BIG ENOUGH TO LEAD. SMALL ENOUGH TO CARE.

2021
ANNUAL
REPORT

Central Bancshares, Inc.

CENTRAL BANK & TRUST CO. • CENTRAL INSURANCE SERVICES • CENTRAL INVESTMENT CENTER, INC.

OUR SENSE OF COMMUNITY IS AS STRONG INSIDE OUR BANK AS OUTSIDE OF IT.

In 2022, the Kentucky Chamber of Commerce and the Kentucky Society for Human Resource Management (KYSHRM) named Central Bank one of the Best Places to Work in Kentucky – for the 15th time. The competition encourages and motivates Kentucky-based companies to improve their workplace environments, resulting in improved profitability and employee satisfaction.

MISSION STATEMENT

The mission of Central Bancshares is to become Kentucky's leading, high-performing, community banking company by empowering our staff to deliver consistently superior service and value to our customers, shareholders and communities. We will be successful because Central Bankers are our greatest resource and our most sustainable advantage.

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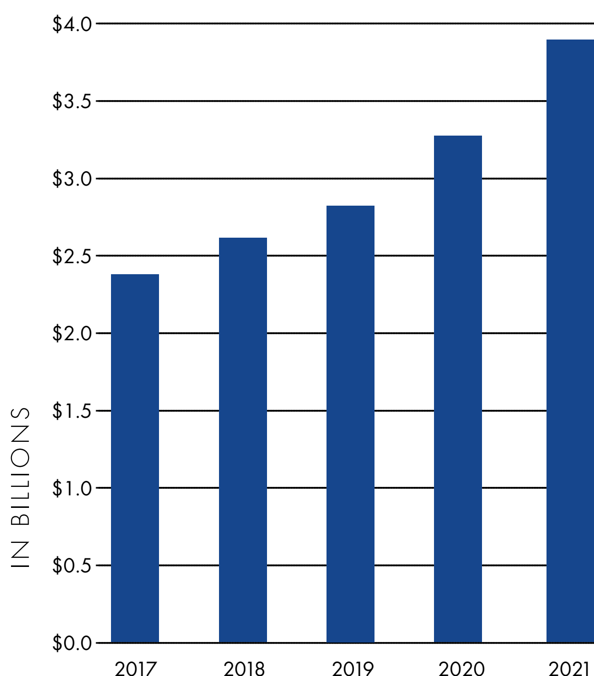
Refer to Marketing for copies: Central Bank & Trust Co., 300 West Vine Street, Lexington, KY 40507

FINANCIAL HIGHLIGHTS

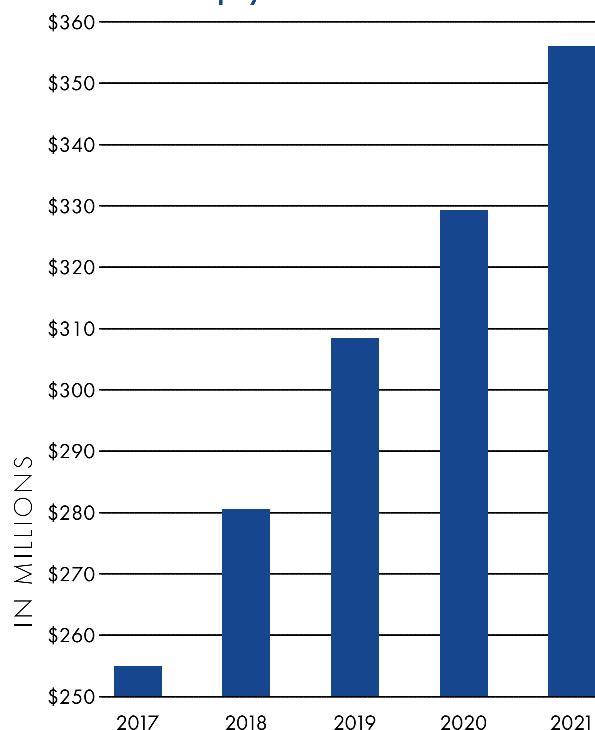
As of and for the twelve months ended December 31

(dollars in thousands, except share data)	2021	2020	2019	2018	2017
RESULTS OF OPERATIONS:					
Net income	$ 31,150	$ 15,151	$ 31,445	$ 28,128	$ 17,410
Basic net income per share	0.90	0.44	0.90	0.81	0.50
Cash dividends per share	0.05	0.05	0.05	0.05	0.04
Book value per share at year end	10.24	9.48	8.86	8.06	7.33
AT DECEMBER 31:					
Assets	$ 3,892,368	$ 3,270,413	$ 2,763,519	$ 2,600,173	$ 2,408,725
Earning assets	3,775,756	3,134,086	2,634,272	2,481,108	2,288,833
Loans, net	2,048,484	2,297,391	2,025,800	2,056,749	1,968,370
Deposits	3,230,568	2,674,055	2,215,844	2,107,493	1,991,028
Shareholders' equity	356,147	329,657	308,344	280,590	255,079
AVERAGES:					
Assets	$ 3,532,637	$ 3,033,257	$ 2,640,451	$ 2,508,594	$ 2,328,930
Earning assets	3,406,562	2,912,431	2,526,382	2,392,888	2,202,883
Loans, net	2,273,501	2,253,730	2,075,030	2,001,079	1,854,129
Deposits	2,909,638	2,450,501	2,110,887	2,046,598	1,930,081
Shareholders' equity	344,646	317,719	295,790	269,106	247,887
PERFORMANCE RATIOS:					
Return on average assets	0.88%	0.50%	1.19%	1.12%	0.75%
Return on average equity	9.04%	4.77%	10.63%	10.45%	7.02%
Average equity to average assets	9.76%	10.47%	11.20%	10.73%	10.64%
Dividend payout ratio	5.58%	11.44%	5.53%	6.18%	7.99%
Net interest margin (tax equivalent)	3.01%	3.48%	3.99%	3.95%	3.94%
CAPITAL RATIOS:					
Total capital to risk-weighted assets	17.5%	16.4%	15.4%	13.7%	13.0%
Tier I capital to risk-weighted assets	16.4%	15.3%	14.5%	12.8%	12.1%
Common equity Tier I to risk-weighted assets	15.7%	14.6%	13.9%	12.1%	11.4%
Tier I capital to average assets	9.6%	10.4%	11.7%	11.2%	10.9%

End of Period Total Assets



Shareholders' Equity



LOCALLY OWNED & OPERATED SINCE

1946

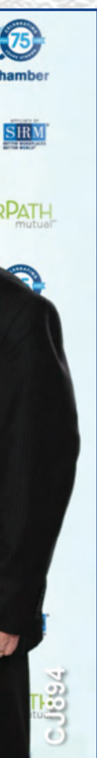
COUNTLESS SPONSORSHIPS & DONATIONS

28 BANKING CENTERS IN **8** KENTUCKY COUNTIES

3,656 EMPLOYEE SERVICE HOURS IN 2021

ORGANIZATIONS SUPPORTED: **500+**

NAMED A **BEST PLACE TO WORK** FOR THE **15th** YEAR IN 2022.



COMMUNITY

Central Bank was founded on the idea that banks can and should be pillars of their communities – in good times and in bad. We're as dedicated to this principle today as when we opened our doors in 1946. As a result of this dedication, Central Bank is now proud to be a community fixture in Berea, Crestview Hills, Florence, Ft. Mitchell, Georgetown, Lexington, Louisville, Nicholasville, Richmond, Union and Winchester. We're honored to call these communities home, and we strive to support them however we can.

Member FDIC

BANKING

We realize consumers have more options than ever when it comes to banking. Central Bank offers a wide range of personal and business banking products and services designed to fit all stages of your financial life. We also understand the role convenience plays in the lives of our customers. That's why we offer robust online and mobile banking options for both personal and business customers, including Central***MOBILE*** with mobile deposit and Central Wallet® debit card management, Commercial & Business Online Banking with remote deposit and more.

Member FDIC

LENDING

At Central Bank, you get more than a wide range of lending options. You gain access to decision makers located in town and close to you. Whether you are looking for a mortgage, credit card, business loan or something else, we have options to meet your needs. And all decisions concerning your loan application are made locally – so you receive timely advice and quick decisions right where you need them.

Loans subject to credit approval.

Member FDIC

INSURANCE SERVICES*

Central Insurance Services* provides objective advice backed by some of the largest insurance companies in America. Our dedicated and experienced team of insurance experts is here to offer you insurance options related to both your personal and business needs, including health, home, auto, life and commercial/business insurance as well as employee benefits packages and more.

WEALTH MANAGEMENT*

At Central Bank, our ultimate goal is helping you reach yours. And that's exactly what we do through our Wealth Management Group. Our services include investment management, private banking, trust and estate planning, retirement accounts and more. Our dedicated team is here to act in your best interest and operate on a simple principle: We are successful when you are.

*Wealth Management Services are provided by Central Bank & Trust Co. CBIA, Inc., dba Central Insurance Services (CIS), is a wholly-owned subsidiary of Central Bank & Trust Co. Insurance products, investment products and securities are:

NOT FDIC Insured	NOT Guaranteed by the Bank	MAY Lose Value	NOT Insured by any Federal Government Agency	NOT a Deposit	Subject to Risk

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

I am pleased to report 2021 was a successful year for Central Bancshares, Inc (the "Company"). We witnessed success across our service lines that exceeded our expectations and goals, with our Investment, Insurance and Wealth Management groups all achieving high-performing years. Of note, our Mortgage division again met demand for the second consecutive year of elevated application volume for mortgage loans, contributing to our performance in the non-interest income category.

Outside our commercial successes, we were proud to celebrate Central Bank's 75th anniversary and reflect upon the core tenets established by our founder, Garvice D. Kincaid. A look back at Mr. Kincaid's founding principles provided a welcome reminder we are now and always will be a community bank with a responsibility to support those around us. This enduring belief that we are chartered to serve our communities continues to be evidenced by our contributions to the economic growth and prosperity of the areas we call home. I am proud to say this commitment was recently underscored when Central Bank made a historic pledge to donate $10 million to the Markey Cancer Center.

It is also important I mention the impact of Paycheck Protection Program ("PPP") loans when discussing performance, operations and customer relationships over the last year. While these loans contributed to our success, the achievements of our service lines and frontline Retail staff provided solid underpinnings for the year's results, independent of PPP loans. In terms of the impact on our daily operations, our Retail, Lending and Operations staffs dedicated countless hours to help our customers achieve PPP loan forgiveness and were available as a knowledgeable resource to our business clients as they navigated and focused on business recovery. I can say with confidence that our dedication to assisting these clients throughout this process was a key component of our success.

PERFORMANCE

These financial highlights for the Company include Central Bank & Trust Co. and its subsidiaries, Central Investment Center, Inc., and Central Insurance Services. We have provided a detailed discussion of our financial results in the Management's Discussion and Analysis beginning on page 6.

- Net income was $31.2 million or $0.90 per share for 2021. In 2020, earnings were $15.2 million or $0.44 per share.
- Deposits grew $557 million or 20.8%, ending the year at $3.2 billion.
- Total loans decreased $250 million or 10.8%, ending the year at $2.1 billion.
- Shareholders' equity grew 8.0% to $356 million.

PRODUCTS & SERVICES

Significant consumer-driven developments were made to our products and services in 2021. Leading the way were the redesigned Platinum Equity Line product and the upgraded Commercial Online Banking system.

A tiered pricing model and introductory offer were introduced to the new Platinum Equity Line product, making it a competitive option in all our markets for consumers interested in accessing the equity in their homes. The product has already been well-received by our current customer base, and plans are underway to promote this product in each of our markets in the coming months.

Keeping the evolving needs of our commercial clients in mind and understanding they increasingly require digital tools to make their businesses successful, we introduced an upgraded commercial online banking solution – aptly named Commercial Online Banking – in July. The upgraded system offers new and improved features and benefits, including single sign-on to auxiliary services, customizable dashboard views, streamlined functionality and a new Central Business Mobile app to view daily activity, deposit checks and do more while on the go. The response from our business clients to the new platform has been overwhelmingly positive, and we continue to work in partnership with them to ensure we are meeting their increasingly complex needs.

We again observed a significant increase in debit card usage among our customers. As a response to our customers' preference for card payments, we are on track to offer several new debit and credit card features within our online and mobile applications in 2022, including options for card controls, transaction alerts, card-free cash and more. We will be offering enhanced features on both consumer and business platforms throughout the year.

It is important to note that while we are committed to offering the conveniences associated with online and mobile banking options, we remain dedicated to providing the same level of in-person service we have been long known for at our physical locations. We understand the importance of forming relationships with our clients and continue to prioritize service options that make those connections possible, adding staff when needed to keep pace with our growing customer base and market footprint.

LOOKING FORWARD

As we enter this new year, we remain rooted in and united by our common goal to provide our customers with exceptional service and value that remain unmatched by any of our competitors. We also bring with us the motivation and energy that come from our proven ability to persevere in the face of the many and varied challenges we've overcome in recent years. All this, along with a continued focus on digital banking options, an emphasis on consumer and business lending, and an unwavering focus on the communities we serve, position us to make 2022 another successful year for our Company.

RETIREES

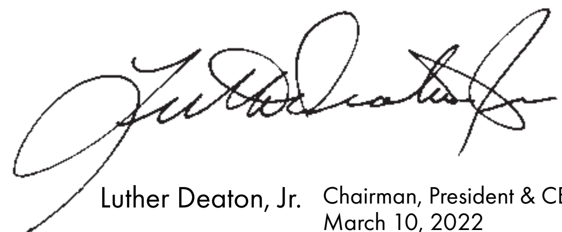
In the words of Mr. Kincaid, "No one person is responsible for our success. A leader is only as good as his followers, and – in this regard – I consider myself fortunate to be blessed with so many talented and hardworking associates." It is with this sentiment that we thank 20 long-term employees who completed their service to reach well-earned retirements: Karen Crawley (Image Processing, 44 years); Robin Michul (Operations, 44 years); Beverly Smalley (Card Services, 44 years); Jane Tucker (Loan Services, 41 years); Cathy Combs (Client Services, 35 years); Richard Hartley (Commercial Lending, 35 years); Craig Daniels (Auditing, 30 years); Alice Hawks (Special Assets, 29 years); David Hardin (Enterprise Risk Management, 23 years); Glenda Kenton (Loan Processing, 23 years); Viki Gerkens (Client Services, 21 years); Julie Szymanski (Special Assets, 18 years); Phyllis Gant (Client Services, 17 years); Amy Manning (Human Resources, 16 years); Jennifer Roberts (Commercial Lending, 16 years); June Carpenter (Human Resources, 15 years); Sharon Sullivan (Commercial Lending, 15 years); Patricia Voigt (Retail Banking, 15 years); Allen Waugh (Image Processing, 13 years); and Anne Henry (Wealth Management, 11 years). They were dedicated Central Bankers who served our Bank and their customers with distinction. We honor their service and congratulate them on their achievements.

WITH APPRECIATION

The contributions of our directors are key to our achievements. Their collective knowledge and expertise provide invaluable insight and help us stay connected to our local markets. Without the leadership of our directors, we would not be successful.

As with each year, I am honored to say our Bank is in the hands of knowledgeable and caring staff. We call them Central Bankers, and they are the foundation of this Company. Their tireless efforts to serve our customers do not go unnoticed. Thanks to their support, we were named a Best Place to Work in Kentucky for the 15th year.

Most of all, none of our success would be possible without our loyal customers. They allow us to be part of their financial lives, and we are grateful for the opportunity to serve them. Their dedication to this Company and their recognition of our diligent efforts to serve them remain a source of motivation for us all. It is a privilege to have such a dedicated team of employees and loyal customers as we look forward to the year ahead.



Luther Deaton, Jr. Chairman, President & CEO
March 10, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Central Bancshares, Inc. (the "Company"), a bank holding company located in Lexington, Kentucky, is the parent company of Central Bank & Trust Co. (the "Bank"). At December 31, 2021, the Company had 28 full service banking centers located in Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full service brokerage business and a full service insurance agency.

COVID-19

In March 2020, COVID-19 was declared a pandemic ("Pandemic") by the World Health Organization and a national emergency by then-U.S. President Trump. The effect of the Pandemic has been complex, creating significant disruptions to the U.S. economy, the Company, and its customers.

Although many economic measures have improved since the early stages of the Pandemic, the overall interest rate environment remains at very low levels from a historical context. Low yields on earning assets and excess liquidity throughout the banking industry continue to pressure net interest margin. Certain businesses, such as hotels and lodging providers, restaurants, entertainment facilities, retail, and commercial real estate are more heavily impacted than others when travel and other restrictions are imposed.

Significant legislation and economic stimulus measures have been enacted by federal and state governments to provide assistance to both business and individuals. The primary federal legislation, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") created the Paycheck Protection Program ("PPP") to provide funds to small businesses in the form of loans that are fully forgiven when used as specified under the terms of the program. PPP loans are made by eligible lenders to cover certain qualified expenses such as payroll costs, mortgage interest, rent, and utilities. The loans are 100% guaranteed by the Small Business Administration ("SBA").

The extent to which the Pandemic further impacts the Company's business, liquidity, asset valuations, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain, including the scope and duration of the Pandemic and actions taken by governmental authorities and other third parties in response to the Pandemic. Moreover, the effects of the Pandemic may have a material adverse effect on all or a combination of valuation impairments on the Company's investments and loans.

RESULTS OF OPERATIONS

The Company reported net income of $31.2 million or $0.90 per common share for 2021 compared with $15.2 million or $0.44 per common share for 2020. Return on average assets and average equity was 0.88% and 9.04%, respectively, for 2021 compared with 0.50% and 4.77% a year earlier. The increase in net income for 2021 is primarily the result of a decrease in non-interest expense of $7.9 million or 6.6%, lower provision for loan losses of $6.8 million or 87.0%, and an increase in non-interest income of $5.9 million or 14.4%.

NET INTEREST INCOME

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings used to fund those assets. Net interest income is the largest source of revenue for the Company, which represented 68.5% of total revenue for 2021.

Net interest spread results from the difference between the taxable equivalent yield on earning assets and the rates paid on interest bearing liabilities. Net interest margin represents taxable equivalent net interest income divided by average interest-earning assets. Net interest margin will exceed net interest spread because of the existence of non-interest bearing sources of funds, primarily demand deposits and shareholders' equity, that are available to fund earning assets.

Net interest income was $102 million in 2021, an increase of $843 thousand or 0.8% compared to a year earlier. The increase in net interest income was primarily attributed to a lower average rate paid on interest bearing liabilities, primarily time deposits. The $2.8 million or 40.2% decrease in total interest expense on deposits and borrowed funds exceeded the $2.0 million or 1.8% decline from interest on earning assets. High quality lending alternatives relative to liquidity levels have been limited, resulting in a greater amount of earning assets made up primarily of lower yielding interest bearing deposits and short-term debt securities.

Market interest rates decreased significantly over a short period of time during the first quarter of 2020 in response to Federal Reserve actions to lower the short-term targeted federal funds rate to a range of between zero and 0.25%, with two separate rate reductions totaling 150 basis points occurring during March 2020 in reaction to the Pandemic. The Federal Reserve has left the targeted federal funds rate unchanged through the end of 2021, although current indications point to this rate being increased starting in the first half of 2022. By year-end 2021, medium and long-term market rates had already begun to shift upward. The Company's net interest income was partially sustained during the latter half of 2020 and throughout 2021 by the recognition of interest and fee income related to PPP loan activity. Significantly all of the PPP loans were forgiven as of the end of 2021 and related future income is minimal. The Company expects its net interest income and margin to continue to be under pressure while interest rates remain at very low levels.

The Company's net interest spread was 2.92% and 3.32% for 2021 and 2020, respectively. This represents a decrease of 40 basis points and was driven by a 59 basis point decline in the average rate earned on earning assets, partially offset by a 19 basis point decline in the average rate paid on interest bearing liabilities. In the current low interest rate environment, it is not practical or possible to reduce certain deposit rates by the same magnitude as the fall in rates on earning assets. As such, earning assets with higher yields have more of an opportunity to reprice to lower rates than existing low-rate deposits. Rate reductions on earning assets were partially offset by a $498 million or 17.0% increase in average earning assets.

Net interest margin for 2021 was 3.01%, down 47 basis points from a year earlier. The impact of non-interest bearing sources of funds added nine basis points to net interest margin during 2021, a decrease of seven basis points in the comparison. The benefit of non-interest bearing sources of funds to net interest margin decreases as the cost of funds decline.

Total interest income for 2021 was $107 million, a decrease of $2.0 million or 1.8% compared to $109 million for 2020. The decrease in interest income occurred in all major earning asset categories and was driven by lower interest rates. Higher average

earning asset balances partly offset the significant impact from a decrease in rates, but a greater portion of the balances was made up of lower yielding interest bearing deposits and debt securities.

Average loans were $2.3 billion for 2021, an increase of $23.1 million or 1.0%, but was offset by a lower average rate earned of five basis points to 4.50%. Lower yielding average interest bearing deposits with other financial institutions and debt securities increased $388 million or 108% and $86.8 million or 29.7%, but were offset by a decrease in their respective yield of 22 basis points and 68 basis points. Average non-PPP loans were up $60.8 million or 3.0% in the annual comparison, primarily driven by an increase in residential real estate mortgage loans. PPP loans averaged $225 million for 2021, a decrease of $37.5 million or 14.3% consistent with forgiveness activity during 2021.

Total interest expense for 2021 was $4.2 million, a decrease of $2.8 million or 40.2% from the prior year. Interest expense on deposits, the largest component of interest expense, was $3.1 million for 2021, down $2.4 million or 43.4%. Interest expense decreased in all major categories of the deposit portfolio with the exception of savings accounts. Interest on savings deposit balances were up $12 thousand or 11.2% due to an increase in the average balance outstanding of $56.7 million or 31.1%. Although rates remain historically low, average deposit balances grew significantly throughout the portfolio compared to 2020 with the exception of time deposits.

Interest expense on time deposits decreased $2.1 million or 53.6%, driven by a lower average rate paid of 36 basis points to 0.50%. A decrease in the average balance of $94.7 million or 20.5% also contributed to a lesser extent. Interest expense on money market accounts decreased $287 thousand or 31.6% due to a decline in rate of eight basis points. Average balances were up $124 million or 24.8%

Interest expense on borrowed funds was $1.0 million for 2021, a decrease of $387 thousand or 27.4%. Interest on short-term borrowings, primarily repurchase agreements with commercial customers, decreased $55 thousand or 34.0% due to a lower average rate paid of four basis points to 0.05%. Overall balances were up $36.4 million or 20.6%.

Interest expense on long-term borrowings, consisting of Federal Home Loan Bank ("FHLB") advances and subordinated debentures, decreased $332 thousand or 26.6%. The decrease is primarily due to the maturity of FHLB advances during the last half of 2020 in the amount of $30.0 million, which reduced average outstanding balances in the current year by $16.2 million. Interest expense on subordinate debentures at the parent company decreased $91 thousand or 23.3% due to a decrease in the average rate paid. The rate on this debt is variable and decreased in each of the four reset periods during 2021. This resulted in a 59 basis point decrease in the average rate paid on those borrowings to 1.93%.

The Company's 2021 average loans to average deposits ratio decreased to 79.0% from 92.8% in 2020. The decrease was driven by average deposit growth of $459 million or 18.7%, which outpaced an increase in average total loans of $23.3 million or 1.0%.

Overall liquidity reached record levels during 2021 and is expected to remain elevated during 2022. Deploying excess cash has been challenging. The Company invested nearly $308 million in debt securities during 2021 in an effort to deploy excess cash and increase earnings. Liquidity position and related metrics are closely monitored as management seeks the appropriate balance between the relative safety of higher liquidity levels and corresponding lower yields, versus the interest rate risk inherent in obtaining higher yields over a longer-term investment.

The table below reflects information regarding the Company's average balances, interest income or expense, and average rates earned and paid by each major balance sheet category for the years ended December 31, 2021 and 2020.

NET INTEREST MARGIN ANALYSIS

(dollars in thousands)

	2021			2020		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets						
Loans[1,2]	$ 2,297,472	$ 103,363	4.50%	$ 2,274,331	$ 103,522	4.55%
Interest-bearing deposits	746,948	1,050	0.14%	359,367	1,306	0.36%
Federal Home Loan Bank stock	6,751	135	2.00%	6,751	152	2.25%
Securities[1]	379,362	2,823	0.74%	292,582	4,169	1.42%
Total interest-earning assets	$ 3,430,533	$ 107,371	3.13%	$ 2,933,031	$ 109,149	3.72%
Interest-bearing liabilities						
Deposits						
NOW accounts	$ 463,015	$ 563	0.12%	$ 370,100	$ 579	0.16%
Savings deposits	238,648	119	0.05%	181,980	107	0.06%
Money market deposits	626,663	621	0.10%	502,187	908	0.18%
Time deposits	367,337	1,834	0.50%	462,033	3,955	0.86%
Total interest-bearing deposits	1,695,663	3,137	0.19%	1,516,300	5,549	0.37%
Short-term borrowings	213,317	107	0.05%	176,880	162	0.09%
Long-term borrowings	40,787	916	2.25%	57,004	1,248	2.19%
Total interest-bearing liabilities	$ 1,949,767	$ 4,160	0.21%	$ 1,750,184	$ 6,959	0.40%
Net interest margin		$ 103,211	3.01%		$ 102,190	3.48%

[1]Income and yield stated at a tax equivalent basis using a marginal corporate tax rate of 24.95% in 2021 and 21.0% in 2020.
[2]Loan balances include principal balances on nonaccrual loans.

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS
(dollars in thousands)

	2021/2020			2020/2019		
		Increase/(Decrease) Due To			Increase/(Decrease) Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ (159)	$ (1,206)	$ 1,047	$ (3,459)	$ (12,221)	$ 8,762
Interest-bearing deposits	(256)	(1,114)	858	(2,774)	(4,799)	2,025
Federal Home Loan Bank stock	(17)	(17)	-	(185)	(185)	-
Securities	(1,346)	(2,356)	1,010	(2,162)	(3,082)	920
Total interest income	(1,778)	(4,693)	2,915	(8,580)	(20,287)	11,707
Interest expense						
Deposits						
NOW accounts	(16)	(144)	128	(765)	(961)	196
Savings deposits	12	(18)	30	(246)	(302)	56
Money market deposits	(287)	(476)	189	(1,640)	(1,983)	343
Time deposits	(2,121)	(1,421)	(700)	(5,636)	(4,703)	(933)
Short-term borrowings	(55)	(83)	28	(575)	(704)	129
Long-term borrowings	(332)	31	(363)	(320)	(244)	(76)
Total interest expense	(2,799)	(2,111)	(688)	(9,182)	(8,897)	(285)
Net interest income	**$ 1,021**	**$ (2,582)**	**$ 3,603**	**$ 602**	**$ (11,390)**	**$ 11,992**

The table above reflects the changes in net interest income in 2021 and 2020 due to changes in rates and volumes computed on a tax equivalent basis.

NON-INTEREST INCOME

Total non-interest income was $47.1 million for 2021, an increase of $5.9 million or 14.4% from 2020. All major line items of non-interest income improved in the comparison with the exception of service charge on deposit accounts. Non-interest income was 31.5% of total revenue in 2021, up from 28.9% a year earlier. Total revenue is defined as non-interest income plus net interest income.

Wealth management income includes trust administration, retirement and estate planning, insurance commissions, and investment brokerage fees. Such fees totaled $17.9 million for 2021, an increase of $2.4 million or 15.2% from 2020. Trust fees were up $1.6 million or 19.0% due primarily to an increase in market valuations from stock market appreciation and net new business added during the year. Assets under management were $2.2 billion at year-end 2021, an increase of $220 million or 10.9% from a year earlier. Insurance commissions increased $381 thousand or 7.5% due to higher commercial lines and contingency fees along with an increase in title policy volume that closely relates to strong mortgage loan origination activity. Investment brokerage fees increased $375 thousand or 18.8% mainly due to higher stock market levels.

Card and interchange fees primarily represent amounts received from credit card payment networks based on a percentage of the underlying transaction value. Higher transaction volumes in 2021 resulted in an increase in fees of $1.2 million or 20.6%. Similarly, increased volume activity for debit card and automated teller machine transactions was the primary driver of a $1.2 million or 18.2% increase in electronic banking fees. Volume increases continue to follow a trend whereby customers prefer online and other forms of electronic payment over traditional paper check payments.

Mortgage banking income is primarily made up of gains on the sale of long-term, fixed-rate mortgage loans the Company originates as part of its management of interest rate risk.

Market interest rates heavily influence the origination volume of mortgage loans. The prolonged low interest rate environment that began in early 2020 resulted in a record number of borrowers that chose to either refinance their existing home mortgages or to purchase new ones. The increase in volume activity boosted mortgage banking revenues $674 thousand or 10.5% in the annual comparison. Loans sold to the secondary market were $360 million for 2021, up $46.6 million or 14.9%. Although mortgage loan sales volumes have been strong in each of the past two years, origination levels experienced a noticeable decrease in the last half of 2021 after most refinancing activity in our markets had already taken place and interest rates started to move upward off of their historical lows.

Service charges on deposit accounts decreased $213 thousand or 3.79% attributed to lower NSF and overdraft charges of $251 thousand or 8.2%. Recurring deposit service charges were up $38 thousand or 1.4%. The decrease in NSF and overdraft charges are volume related and primarily attributed to customer spending behavior, which has tended to be more conservative during each of the last two years. Customers have also tended to carry higher deposit balances after receiving government funded payments such as from economic stimulus funds, increased unemployment benefits, and PPP proceeds.

NON-INTEREST EXPENSE

Total non-interest expense for 2021 was $111 million, a decrease of $7.9 million or 6.6% compared with 2020. The decrease in non-interest expense is mainly attributed to termination of the Company's noncontributory defined benefit pension plan ("Pension Plan" or "Plan") late in 2020, statutory changes to capital based taxes, and lower contributions to its employee stock ownership plan ("ESOP").

The Company's Board of Directors approved a resolution to terminate its Pension Plan effective January 8, 2020. The Plan, which covered substantially all employees with five or more years of service prior to December 31, 2009, was curtailed in 2009 by fully vesting and freezing benefits for eligible employees at that time. The Company received approval from the Internal Revenue Service and the Pension Benefit Guaranty Corporation to terminate the Plan during 2020 and the settlement of all assets and

ANALYSIS OF NON-INTEREST INCOME
(dollars in thousands)

	2021	2020	2019	2021/2020 CHANGE	2021/2020 %	2020/2019 CHANGE	2020/2019 %
Service charges on deposit accounts	$ 5,621	$ 5,834	$ 7,253	$ (213)	(3.65)%	$ (1,419)	(19.56)%
Mortgage banking income	7,099	6,425	3,918	674	10.49 %	2,507	63.99 %
Card and interchange fees	6,880	5,705	6,232	1,175	20.60 %	(527)	(8.46)%
Trust fees	10,084	8,471	8,226	1,613	19.04 %	245	2.98 %
Electronic banking	7,613	6,441	5,944	1,172	10.20 %	497	8.36 %
Net gain (loss) on sales and write-downs of other real estate owned	51	(472)	(109)	523	(110.81)%	(363)	333.03 %
Other fees and income	9,764	8,781	8,423	983	11.19 %	358	4.25 %
Total non-interest income	$ 47,112	$ 41,185	$ 39,887	$ 5,927	14.39 %	$ 1,298	3.25 %

liabilities under the Plan was completed by December 31, 2020. Total pension expense, including the non-qualified plan discussed below, was $808 thousand in 2021, a decrease of $9.8 million in the annual comparison. Pension expense for 2020 includes a net settlement loss of $5.6 million.

The Company maintains a non-qualified supplemental pension plan ("Supplemental Plan") covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. Net periodic pension costs for the plan were $808 thousand and $752 thousand for 2021 and 2020. Although the Company in 2009 curtailed the Supplemental Plan by fully vesting and freezing participant benefits, it remains an active plan.

ESOP expense was $2.5 million and $5.0 million for 2021 and 2020, respectively. This represents a decrease of $2.5 million or 49.8%. Contributions to the ESOP can fluctuate over time and are highly dependent upon the share price and number of Company shares that become available from participants electing to sell their shares back to the ESOP. The number of available shares to purchase increased significantly during the prior year as the pool of new retirees had a greater number of shares than is typically available and the Company elected to exercise its right to purchase those shares.

Bank franchise tax expense decreased $2.9 million or 100% for 2021 compared to 2020. The Commonwealth of Kentucky enacted tax reform in 2019 that transitioned financial institutions from a capital-based franchise tax to the Kentucky corporate income tax structure beginning in 2021. The Kentucky corporate income tax rate is 5% and related obligations are included in income tax expense on the Company's consolidated statement of income.

Occupancy and equipment expense primarily include depreciation of capital assets, property rental, property taxes, and other operating expenses such as maintenance, utilities, and equipment service contracts. Total occupancy and equipment expense increased $770 thousand or 4.1% for 2021 primarily as a result of higher real estate taxes, increased rent, and increased building maintenance.

Processing charges were $7.9 million for 2021, an increase of $769 thousand or 10.8%. Processing charges primarily include expenditures for core data processing, debit and credit card processing, internet banking, and ATM processing. Processing charges increased during 2021 primarily as a result of upgrades to online and mobile banking options, particularly with commercial customers.

Card and interchange expense increased $1.3 million or 25.5% in the annual comparison primarily driven by higher interchange fees of $695 thousand or 21.2% due to higher volume. Network assessment fees were up $221 thousand or 21.0% due to higher volumes. Debit and credit card reward expense increased $397 thousand or 46.6%.

Advertising and business development include costs related to promoting the Company including acquiring new business, retaining existing customers, and community support. Advertising and business development expenses increased $864 thousand or 11.3% in 2021 compared to the prior year. Advertising expense was up $579 thousand or 29.9% primarily attributed to production and media costs associated with scheduled periodic branding updates. Overall promotional and development expenses in 2020 were lower than usual due to restrictions related to the Pandemic which reduced many travel and entertainment opportunities.

ANALYSIS OF NON-INTEREST EXPENSE
(dollars in thousands)

	2021	2020	2019	2021/2020 CHANGE	2021/2020 %	2020/2019 CHANGE	2020/2019 %
Salaries and benefits	$ 54,260	$ 56,395	$ 50,351	$ (2,135)	(3.79)%	$ 6,044	12.00 %
Occupancy and equipment	19,713	18,943	17,483	770	4.06 %	1,460	8.35 %
Processing charges	7,910	7,141	6,722	769	10.77 %	419	6.23 %
Advertising and business development	8,534	7,670	7,574	864	11.26 %	96	1.27 %
Card and interchange expenses	6,537	5,209	5,930	1,328	25.49 %	(721)	(12.16)%
Professional services	2,929	1,944	1,734	985	50.67 %	210	12.11 %
Bank franchise tax	-	2,915	2,886	(2,915)	(100.00)%	29	1.00 %
FDIC insurance assessment	1,139	753	177	386	51.26 %	576	325.42 %
Other real estate owned, net	46	78	176	(32)	(41.03)%	(98)	(55.68)%
Pension plan settlement loss	-	5,586	-	(5,586)	(100.00)%	5,586	N/A
Other	9,715	12,025	9,494	(2,310)	(19.21)%	2,531	26.66 %
Total non-interest income	$ 110,783	$ 118,659	$ 102,527	(7,876)	(6.64)%	$ 16,132	15.73%

Professional service fees include payments to third parties that offer highly specialized services and support in order to assist the Company in meeting its obligations or to improve efficiencies. These services typically include accounting, legal, technology support, or other operational consulting arrangements. Professional services fees increased $985 thousand or 50.7% in 2021, primarily due to short-term outsourcing engagements to assist in closing the unusually high secondary market mortgage loan volume and collection efforts related to consumer installment loans.

INCOME TAXES

The Company recorded income tax expense of $6.6 million for 2021 compared with $1.1 million for 2020, an increase of $5.4 million. The increase is mainly attributed to higher pre-tax income of $21.4 million or 132% combined with the change to Kentucky tax legislation that required financial institutions to transition from a capital-based franchise tax to the Kentucky corporate income tax effective January 1, 2021. The effective income tax rates were 17.4% and 6.9% for the current and preceding year, respectively.

The Company's tax planning strategy includes the participation in Industrial Revenue Bond lending for nonprofit organizations to increase tax-exempt income. It is also a limited partner in 13 low-income housing projects and four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation tax credits.

FINANCIAL CONDITION

Total assets of the Company at year-end 2021 were $3.9 billion, an increase of $622 million or 19.0% compared with year-end 2020. Balance sheet growth was funded mainly by higher deposits of $557 million or 20.8% and commercial sweep accounts of $38.4 million or 19.0%. Although average earning assets make up a higher percentage of total assets, the overall yield declined due to sustained low market interest rates that decreased sharply during 2020. The more significant growth in earning assets were attributed to lower yielding interest bearing deposits with other financial institutions and debt securities. Average loans outstanding, net of the allowance for loan losses, increased $19.8 million or 0.9%. Average interest bearing deposits were up $388 million or 108% in the comparison and average securities increased $86.8 million or 29.7%.

Shareholders' equity was $356 million at December 31, 2021, up $26.5 million or 8.0% compared with the prior year-end. The increase in equity was driven by net income for the year of $31.2 million, partially offset by a decrease in other comprehensive income of $2.9 million and cash dividends paid of $1.7 million. Other comprehensive income (loss) represents the change in net assets from non-owner sources. For the Company, this includes the after tax amount of unrealized gains and losses on available for sale debt securities and changes to the funded status of its Supplemental Plan. An other comprehensive loss was recognized for 2021 mainly due to the impact that market interest rate movements had on the estimated fair value of the available for sale securities portfolio. Overall market interest rates shifted upwards throughout most of 2021. As market interest rates increase, the value of existing fixed rate debt securities generally decreases. The unrealized gain or loss is included as a component of comprehensive income, net of income taxes.

EARNING ASSETS

Gross loans outstanding were $2.1 billion at December 31, 2021, a decrease of $250 million or 10.8% from the prior year-end. Commercial loan balances decreased $272 million or 39.7%, driven primarily by loan forgiveness under the PPP program. The Company originated $408 million and received $13.1 million in processing fees during 2020 from the SBA in its initial phase of the program. An additional $163 million was originated in the first half of 2021 with fees collected of $6.4 million under the second and final phase of the program. These fees are recorded over the estimated life of the loans and are included in interest income when earned. Any unearned processing fees existing at the time a PPP loan is forgiven are recognized immediately in income.

The SBA began to forgive PPP balances during 2020. Forgiveness activity decreased PPP balances outstanding to approximately $32.0 million at year-end 2021. The Company earned $10.7 million and $7.5 million of the processing fees during 2021 and 2020, respectively. Unearned fees at year-end 2021 were $908 thousand, all of which is attributed to the second phase of lending under the program.

Residential real estate and installment loans increased $53.8 million or 11.5% and $23.5 million or 19.5%, respectively. Growth in these segments were mainly attributed to the continuing low interest rate environment and excess liquidity. In early 2021, the Company elected to retain on its balance sheet a portion of qualified secondary market residential real estate loans it originated in an effort to deploy some of its excess liquidity while not significantly increasing its interest rate risk metrics. The Company retained $18.0 million and $46.4 million of 15-year and 30-year fixed rate loans, respectively, under the strategy with a weighted average yield of 2.61%.

Commercial real estate loans, the largest component of the portfolio, was $982 million at year-end 2021. This represents a decrease of $55.6 million or 5.4% in the yearly comparison. The Company experienced payoffs from the sale of collateral securing several larger balance loans during the last half of the year. The Company is optimistic that new loans will replace these payoffs, although these opportunities will fund slowly over time as draws on construction commitments take place. Opportunities and current loan pipelines remain encouraging, but geopolitical and economic difficulties remain.

The Company remains intent on generating high quality loans as it manages exposure to credit risk. This is accomplished through diversification of the loan portfolio, not only by loan type, but by industry and customer. Diversification by industry and geographic region within the portfolio helps to maintain acceptable credit risk. Concentrations of credit are monitored on a monthly basis for compliance with internal and external policies. As a result, management believes there is no undue concentration in any single sector.

Total debt securities were $503 million at year-end 2021, an increase of $227 million or 82.3% from a year earlier. The increase is a result of the Company's effort to deploy a portion of its excess liquidity. Purchases of debt securities were $308 million in 2021, which exceeded maturities, calls, and amortization of $76.7 million. Funds made available from the increase in deposits or other sources have been loaned out to the extent possible based on prudent underwriting standards and overall demand. Excess funds have generally been held in short-term interest bearing deposits with other financial institutions or shorter-term debt securities due to the relative lack of suitable return available on longer-term investment instruments.

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)

	2021	2020	2019	2018	2017
Allowance for loan losses					
Balance January 1	$ 25,185	$ 19,106	$ 20,183	$ 20,485	$ 20,582
Provision for loan losses	1,017	7,812	2,672	2,120	2,310
Less: net charge-offs	(2,208)	(1,733)	(3,749)	(2,422)	(2,407)
Balance December 31	$ 23,994	$ 25,185	$ 19,106	$ 20,183	$ 20,485
Average loans, net of unearned income	$ 2,298,270	$ 2,274,331	$ 2,094,164	$ 2,020,794	$ 1,875,414
Loans, net of unearned income, at year-end	2,072,478	2,322,576	2,044,906	2,076,932	1,988,855
Nonperforming loans at year-end	15,479	22,744	7,474	11,730	13,589
Other real estate owned at year-end	385	1,385	1,888	3,225	2,721
Ratios:					
Provision for loan losses to average loans	0.04%	0.34%	0.13%	0.10%	0.12%
Net charge-offs to average loans	0.10%	0.08%	0.18%	0.12%	0.13%
Allowance for loan losses to loans	1.16%	1.08%	0.93%	0.97%	1.03%
Allowance for loan losses to nonperforming loans	155.01%	110.73%	255.63%	172.06%	150.75%
Nonperforming loans to loans	0.75%	0.98%	0.37%	0.56%	0.68%
Nonperforming assets to total assets	0.41%	0.74%	0.34%	0.58%	0.68%
Nonperforming assets to total shareholders' equity and allowance for loan losses	4.17%	6.80%	2.86%	4.97%	5.92%
Total delinquent loans at year-end	1.10%	1.17%	0.53%	0.79%	1.04%

On-balance sheet liquidity was well above normal for most of 2020 through year-end 2021. At December 31, 2021 cash and cash equivalents were $1.2 billion, up $664 million or 114% from a year earlier. Loans decreased $249 million or 10.8% led by net PPP loan reductions of $288 million or 90%. The Company had excess funds throughout 2021 available to meet its loan demand and other customer obligations. Excess funds generally are invested in relatively short and medium-term debt securities or held on deposit with the Federal Reserve pending the opportunity to fulfill loan demand. Total deposits were $3.2 billion at year-end 2021, an increase of $557 million or 20.8%. Federal funds purchased and short-term customer repurchase agreements were $241 million, up $38.4 million or 19.0% due to higher repurchase agreement balances. Long-term borrowings were relatively unchanged. Internal liquidity ratios, which are monitored closely on a regular basis, are in excess of long-standing parameters established by policy and regulatory guidance.

ALLOWANCE FOR LOAN LOSSES

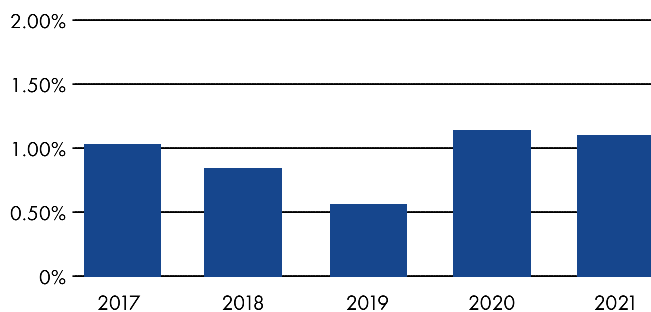
The allowance for loan losses is a valuation allowance increased by the provision for loan losses and decreased by net charge-offs. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. Determining the appropriate level of allowance for loan losses is highly subjective.

The allowance for loan losses is maintained at a level management believes is adequate to cover probable losses in the loan portfolio. The allowance is subject to review by the Company's Board of Directors and is periodically evaluated by regulatory authorities. The determination of an appropriate level of allowance for loan losses requires significant judgment in order to reflect credit losses specifically identified in the loan portfolio, as well as management's best estimate of probable incurred credit losses in the loan portfolio at the balance sheet date.

The allowance for loan losses was $24.0 million and $25.2 million at December 31, 2021 and 2020, a decrease of $1.2 million or 4.7%. The allowance for loan losses was 1.16% of the loan portfolio as of year-end 2021 compared with 1.08% a year ago. The provision for loan losses was $1.0 million in 2021, a decrease of $6.8 million or 87.0% from a year earlier. Net loan charge-offs were $2.2 million and $1.7 million for 2021 and 2020, respectively. Net charge-offs as a percentage of average loans were 0.10% in 2021, an increase of 2 basis points from 0.08% a year earlier. Although net charge-offs for 2021 increased in the comparison, the amount for each year was at or near their lowest levels since pre-2000.

Overall credit quality metrics of the loan portfolio improved as of year-end 2021 compared to a year earlier. Despite the overall improvement, installment loan and equity line delinquencies began to trend upward in the last half of 2021. At year-end 2021, past due installment loans were $7.0 million or 4.8% of the installment portfolio, up $4.0 million and 240 basis points from year-end 2020. Installment loan delinquencies relate primarily to activity whereby the Company purchases consumer contracts with automobile dealers. The dealers generate loan applications for the purchase of automobiles that are forwarded to the Company for processing. Decisions are made to either approve or deny funding based on judgments made about the borrower's ability to repay, creditworthiness, and collateral value.

Delinquency



Nonperforming loans consist of those that have been classified as nonaccrual as well as those which are past due over 90 days and still accruing interest. Nonperforming loans decreased $7.3 million or 31.9% to $15.5 million at year-end 2021. The decrease was driven by the full payoff of a single nonaccrual loan relationship secured by commercial real estate in the amount of $8.9 million. As a percentage of year-end loans, nonperforming loans were 0.75%, a decrease from 0.98%. The allowance for loan losses as a percentage of nonperforming loans was 155% at year-end 2021 compared with 111% at year-end 2020.

Loans identified as special mention and substandard decreased $38.8 million or 35.6% in the annual comparison, led by six credits totaling $25.9 million in the aggregate secured primarily by commercial real estate properties. As a percentage of the loan portfolio, special mention and substandard credits decreased 139 basis points to 3.39%.

Impaired loans, which are those where it is considered probable that all principal and interest amounts will not be collected in accordance with the original loan terms, were $55.2 million at year-end 2021. This represents a decrease of $23.2 million or 29.6%, which includes two of the special mention and substandard credits above with a total outstanding balance of $10.0 million. Specific reserves on impaired loans were $1.7 million or 3.2% of their outstanding balance at year-end 2021 compared with $3.2 million or 4.1% a year earlier.

Management considered the lingering effect of the Pandemic on the Company's loan portfolio, its borrowers, and the local economy. Significant analyses have been performed particularly on the commercial and commercial real estate loan portfolios in order to evaluate the impact of COVID-19 and to identify loss exposures. Reserves have been adjusted accordingly. While management uses the best information available at the time of the analysis and is comfortable with the overall adequacy of the allowance for loan losses at December 31, 2021, future adjustments may be necessary if economic conditions worsen or if assumptions in the evaluation differ substantially from actual results.

DEPOSITS

Total deposits were $3.2 billion at year-end 2021, an increase of $557 million or 20.8% from December 31, 2020. Deposit balances remain elevated as many customers have opted to hold higher account balances largely from government stimulus programs initiated during the early stage of the Pandemic. Deposit balances also benefited from customers that generally have tended to spend less during the current economic uncertainty, as well as from any PPP funds initially deposited by bank customers. Non-interest bearing deposits were up $329 million or 30.7% followed by an increase in interest bearing deposits of $227 million or 14.2%.

Deposit balances increased in all major categories with the exception of time accounts, as such balances typically fall during times of low interest rates. Non-interest bearing deposits were 43.4% of total deposits at year-end 2021, up from 40.1%. Commercial demand deposits increased $287 million or 38.2%. Interest bearing accounts increased as follows: interest checking $141 million or 33.9%, money market $122 million or 21.8%, and savings $49.5 million or 23.6%. Time deposits decreased $84.7 million or 20.0%, with a significant portion of the balances retained by the Bank and transferred into other deposit categories.

SHORT-TERM BORROWINGS

Short-term borrowings consist primarily of repurchase agreements and sweep accounts of commercial customers. The cash management services offered by the Company continue to be a valued service for our commercial deposit customers. The balance in commercial sweep accounts was $240 million at December 31, 2021, an increase of $38.4 million or 19.0% from a year ago. These accounts represent overnight repurchase agreements requiring a direct pledge from the Company's investment portfolio.

LONG-TERM BORROWINGS

Long-term borrowings consist of FHLB advances and subordinated debentures. At December 31, 2021, the Company had $25.3 million of outstanding fixed-rate borrowings from the FHLB, unchanged from a year earlier. Substantially all of the FHLB debt is scheduled to mature in 2023, with a weighted average rate of 2.44%. The Company is subject to a prepayment penalty if it were to repay any of the advances prior to maturity. The advances are borrowed under a blanket lien agreement and are collateralized by FHLB stock and fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans.

In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15 thousand trust preferred securities with a liquidation amount of $1 thousand per security. The Company issued $15.5 million of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust in the amount of $464 thousand and the proceeds of the preferred securities sold by the trust of $15.0 million. The subordinated debentures mature on June 15, 2035, and have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The interest rate in effect as of the last determination date for 2021 was 1.95%, a decrease of two basis points from a year ago.

The subordinated debentures are redeemable in whole or in part, without penalty, at the Company's option. The subordinated debentures, net of the Company's investment in the trust, may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. At year-end 2021 and 2020, the Company's Tier 1 capital included $15.0 million, which represents the full amount of the subordinated debentures net of the investment in the trust.

LIBOR REFERENCE RATE

In 2017 the Financial Conduct Authority ("FCA"), the authority regulating LIBOR, and other regulatory bodies announced that LIBOR would likely be discontinued at the end of 2021. In November 2020, the FCA announced that many tenors of LIBOR would continue to be published through June 2023. Although the interest rate on the Company's subordinate debentures referred to above is LIBOR-based, the phase out of LIBOR as a reference rate is not expected to be material to the Company's financial statements or to its cash flows. The alternative reference rate for the subordinate debentures has not been determined. The Company does not typically enter into contracts that use LIBOR as a reference rate.

CAPITAL

Capital adequacy guidelines of the regulatory agencies, and additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items. The Bank is subject to capital-based regulatory requirements which place banks into one of five categories based upon their capital levels and other supervisory criteria. These five categories are: (1) well-capitalized, (2) adequately capitalized, (3) undercapitalized, (4) significantly undercapitalized, and (5) critically undercapitalized. To be well-capitalized, a bank must have a Common Equity Tier 1 Risk-based Capital ratio of at least 6.5%, a Tier 1 Risk-based Capital ratio of 8.0%, a Total Risk-based Capital ratio of at least 10.0%, and a Tier 1 Leverage ratio of at least 5.0%. The Company's capital ratios at December 31, 2021 and 2020 continued to significantly exceed the levels required to be considered well-capitalized under regulatory guidance.

The Company had the following capital ratios for regulatory purposes as of the date indicated:

	Common Equity Tier 1 Risk-based Capital Ratio[1]	Tier 1 Risk-based Capital Ratio[1]	Total Risk-based Capital Ratio[1]	Tier 1 Leverage Capital Ratio[2]
December 31, 2021				
Company	15.7%	16.4%	17.5%	9.6%
Bank	16.1	16.1	17.2	9.5
December 31, 2020				
Company	14.6%	15.3%	16.4%	10.4%
Bank	15.0	15.0	16.2	10.2

[1]Common Equity Tier 1 Risk-based, Tier 1 Risk-based, and Total Risk-based Capital ratios are computed by dividing a bank's Common Equity, Tier 1, or Total Capital, as defined by regulation, by a risk-weighted sum of the bank's assets, with the risk weighting determined by general standards established by regulation.

[2]Tier 1 Leverage ratio is computed by dividing a bank's Tier 1 Capital by its total quarterly average assets, as defined by regulation.

The Tier 1 Leverage Capital Ratio decreased in 2021 due to a sharp increase in total assets (as defined) that outpaced an increase in Tier 1 Capital. Total assets increased $559 million or 17.6% and $560 million or 17.6% for the Company and Bank, respectively, in the annual comparison. Tier 1 Capital increased $29.4 million or 8.9% for the Company and $28.6 million for the Bank. Risk-based Capital Ratios increased since assets grew at a much smaller pace on a risk-adjusted basis of $25.6 million or 1.2% for the Company and $25.5 million or 1.2% for the Bank. Most of the growth comprised of lower risk-weighted assets such as deposits with the Federal Reserve and lower risk-weighted investment securities.

INDEPENDENT AUDITOR'S REPORT

Crowe LLP
Independent Member Crowe Global

Board of Directors and Shareholders
Central Bancshares, Inc.
Lexington, Kentucky

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Central Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Central Bancshares, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Central Bancshares, Inc.'s internal control over financial reporting as of December 31, 2021, based on criteria established in the Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 10, 2022 expressed an unmodified opinion.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Central Bancshares, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Central Bancshares, Inc.'s ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Central Bancshares, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Crowe LLP

Crowe LLP
Louisville, Kentucky
March 10, 2022

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31	
	2021	2020
ASSETS		
Cash and due from financial institutions	$ 35,512	$ 51,737
Interest-bearing deposits with other financial institutions	1,210,900	530,600
Total cash and cash equivalents	1,246,412	582,337
Available for sale debt securities	493,802	262,208
Held to maturity debt securities	9,141	13,692
Total debt securities	502,943	275,900
Loans held for sale	6,598	23,364
Loans, net of allowance of $23,994 (2021) and $25,185 (2020)	2,048,484	2,297,391
Premises and equipment, net	27,016	26,533
Other real estate owned	385	1,385
Interest receivable	5,939	8,510
Federal Home Loan Bank stock, at cost	6,751	6,751
Goodwill	14,313	14,313
Other assets	33,527	33,929
Total assets	$ 3,892,368	$ 3,270,413
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 1,402,270	$ 1,073,189
Interest bearing	1,828,298	1,600,866
Total deposits	3,230,568	2,674,055
Federal funds purchased and repurchase agreements	240,852	202,413
Federal Home Loan Bank advances	25,293	25,309
Subordinated debentures	15,464	15,464
Interest payable	196	226
Other liabilities	23,848	23,289
Total liabilities	3,536,221	2,940,756
SHAREHOLDERS' EQUITY		
Common stock (voting), $10 par value; 350,000 shares authorized; 347,922 shares issued and outstanding	3,479	3,479
Common stock (non-voting), no par value; 34,650,000 shares authorized; 34,444,278 shares issued and outstanding	-	-
Additional paid-in capital	6,890	6,890
Retained earnings	349,514	320,103
Accumulated other comprehensive loss	(3,736)	(815)
Total shareholders' equity	356,147	329,657
Total liabilities and shareholders' equity	$ 3,892,368	$ 3,270,413

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Years Ended December 31 2021	2020
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 102,554	$ 102,891
Debt securities	2,823	4,169
Deposits with other financial institutions	1,185	1,458
	106,562	108,518
INTEREST EXPENSE		
Deposits	3,137	5,549
Federal funds purchased and repurchase agreements	107	162
Federal Home Loan Bank advances	617	858
Subordinated debentures	299	390
	4,160	6,959
Net interest income	102,402	101,559
Provision for loan losses	1,017	7,812
Net interest income after provision for loan losses	101,385	93,747
NON-INTEREST INCOME		
Service charges on deposit accounts	5,621	5,834
Mortgage banking income	7,099	6,425
Card and interchange fees	6,880	5,705
Trust fees	10,084	8,471
Electronic banking	7,613	6,441
Net gain (loss) on sales and write-downs of other real estate owned	51	(472)
Other fees and income	9,764	8,781
	47,112	41,185
NON-INTEREST EXPENSE		
Salaries and benefits	54,260	56,395
Occupancy and equipment	19,713	18,943
Processing charges	7,910	7,141
Advertising and business development	8,534	7,670
Card and interchange expenses	6,537	5,209
Professional services	2,929	1,944
Bank franchise tax	-	2,915
FDIC assessment	1,139	753
Other real estate owned, net	46	78
Pension plan settlement loss	-	5,586
Other	9,715	12,025
	110,783	118,659
Income before income taxes	37,714	16,273
Income taxes	6,564	1,122
Net income	$ 31,150	$ 15,151
Basic earnings per share	$ 0.90	$ 0.44
Weighted average number of common shares outstanding	34,792,200	34,674,509

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31 2021	2020
Net income	$ 31,150	$ 15,151
Other comprehensive income:		
Unrealized gains/losses on debt securities:		
Unrealized holding loss arising during the period	(3,734)	(283)
Tax effect	890	59
Net of tax	(2,844)	(224)
Defined benefit pension plans:		
Net (loss) gain arising during the period	(697)	419
Reclassification adjustment for amortization of net loss realized in net income	595	4,264
Reclassification adjustment for recognized settlement loss	-	5,586
Tax effect	25	(2,156)
Net of tax	(77)	8,113
Total other comprehensive (loss) income	(2,921)	7,889
Comprehensive income	$ 28,229	$ 23,040

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands, except share data)

Years Ended December 31, 2021 and 2020	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Total
Balances, January 1, 2020	$ 3,479	$ 6,890	$ 306,679	$ (8,704)	$ -	$ 308,344
Net income	-	-	15,151	-	-	15,151
Cash dividends declared ($0.05 per share)	-	-	(1,727)	-	-	(1,727)
Advances to ESOP	-	-	-	-	(2,806)	(2,806)
Repayment of advances from ESOP	-	-	-	-	2,806	2,806
Other comprehensive income	-	-	-	7,889	-	7,889
Balances, December 31, 2020	$ 3,479	$ 6,890	$ 320,103	$ (815)	$ -	$ 329,657
Net income	-	-	31,150	-	-	31,150
Cash dividends declared ($0.05 per share)	-	-	(1,739)	-	-	(1,739)
Other comprehensive loss	-	-	-	(2,921)	-	(2,921)
Balances, December 31, 2021	$ 3,479	$ 6,890	$ 349,514	$ (3,736)	$ -	$ 356,147

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 31,150	$ 15,151
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,017	7,812
Deferred income tax benefit	(560)	(1,258)
Depreciation and amortization	6,478	5,786
Net (gain) loss on sales and write-downs of other real estate owned	(51)	472
Net loss on disposals of premises and equipment	70	-
Pension plan settlement loss	-	5,586
Contribution to defined benefit pension plan	-	(9,440)
Pension plan expense	808	4,690
Net gain on sale of loans	(6,805)	(6,113)
Net change in:		
Loans held for sale	23,571	(10,948)
Interest receivable	2,571	(1,927)
Other assets	4,387	(6,547)
Interest payable	(30)	(366)
Other liabilities	(351)	861
Net cash provided by operating activities	62,255	3,759
CASH FLOWS FROM INVESTING ACTIVITES		
Available for sale debt securities:		
Purchases	(307,763)	(671,213)
Maturities, calls, and return of principal	72,185	667,207
Held to maturity debt securities:		
Maturities, calls, and return of principal	4,533	4,855
Investment in low income tax housing	(4,544)	(8,875)
Net change in loans	247,890	(279,403)
Purchases of premises and equipment	(4,729)	(2,771)
Proceeds from sale of other real estate owned	1,051	31
Net cash provided by (used in) investing activities	8,623	(290,169)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	556,513	458,211
Net change in federal funds purchased and repurchase agreements	38,439	61,402
Repayment of Federal Home Loan Bank advances	(16)	(30,094)
Issuance of Federal Home Loan Bank advances	-	5,000
Cash dividends paid	(1,739)	(1,727)
Net cash provided by financing activities	593,197	492,792
Net change in cash and cash equivalents	664,075	206,382
Cash and cash equivalents, beginning of year	582,337	375,955
Cash and cash equivalents, end of year	$ 1,246,412	$ 582,337
Supplemental cash flow information:		
Interest paid	$ 4,190	$ 7,325
Income taxes paid	6,720	2,005
Supplemental noncash disclosures:		
Transfer of matured held to maturity security to other assets	$ -	$ 500

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Nature of Operations: The consolidated financial statements include the accounts of Central Bancshares, Inc. (the "Company") and its wholly-owned subsidiary, Central Bank & Trust Co. (the "Bank"), and Central Bank & Trust Co.'s wholly-owned subsidiaries, Central Investment Center, Inc., CBIA, Inc. dba Central Insurance Services, and CBT Real Estate Holdings, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company grants commercial, consumer and residential loans to customers primarily located in Fayette, Boone, Kenton, Clark, Jessamine, Madison, Scott, Jefferson and surrounding counties in Kentucky. The Company provides full banking services, including trust services. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the local economy. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Other financial instruments, which potentially represent concentrations of credit risk, include cash and cash equivalents held in other financial institutions. Central Investment Center, Inc. offers non-deposit investment products, including mutual funds, annuities, and certain debt and equity securities. Central Insurance Services, Inc. is a licensed agent for life, health, title, and property and casualty insurance. CBT Real Estate Holdings, LLC holds and disposes of certain real estate acquired in settlement of loans.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 10, 2022, which is the date the financial statements were available to be issued.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In March 2020, the World Health Organization declared novel coronavirus disease 2019 ("COVID-19") as a global pandemic. The COVID-19 pandemic continues to have a negative impact to many sectors of the global economy, supply chain and financial market disruptions, and lower employment levels. The pandemic has resulted in temporary and permanent closures of many businesses, including those in markets in which the Company is located or does business.

The extent to which the COVID-19 pandemic further impacts the Company's business, liquidity, asset valuations, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Moreover, the effects of the COVID-19 pandemic may have a material adverse effect on all or a combination of valuation impairments on the Company's investments and loans.

Cash Flows: Cash and cash equivalents include cash, deposits with financial institutions with an initial maturity of less than 90 days when acquired by the Company, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, federal funds purchased and repurchase agreements.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost. Such deposits consist primarily of cash on deposit with the Federal Reserve Bank.

Debt Securities: Debt securities are classified into two categories: available for sale and held to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Debt securities are classified as held to maturity when management has the positive intent and ability to hold them to maturity. The Bank has no trading securities. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Securities held to maturity are stated at amortized cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on debt securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on dispositions are recorded on the trade date and based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

Management evaluates debt securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For debt securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned

criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Loan origination fees, net of certain direct origination costs, are deferred and the net amount is amortized as a yield adjustment over the life of the related loans.

Interest income is accrued on the principal balance. Classes of commercial and real estate loans are placed on nonaccrual, with interest income discontinued, at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Classes of consumer loans may be placed on nonaccrual if sufficient collateral exists, but are typically charged off no later than 120 days past due. All interest accrued but not received on loans placed on nonaccrual is reversed against interest income. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

For all loan classes, payments received on nonaccrual loans are applied to principal only using the cost recovery method if the Company estimates that collection of all principal is not reasonably assured. If all principal is reasonably assured, payments on nonaccrual loans may be applied to interest income on the cash basis. Loans of all classes are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. For all loan classes, past due status is based on the contractual terms of the loan.

Loan disclosures include presenting certain disaggregated information based on recorded investment. The recorded investment in a loan includes its principal amount outstanding adjusted for certain items that include net deferred loan costs or fees, charge-offs, and accrued interest. The Company had a total of $2,541 and $6,657 of net deferred loan fees at year-end 2021 and 2020, respectively, included in the carrying amount of loans on the consolidated balance sheets. The amount of net deferred loan fees is not material and is omitted from the computation of the recorded investment included in Note 3 that follows. Similarly, accrued interest receivable on loans was $5,021 and $8,182 at year-end 2021 and 2020, respectively, which has also been omitted from certain information presented in Note 3.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. Loans of all classes are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Nonaccrual loans of certain classes are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest income on impaired loans is recognized on the cash basis unless the loan is a troubled debt restructured loan performing under its modified terms. Large groups of smaller balance homogeneous loans, such as consumer loans, are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures. If such loans are part of a borrowing relationship in which other types of loans have been individually evaluated for impairment, they also are individually evaluated.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with its accounting policy for the allowance for loan losses.

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for current risk factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent five years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; aggregate indebtedness of significant borrowing relationships; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments and their associated risks have been identified:

- Commercial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases, to provide working capital, or to meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment, or other business assets. Financial information is obtained from the borrowers and guarantors to evaluate ability to repay the loans.

- Commercial real estate loans are dependent on the industries tied to these loans as well as the local commercial real estate market. Commercial real estate loans include completed projects as well as construction loans. The loans are secured by real estate, and appraisals are obtained to support the loan amount. Financial information is obtained from borrowers and guarantors and/or an evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan.

- Residential real estate loans are affected by the local residential real estate market and the local economy. The Bank evaluates the borrower's repayment ability through a review of financial information obtained from the borrower. Appraisals or evaluations are obtained to support the loan amount.

- Installment loans are highly dependent upon the borrower's continuing financial stability, which is highly correlated to local economies. Installment loans are generally secured by consumer assets such as automobiles, trucks, or a variety of other personal assets, but may also be unsecured. The Bank evaluates the borrower's repayment ability through a review of financial information obtained from the borrower.

- Credit card receivables are highly dependent upon the borrower's continuing financial stability, which is highly correlated to local economies. Credit card lending is unsecured. The Bank evaluates the borrower's repayment ability through a review of financial information obtained from the borrower.

Mortgage Banking Activities: Mortgage loans originated and intended for sale in the secondary market are classified as held for sale and carried at the lower of aggregate cost or fair value as determined by outstanding commitments from investors. Gains on sales generated from mortgage banking activities are based on the difference between the selling price and the carrying value of the related loan sold.

The Company enters into commitments to originate certain mortgage loans whereby the interest rate on the loans is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment, loan closing, and the sale of the loan generally ranges from 30 to 90 days; however, many closings on refinancing transactions have extended beyond 90 days due to record volume levels as has been commonly experienced in the industry as a result of very low interest rates. The Company protects itself from changes in interest rates through the use of best efforts forward delivery contracts, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. If the underlying loan does not close, there is no obligation on the Company's part to deliver the loan to the investor. As a result, the Company is not exposed to losses nor will it realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity. Because of this high correlation, no gain or loss occurs on the rate lock commitments.

The Company primarily sells loans with servicing released. A small amount of loans are sold with servicing retained; servicing rights are recognized as assets for the allocated value of retained servicing rights on loans sold. Servicing rights are initially recorded at fair value based on market prices for comparable mortgage servicing contracts. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates. Any impairment of a grouping is reported as a valuation allowance.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fee income, gains on sales of mortgage loans held for sale, and amortization of mortgage servicing rights are reported on the income statement as mortgage banking income.

Premises and Equipment: Land is carried at cost. Premises are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Furniture, fixtures and equipment are depreciated using an accelerated method. Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

Income Taxes: Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted federal and state tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company recognizes a tax benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Federal Home Loan Bank ("FHLB") Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less selling costs, when acquired, establishing a new cost basis. If fair value declines subsequent to acquisition, a valuation allowance is recorded through expense. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Operating costs incurred after acquisition are expensed.

Goodwill and Other Intangible Assets: Goodwill arises from business combinations and is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with finite useful lives are amortized over their estimated useful lives to their estimate residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Trust Department: The Company earns fees by providing a comprehensive base of traditional services such as trust administration, estate planning and settlement, individual retirement planning, and corporate retirement plan services. These fees are primarily earned and accrued over the period of time the Company provides the contracted services and are generally assessed monthly based on a tiered scale of the market value of the assets of the accounts. Fees are generally paid out of the assets held in the customer's account. Securities and other properties, except cash on deposit at the Bank, held by the trust department in a fiduciary or agency capacity are not included in the consolidated financial statements since such items are not assets of the Company.

Investment in Limited Partnerships: The Company is a limited equity partner in 13 low-income housing projects and four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation tax credit generation. The investments are accounted for using the equity method and are included in other assets on the consolidated balance sheets. The investments had a balance of $17,198 and $14,688 at year-end 2021 and 2020, respectively. At year-end 2021, remaining funding commitments were $2,549.

The Company recognized amortization expense related to its limited partnerships of $2,034 and $1,642 for 2021 and 2020, respectively, which is included in other non-interest expense on the consolidated statements of income. Tax credits recognized were $2,273 and $1,909. No impairment losses were incurred in either of the years presented.

Benefit Plans: Pension expense is the net of interest cost, return on plan assets, and amortization of gains and losses not immediately recognized. Employee stock ownership plan ("ESOP") and 401(k) plan expense is the amount contributed determined by Board decision. Deferred compensation plan expense is allocated over years of service. All ESOP shares are allocated to participants as of the end of each fiscal year. Compensation expense is based on the price paid for the shares acquired by the plan during the year. Since all ESOP shares are allocated to participants, all dividends reduce retained earnings.

Fair Value of Financial Instruments: Fair values of financial instruments, as more fully disclosed in Note 9, are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. The Company has no shares outstanding which are potentially dilutive.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on debt securities available for sale, net of related income tax, and changes in the funded status of the defined benefit pension plans, net of related income tax. Accumulated other comprehensive income (loss) is recognized as a separate component of equity. Accumulated other comprehensive loss at December 31, 2021 of $(3,736) was comprised of $(1,719) related to the non-qualified pension plan and $(2,017) related to unrealized gains and losses on available for sale debt securities. Accumulated other comprehensive loss at December 31, 2020 of $(815) was comprised of $(1,642) related to the non-qualified pension plan and $827 related to unrealized gains and losses on available for sale debt securities.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there now are such matters that will have a material effect on the consolidated financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

Restrictions on Cash: The Company is required to maintain a deposit balance with the Federal Reserve Bank to meet its clearing requirements. The Company was previously required to also maintain an average balance to meet statutory required reserves. That required average balance is no longer effective as of March 26, 2020.

Reclassifications: Certain amounts in the accompanying consolidated financial statements presented for prior years have been reclassified to conform to the current year presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

NOTE 2 – SECURITIES

The fair value of debt securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2021				
U.S. Treasury securities	$ 136,778	$ -	$ (927)	$ 135,851
U.S. government sponsored entities and agencies	156,753	98	(1,442)	155,409
Agency mortgage-backed securities – residential	170,016	838	(1,580)	169,274
Agency mortgage-backed securities – commercial	12,401	91	(16)	12,476
States and political subdivisions	500	5	-	505
Corporate debt securities	20,041	247	(1)	20,287
	$ 496,489	$ 1,279	$ (3,966)	$ 493,802
2020				
U.S. government sponsored entities and agencies	$ 68,307	$ 8	$ (53)	$ 68,262
Agency mortgage-backed securities – residential	161,591	906	(106)	162,391
Agency mortgage-backed securities – commercial	14,985	8	(102)	14,891
States and political subdivisions	500	10	-	510
Corporate debt securities	15,778	376	-	16,154
	$ 261,161	$ 1,308	$ (261)	$ 262,208

The carrying amount, unrecognized gains and losses, and fair value of debt securities held to maturity were as follows:

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2021				
Agency mortgage-backed securities – residential	$ 9,141	$ 284	$ -	$ 9,425
	$ 9,141	$ 284	$ -	$ 9,425
2020				
Agency mortgage-backed securities – residential	$ 13,692	$ 674	$ -	$ 14,366
	$ 13,692	$ 674	$ -	$ 14,366

The amortized cost and fair value of debt securities at December 31, 2021 are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without penalties. Mortgage-backed securities not due at a single maturity date are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 500	$ 505	$ -	$ -
Due from one to five years	297,402	295,198	-	-
Due from five to ten years	5,098	5,184	-	-
Due after ten years	11,072	11,165	-	-
Agency mortgage-backed securities – residential	170,016	169,274	9,141	9,425
Agency mortgage-backed securities – commercial	12,401	12,476	-	-
Total	$ 496,489	$ 493,802	$ 9,141	$ 9,425

Debt securities with a carrying amount of $316,906 and $260,961 at December 31, 2021 and 2020, respectively, were pledged to secure public deposits and repurchase agreements.

At December 31, 2021 and 2020, there were no holdings of debt securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10.0% of shareholders' equity.

There were no sales of debt securities in 2021 or 2020.

Debt securities with unrealized losses at year-end 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below. There were no unrealized losses for securities classified as held to maturity at year-end 2021 and 2020.

	Less than 12 Months		12 Months or More		Total	
Available for sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2021						
U.S. Treasury securities	$ 135,851	$ (927)	$ -	$ -	$ 135,851	$ (927)
U.S. government sponsored entities and agencies	134,293	(1,441)	132	(1)	134,425	(1,442)
Agency mortgage-backed securities – residential	55,162	(1,547)	12,827	(33)	67,989	(1,580)
Agency mortgage-backed securities – commercial	-	-	3,227	(16)	3,227	(16)
Corporate debt securities	6,001	(1)	-	-	6,001	(1)
Total available for sale	$ 331,307	$ (3,916)	$ 16,186	$ (50)	$ 347,493	$ (3,966)
2020						
U.S. government sponsored entities and agencies	$ 51,841	$ (45)	$ 1,411	$ (8)	$ 53,252	$ (53)
Agency mortgage-backed securities – residential	58,259	(70)	2,678	(36)	60,937	(106)
Agency mortgage-backed securities – commercial	4,021	(17)	9,809	(85)	13,830	(102)
Total available for sale	$ 114,121	$ (132)	$ 13,898	$ (129)	$ 128,019	$ (261)

The Company attributes unrealized losses in the tables above to temporary fluctuations resulting from changes in interest rates and other market conditions. The Company does not believe the securities presented above are impaired due to reasons of credit quality, as they are of high credit quality and are paying principal and interest according to their contractual terms. The Company does not intend to sell, nor is it more likely than not that it will be required to sell, loss position securities prior to recovery of their cost, and therefore, management believes the unrealized losses detailed above are temporary and no impairment loss relating to these securities has been recognized. The fair value is expected to recover as the investments approach maturity.

NOTE 3 – LOANS

Loans at December 31 were as follows:

	2021	2020
Commercial[1]	$ 415,776	$ 692,370
Commercial real estate	982,152	1,037,712
Residential real estate	521,493	467,731
Installment	143,968	120,492
Credit card receivables	11,630	10,928
	2,075,019	2,329,233
Deferred loan fees, net[2]	(2,541)	(6,657)
Allowance for loan losses	(23,994)	(25,185)
Loans, net	$ 2,048,484	$ 2,297,391

[1]Includes $32,831 and $324,862 at December 31, 2021 and December 31, 2020, respectively, of loans issued under the Paycheck Protection Program ("PPP") created by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in March 2020 and administered by the Small Business Administration ("SBA"). PPP was created primarily to provide funds to small businesses in the form of loans that are fully forgiven when used as specified under the terms of the program. PPP loans are made by eligi ble lenders to cover certain qualified expenses such as payroll costs, mortgage interest, rent, and utilities. The loans are 100% guaranteed by the SBA.

[2]Includes $908 and $5,243 at December 31, 2021 and December 31, 2020, respectively, of unearned fees received from SBA in connection with the processing of fully disbursed and otherwise eligible PPP loans.

The following table presents the activity in the allowance for loan losses by segment of loans for the years ended December 31, 2021 and 2020:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2021							
Allowance for loan losses:							
Beginning balance	$ 4,234	$ 14,585	$ 3,225	$ 1,855	$ 331	$ 955	$ 25,185
Provision for loan losses	219	(2,561)	359	2,913	110	(23)	1,017
Loans charged off	(155)	(432)	(87)	(3,752)	(163)	-	(4,589)
Recoveries	178	34	46	2,064	59	-	2,381
Total ending allowance balance	$ 4,476	$ 11,626	$ 3,543	$ 3,080	$ 337	$ 932	$ 23,994
2020							
Allowance for loan losses:							
Beginning balance	$ 4,077	$ 10,276	$ 2,189	$ 1,130	$ 290	$ 1,144	$ 19,106
Provision for loan losses	950	4,240	900	1,597	314	(189)	7,812
Loans charged off	(1,082)	-	(14)	(1,786)	(354)	-	(3,236)
Recoveries	289	69	150	914	81	-	1,503
Total ending allowance balance	$ 4,234	$ 14,585	$ 3,225	$ 1,855	$ 331	$ 955	$ 25,185

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by segment of loans and based on impairment method as of December 31, 2021 and 2020:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2021							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 425	$ 1,006	$ 273	$ -	$ 43	$ -	$ 1,747
Collectively evaluated for impairment	4,051	10,620	3,270	3,080	294	932	22,247
Total ending allowance balance	$ 4,476	$ 11,626	$ 3,543	$ 3,080	$ 337	$ 932	$ 23,994
Loans:							
Individually evaluated for impairment	$ 7,090	$ 45,648	$ 2,352	$ 37	$ 43	$ -	$ 55,170
Collectively evaluated for impairment	408,686	936,504	519,141	143,931	11,587	-	2,019,849
Total ending loans balance	$ 415,776	$ 982,152	$ 521,493	$ 143,968	$ 11,630	$ -	$ 2,075,019
2020							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 386	$ 2,670	$ 134	$ -	$ 54	$ -	$ 3,244
Collectively evaluated for impairment	3,848	11,915	3,091	1,855	277	955	21,941
Total ending allowance balance	$ 4,234	$ 14,585	$ 3,225	$ 1,855	$ 331	$ 955	$ 25,185
Loans:							
Individually evaluated for impairment	$ 13,294	$ 63,198	$ 1,753	$ 47	$ 54	$ -	$ 78,346
Collectively evaluated for impairment	679,076	974,514	465,978	120,445	10,874	-	2,250,887
Total ending loans balance	$ 692,370	$ 1,037,712	$ 467,731	$ 120,492	$ 10,928	$ -	$ 2,329,233

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2021:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2021						
With no related allowance recorded:						
Commercial	$ 5,488	$ 5,313	$ -	$ 8,209	$ 353	$ 396
Commercial real estate	25,598	24,877	-	29,036	1,950	2,046
Residential real estate	1,499	1,328	-	1,103	67	67
Installment	37	37	-	42	2	2
Credit card receivables	-	-	-	-	-	-
Subtotal	32,622	31,555	-	38,390	2,372	2,511
With an allowance recorded:						
Commercial	$ 1,846	$ 1,777	$ 425	$ 1,983	$ 83	$ 75
Commercial real estate	20,916	20,771	1,006	25,387	615	973
Residential real estate	1,147	1,024	273	950	39	37
Installment	-	-	-	-	-	-
Credit card receivables	43	43	43	48	3	3
Subtotal	23,952	23,615	1,747	28,368	740	1,088
Total	$ 56,574	$ 55,170	$ 1,747	$ 66,758	$ 3,112	$ 3,599

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2020:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2020						
With no related allowance recorded:						
Commercial	$ 11,220	$ 11,104	$ -	$ 10,848	$ 624	$ 596
Commercial real estate	33,948	33,195	-	33,797	1,375	1,443
Residential real estate	1,176	878	-	1,305	279	283
Installment	47	47	-	44	28	28
Credit card receivables	-	-	-	-	-	-
Subtotal	46,391	45,224	-	45,994	2,306	2,350
With an allowance recorded:						
Commercial	$ 2,341	$ 2,190	$ 386	$ 2,187	$ 58	$ 59
Commercial real estate	30,117	30,003	2,670	24,324	1,143	766
Residential real estate	993	875	134	1,062	23	23
Installment	-	-	-	-	-	-
Credit card receivables	54	54	54	37	3	3
Subtotal	33,505	33,122	3,244	27,610	1,227	851
Total	$ 79,896	$ 78,346	$ 3,244	$ 73,604	$ 3,533	$ 3,201

Nonaccrual loans and loans past due over 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2021 and 2020:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2021	2020	2021	2020
Commercial	$ 1,154	$ 1,823	$ -	$ -
Commercial real estate	9,797	18,064	-	361
Residential real estate	1,966	1,840	891	84
Installment	1,609	522	27	-
Credit card receivables	24	28	11	22
Total	$ 14,550	$ 22,277	$ 929	$ 467

The following table presents the aging of the recorded investment in past due loans as of December 31, 2021 and 2020 by class of loans:

	30–89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2021					
Commercial	$ 743	$ 113	$ 856	$ 414,920	$ 415,776
Commercial real estate	766	5,641	6,407	975,745	982,152
Residential real estate	967	1,561	2,528	518,965	521,493
Installment	6,035	945	6,980	136,988	143,968
Credit card receivables	84	18	102	11,528	11,630
Total	$ 8,595	$ 8,278	$ 16,873	$ 2,058,146	$ 2,075,019
December 31, 2020					
Commercial	$ 526	$ 875	$ 1,401	$ 690,969	$ 692,370
Commercial real estate	1,275	16,344	17,619	1,020,093	1,037,712
Residential real estate	390	791	1,181	466,550	467,731
Installment	2,624	331	2,955	117,537	120,492
Credit card receivables	107	22	129	10,799	10,928
Total	$ 4,922	$ 18,363	$ 23,285	$ 2,305,948	$ 2,329,233

Related Party Loans: The Company has entered into loan transactions with its directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties was $13,104 and $16,352 at December 31, 2021 and 2020, respectively.

Troubled Debt Restructurings: The Company has troubled debt restructurings of $40,916 and $53,074 as of December 31, 2021 and 2020, respectively, and has allocated $959 and $921 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021 and 2020. The Company has committed to lend additional amounts totaling up to $52 and $651 as of December 31, 2021 and 2020, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2021 and 2020, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a restructuring of the loan terms to reduce the payment and require only interest for a period of time.

The following table presents loans by segment that were either renewed or modified as troubled debt restructurings that occurred during the years ended December 31, 2021 and 2020:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2021:			
Troubled debt restructurings:			
Commercial real estate			
Renewal	2	$ 296	$ 296
Total commercial	2	296	296
Commercial real estate:			
Renewal	12	29,731	29,731
Other	1	933	925
Total commercial real estate	13	30,664	30,656
Total troubled debt restructurings	15	$ 30,960	$ 30,952
December 31, 2020:			
Troubled debt restructurings:			
Commercial			
Renewal	3	$ 1,010	$ 1,010
Other	5	4,852	4,852
Total commercial	8	5,862	5,862
Commercial real estate			
Renewal	12	4,160	4,260
Other	12	27,939	28,332
Total commercial real estate	24	32,099	32,592
Total troubled debt restructurings	32	$ 37,961	$ 38,454

The troubled debt restructurings described above increased the allowance for loan losses by $0 and resulted in charge-offs of $204 during the year ended December 31, 2021. The troubled debt restructurings described above increased the allowance for loan losses by $677 and resulted in no charge-offs during the year ended December 31, 2020.

There were three commercial loans with a recorded investment of $572 and two commercial real estate loans with a recorded investment of $1,566 for which there was a payment default during the year ended December 31, 2021 for credits that were restructured during the previous 12 months. For the year ended December 31, 2020, there were two commercial loans with a recorded investment of $467 and two commercial real estate loans with a recorded investment of $1,728 for which there was a payment default within 12 months following the modification. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above for 2021 resulted in net charge-offs of $193 during the year ended December 31, 2021. The troubled debt restructurings that subsequently defaulted for 2020 did not result in an increase in the allowance for loan losses or charge-offs during the year ended December 31, 2020.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Section 4013 of the CARES Act provides banks and other financial institutions the ability to make loan modifications related to COVID-19 without categorizing the loans as a troubled debt restructuring. The Company implemented a short-term loan modification program in the second quarter of 2020 intended to provide temporary relief for borrowers who expected to be or may have already been adversely affected by COVID-19 by providing short-term deferrals of loan payments. The Company offered options including full principal and interest payment deferral generally for up to 60 or 90 days. The Company extended deferral options for certain types of loans and for certain industries more heavily impacted by COVID-19. The Company's short-term loan modifications declined from $349 million at December 31, 2020 to $234 million at December 31, 2021. Installment loans and credit card receivables make up 67.3% of the number and 3.3% of the balance of Section 4013 modified loans outstanding at year-end 2021. Commercial real estate loans make up 16.8% of the number and 70.0% of the balances and other commercial lending accounts for 6.6% of the number and 20.6% of balances.

Credit Quality Indicators: The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $100 and non-homogeneous loans, such as commercial, commercial real estate and residential real estate loans, and homogeneous loans that are part of a borrowing relationship. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are included in groups of homogeneous loans, such as home equity lines of credit, installment loans, and credit card receivables. Credit quality indicators similar to those described above, including delinquency and other performance indicators, are used for loans that are not rated.

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2021						
Commercial	$ 407,697	$ 298	$ 7,781	$ -	$ -	$ 415,776
Commercial real estate	923,460	734	57,958	-	-	982,152
Residential real estate	423,565	1,001	2,248	-	94,679	521,493
Installment	-	30	37	-	143,901	143,968
Credit card receivables	-	22	56	-	11,552	11,630
	$ 1,754,722	$ 2,085	$ 68,080	$ -	$ 250,132	$ 2,075,019
December 31, 2020						
Commercial	$ 677,028	$ 658	$ 14,684	$ -	$ -	$ 692,370
Commercial real estate	946,775	19,896	71,041	-	-	1,037,712
Residential real estate	351,127	836	1,627	-	114,141	467,731
Installment	-	36	92	-	120,364	120,492
Credit card receivables	-	30	82	-	10,816	10,928
	$ 1,974,930	$ 21,456	$ 87,526	$ -	$ 245,321	$ 2,329,233

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled $343,453 and $333,677 during 2021 and 2020, respectively. Proceeds from the sale of loans were $367,024 in 2021 and $322,729 in 2020. Mortgage loans held for sale were $6,598 and $23,364 at year-end 2021 and 2020. The Company had commitments to originate $13,702 in loans at December 31, 2021, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $43,532 and $44,492 at December 31, 2021 and 2020, respectively.

Activity for mortgage servicing rights included in other assets was as follows:

	2021	2020
Beginning of year	$ 234	$ 196
Originated	94	92
Amortized to expense	(62)	(54)
End of year	$ 266	$ 234

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $326 and $349 at year-end 2021 and 2020.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2021	2020
Other real estate owned, beginning of year	$ 1,385	$ 1,888
Proceeds from sales	(1,051)	(31)
Write-downs to estimated fair value	-	(485)
Net gain on sales	51	13
Other real estate owned, end of year	$ 385	$ 1,385

Expenses related to other real estate owned include:

	2021	2020
Net gain on sales	$ (51)	$ (13)
Write-downs to estimated fair value	-	485
Operating expenses, net	46	78
	$ (5)	$ 550

At December 31, 2021 and 2020, the recorded investment in mortgage loans secured by residential real estate that were in the process of foreclosure was $601 and $782, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2021	2020
Land	$ 2,991	$ 2,991
Buildings and improvements	18,066	19,110
Leasehold improvements	33,258	33,586
Furniture, fixtures and equipment	47,196	45,749
Construction in progress	4,337	1,672
	105,848	103,108
Accumulated depreciation	(78,832)	(76,575)
Total	$ 27,016	$ 26,533

Depreciation and amortization expense amounted to $4,176 and $4,538 in 2021 and 2020, respectively.

Operating Leases: The Company leases its main office in downtown Lexington, Kentucky, 14 banking center locations, its mortgage, investment brokerage, and insurance offices, land leases for three banking centers, an ATM location, and one vehicle. The Company currently subleases a portion of its space to two tenants. Rent expense for the Company was $6,448 and $6,196 in 2021 and 2020, respectively. Rent commitments under noncancelable operating leases, before considering renewal options that generally are present, were as follows:

2022	$ 6,790
2023	4,916
2024	3,239
2025	3,223
2026	3,051
Thereafter	8,784
Total[1]	$ 30,003

[1]Payments have not been reduced by minimum sublease rentals of $983 due in the future under noncancelable subleases.

NOTE 7 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2021 and 2020 were $126,533 and $156,234, respectively.

Scheduled maturities of time deposits at year-end 2021 are as follows:

2022	$ 274,236
2023	25,994
2024	18,417
2025	6,493
2026	6,875
Thereafter	-
Total	$ 332,015

Deposits from directors and executive officers and companies in which they have beneficial ownership were $25,157 and $18,261 at December 31, 2021 and 2020, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At December 31, advances from the Federal Home Loan Bank were as follows:

	2021	2020
Maturity of September 2023 at a fixed rate of 2.44% at year-end 2021 and 2020.	$ 25,000	$ 25,000
Maturities January 2022 through December 2027, fixed rates ranging from 2.00% to 5.50%, averaging 2.44% at year-end 2021 and 2020.	293	309
Total	$ 25,293	$ 25,309

Each advance is payable at its maturity date, with a prepayment penalty for those that are paid off earlier than maturity. The advances are borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans with an aggregate unpaid principal balance of $481,807 and $381,033 at December 31, 2021 and 2020, respectively. Based on this collateral and the holding of Federal Home Loan Bank stock, the Company is eligible to borrow up to a total of $216,916 at year-end 2021. In addition, the Federal Home Loan Bank issues letters of credit on behalf of the Bank as security for certain deposit relationships, as the need arises. Outstanding letters of credit at December 31, 2021 and 2020 were $121,500 and $87,336, respectively.

Subordinated Debentures: In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 trust preferred securities with a liquidation amount of $1 per security. The Company issued $15,464 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $1 at 100% of the principal amount, plus accrued and unpaid interest.

The subordinated debentures mature on June 15, 2035. The subordinated debentures are redeemable, in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The interest rate in effect as of the last determination date for 2021 was 1.95%. The Company's investment in the common stock of the trust was $464 and is included in other assets. The subordinated debentures, net of the Company's investment in the trust, may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 9 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Debt Securities: The fair values for debt securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are

usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and the client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once an appraisal is received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics are reviewed. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2021):			
Available for sale debt securities:			
U.S. Treasury securities	$ -	$ 135,851	$ -
U.S. government sponsored entities and agencies	-	155,409	-
Agency mortgage-backed securities – residential	-	169,274	-
Agency mortgage-backed securities – commercial	-	12,476	-
States and political subdivisions	-	505	-
Corporate debt securities	-	9,121	11,166
Assets (2020):			
Available for sale debt securities:			
U.S. government sponsored entities and agencies	$ -	$ 68,262	$ -
Agency mortgage-backed securities – residential	-	162,391	-
Agency mortgage-backed securities – commercial	-	14,891	-
States and political subdivisions	-	510	-
Corporate debt securities	-	5,154	11,000

There were no transfers between level 2 and level 3 during 2021 or 2020. During the period from January 1, 2021 to December 31, 2021, there was $2 of total gain recognized in other comprehensive income and $164 of net accretion recognized on debt securities classified as level 3. During the period from January 1, 2020 to December 31, 2020, there was $1,112 of total loss recognized in other comprehensive loss and $171 of net accretion recognized on debt securities classified as level 3. The key unobservable input in determining the fair value of the debt securities was a discount rate of 3.80% at December 31, 2021 and 2020.

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2021):			
Impaired loans:			
Commercial	$ -	$ -	$ 354
Commercial real estate	-	-	11,693
Mortgage	-	-	528
Assets (2020):			
Impaired loans:			
Commercial	$ -	$ -	$ 545
Commercial real estate	-	-	7,866
Other real estate owned:			
Commercial real estate	-	-	1,000

Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $13,433, with a valuation allowance of $858 at December 31, 2021, resulting in $731 of additional provision for loan losses for the year ended December 31, 2021. Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $9,793, with a valuation allowance of $1,382 at December 31, 2020, resulting in $1,382 of additional provision for loan losses for the year ended December 31, 2020.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of and direct write-downs of $0 for 2021. Other real estate owned measured at fair value less costs to sell had a net carrying amount of $1,000, which includes direct write-downs of $485 for 2020.

The following table presents qualitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2021 and 2020:

Valuation Techniques	Fair Value	Asset Category	Unobservable Inputs	Range (Weighted Average)
2021				
Sales approach	$ 12,575	All classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	10%–90% (39%)
2020				
Sales approach	$ 9,411	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	25%–50% (34%)

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following:

	2021	2020
Current income tax expense:		
Federal	$ 5,313	$ 2,380
State	1,811	-
Total current income tax expense	7,124	2,380
Deferred income tax expense (benefit):		
Federal	(249)	(1,291)
State	(311)	33
Total deferred income tax benefit	(560)	(1,258)
Total income tax expense	$ 6,564	$ 1,122

The tax provision is less than that obtained by using the statutory federal income tax rates due to tax credits generated by the Company's limited partnership interest in 13 low-income housing projects, four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation tax credit generation, and tax exempt interest income totaling $2,476 and $2,521 for 2021 and 2020.

Deferred tax assets and liabilities relate principally to unrealized losses on debt securities available for sale, adjustment for retirement plan obligations, premises and equipment, mortgage servicing rights, the allowance for loan losses, nonaccrual loans, FHLB stock dividends, fair value adjustments, losses on other real estate owned, and partnership investments.

The Company's deferred tax assets and deferred tax liabilities at December 31 were as follows:

	2021	2020
Deferred tax assets	$ 12,416	$ 11,596
Deferred tax liabilities	(3,115)	(3,771)
	$ 9,301	$ 7,825

As a financial institution doing business in Kentucky, the Bank was subject to a capital-based Kentucky bank franchise tax and exempt from Kentucky corporate income tax prior to 2021. Kentucky enacted HB354 in March 2019, which transitioned the Bank to a corporate income tax from the bank franchise tax beginning January 1, 2021. The current Kentucky corporate income tax rate is 5%.

In April 2019, Kentucky enacted HB458, which allows for entities in a combined filing group to share net operating loss carryforwards with other tax members of the combined group. The Company had previously filed separate parent company returns which generated net operating losses. The Bank and the parent company will file a combined Kentucky income tax return beginning in 2021 which allows the Bank income to be offset by parent company losses subject to any limitations in the statute.

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. In assessing realizability, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences at December 31, 2021; therefore, no valuation allowance for the realization of deferred tax assets is considered necessary.

The Company has no unrecognized tax benefits as of December 31, 2021 and 2020. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income tax expense accounts; no such accruals existed as of December 31, 2021 and 2020.

The Company and its subsidiary file a consolidated U.S. Corporation federal income tax return and a Kentucky Corporation income tax return. Prior to 2021, the Company and its non-bank subsidiaries filed the Kentucky Corporation income tax return since the Bank was subject to the Kentucky bank franchise tax. The federal return is subject to examination by taxing authorities for all years after 2017 and the Kentucky returns are subject to examination by taxing authorities for all years after 2016.

NOTE 11 – RETIREMENT PLANS

In November 2019, the Board of Directors approved a resolution to terminate the Company's noncontributory defined benefit pension plan ("Pension Plan" or "Plan") effective January 8, 2020. The Plan was curtailed in 2009 by fully vesting and freezing benefits for eligible employees at that time. The Plan covered substantially all employees with five or more years of service prior to December 31, 2009. The Company received approval from the Internal Revenue Service and the Pension Benefit Guaranty Corporation to terminate the Plan during 2020 and the settlement of all assets and liabilities under the Plan was completed by December 31, 2020. Participants were provided distribution options to either purchase an annuity, receive a lump-sum cash payment, or directly roll their funds into a qualifying retirement plan.

Since the Pension Plan has been terminated with the settlement of all assets and liabilities, there is no benefit obligation, plan assets, or funded status for year-end 2021 and 2020. Plan contributions and benefits paid during 2020 were as follows:

	2020
Employer contributions	$ 9,440
Benefits paid	28,605
Annuity purchased	1,007

Components of the Company's net periodic pension cost and other amounts recognized in other comprehensive loss for 2020 for its Pension Plan included the following:

	2020
Interest cost on projected benefit obligation	$ 625
Expected return on plan assets	(411)
Amortization of net loss	3,724
Net periodic pension cost[1]	3,938
Net gain	(1,163)
Settlement loss	(5,586)
Amortization of net loss	(3,724)
Total recognized in other comprehensize loss	(10,473)
Total recognized in net periodic pension cost and other comprehensize loss	$ (6,535)

[1]Included in other non-interest expense in the consolidated statements of income.

The weighted-average assumptions used to determine net periodic pension cost were a discount rate and expected return on plan assets of 3.10% for 2020.

The Company maintains a non-qualified supplemental pension plan ("Supplemental Plan") covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. The benefit obligation related to this unfunded plan was $8,688 and $7,777 at December 31, 2021 and 2020, respectively. Net periodic pension costs for the plan were $808 and $752 for 2021 and 2020, respectively, and are included in other non-interest expense in the consolidated statements of income. Amounts recognized in accumulated other comprehensive loss related to this plan at December 31, 2021 and 2020 were $2,070 and $1,966, respectively, and were the result of a net actuarial loss in the plan.

In 2009, the Company curtailed the Supplemental Plan, fully vesting and freezing participant benefits. The Supplemental Plan remains active.

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $4 in 2021 and $342 in 2020 . The accrued liability associated with these plans of $1,991 and $1,987 at December 31, 2021 and 2020 is included in other liabilities. The amount recognized in other comprehensive income was $0 at year-end 2021 and 2020.

Employee Stock Ownership Plan: The Company maintains an employee stock ownership plan (the "ESOP"). Contributions are determined annually by the Board of Directors in amounts not to exceed 15.0% of the total compensation of all participants. ESOP expense was $2,527 and $5,030 in 2021 and 2020, respectively. As of December 31, 2021 and 2020, a total of 35,145 and 35,900 voting common shares with a fair value of $342 and $392, respectively, were allocated to active participants. In addition, at year-end 2021 and 2020 there were a total of 3,478,839 and 3,553,584 non-voting common shares with a fair value of $33,501 and $38,414 allocated to active participants, as well as $164 and $166 in cash. There were no unallocated shares.

Any participant who receives a distribution of Company stock under the ESOP has the option to require the Company to repurchase the shares at fair value during a defined period within each of the succeeding two years. The total "put" obligation at December 31, 2021 is the fair value of all ESOP shares distributed in 2021 and shares to be distributed in 2022 to participants who had terminated as of year-end 2021. The Company has a right of first refusal with respect to distributed ESOP shares, which requires former participants to offer to sell their shares to the Company before selling them to another purchaser.

401(k) Retirement Plan: The Company has a 401(k) retirement plan. The Company determines annually the rate at which employee contributions will be matched and the maximum amount of employee contributions which will be matched. The Company made matching contributions totaling $2,013 and $1,964 in 2021 and 2020, respectively.

NOTE 12 – REGULATORY MATTERS

The Company and its subsidiaries are subject to comprehensive supervision and regulation that affect virtually all aspects of their operations. The laws and regulations are primarily intended for the protection of depositors, borrowers, and federal deposit insurance funds, and, to a lesser extent, for the protection of stockholders and creditors.

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. The Company is a bank holding company and is subject to regulation by the Federal Reserve. The Bank operates under a state bank charter and is subject to regulation by the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation.

Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as are asset growth and expansion, and capital restoration plans are required. At year-end 2021 and 2020, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be well capitalized, the Bank must maintain minimum Common Equity Tier 1 Risk-based, Tier 1 Risk-based, Total Risk-based, and Tier 1 Leverage ratios as set forth in the tables below. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios, exclusive of the capital conservation buffers, are presented below:

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
December 31, 2021								
Total Risk-based Capital[1]:								
Company	$ 384,563	17.5%	$	175,535	8.0%		N/A	N/A
Bank	378,110	17.2		175,422	8.0	$	219,278	10.0%
Tier 1 Risk-based Capital[1]:								
Company	$ 360,569	16.4%	$	131,652	6.0%		N/A	N/A
Bank	354,116	16.1		131,567	6.0	$	175,422	8.0%
Common Equity Tier 1 Risk-based Capital[1]:								
Company	$ 345,569	15.7%	$	98,739	4.5%		N/A	N/A
Bank	354,116	16.1		98,675	4.5	$	142,531	6.5%
Tier 1 Leverage Capital[2]:								
Company	$ 360,569	9.6%	$	149,624	4.0%		N/A	N/A
Bank	354,116	9.5		149,613	4.0	$	187,017	5.0%
December 31, 2020								
Total Risk-based Capital[1]:								
Company	$ 356,344	16.4%	$	173,490	8.0%		N/A	N/A
Bank	350,732	16.2		173,379	8.0	$	216,724	10.0%
Tier 1 Risk-based Capital[1]:								
Company	$ 331,159	15.3%	$	130,118	6.0%		N/A	N/A
Bank	325,547	15.0		130,034	6.0	$	173,379	8.0%
Common Equity Tier 1 Risk-based Capital[1]:								
Company	$ 316,159	14.6%	$	97,588	4.5%		N/A	N/A
Bank	325,547	15.0		97,526	4.5	$	140,871	6.5%
Tier 1 Leverage Capital[2]:								
Company	$ 331,159	10.4%	$	127,257	4.0%		N/A	N/A
Bank	325,547	10.2		127,219	4.0	$	159,024	5.0%

[1]Total Risk-based, Tier 1 Risk-based, and Common Equity Tier 1 Risk-based Capital ratios are computed by dividing a bank's Total, Tier 1, or Common Equity Tier 1 Capital, as defined by regulation, by a risk-weighted sum of the bank's assets, with the risk weighting determined by general standards established by regulation.

[2]Tier 1 Leverage ratio is computed by dividing a bank's Tier 1 Capital by its total quarterly average assets, as defined by regulation.

The Company's principal source of funds is dividends received from the Bank. The Bank is subject to the dividend restrictions set forth by Kentucky Revised Statutes. Under such restrictions, a state-chartered bank may not pay dividends in excess of year-to-date net income combined with the preceding two years' undistributed net income or loss unless approval from the Kentucky Commissioner of Banking is obtained.

Under the dividend limitations described above, the Bank could pay dividends in 2022 of $40,512 plus any 2022 earnings retained through the date of the dividend declaration.

NOTE 13 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance sheet risk at year-end were as follows:

	2021	2020
Standby letters of credit	$ 31,783	$ 34,312
Commitments to extend credit	$ 422,516	$ 234,237
Unused lines of credit	$ 494,755	$ 470,101

Commitments are generally made for periods of 45 days or less. The Company evaluates each customer's creditworthiness on a case-by-case basis. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

NOTE 14 – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC Topic 606 is recognized within non-interest income. The following table presents the Company's sources of non-interest income for the periods indicated. Amounts in the table are within the scope of ASC Topic 606 unless otherwise noted.

	2021	2020
Non-interest income:		
Service charges on deposit accounts	$ 5,621	$ 5,834
Mortgage banking income[1]	7,099	6,425
Card and interchange fees	6,880	5,705
Trust fees	10,084	8,471
Electronic banking	7,613	6,441
Net gain/loss on sales and write-downs of other real estate owned	51	(472)
Other fees and income:		
Insurance commissions and fees	5,451	5,071
Brokerage commissions and fees	2,373	1,998
Commercial loan fees[1]	616	832
Other	1,324	880
Total non-interest income	$ 47,112	$ 41,185

[1]Not within the scope of ASC Topic 606.

A description of the Company's revenue streams accounted for under ASC 606 is as follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees include services such as ATM use fees, stop payment charges, and ACH fees, which are recognized at the time the transaction is executed. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period in which the Company satisfies its performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposit accounts are withdrawn from the customer's account balance.

Card and Interchange Fees: The Company earns interchange and other fees from credit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized as the performance obligation is satisfied, which is at the point in time the card transaction is authorized.

Trust Fees: The Company earns fees by providing a comprehensive base of traditional services such as trust administration, estate planning and settlement, individual retirement planning, and corporate retirement plan services. These fees are primarily earned and accrued over the period of time the Company provides the contracted services and are generally assessed monthly based on a tiered scale of the market value of the assets of the accounts. Fees are generally paid out of the assets held in the customer's account.

Electronic Banking: The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized as the performance obligation is satisfied, which is at the point in time the card transaction is authorized.

Net Gain/Loss on Sales and Write-downs of Other Real Estate Owned: The Company records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of other real estate owned to a buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present. The Company may also record an impairment loss after initial foreclosure of a property when the carrying amount exceeds its estimated fair value less costs to sell.

Insurance and Brokerage Commissions and Fees: The Company serves as a broker to third-party carriers to provide a wide range of insurance products such as property and casualty, general liability, individual life and health, employee benefits, title, and annuity products. Insurance commissions and fees are generally recognized at a point in time on the effective date of the policies.

The Company provides investment brokerage services to its customers through a third-party service provider. Transaction fees are assessed at the time of the transaction, with such fees collected and recognized on a monthly basis. Advisory and trail fees are based on the market value of the account and are assessed, collected, and recognized on a quarterly basis. Because the Company acts as an agent in arranging the relationship between the customer and the third-party service provider and does not control the services rendered to the customers, investment brokerage income is presented net of the third-party's related costs.

Other: All other non-interest income represents various other fees, charges, and gains resulting from the Company's operations that are not included elsewhere.

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Indirect Lending Officer

Cameron Steiner
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Underwriter Officer*

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Vice President

Brad Fields
Vice President

Lorraine Kinley
Vice President

Bradley Sutherland
Vice President

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Vice President

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Assistant Vice President

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Steffen Hanser
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Mike McFarland
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Shelia Plymale
Senior Vice President

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Janette Hodges
Human Resources Officer

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Senior Vice President

David Hake
Senior Vice President

Kevin J. Lippert
Senior Vice President

E. Sean Profitt
Senior Vice President

Adrian Embree
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Kyle Hamilton
Technology Officer

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Vice President

Nicole Wiseman
Retail Administration Officer

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Sharon Bradley
Assistant Vice President

Gina Ensminger
Assistant Vice President

Angela M. Friesz
Assistant Vice President

Barbara Johnson
Assistant Vice President

Karen Lackey
Assistant Vice President

Philip Rochester
Assistant Vice President

Alexandra T. Wolf
Assistant Vice President

Bobby Cain
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Sheila Carmack
Retail Banking Officer

Rachel Jones
Retail Banking Officer

Laura M. Owens
Retail Banking Officer

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Christine Whalen, CFMP
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Correspondent Banking Officer

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Vice President

Jeff Murphy
Vice President

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Vice President

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Betsy Williams
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Sheila C. Parks
Vice President

Brett T. Trusty
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Vice President & Financial Advisor

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Assistant Vice President & Financial Advisor

Thomas E. Roberts, CFP®
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John Saunier
Financial Advisor

Jennifer Wilson
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Andrea Smith
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Crystal Hunt
Retail Banking Officer

Mortgage Lending

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Senior Vice President & Senior Market Lender

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Benjamin Morris
Vice President

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Vice President

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Vice President

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Kristy Napier
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Assistant Vice President

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Kathy Moore
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Vice President

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Senior Vice President

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Senior Vice President & Senior Market Lender

Bo Henry
Senior Vice President & Senior Market Lender

Erica Parks
Assistant Vice President

Retail Banking

Tammy M. Carroll
Vice President

Deborah R. Banks
Retail Banking Officer

Mortgage Lending

Lee Coleman
Vice President

Paula Dickens
Vice President

Lisa T. Earlywine
Vice President

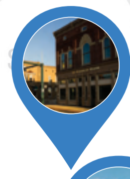
NOTES

THE COMMUNITIES WE CALL HOME.

FLORENCE & UNION

CRESTVIEW HILLS & FORT MITCHELL

LOUISVILLE

GEORGETOWN


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