the other except to the extent such representations and warranties are by their terms qualified by disclosures made to the other party. The

undertakings in this Section 3.5 shall survive any termination of this Agreement.

3.6 Press Releases. All parties to this Agreement agree that any press release or other public announcement by either party pertaining to the Merger shall be coordinated with the other parties hereto; provided, however, that nothing contained herein shall prohibit either party from making any disclosure required by law which its counsel deems necessary, provided the other party is given written notice thereof.

3.7 Updating of Information by PFS. PFS will furnish Corporation with all reports and statements filed by it or any PFS Subsidiary with any regulatory authority and the PFS Financial Statements, such reports and statements to be furnished promptly after their filing or the preparation thereof. Each such report and statement shall have been prepared in accordance with and shall comply in all material respects with applicable law and the regulations governing its preparation.

3.8 Accounting Treatment. PFS shall not intentionally take or cause to be taken any action, whether before or after the Effective Time, that would disqualify the Merger as a "pooling of interests" for accounting purposes and neither Corporation nor PFS shall intentionally take or cause to be taken any action, whether before or after the Effective Time, that would disqualify the Merger as a "reorganization" within the meaning of Section 368(a) of the Code.

3.9 PFS Affiliates. PFS shall, prior to the Closing Date, cause to be delivered to Corporation a list, reviewed by PFS's counsel, identifying all affiliates of PFS (as such term is used in Rules 144 and 145 promulgated by the Commission under the Securities Laws). PFS shall furnish such information and documents as Corporation may reasonably request for the purpose of reviewing such list. PFS shall cause each person who is identified as an "affiliate" in the list furnished pursuant to this Section and who is to receive any shares of Corporation Common Stock pursuant to the Merger to execute a written agreement on or before the Closing Date, in substantially the form attached hereto as Exhibit 3.9 (collectively, the "Affiliate Agreements"), that such person will not dispose of any shares of Corporation Common Stock received in the Merger until such time as financial results covering at least 30 days of combined operations of Corporation and PFS shall be published and that such person, for a period of two years (or three years if that person becomes an affiliate of Corporation) following the Effective Time, (i) will not offer to sell or otherwise dispose of any of the shares of Corporation Common Stock received pursuant to the Merger in violation of the Securities Laws, (ii) will acknowledge the placement of a legend on the certificate(s) representing the "affiliate's" shares of Corporation Common Stock referring to the issuance of such shares in a transaction to which

said Rule 145 is applicable, and (iii) will acknowledge the giving of stop-transfer instructions to Corporation's transfer agent with respect to the "affiliate's" certificates evidencing Corporation Common Stock received in the Merger, which shall be effective absent evidence of compliance with said Rule 145. Corporation shall during the period any "affiliates" hold shares of Corporation Common Stock so restricted comply with the requirements of Rule 144(c) under the Securities Act of 1933 to allow such shares of Corporation Common Stock held by such "affiliates" to be transferrable by the "affiliates" in compliance with paragraphs (c), (e), (f) and (g) of Rule 144.

3.10 Employee Benefits. At, or as soon as administratively feasible after, the Effective Time, employees and officers of PFS and each PFS Subsidiary shall be provided with such employee benefits as Corporation from time to time generally provides to employees and officers of a Corporation Subsidiary, including, but not limited to, participation in Corporation's Employee Stock Ownership Plan, Savings Investment Plan, life, medical and hospitalization and disability insurance, and sick pay, vacation, personal leave and severance benefits, on a non-discriminatory and substantially similar basis. For purposes of providing such benefits to employees and officers of PFS or any PFS Subsidiary after the Effective Time, the Corporation shall credit such employees and officers for years of service at PFS or any PFS Subsidiary prior to the Effective Time for purposes of eligibility, vesting, and benefit amounts paid or privileges provided.

3.11 Dividends. Beginning with the second calendar quarter of 1994 and for each succeeding calendar quarter thereafter prior to the calendar quarter in which the Effective Time shall occur, PFS may declare and pay dividends on shares of PFS Common Stock in an amount not to exceed $.72 per share of PFS Common Stock; provided, however, except as hereinbelow provided, PFS shall not declare or pay any dividends or make any distributions in any amount on PFS Common Stock in the quarter in which the Effective Time shall occur and in which the shareholders of PFS Common Stock are entitled to receive regular quarterly dividends on the shares of Corporation Common Stock into which the shares of PFS Common Stock have been converted. It is the intent of this Section 3.11 to provide that the holders of PFS Common Stock will receive either the payment of cash dividends on their shares of PFS Common Stock or the payment of cash dividends as the holders of shares of Corporation Common Stock received in the Exchange for the calendar quarter in which the Effective Time shall occur, but will not receive and will not become entitled to receive for the same calendar quarter both the payment of a cash dividend as a holder of PFS Common Stock and the payment of a cash dividend as a holder of Corporation Common Stock.

3.12 Additional Agreements. In case at any time after the Effective Time any further action is necessary or desirable to

carry out the purposes of this Agreement and the Plan of Merger, each party to this Agreement shall take all such necessary action.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES
WITH RESPECT TO PFS AND CORPORATION

4.1 PFS's Representations and Warranties. PFS hereby represents and warrants to Corporation as follows:

A. Corporate Standing; Authorization.

[i] PFS is a bank holding company registered under the BHCA and a savings and loan holding company registered under the Savings and Loan Holding Company Act. PFS and each PFS Subsidiary is a Tennessee corporation or banking corporation, duly organized, validly existing under the laws of the State of Tennessee, or federal savings bank, duly organized, validly existing and in good standing under the laws of the United States of America. PFS and each PFS Subsidiary organized under the laws of the State of Tennessee has paid all fees due and owing to the Office of the Tennessee Secretary of State, has delivered to that office its most recent annual report as

required by the Act, and has never filed articles of dissolution with the Tennessee Secretary of State or the TDFI. PFS has delivered to Corporation true and correct copies of the Charter and Bylaws of PFS and all amendments thereto through the date hereof. PFS and each PFS Subsidiary has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary.

[ii] The execution and delivery of this Agreement and the Plan of Merger do not, and the consummation of the transactions contemplated hereby and thereby will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of a lien, pledge, security interest, charge or other encumbrance on assets (any such conflict, violation, default, right of termination, cancellation or acceleration, loss or creation, shall be deemed hereunder a "Violation") pursuant to, any provision of the articles of incorporation or articles of association or bylaws of PFS or any PFS Subsidiary, or, subject to obtaining or making the consents, approvals, orders, authorizations, registrations, declaration

and filings referred to in paragraph [iii] below, or result in any Violation of any loan or credit agreement, note, mortgage, indenture, lease, Benefit Plan (as defined in Section 4.1L) or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to PFS or any PFS Subsidiary or their respective properties or assets.

[iii] Except (a) for consents, approvals, orders, and authorizations from the Federal Reserve, the OTS and the TDFI, and (b) for the filing of Articles of Merger with the Kentucky Secretary of State and the Tennessee Secretary of State, no consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, is required by or with respect to PFS or any PFS Subsidiary in connection with the execution and delivery of this Agreement and the Plan of Merger, or the consummation by PFS of the transactions contemplated hereby and thereby.

[iv] PFS has all requisite corporate power and authority to enter into and, subject to the approval of its shareholders, to consummate the transactions contemplated by this Agreement and the Plan of Merger. The execution and delivery of this Agreement and the Plan of Merger and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of PFS, subject to the approval of this Agreement and the Plan of Merger by the shareholders of PFS. This Agreement and the Plan of Merger have been duly executed and delivered by PFS, and constitute the legal, valid and binding obligations of PFS enforceable against it in accordance with their terms.

B. Capital Structure of PFS. The authorized capital stock of PFS consists of 100 shares of organizational common stock with $10.00 par value per share ("PFS Organizational Common Stock") and 1,000,000 shares of common stock without par value ("PFS Common Stock"). At the date hereof, (i) no shares of PFS Organizational Common Stock are issued or outstanding, and (ii) 236,777 shares of PFS Common Stock are validly issued and outstanding and fully paid and nonassessable, no shares are held by PFS in treasury, and 3,111 shares are reserved for issuance upon the exercise of outstanding options. There is outstanding no subscription, option, warrant, call or commitment of any character relating to shares of PFS's capital stock or any instruments that can be converted into shares of PFS's capital stock. None of the shares of PFS Common Stock have been issued in violation of any preemptive right. There are no outstanding contractual obligations of PFS or any PFS Subsidiary to repurchase, redeem or otherwise acquire any shares of capital stock of PFS. No bonds, debentures, notes or other indebtedness

having the right to vote (or convertible into or exercisable for securities having the right to vote) on any matters on which stockholders of PFS may vote are issued or outstanding.

C. Subsidiaries. PFS has Previously Disclosed each company or other organization, whether incorporated or unincorporated, of which PFS is a general partner or at least a majority of the securities or other interests is directly or indirectly owned or controlled by PFS (each such company or other organization Previously Disclosed by PFS is referred to in this Agreement as a "PFS Subsidiary"). PFS has delivered to Corporation true and correct copies of the Articles of Incorporation or Charter and Bylaws of each PFS Subsidiary, as amended through the date hereof, and has Previously Disclosed the authorized, issued and outstanding capital stock of each PFS Subsidiary. No shares of capital stock of any PFS Subsidiary are held in treasury. All of the outstanding shares of capital stock of each PFS

Subsidiary are validly issued and outstanding and are fully paid and nonassessable and such shares are wholly owned by PFS directly, free and clear of all liens, claims and encumbrances. There is outstanding no subscription, option, warrant, call or commitment of any character relating to or any instruments that can be converted into shares of the capital stock of any PFS Subsidiary. No bonds, debentures, notes or other indebtedness having the right to vote (or convertible into or exercisable for securities having the right to vote) of any PFS Subsidiary are issued or outstanding.

D. SEC Documents. PFS has made available to Corporation a true and complete copy of each report, schedule, and registration statement filed by PFS with the Commission since January 1, 1993 through the date hereof (as such documents have since the time of their filing been amended, the "PFS SEC Documents"), which are all the documents that PFS was or will be required to file with the Commission since such date. As of their respective dates, the PFS SEC Documents complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the Commission thereunder applicable to such PFS SEC Documents, and none of the PFS SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of PFS included in the PFS SEC Documents comply as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the Commission with respect thereto, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of the unaudited statements, as permitted by Form 10-Q of the Commission) and fairly present the consolidated financial position of PFS and its consolidated subsidiaries as at the dates thereof

and the consolidated results of their operations and cash flows for the periods then ended. All material agreements, contracts or other documents required to be filed as exhibits to any of the PFS SEC Documents have been or will be so filed. All reports, schedules and statements hereafter filed by PFS with the Commission which PFS shall deliver to Corporation pursuant to Section 3.5 hereof will comply in all material respects with the requirements of the Securities Laws, and none of such reports, schedules or statements will contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of PFS included in such reports, schedules and statements will comply as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the Commission with respect thereto, will be prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of the unaudited statements, as permitted by Form 10-Q of the Commission) and will fairly present the consolidated financial position of PFS and its consolidated subsidiaries as at the dates thereof and the consolidated results of their operations and cash flows for the periods then ended.

E. Information Supplied. None of the information supplied or to be supplied by PFS for inclusion in (i) the Registration Statement to be filed with the Commission by the Corporation in connection with the issuance of shares of Corporation Common Stock in the Merger will, at the time the Registration Statement is filed with the Commission and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Proxy Statement/Prospectus will, at the date of mailing to shareholders of PFS and at the time of the meeting of such shareholders to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Proxy Statement/Prospectus will comply as to form in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder.

F. PFS Financial Statements. The PFS Financial Statements were and will be prepared in accordance with generally accepted accounting principles, applied on a consistent basis, and fairly present and will fairly present the financial condition of PFS and the PFS Subsidiaries at the respective dates indicated therein, the results of operation of PFS and the PFS Subsidiaries for the periods covered thereby and the other financial information

purported to be shown thereon. The business of PFS has been conducted only in the ordinary course of business since December 31, 1992.

G. Absence of Undisclosed Liabilities. Except as disclosed in the PFS Financial Statements or the PFS SEC Documents, neither PFS nor any PFS Subsidiary has any obligations or liabilities (contingent or otherwise) that might reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, assets, results of operations or financial condition of PFS and the PFS Subsidiaries taken as a whole.

H. Loans and Allowance for Credit Losses. All loans reflected on the books and records of each PFS Subsidiary have been [i] made for good, valuable and adequate consideration in the ordinary course of business and [ii] evidenced by notes or other evidences of indebtedness that are true and genuine. The allowance for credit losses ("Allowance") shown on the consolidated balance sheet of PFS as of September 30, 1993 included in the PFS Financial Statements was, and the Allowance shown on the consolidated balance sheets of PFS as of dates subsequent to the execution of this Agreement included in the PFS Financial Statements will be, in each case as of the dates thereof, adequate to provide for losses relating to or inherent in the loan and lease portfolios of, and other extensions of credit (including letters of credit and commitments to make loans or extend credit) made by, PFS and each PFS Subsidiary.

I. Legal Proceedings. There are no claims of any kind or any actions, suits, proceedings, arbitrations or investigations pending or, to the best knowledge of PFS, threatened against PFS or any PFS Subsidiary or against any asset, interest or right of any such company that might, individually or in the aggregate, have a material adverse effect on the financial condition, results of operation or business of PFS or any PFS Subsidiary, nor is there any judgment, decree, injunction, rule or order of any governmental entity or arbitrator outstanding against PFS or any PFS Subsidiary having or which, insofar as reasonably can be foreseen, in the future could have any such effect.

J. Agreements with Regulators. Except as Previously Disclosed, neither PFS, any PFS Subsidiary, nor any officer or director of PFS or any PFS Subsidiary, is a party to any written agreement or memorandum of understanding with, or a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or is a recipient of any extraordinary supervisory letters from, any banking regulator, nor has PFS or any PFS Subsidiary been advised by any banking regulator that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, extraordinary supervisory letter, commitment letter or similar submission. No investigation

by any governmental entity with respect to PFS or any PFS Subsidiary is pending or, to the best knowledge of PFS, threatened and neither PFS nor any PFS Subsidiary has knowledge of any basis for the commencement of any regulatory or enforcement action against PFS or any PFS Subsidiary by any governmental or regulatory authority.

K. Compliance with Laws. PFS and each PFS Subsidiary holds all permits, licenses, variances, exemptions, orders and approvals of all governmental entities which are material to the operation of the businesses of PFS and each PFS Subsidiary and is in compliance in all material respects with the terms thereof. PFS and each PFS Subsidiary has complied with in all material respects and is not in any default under (and has not been charged with or received notice with respect to nor are threatened with or under investigation with respect to, any charge concerning any violation of any provision of) any federal, state or local law, regulation, ordinance, rule or order (whether executive, judicial, legislative or administrative) or any order, writ, injunction or decree of any court, agency or instrumentality, except for possible violations or defaults that, individually or in the aggregate, would not have a material adverse effect on PFS and its Subsidiaries taken as a whole. There are no uncured violations or violations with respect to which refunds or restitution may be required cited in any report concerning PFS or any PFS Subsidiary as a result of examination by any regulatory authority and neither PFS nor any PFS Subsidiary has knowledge of any basis on which refunds or restitution may be required by any regulatory authority.

L. Employee Benefit Plans.

[i] Since the date of the most recent PFS Financial Statements, there has not been any adoption or amendment in any material respect by PFS or any PFS Subsidiary of any collective bargaining agreement, or any bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization, medical or other plan, arrangement or understanding (whether or not legally binding) providing benefits to any current or former employee or director of PFS or any PFS Subsidiary (collectively, "Benefit Plans"). Except as Previously Disclosed, there exist no employment, consulting, severance, termination or indemnification agreements, arrangements or understandings between PFS or any PFS Subsidiary and any officer, director or key employee of PFS or any PFS Subsidiary.

[ii] PFS has Previously Disclosed a list and brief description of all "employee pension benefit plans" (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) (sometimes

referred to herein as "Pension Plans"), all "employee welfare benefit plans"(as defined in Section 3(1) of ERISA) and all other Benefit Plans maintained, or contributed to, by PFS or any PFS Subsidiary for the benefit of any officers or employees of PFS or any PFS Subsidiary.

PFS has delivered to Corporation true, complete and correct copies of (1) each Benefit Plan (or, in the case of any unwritten Benefit Plans, descriptions thereof), (2) the most recent annual report on Form 5500 filed with the Internal Revenue Service with respect to each Benefit Plan, (if any such report was required), (3) the most recent summary plan description for each Benefit Plan for which such summary plan description is required, and (4) each trust agreement and group annuity contract relating to any Benefit Plan. No Benefit Plan provides medical or hospitalization benefits to retirees or other former employees, other than medical benefits required to be provided to qualified beneficiaries under the provisions of Section 4980B(f) of the Code and paid for entirely by the individual electing such coverage under Section 4980B(f) of the Code.

[iii] Each Benefit Plan has been administered in all material respects in accordance with its terms. Except as Previously Disclosed, PFS, each PFS Subsidiary and all the Benefit Plans are in compliance with the applicable provisions of ERISA and the Code. All reports, returns and similar documents with respect to the Benefit Plans required to be filed with any governmental agency or distributed to any Benefit Plan participant have been duly and timely filed or distributed. There are no investigations by any governmental agency, termination proceedings or other claims (except claims for benefits payable in the normal operation of the Benefit Plans), suits or proceedings against or involving any Benefit Plan or asserting any rights or claims to benefits under any Benefit Plan that could give rise to any liability, and, to the best knowledge of PFS, there are not any facts that could give rise to any liability in the event of any such investigation, claim, suit or proceeding.

[iv] All Pension Plans have been the subject of determination letters from the Internal Revenue Service to the effect that such Pension Plans are qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code. No such determination letter has been revoked nor, to the best knowledge of PFS, has revocation been threatened, nor has any such Pension Plan been amended since the date of its most recent determination letter or application therefor in any respect that would adversely affect its qualification or materially increase its costs.

[v] No Pension Plan that PFS, any PFS Subsidiary or any other company under common control with PFS (within the meaning of Section 4001(a)(14) of ERISA) maintains, or to

which PFS, any PFS Subsidiary or any other company under common control with PFS (within the meaning of Section 4001(a)(14) of ERISA) is obligated to contribute, other than any Pension Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA) (collectively, the "Multiemployer Pension Plans"), had, as of the respective last annual valuation date for each such Pension Plan, an "unfunded benefit liability" (as such term is defined in Section 4001(a)(18) of ERISA). Except as Previously Disclosed, PFS is not aware of any facts or circumstances that would change the funded status of any such Pension Plan. None of the Pension Plans has an "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA or Section 412 of the Code), whether or not waived. All contributions to, and payments from, the Benefit Plans required to be made in accordance with the Benefit Plans and, when applicable, Section 302 of ERISA or Section 412 of the Code, have been timely made, and there has been no application for or waiver of the minimum funding standards imposed by Section 412 of the Code with respect to any Pension Plan. All such contributions to, and payments from, the Benefit Plans (except those payments to be made from a trust qualified under Section 401(a) of the Code), for any period ending before the Effective Time that are not yet, but will be, required to be made, will be properly accrued and reflected in the proper books and records of PFS at the Effective Time. None of PFS, any PFS Subsidiary or any officer of PFS or any PFS Subsidiary or any of the Benefit Plans of PFS and any PFS Subsidiary which are subject to ERISA, including the Pension Plans, or any trusts created thereunder, any administrator or, to the best knowledge of PFS, any trustee thereof, has engaged in a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) or any other breach of fiduciary responsibility under Part 4, Subtitle B, Title I of ERISA that could subject PFS, any PFS Subsidiary or any officer of PFS or any PFS Subsidiary to the tax or penalty on prohibited transactions imposed by such Section 4975 or to any liability under Section 502(i) or (1) of ERISA. Neither any of such plans nor any of such trusts have been terminated, nor has there been any "reportable event" (as that term is defined in Section 4043 of ERISA) with respect thereto during the last five years. Neither PFS, any PFS Subsidiary, any administrator, nor, to the best knowledge of PFS, any trustee or other fiduciary, of any Benefit Plan nor any agent of any of the foregoing has engaged in any transaction or acted or failed to act in a manner that could subject PFS or any PFS Subsidiary to any material liability for breach of fiduciary duty under ERISA or any other applicable law. Neither PFS nor any PFS Subsidiary (or any other employer that since September 2, 1974 has ever been treated as a "single employer" under Section 414(b)(c) or (m) of the Code with PFS or any PFS

Subsidiary) has ever been required to contribute to any Multiemployer Pension Plans.

[vi] With respect to any Pension Plan subject to Title IV of ERISA (including for purposes of clause (1) below, any Pension Plan maintained or contributed to by PFS or any other company under common control with PFS within the meaning of Section 414 of the Code and, for purposes of clause (2) below, any Pension Plan maintained or contributed to by PFS or any other company under common control with PFS within the meaning of Section 4001(a)(14) of ERISA): PFS has not incurred any material liability on or prior to the date hereof (1) to such Pension Plan or (2) to the Pension Benefit Guaranty Corporation other than for the payment of premiums, all of which have been paid when due. PFS has furnished to Corporation the most recent actuarial report or valuation with respect to each Pension Plan that is a "defined benefit pension plan" (as defined in Section 3(35) of ERISA). The information supplied to the actuary by PFS for use in preparing those reports or valuations was complete and accurate and PFS has no reason to believe that the conclusions expressed in those reports or valuations are incorrect.

[vii] With respect to any Benefit Plan that is an employee welfare benefit plan: (1) no such Benefit Plan is unfunded or funded through a welfare benefits fund, as such term is defined in Section 419(e) of the Code, (2) each such Benefit Plan that is a group health plan, as such term is defined in Section 5000(b)(1) of the Code, complies with the applicable requirements of Section 4980B(f) of the Code and (3) each such Benefit Plan (including any such Plan covering retirees or other former employees) may be prospectively amended or terminated without material liability to PFS or any PFS Subsidiary on or at any time after the Effective Time.

[viii] Each employee bonus or profit sharing plan providing benefits to any current or former officer, director or employee of PFS or any PFS Subsidiary is terminable by PFS or such PFS Subsidiary without notice at any time.

M. Labor Matters.

[i] PFS and each PFS Subsidiary is in compliance in all material respects with all applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours and occupational safety and health;

[ii] There is no unfair labor practice charge or complaint or any other matter against or involving PFS or any PFS Subsidiary pending or, to the knowledge of PFS, threatened

before the National Labor Relations Board or any court of law;

[iii] Neither PFS nor any PFS Subsidiary is a party to or bound by any collective bargaining agreement or any similar labor union arrangement;

[iv] There are no charges, investigations, administrative proceedings or formal complaints of discrimination (including discrimination based upon sex, age, marital status, race, color, religion, national origin, sexual preference, disability, handicap or veteran status) pending or, to the knowledge of PFS threatened, before the Equal Employment Opportunity Commission or any federal, state or local agency or court against PFS or any PFS Subsidiary;

[v] There have been no governmental audits of the equal employment opportunity practices of PFS or any PFS Subsidiary and, to the knowledge of PFS, no basis for any such claim exists; and

[vi] PFS and each PFS Subsidiary is in compliance in all material respects with the requirements of the Americans With Disabilities Act.

N. Brokers. Neither PFS, any PFS Subsidiary, nor any of their respective officers, directors or employees, has employed any broker, finder or financial advisor or incurred any liability for fees or commissions payable to any broker, finder or financial advisor in connection with the negotiations relating to or the transactions contemplated by this Agreement.

O. Assets. PFS and each PFS Subsidiary has good and marketable title to all of the properties and assets, real and personal, tangible and intangible, reflected on the PFS Financial Statements or acquired after the dates thereof, free and clear of all liens, charges, security interests, encumbrances and claims, except for [i] liens for current taxes not yet due and payable, [ii] pledges to secure deposits and other liens incurred in the ordinary course of its business, and [iii] such imperfections or irregularities of title, easements, claims, liens, charges, security interests and encumbrances, if any, as do not materially affect the use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties. All leases by which either of PFS or any PFS Subsidiary leases real or personal property as lessee (other than leases that are the equivalent of extensions of credit) are valid without default in any material respect thereunder by the lessee or, to the best knowledge of PFS, the lessor, and are in full force and effect in accordance with their respective terms.

P. Material Contracts. Except as Previously Disclosed, neither PFS nor any PFS Subsidiary is a party to any:

[i] agreement, arrangement or commitment not made in the ordinary course of business consistent with past practices;

[ii] employment agreement or any bonus, incentive, deferred compensation, severance pay, profit sharing, retirement, stock purchase, stock option agreement or arrangement or employee benefit plan for or in respect of any employee or former employee;

[iii] collective bargaining agreement or other agreement with any labor union or labor organization;

[iv] material agreement, indenture or other instrument relating to the borrowing of money, or the guaranty of any obligation for the borrowing of money or any agreement that involves a potential material liability (other than in the ordinary course of its business);

[v] any agreement, contract or commitment containing any covenant materially limiting the freedom of PFS or any PFS Subsidiary to engage in any line of business in any geographic area or to compete with any person; or

[vi] agreement for loans or the provision, purchase or sale of goods, services or property, or other contract or commitment with any director or officer.

Q. Good Standing of Contracts. No event or condition has occurred or exists, or, to the best knowledge of PFS, is alleged by any of the other parties thereto to have occurred or existed, which constitutes, or with lapse of time or giving of notice or both might constitute, a default or breach under any of the leases, contracts or agreements to which PFS or any PFS Subsidiary is a party, which default is reasonably likely to result in a material adverse change in the financial condition, results of operation or business of PFS or any PFS Subsidiary.

R. Insurance. PFS has Previously Disclosed true and complete copies of all policies of fire, theft, liability and other insurance and bonds maintained with respect to the assets or businesses of PFS and each PFS Subsidiary, the effective dates thereof and the premiums payable with respect thereto. All such policies and bonds are valid and enforceable and in full force and effect and neither PFS nor any PFS Subsidiary has received any notice of premium increases or cancellations with respect to any of such policies and bonds. To the best knowledge of PFS, neither PFS nor any PFS Subsidiary is liable for any material retroactive premium adjustments with respect to any of its insurance policies or bonds.

S. Tax Matters. Each member of the consolidated group of which PFS is a member or has ever been a member (the "Group") has timely filed or caused to be filed all federal, state, foreign and local income, franchise, gross receipts, payroll, sales, use, withholding, occupancy, excise, real and personal property, employment and other tax returns, tax information returns and reports required to be filed, and has paid, or made adequate provisions for the payment of, all taxes, duties or assessments of any nature whatsoever, interest payments, penalties and additions (whether or not reflected in its returns as filed) due and payable (and/or properly accruable for all periods ending on or before the date of this Agreement) to any city, county, state, foreign country, the United States or any other taxing authority. The most recent PFS Financial Statements reflect an adequate reserve for all taxes payable by PFS and each PFS Subsidiary accrued through the date of such Financial Statements. No material deficiencies for any taxes have been proposed, asserted or assessed against PFS or any PFS Subsidiary that are not adequately reserved for. Except with respect to claims for refund, the federal income tax returns of PFS and each PFS Subsidiary consolidated in such returns have been examined by and settled with the United States Internal Revenue Service (the "IRS"), or the statute of limitations with respect to such years has expired (and no waiver extending the statute of limitations has been requested or granted) for all years through 1989. The consolidated federal income tax returns of the Group have not been audited during the last five (5) fiscal years of PFS. No audit, examination or investigation is presently being conducted or, to the best knowledge of PFS, threatened by any taxing authority; no unpaid tax deficiencies or additional liabilities of any sort have been proposed by any governmental representative; and no agreements for the extension of time for the assessment of any amounts of tax have been entered into by or on behalf of any member of the Group.

T. Fiduciary Activities. Each PFS Subsidiary's fiduciary and custodial activities have been and are being conducted in all material respects in accordance with all applicable law.

U. Environmental Matters.

[i] PFS and each PFS Subsidiary is in substantial compliance with all applicable federal, state and local laws, rules, regulations, ordinances and requirements relating to the environment ("Environmental Laws");

[ii] No "Hazardous Wastes" (as hereinafter defined) have ever been generated, transported, treated, stored, released or disposed of on any real property owned or leased by PFS or PFS Subsidiary;

[iii] Neither PFS nor any PFS Subsidiary has transported or disposed or caused or permitted any person to transport or dispose of any Hazardous Wastes other than in accordance with all Environmental Laws;

[iv] Neither PFS nor any PFS Subsidiary has ever violated any of the Environmental Laws;

[v] No asbestos, PCBs or other Hazardous Wastes or any petroleum product or constituents thereof is present on, in or under any of the property owned by PFS or any PFS Subsidiary, whether owned or leased or held as OREO (as such term is customarily used) or in which PFS or any PFS Subsidiary has any legal or equitable interest;

[vi] There are no loans or other credits included in the loan portfolio of any PFS Subsidiary with respect to which PFS or any PFS Subsidiary is or could incur or become responsible for liability under the Environmental Laws; and

[vii] No Hazardous Wastes have ever been utilized on any of the property now held or previously held by PFS or any PFS Subsidiary as collateral or otherwise securing any loan made by PFS or any PFS Subsidiary.

Hazardous Wastes" for purposes of this Agreement shall include, without limitation: [i] hazardous substances or hazardous wastes, as those terms are defined by the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., and any other applicable federal, state or local law, rule, regulation, ordinance or requirement, all as amended or hereafter amended; [ii] petroleum, including without limitation crude oil or any fraction thereof which is liquid at standard conditions of temperature and pressure (60 degrees Fahrenheit and 14.7 pounds per square inch absolute); [iii] any radioactive material , including without limitation any source, special nuclear, or by-product material as defined in 42 U.S.C. Section 2011 et seq.; and [iv] asbestos or any asbestiform minerals in any form or condition.

V. Insider Loans. All loans, loan commitments and any other extensions of credit and commitments to extend credit that are currently outstanding by PFS or any PFS Subsidiary to directors, officers, or principal shareholders of PFS or any PFS Subsidiary or any of their related interests, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and substantially comply with all applicable provisions of federal and state law. Such loans, extensions and commitments do not involve more than a normal risk of collectability.

W. Adjustable Rate Mortgages. Each PFS Subsidiary has properly calculated, in accordance with the contractual terms thereof and all applicable law, all adjustments required in its portfolio of adjustable rate mortgage notes.

X. Regulatory Matters. Neither PFS nor any PFS Subsidiary has, through the date hereof, taken or agreed to take any action or has knowledge of any fact or circumstance that would materially impede or delay receipt of any approval referred to in Section 5.2E hereof.

Y. Absence of Certain Changes or Events. Except as disclosed in the PFS SEC Documents or Previously Disclosed, since December 31, 1992, PFS and the PFS Subsidiaries have not incurred any material liability, except in the ordinary course of their business consistent with their past practices, nor has there been any change, or any event involving a prospective change, in the business, assets, financial condition or results of operations of PFS or any of its PFS Subsidiaries that has had, or is reasonably likely to have, a material adverse effect on PFS and PFS's Subsidiaries taken as a whole.

Z. Full Disclosure. No representation or warranty of PFS contained in this Agreement and no statement contained in this Agreement or in any certificate or other instrument furnished to Corporation hereunder contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements contained herein or therein not misleading.

4.2 Corporation's Representations and Warranties. Except as Previously Disclosed, Corporation hereby represents and warrants to PFS that:

A. Corporate Standing; Authorization.

[i] Corporation is a bank holding company registered under the BHCA and a savings and loan holding company registered under the Savings and Loan Holding Company Act.

Corporation and each Corporation Subsidiary is a Kentucky corporation or national bank or savings association duly organized, validly existing, and in good standing under applicable laws. Corporation and each Corporation Subsidiary have all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary.

[ii] The execution and delivery of this Agreement and the Plan of Merger do not, and the consummation of the transactions contemplated hereby and thereby will not, conflict with, or result in any Violation pursuant to, any provision of the articles of incorporation or association or charter or bylaws of Corporation or any Corporation Subsidiary or, subject to obtaining or making the consents, approvals, orders, authorizations, registrations, declarations and filings referred to in paragraph [iii] below, result in any Violation of any loan or credit agreement, note, mortgage, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Corporation or any Corporation Subsidiary or their respective properties or assets.

[iii] Except (a) for consents, approvals, orders, and authorizations from the Federal Reserve, the OTS, the KDFI, and the TDFI, (b) for the filing of Articles of Merger with the Kentucky Secretary of State and the Tennessee Secretary of State, and (c) in connection with compliance with the provisions of the Securities Laws and applicable state corporate and securities laws, no consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, is required by or with respect to Corporation or any Corporation Subsidiary in connection with the execution and delivery of this Agreement and the Plan of Merger, or the consummation by Corporation of the transactions contemplated hereby and thereby.

[iv] Corporation has all requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and the Plan of Merger. The execution and delivery of this Agreement and the Plan of Merger and the consummation of the transactions contemplated hereby and thereby have

been duly authorized by all necessary corporate action on the part of Corporation. This Agreement and the Plan of Merger have been duly executed and delivered by Corporation and constitute the legal, valid and binding obligations of Corporation enforceable against it in accordance with their terms.

B. SEC Documents. Corporation has made available to PFS a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed by Corporation with the Commission since January 1, 1991 (as such documents have since the time of their filing been amended, the "Corporation SEC Documents"), which are all the documents that Corporation was required to file with the Commission since such date. As of

their respective dates, the Corporation SEC documents complied in all material respects with the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the Commission thereunder applicable to such Corporation SEC Documents, and none of the Corporation SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of Corporation included in the Corporation SEC Documents comply as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the Commission with respect thereto, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of the unaudited statements, as permitted by Form 10-Q of the Commission) and fairly present the consolidated financial position of Corporation and its consolidated subsidiaries as at the dates thereof and the consolidated results of their operations and cash flows for the periods then ended. All material agreements, contracts and other documents required to be filed as exhibits to any of the Corporation SEC Documents have been so filed. All reports, schedules and statements hereafter filed by Corporation with the Commission which Corporation shall deliver to Corporation pursuant to Section 3.5 hereof will comply in all material respects with the requirements of the Securities Laws, and none of such reports, schedules or statements will contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of Corporation included in such reports, schedules and statements will comply as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the Commission with respect thereto, will be prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of the unaudited statements, as permitted by Form 10-Q of the Commission) and will fairly present the consolidated financial position of Corporation and its consolidated subsidiaries as at the dates thereof and the consolidated results of their operations and cash flows for the periods then ended.

C. Absence of Certain Changes or Events. Except as disclosed in the Corporation SEC Documents, since December 31, 1992, Corporation and the Corporation Subsidiaries have not incurred any material liability, except in the ordinary course of their business consistent with their past practices, nor has there been any change, or any event involving a prospective change, in the business, assets, financial condition or results of operations of Corporation or any of its Corporation Subsidiaries that has had,

or is reasonably likely to have, a material adverse effect on Corporation and the Corporation Subsidiaries taken as a whole.

D. Brokers. Neither Corporation nor any Corporation Subsidiary, nor any of their respective officers, directors or employees, has employed any broker, finder or financial advisor or incurred any liability for fees or commissions in connection with the negotiations relating to or the transactions contemplated by this Agreement.

E. Legal Proceedings. There are no claims of any kind or any actions, suits, proceedings, arbitrations or investigations pending or, to the best knowledge of Corporation, threatened against Corporation or any Corporation Subsidiary or against any asset, interest or right of any such company that might, individually or in the aggregate, have a material adverse effect on the financial condition, results of operation or business of Corporation or any Corporation Subsidiary, nor is there any judgment, decree, injunction, rule or order of any governmental entity or arbitrator outstanding against Corporation or any Corporation Subsidiary having or which, insofar as reasonably can be foreseen, in the future could have any such effect.

F. Employee Benefit Plans. Each bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization, medical or other plan, arrangement or understanding (whether or not legally binding) providing benefits to any current or former employee or director of Corporation or any Corporation Subsidiary has been administered in all material respects in accordance with its terms and is in compliance in all material respects with the applicable provisions of ERISA and the Code.

4.3 Non-Survival of Representations and Warranties. All representations and warranties contained in this Agreement by any party hereto or set forth in any certificate or other instrument delivered by or on behalf of the parties pursuant to this Agreement shall expire at the Effective Time.

ARTICLE 5

CONDITIONS PRECEDENT

5.1 Conditions to Obligations of PFS. The obligation of PFS to consummate the transactions contemplated by this Agreement and the Plan of Merger, including the Merger, is subject to the satisfaction of the following conditions precedent on or before the Closing Date, any of which may be waived by PFS:

A. Approval of this Agreement and the Plan of Merger by the shareholders of PFS at the Meeting.

B. There shall not be threatened, instituted or pending any action or proceeding before any domestic or foreign court or governmental agency or other regulatory or administrative agency or commission, or by any other person [i] challenging the Merger or the other transactions contemplated by this Agreement or the terms thereof, or [ii] seeking to prohibit the Merger or the other transactions contemplated by this Agreement, which, in the opinion of PFS's counsel, has a reasonable probability of success.

C. The representations and warranties of Corporation set forth in Section 4.2 of this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as if made on the Closing Date, and Corporation shall have furnished to PFS a certificate of an executive officer of Corporation to that effect.

D. Corporation in all material respects shall have performed and observed its obligations and covenants as set forth in this Agreement prior to or on the Closing Date and shall have delivered to PFS a certificate of an executive officer of Corporation to that effect and evidence, in form and substance satisfactory to counsel for PFS, that the transactions contemplated by this Agreement and the Plan of Merger were duly authorized by all necessary corporate action of Corporation.

E. There shall not have been any material adverse change in the business, financial condition, prospects or operations of Corporation since December 31, 1992.

F. Receipt of all permits, consents, approvals and authorizations from federal and state governmental authorities and regulatory agencies necessary to effect the Merger (including the expiration of all applicable waiting periods) and the other transactions contemplated herein, and the satisfaction of all other requirements prescribed by law which are necessary to the carrying out of the Merger.

G. PFS shall have received an opinion of counsel of Corporation dated as of the Closing Date, in substantially the form attached hereto as Exhibit 5.1G.

H. PFS shall have received the opinion of Corporation's counsel in form and substance reasonably satisfactory to PFS and its counsel, dated the Closing Date, to the effect that the Merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368 of the Code and that, except with respect to the payment of cash for fractional shares or in connection with the exercise of appraisal rights, the conversion of PFS Common Stock into Corporation Common Stock will not give rise

to the recognition of gain or loss for federal income tax purposes to the shareholders of PFS.

I. PFS shall have received an opinion from its financial advisor to the effect that, as of the date the Proxy Statement/Prospectus was mailed to shareholders of PFS, the Merger is fair to the shareholders of PFS from a financial viewpoint.

J. The Registration Statement (including any post effective amendments thereto) shall be effective under the Securities Act of 1933, as amended, and no proceedings shall be pending or to the knowledge of PFS threatened by the Commission to suspend the effectiveness of such Registration Statement.

5.2 Conditions to Obligations of Corporation. The obligation of Corporation to consummate the transactions contemplated by this Agreement and the Plan of Merger, including the Merger, is subject to the satisfaction of the following conditions precedent on or before the Closing Date, any of which may be waived by Corporation:

A. Approval of this Agreement and the Plan of Merger by the shareholders of PFS at the Meeting.

B. There shall not be threatened, instituted or pending any action or proceeding before any domestic or foreign court or governmental agency or other regulatory or administrative agency or commission, or by any other person [i] challenging the Merger or the other transactions contemplated by this Agreement or the terms thereof, or [ii] seeking to prohibit the Merger or the other transactions contemplated by this Agreement, which, in the opinion of Corporation's counsel, has a reasonable probability of success.

C. The representations and warranties of PFS set forth in Section 4.1 of this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as if made on the Closing Date, and PFS shall have furnished to Corporation a certificate executed by the Chief Executive Officer of PFS to that effect.

D. PFS in all material respects shall have performed and observed its obligations and covenants as set forth in this Agreement prior to or on the Closing Date and shall have delivered to Corporation a certificate of the Chief Executive Officer of PFS to that effect and evidence, in form and substance satisfactory to counsel for Corporation, that the transactions contemplated by this Agreement and the Plan of Merger were duly authorized by all necessary corporate action of PFS.

E. Receipt of all permits, consents, approvals and authorizations from federal and state governmental authorities and regulatory agencies necessary to effect the Merger (including the expiration of all applicable waiting periods) and the other

transactions contemplated herein, on terms and conditions satisfactory to Corporation (other than standard terms and conditions), and the satisfaction of all other requirements prescribed by law which are necessary to the carrying out of the Merger.

F. There shall not have been any material adverse change in the business, financial condition, prospects or operations of PFS or any PFS Subsidiary since December 31, 1992.

G. Corporation shall have received an opinion of counsel for PFS dated as of the Closing Date, in substantially the form attached hereto as Exhibit 5.2G.

H. Corporation shall have received a written release from each of the executive officers and directors of PFS and each PFS Subsidiary which releases Corporation, PFS and each PFS Subsidiary from any and all claims, known or unknown, contingent or direct, which he or she may have against Corporation, PFS or any PFS Subsidiary as of the Closing Date, other than [i] claims arising under this Agreement and the transactions contemplated hereby, or [ii] claims arising out of moneys on deposit or property held in trust or as a custodian by a PFS Subsidiary or compensation accrued but not yet payable or in payment for services rendered to PFS or any PFS Subsidiary as reflected on the books and records of PFS or any PFS Subsidiary or [iii] claims under PFS's articles of incorporation, bylaws, or under statutory or common law for indemnification against liabilities or claims made against them resulting from their service as an executive officer or director of PFS before the Effective Time, including, without limitation, the advancement or reimbursement of expenses and costs.

I. Corporation shall have received a letter from KPMG Peat Marwick to the effect that the Merger qualifies for "pooling of interests" accounting treatment if consummated in accordance with this Agreement and the Plan of Merger.

J. The Registration Statement (including any post effective amendments thereto) shall be effective under the Securities Act of 1933, as amended, and no proceedings shall be pending or to the knowledge of Corporation threatened by the Commission to suspend the effectiveness of such Registration Statement.

K. Corporation shall have received all state securities or "blue sky" permits and other authorizations necessary to consummate the Merger.

L. The "affiliates" of PFS shall have executed and delivered the Affiliate Agreements.

M. Each of Barry T. Buckley, Fred H. Brown, M. Dale Bruner, Walter W. Carlen, Steve D. Cihat, Michael Evans, Paul R.

Gaw, Thomas D. Gentry, Billy C. Hall, James N. Hall and James B. McWilliams shall have executed and delivered to Corporation a noncompetition agreement in the form attached hereto as Exhibit 5.2.M.

ARTICLE 6

TERMINATION

6.1 Dissenting Shares. Prior to the Effective Time, this Agreement and the Plan of Merger may be declared void and of no effect by Corporation if the number of Dissenting Shares is greater than 9% of the issued and outstanding shares of PFS.

6.2 Termination. This Agreement and the Plan of Merger may be terminated: (i) by the mutual agreement of Corporation and PFS; (ii) by Corporation, upon prior written notice, if PFS materially breaches any representation or warranty set out in Section 4.1 of this Agreement or materially breaches any covenant in this Agreement, or upon the failure and nonwaiver of any condition precedent set out in Section 5.2 unless, in the case of a material breach of a covenant or failure of a condition, within thirty (30) days after written notice from Corporation, PFS shall have cured such breach or failure; (iii) by PFS, upon prior written notice, if Corporation materially breaches any representation or warranty set out in Section 4.2 of this Agreement or materially breaches any covenant in this Agreement or upon the failure and nonwaiver of any condition precedent set out in Section 5.1 unless, in the case of a material breach of a covenant or failure of a condition, within thirty (30) days after written notice from PFS, Corporation shall have cured such breach or failure; or (iv) by PFS or Corporation if the Effective Time shall not have occurred on or before August 31, 1994.

6.3 Declaration. Any declaration of termination under this Article 6 by Corporation or PFS shall be pursuant to resolution of its Board of Directors or by executive officers thereof duly authorized by its Board of Directors to make such a declaration; shall be made by written notice given to the other parties setting forth the grounds for the termination, including, if applicable, the alleged material misrepresentation, breach or failure, and, unless, in the case of a material breach of a covenant or a failure of a condition, such material breach or failure is timely cured, shall have the effect of terminating this Agreement and the Plan of Merger effective upon the delivery of such written notice or the expiration of any applicable cure period, whichever is later, whereupon the same shall have no further effect and the Merger provided for herein and therein shall not be effected. Notwithstanding the foregoing, no termination of this Agreement shall affect the covenants set forth in Section 3.5 relating to confidentiality or the provisions set forth in Section 8.5 relating to

expenses, which shall survive any such termination. Except as otherwise expressly provided herein, no termination of this Agreement on the grounds of a material misrepresentation or uncured material breach of any covenant contained herein shall relieve the breaching party from any liability for such uncured material misrepresentation or uncured material breach of any covenant or agreement contained herein giving rise to such termination.

ARTICLE 7

INDEMNIFICATION

Except with respect to an unintentional breach of the representations and warranties of PFS contained in Section 4.1U [v], [vi], or [vii] of this Agreement (for which PFS shall not be liable hereunder), PFS shall indemnify, defend and hold Corporation harmless, and Corporation shall indemnify, defend and hold PFS harmless, against and in respect of any material nonfulfillment of any covenant or agreement or the material breach of any representation or warranty on the part of the indemnifying party under this Agreement and any claim, action, suit, proceeding, demand, judgment, assessment, cost and expense, including reasonable counsel fees, incident to the foregoing. Except with respect to a party's intentional breach of any covenant, agreement, representation or warranty under this Agreement, the liability of either party hereto under this Article 7 shall be limited to the actual costs and expenses incurred by the party to be indemnified in connection with its investigation of the other party and the transactions contemplated by this Agreement. A party seeking indemnification hereunder shall use its best efforts to minimize any liabilities, damages, deficiencies, claims, judgments, assessments, cost and expenses in respect of which indemnity is sought hereunder.

ARTICLE 8

GENERAL PROVISIONS

8.1 Law and Section Headings. This Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth of Kentucky. Section headings are used in this Agreement for convenience only and are to be ignored in the construction of the terms of this Agreement.

8.2 Modifications. The parties hereto may amend, modify or supplement this Agreement, before or after approval thereof by the shareholders of PFS, in such manner as may be agreed by them in writing.

8.3 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the remaining provisions.

8.4 Notices. All notices hereunder shall be in writing and shall be deemed to have been given or made when delivered or mailed, first class, registered or certified mail, postage prepaid, addressed as follows, until notice of another address or additional addresses have been received by the other parties:

If to Corporation to:

Trans Financial Bancorp, Inc.
500 East Main Street
Bowling Green, Kentucky 42101
Attention: Douglas M. Lester, President and Chief Executive Officer

With a copy to:

Stewart E. Conner, Esq.
WYATT, TARRANT & COMBS
2800 Citizens Plaza
Louisville, Kentucky 40202

If to PFS, to:

Peoples Financial Services, Inc.
Two West Jackson
P. O. Box 130
Cookeville, Tennessee 38501-0130
Attention: Barry Buckley, President and Chief Executive Officer

With a copy to:

Steven Eisen, Esq.
Baker, Worthington, Crossley, Stansberry & Woolf
1700 Nashville City Center
511 Union Street
Nashville, Tennessee 37219

8.5 Expenses; Risk of Loss. Whether or not the Merger is consummated, each of the parties hereto will pay its own fees and expenses incurred in connection with the Merger and the other transactions contemplated by this Agreement and the Plan of Merger; provided, however, that if the transactions contemplated hereby are

consummated, then the out-of-pocket fees and expenses incurred or paid by or on behalf of PFS in connection with the Merger or the consummation of any of the transactions contemplated by this Agreement and the Plan of Merger, including all fees and expenses of investment banking firms, financial advisors, attorneys, accountants, experts and consultants, shall not exceed $50,000 (excluding the costs of printing and mailing to shareholders of PFS the Proxy Statement/Prospectus). Corporation and PFS shall share equally the cost incurred in printing and mailing to shareholders of PFS the Proxy Statement/Prospectus. Until the Effective Time, the risk of loss to the assets of PFS shall remain with PFS.

8.6 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same instrument.

8.7 Time of Essence; Best Efforts. Time is of the essence to the performance of the obligations set forth in this Agreement. PFS and Corporation each agree to use their respective best efforts to obtain the satisfaction of the conditions to their respective obligations specified herein, and to advise the other parties hereto in writing as to any unusual delays or impediments in obtaining the same.

8.8 Closing. At the Closing, each party shall execute and deliver all documents required by this Agreement, and such further documents as the other party shall reasonably request in order to satisfy the fulfillment of each party's agreements and undertakings hereunder.

8.9 Records and Further Assurances. After the Closing, each party shall make available to the other on reasonable request such books and records of that party as may be appropriate for use in connection with their respective tax returns, including any review thereof, and for any other reasonable purpose.

8.10 Parties in Interest; Third Party Rights. All covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of their respective successors and permitted assigns. No party to this Agreement may however, assign its rights hereunder or delegate its obligations hereunder to any other person or entity without the express prior written consent of the other parties hereto. It is the intention of the parties that nothing in this Agreement or the Plan of Merger shall be deemed to create any right with respect to any person or entity not a party to this Agreement or the Plan of Merger.

8.11 Entire Agreement; Waiver. This Agreement, including all information Previously Disclosed, the Exhibits hereto and the Plan of Merger, constitute and contain the entire agreement of PFS and

Corporation with respect to the Merger and supersede any prior agreement by the parties, whether written or oral. The waiver of a breach of any term or condition of this Agreement must be in writing signed by the party sought to be charged with such waiver and such waiver shall not be deemed to constitute the waiver of any other breach of the same or of any other term or condition of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

TRANS FINANCIAL BANCORP, INC.

By /s/ Douglas M. Lester

Douglas M. Lester, President and
Chief Executive Officer

PEOPLES FINANCIAL SERVICES, INC.

By /s/ Barry Buckley

Barry Buckley, President and
Chief Executive Officer

Exhibit 2(b)

PLAN OF MERGER

THIS PLAN OF MERGER ("Plan") is made and entered into as of this 27th day of December, 1993, by and between TRANS FINANCIAL BANCORP, INC., a Kentucky corporation ("Corporation") and PEOPLES FINANCIAL SERVICES INC., a Tennessee corporation ("PFS").

W I T N E S S E T H :

PFS is a corporation organized and existing under the laws of the State of Tennessee, the authorized capital stock of which consists of [i] 100 shares of organizational common stock with $10.00 par value per share ("PFS Organizational Common Stock") of which at the date hereof no shares are issued and outstanding and [ii] 1,000,000 shares of common stock without par value ("PFS Common Stock"), of which at the date hereof 236,777 shares are issued and outstanding and fully paid and nonassessable, and 3,111 shares are reserved for issuance upon the exercise of outstanding options.

The respective Boards of Directors of Corporation and PFS have determined that it is desirable to effect a Plan and Agreement of Reorganization (the "Agreement"), for the general welfare and advantage of Corporation and PFS and their respective shareholders, under which plan PFS would be merged into Corporation, in accordance with the terms of the Agreement and this Plan.

The respective Boards of Directors of PFS and Corporation have approved and adopted the Agreement and this Plan and have authorized the execution hereof.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and undertakings herein contained, the parties hereby agree as follows:

ARTICLE 1

THE MERGER

1.1 The Merger. Upon the terms and conditions set forth in this Plan and the Agreement, at the Effective Time (as hereinafter defined), PFS shall be merged with and into Corporation (the "Merger") in accordance with the provisions of and with the effect provided in the Kentucky Business Corporation

Act (the "KBCA") and the Tennessee Business Corporation Act ("TBCA"). The terms of the Merger shall be as set forth in the Agreement and in this Plan.

2

1.2 Articles of Merger. Upon the terms and conditions set forth in the Agreement and this Plan, Articles of Merger (the "Articles of Merger") shall be duly prepared and executed by Corporation and PFS, and thereafter delivered to the Secretary of States of the Commonwealth of Kentucky and the State of Tennessee for filing, as provided in the KBCA and the TBCA on the Closing Date, as defined in the Agreement. The Merger shall become effective upon filing with the Kentucky Secretary of State and the Tennessee Secretary of State or at such time and date thereafter as is provided in the Articles of Merger (the "Effective Time").

1.3 Effect of Filing.

A. At the Effective Time, [i] the separate existence of PFS shall cease and PFS shall be merged with and into Corporation (sometimes herein referred to as the "Surviving Corporation") and [ii] the Articles of Incorporation and Bylaws of Corporation as in effect immediately prior to the Effective Time shall be the Articles of Incorporation and Bylaws of the Surviving Corporation.

B. At the Effective Time, the officers and Board of Directors of the Surviving Corporation shall consist of those persons serving as the officers and directors of Corporation immediately prior to the Effective Time.

C. At and after the Effective Time, the Merger will have the effects set forth in Section 271B.11-060 of the KBCA and Section 48-21-107 of the TBCA and as otherwise provided by law.

ARTICLE 2

CONVERSION OF SHARES

2.1 Conversion of PFS Capital Stock.

A. Conversion of PFS Common Stock. Each share of PFS Common Stock issued and outstanding immediately prior to the Effective Time shall, automatically, by virtue of the Merger and at the Effective Time, be exchanged for and converted, without any further notice to or on the part of the holder thereof, into 5.5 shares of Corporation Common Stock, subject to Sections 2.1.B and 2.1.C hereof (the "Exchange Ratio"). All shares of PFS Common Stock shall automatically be canceled and shall cease to exist and each certificate previously representing any such shares shall thereafter represent the right to receive the Corporation Common Stock into which such PFS Common Stock has been converted. Certificates previously representing shares of PFS Common Stock shall be exchanged for Corporation Common Stock issued in consideration therefor upon the surrender of such certificates in accordance with Section 2.2.

B. Reclassifications. If prior to the Effective Time the outstanding shares of Corporation Common Stock shall have been

increased, decreased or changed into or exchanged for a different number or kind of shares or securities by reorganization, recapitalization, reclassification, stock dividend, stock split or other like changes in Corporation's capitalization, all without Corporation receiving consideration therefor, then an appropriate and proportionate adjustment shall be made in the number and kind of shares of Corporation Common Stock to be thereafter delivered pursuant to this Plan of Merger.

C. No Fractional Shares. No certificate or scrip of any kind will be issued by Corporation to any shareholder of PFS in respect of any fractional interest in Corporation Common Stock arising out of the conversion of PFS Common Stock into Corporation Common Stock in the Merger and such fractional share interests will not entitle the owner thereof to vote or to any rights of a shareholder of the Corporation. No holder of PFS Common Stock will have any rights in respect of a fractional interest in Corporation Common Stock arising out of the Merger except the right to receive in lieu thereof a cash payment in a dollar amount equal to such fractional interest multiplied by the average of the bid and asked price per share, as quoted by the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), for Corporation Common Stock on the trading day which occurs immediately prior to the Closing Date. For purposes of this Agreement, "trading day" shall mean any day on which securities are traded on the New York Stock Exchange.

2.2 Exchange of Certificates.

A. As of the Effective Time, the Corporation shall deposit, or cause to be deposited, with Peoples Bank & Trust of the Cumberlands, Cookeville, Tennessee (the "Exchange Agent"), for the benefit of the holders of PFS Common Stock, for exchange in accordance with this Section 2.2, through the Exchange Agent, certificates representing the shares of Corporation Common Stock (such certificates for shares of Corporation Common Stock, together with any dividends or distributions with respect thereto, being hereinafter referred to as the "Exchange Fund") issuable pursuant to Section 2.1 in exchange for outstanding shares of PFS Common Stock.

B. At and after the Effective Time, each person (other than Corporation) who immediately prior to the Effective Time held of record shares of PFS Common Stock shall be entitled to receive, upon the surrender of the certificate(s) which represented such shares (individually a "Certificate" and collectively the "Certificates") to Corporation, together with a letter of transmittal (in the form contemplated by Section 2.2.C) duly executed, the consideration specified in Section 2.1.

C. On, or within seven (7) days after the Effective

Time, the Exchange Agent shall mail or deliver to each holder

(other than Corporation), who immediately prior to the Effective Time held of record shares of PFS Common Stock, a form letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent) and instructions for use in effecting the surrender of the Certificates or payment therefor. No interest will be paid or accrue on any consideration payable on the surrender of such Certificate. If delivery of certificates of Corporation Common Stock is to be made to a person other than the person in whose name the Certificate surrendered is registered, it shall be a condition of payment that the Certificate so surrendered shall be properly endorsed or otherwise in proper form for transfer and that the person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of the Certificate surrendered or establish to the satisfaction of Corporation that such tax has been paid or is not applicable.

D. At and after the Effective Time, holders of Certificates shall cease to have any rights as shareholders of PFS except for the right to receive upon such surrender the consideration specified in Section 2.1.

E. No dividends or other distributions declared or made after the Effective Time with respect to Corporation Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Corporation Common Stock represented thereby, and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 2.1.C until the holder of such Certificate shall surrender such Certificate. Subject to the effect of applicable laws, following the surrender of any such Certificate, there shall be paid to the holder of such Certificate(s) representing whole shares of Corporation Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender the amount of any cash payable with respect to a fractional share of Corporation Common Stock to which such holder is entitled pursuant to Section 2.1.C and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Corporation Common Stock, and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such whole shares of Corporation Common Stock.

F. After the Effective Time, except to the extent necessary to issue replacement Certificates for any Certificates which may have been lost or stolen or to comply with the payment instructions contained in a letter of transmittal contemplated by Section 2.2.C., there shall be no further registration of transfers on the stock transfer books of PFS of any Certificates formerly

evidencing the shares of PFS Common Stock which were outstanding immediately prior to the Effective Time.

G. Any portion of the Exchange Fund that remains undistributed to the shareholders of PFS for six months after the Effective Time shall be delivered to the Corporation, upon demand, and any shareholders of PFS who have not theretofore complied with this Article 2 shall thereafter look only to the Corporation for payment of their claim for Corporation Common Stock, any cash in lieu of fractional shares of Corporation Common Stock and any dividends or distributions with respect to Corporation Common Stock.

H. Neither PFS nor the Corporation shall be liable to any holder of shares of PFS Common Stock for such shares or Corporation Common Stock into which they are converted (or dividends or distributions with respect thereto) or cash in lieu of fractional shares delivered to a public official pursuant to any abandoned property, escheat or similar law.

2.3 Dissenting Shareholders. If any holder of shares of PFS Common Stock shall, in accordance with the provisions of applicable law, seek appraisal and perfect dissenting shareholder rights to be paid the fair value of his or her shares ("Dissenting Shares"), then such holder shall be entitled to receive such value as may be established pursuant to such provisions. PFS shall give Corporation prompt notice of any written objections or demands received from any shareholder pursuant to such provisions, and shall give Corporation the opportunity to participate in all proceedings with respect to any such objections or demands. PFS will pay its dissenting shareholders the value of their stock out of its own funds. No funds will be supplied for that purchase, directly or indirectly, by Corporation, nor will Corporation directly or indirectly reimburse PFS for any payments to dissenters.

2.4 Corporation Common Stock. The shares of capital stock of Corporation issued and outstanding immediately prior to the Effective Time shall remain issued and outstanding at the Effective Time and shall not be effected by the Merger.

ARTICLE 3

TERMINATION

Anything contained in this Plan notwithstanding and notwithstanding adoption hereof by the shareholders of PFS, this Plan may be terminated and the Merger abandoned as provided in the Agreement.

ARTICLE 4

CONDITIONS PRECEDENT

The obligations of Corporation and PFS to effect the Merger as herein provided shall be subject to satisfaction, unless duly waived, of the conditions set forth in the Agreement.

ARTICLE 5

GENERAL PROVISIONS

5.1 Law and Section Headings. This Plan shall be construed and interpreted in accordance with the laws of the Commonwealth of Kentucky. Section headings are used in this Plan for convenience only and are to be ignored in the construction of the terms of this Plan.

5.2 Modifications. The parties hereto may amend, modify or supplement this Plan, before or after approval thereof by the shareholders of PFS, in such manner as may be agreed by them in writing.

IN WITNESS WHEREOF, the parties hereto have caused this Plan to be executed by their duly authorized officers as of the date first above written.

TRANS FINANCIAL BANCORP, INC.

By /s/ Douglas M. Lester

Douglas M. Lester, President

PEOPLES FINANCIAL SERVICES, INC.

By /s/ Barry Buckley

Barry Buckley, President