2009 | ANNUAL REPORT

Centered on service for our customers and their communities.

Central Bank & Trust Co.
Central Bank, FSB
Central Bank of Jefferson County
Central Insurance Services
Central Investment Center, Inc.
Salt Lick Deposit Bank

Central Bancshares' Mission Statement

The mission of Central Bancshares is to be a high-performance financial services company that delivers superior service and value to each customer we serve. We will emphasize employee and customer satisfaction – always mindful that quality people will make the Central difference.

2009 Annual Report

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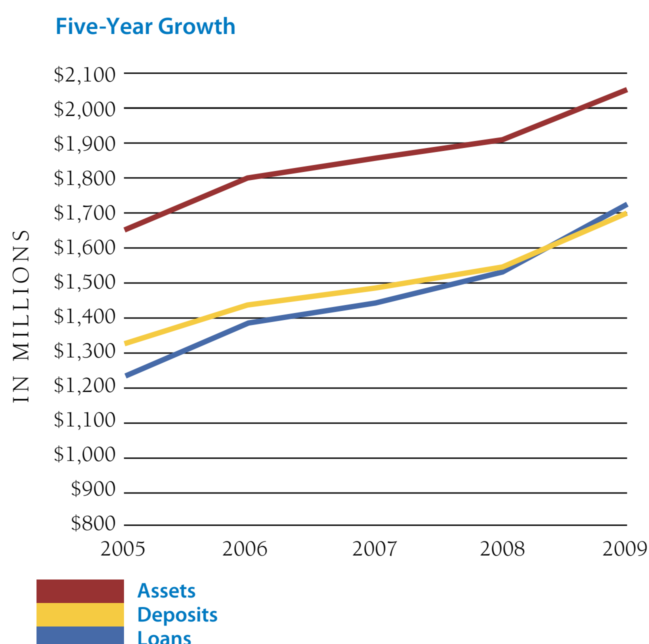
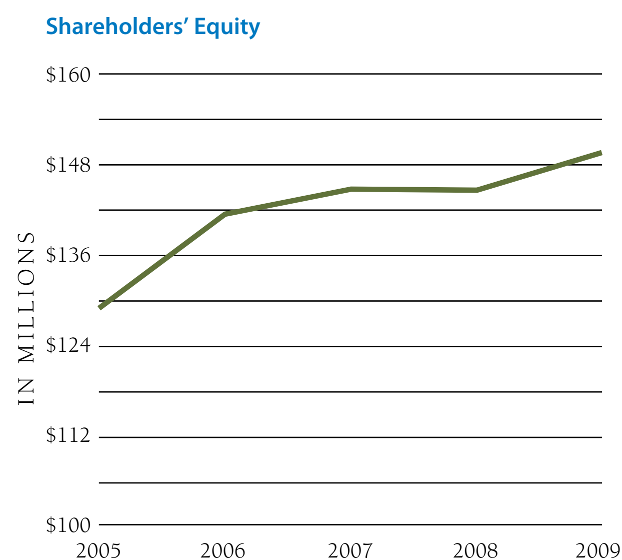
MEMBER FDIC
EQUAL HOUSING LENDER

For twelve months ended December 31

	2009	2008	2007	2006	2005
Results of Operations:					
Net income	$ 1,768,610	$ 9,200,145	$ 8,151,328	$ 16,063,352	$ 16,357,409
Net income per share	5.08	26.44	23.43	46.17	47.01
Cash dividends per share	5.00	9.00	9.00	9.00	8.00
Book value per share at year end	433.94	416.03	417.16	407.73	369.93
At December 31					
Assets	$ 2,053,106,110	$ 1,910,399,779	$ 1,851,915,041	$ 1,804,413,259	$ 1,648,403,624
Earning assets	1,863,911,997	1,729,851,957	1,658,532,467	1,639,930,759	1,509,320,206
Net loans and leases	1,717,017,748	1,536,559,682	1,441,870,886	1,377,500,218	1,229,533,920
Deposits	1,705,582,952	1,540,141,181	1,473,773,109	1,424,481,899	1,335,259,278
Shareholders' equity	150,978,513	144,747,709	145,138,553	141,859,711	128,705,426
Averages					
Assets	$ 1,964,115,041	$ 1,818,243,648	$ 1,790,845,781	$ 1,668,816,042	$ 1,505,242,554
Earning assets	1,793,440,419	1,649,263,780	1,625,576,611	1,524,723,591	1,395,207,068
Net loans and leases	1,602,265,904	1,467,592,067	1,417,178,948	1,291,490,393	1,172,730,633
Deposits	1,623,195,705	1,456,101,126	1,474,930,795	1,354,798,792	1,219,840,292
Shareholders' equity	146,626,780	149,598,387	146,812,223	135,599,957	121,979,536
Performance Ratios:					
Return on average assets	0.09%	0.51%	0.46%	0.96%	1.09%
Return on average shareholders' equity	1.21%	6.15%	5.55%	11.85%	13.41%
Average shareholders' equity to average assets	6.62%	8.23%	8.20%	8.13%	8.10%
Dividend payout ratio	98.36%	34.04%	38.41%	19.49%	17.02%
Net charge-offs to average loans and leases	0.66%	0.44%	0.40%	0.17%	0.29%
Allowance for credit losses as a percentage of year end loans and leases	1.19%	1.40%	1.38%	1.23%	1.40%
Net interest margin (tax equivalent)	3.50%	3.75%	3.76%	3.86%	3.85%





Out of the economic adversity of 2009 have come incredible uncertainties and remarkable opportunities. We faced a volatile and uncertain economy in which consumer confidence plummeted. Declines in the stock and housing markets made managing our assets and those of our customers a daily struggle to find a clear vision. Credit costs increased as unemployment and a soft real estate market undermined property values. Altogether, these forces took a heavy toll on our financial performance, especially earnings, in 2009. However, I also believe the strategies we have developed to overcome those obstacles will make our management team stronger and better prepared to achieve a sound future. The challenges presented by the economy and market pressures have also motivated our customers, both existing and new, to seek new answers to new issues they had never faced before. I am pleased to report they have increasingly turned to us as the financial source they know and trust.

For more than 64 years, our Company has dedicated itself to community banking, founded on a tradition of outstanding service to customers and communities and a commitment to providing a broad selection of services. Today, based on this tradition and our dedication, you can be assured that our Company is sound, your funds are safe and your relationship is important to us.

Although the economy took a toll on earnings, other aspects of our financial performance gave us reasons to be optimistic.

Financial Highlights

These financial highlights for the Company include Central Bank & Trust Co.; Central Investment Center, Inc.; Central Bank, FSB; Central Bank of Jefferson County; Central Insurance Services; and Salt Lick Deposit Bank. A detailed discussion of financial performance is contained in the Management's Discussion & Analysis on page 5.

- We crossed the $2 billion level in assets for the first time, to end at $2.05 billion at year end. Assets grew by $143 million, an increase of 7.47 percent for the year.
- Loan growth was a very robust 11.74 percent, with net loans ending at $1.72 billion. Loans to consumers and businesses grew $180 million, a remarkable accomplishment given the economy.
- Deposit growth was an outstanding 10.74 percent, with deposits ending at $1.71 billion. Deposits surged $165 million, as customers exhibited a preference for the service and security provided by our team of dedicated community bankers.
- Net income fell to $1,768,610 or $5.08 per share, reflecting the cost of credit in an extremely difficult economic environment. This compared to $9,200,145 or $26.44 per share in 2008. Nevertheless, we were encouraged by our ability to remain profitable during the most trying economic conditions in our history.
- Shareholders' equity grew to $151 million, up $6 million from $145 million in 2008. This allowed for a capital to risk-adjusted assets ratio of 10.7 percent, substantially above the regulatory requirement to be considered "well-capitalized."

Capital and Trust-Preferred Securities

In March 2009, to add to its regulatory capital, the Company issued $22.6 million in Trust Preferred Securities. Another $15 million of these instruments are outstanding from a previous issue. Together, these issues supplemented our already strong equity position to provide a very solid basis for future growth. We chose this option as the best course of action to provide the additional capital needed to support an additional $200 million worth of credit for the consumers and businesses that depend on us. By year end, our capital to risk-adjusted assets ratio stood at 10.7 percent, well above the required regulatory minimum. We plan to ensure our capital levels remain in excess of the "well-capitalized" minimums in order to serve the credit needs of those customers who will help fuel the economic recovery for our state.

Deposit Strategies for Growth

We utilized a number of strategies to attract and retain deposits. The FDIC's Transaction Account Guarantee Program provides unlimited FDIC insurance on transaction accounts that pay an interest rate of .50 percent or less. This feature made it especially attractive for companies and governmental units to ensure their funds were safe. While this program is expected to expire on June 30, 2010, the Company is already working with these customers on deposit strategies that will encourage the depositors to keep their money in the Banks following the expiration. For individuals, Platinum Checking rewarded higher balances with tiered interest rates that proved to be very popular. Our Central Money Market Account was another stellar performer that emphasized higher interest rates, both for individuals and businesses. A new product, Bleed Blue Checking, attracted young consumers through advertising that featured UK football and basketball coaches. Central Bank signed a five-year commitment as the "Official Bank of UK Athletics," including exclusive endorsement agreements with football, baseball and basketball head coaches for advertising and customer events. We are extremely excited about the opportunities this sponsorship will provide to reach out to Kentucky Wildcat fans and alumni. Early in 2010, we announced we would relocate the Eastland banking center to a more visible site at 649 East New Circle Road, a move of less than 1,500 feet. We anticipate the new location will provide better visibility and more convenient access for our customers in eastern Fayette County. Throughout the year, customers responded enthusiastically to these strategies, which helped produce overall deposit growth of $165 million, the largest amount ever in a single year.

Loan Strategies for Growth

Buoyed by additional regulatory capital, we were able to pursue numerous lending opportunities created by current and new customers. Despite reports that "banks were not lending" or were "difficult to work with," we achieved remarkable growth of $180 million during the year. We were fortunate to develop a number of major new loans based on previous long-term relationships and referrals from existing customers. Our lenders worked tirelessly to assist customers across a broad range of industries and business segments. Likewise, consumers chose to refinance existing mortgage loans and to consolidate loan relationships using our Gold Equity Line product that exceeded the $100 million mark for the first time. We are very proud to be providing the lending support needed by individuals and businesses across the state.

Trusted Advisors with Integrated Solutions

Significant growth opportunities have come from our team of financial service professionals who provide private banking, wealth management, insurance and investment services. Collaborating across product lines and even banking charters, we structured relationships to provide unparalleled service and value. Using the goal of "what's best for the customer" we were consistently able to provide a single source of expertise and advice for a growing base of people and businesses that previously believed that only large regional banks could offer the service they needed. Despite market volatility that made investment success extremely difficult, our team won new relationships consistently.

Community Support and Charitable Giving

Dedicated community service is an essential strategy for successful community banks. Our sponsorships and charitable giving programs supported almost 300 organizations, including American Cancer Society Relay for Life, American Heart Association, Big Brothers/Big Sisters, Children's Charities of the Bluegrass, Commerce Lexington, Downtown Lexington Corporation, Greater Louisville Inc., God's Pantry, Habitat for Humanity, Headley-Whitney Museum, Hospice, Kincaid Foundation, LexArts, Project REACH, Transylvania University, University of Kentucky, Kentucky Children's Hospital, Susan G. Komen Foundation, United Way, Urban League, YMCA Black Achievers and numerous other charitable and civic organizations. Beyond financial investments, our officers and employees are providing leadership and service through their participation on community, charitable and civic boards. Each year we recognize our staff members throughout the Company for

outstanding community service. We applaud and appreciate their dedication to community projects and to the needs of all our citizens.

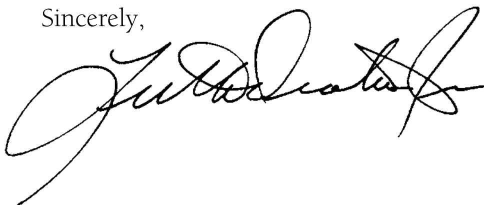
In order to attract and retain the talent needed to provide Kentucky's best banking service, we support our employees with comprehensive training, development and benefits. As a result, we are very pleased that Central Bancshares has been recognized as one of the Best Places to Work in Kentucky for the fifth consecutive year! I cannot overstate the significance or the importance of this achievement because it symbolizes the excellence of our dedicated team. We supplemented those efforts in 2009 by contracting with a productivity consulting group to assist our employee-utilization and fee-income strategies. Their work continues at this point, and we expect to realize income gains amounting to several million dollars in 2010 and 2011 from this project.

Today, we are very mindful of our Company's tradition of service on which we have built our success. Our goal is to offer a lifetime of opportunities for customers, employees and the communities in which they live. Although our progress may have been slowed by the current economy, I believe the future is very bright for Central Bancshares. I would like to thank our family of employees for their dedicated efforts on behalf of our customers. They have my profound admiration and gratitude. Also, I am deeply appreciative of the support and loyalty of our board, shareholders, customers and friends. If you have any questions about the operation of Central Bank, Central Bancshares or any of our family of financial services companies, please stop by your nearest banking center or give them a call. Or, call me personally at 859-253-6184 or 800-637-6884.

"The challenges we overcame in 2009 will make us stronger and, I believe, will lead to greater achievements in the years to come."

March 8, 2010

Sincerely,



Luther Deaton, Jr.

Chairman, President & CEO

Central Bancshares, Inc. (the "Company"), a bank holding company located in Lexington, Kentucky, is the parent company of Central Bank & Trust Co.; Central Bank, FSB; Central Bank of Jefferson County, Inc.; and Salt Lick Deposit Bank. At December 31, 2009, the Company had 28 full-service banking centers located in Bath, Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full-service investment brokerage business and a full-service insurance agency.

Results of Operations

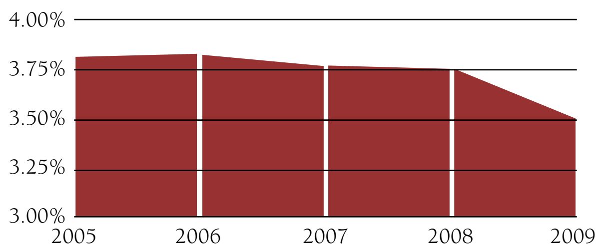
The Company reported net income of $1,768,610 for 2009, or $5.08 per share. This compares to $9,200,145, or $26.44 per share for 2008, and $8,151,328, or $23.43 per share for 2007. The impact of the national recession was felt in Central Kentucky, as many of our local industries experienced a decline in business, and a larger number than usual closed their businesses. Businesses associated with the construction industry, residential and commercial, saw a sharp decline in revenues, as well as a decline in the value of the properties they hold. The Company is working with clients impacted by the slower economy, but still saw $11.2 million of additions to foreclosed real estate, and experienced net charge offs on outstanding loans of $10.8 million.

Economic conditions produced compression in the net interest margin, the difference between what the Company earns on its assets and pays on the liabilities which fund those assets. For 2008, the net interest margin as a percentage averaged 3.75 percent. For 2009 this percentage averaged 3.50 percent. Liquidity needs of financial institutions kept competition for deposits strong throughout 2009. This competition kept rates paid on deposit accounts high in relation to the yields earned on investments. This margin compression caused by competitive pressures coupled with pressure on the net interest margin from increasing volume in non-performing assets had a significant impact upon 2009 net income. Return on average equity was 1.21 percent and return on average assets was 0.09 percent for 2009, compared with 6.15 percent and 0.51 percent, and 5.55 percent and 0.46 percent, respectively, for 2008 and 2007.

Net Interest Income

Net interest income in 2009 was $63.2 million compared to $62.1 million in 2008, an increase in 2009 of 1.82 percent, despite growth of 8.74 percent in average earning assets. The net interest rate spread is the difference between the tax equivalent average rate of interest earned on average earning assets and the average rate of interest expense on average interest bearing liabilities. The net interest margin is the tax equivalent net interest income divided by average earning assets. For computational purposes, non-accrual loans are included in earning assets. On average the net interest spread decreased 15 basis points during 2009, to 3.15 percent. On average the net interest margin declined 25 basis points to 3.50 percent for 2009. Every basis point that the net interest margin declines costs the Company approximately $181,000 per year. Management recognizes that a key to improving the profit performance of the Company over the next several years is to concentrate on improving the net interest margin.

Net Interest Margin



During 2008, the yield on earning assets averaged 6.06 percent; the yield on earning assets averaged 5.25 percent in 2009. Despite the weak economy, the Company was successful in opening new credit relationships with lending customers with strong credit credentials. Pricing on lower risk credits is lower than the rates charged on higher risk loans. The emphasis in the Company's loan growth was to attract high-quality, low-risk credits. Market rates on debt instruments fell rapidly in the fourth quarter of 2008, and stayed relatively constant for most of 2009. While the Company was able to grow its loan portfolio by 9.17 percent on average, the average yield on the loan portfolio for 2009 was a modest 5.66 percent.

Management of the Company's investment portfolio, including federal funds sold and Federal Home Loan Bank stock, emphasized maintaining the Company's liquidity, and limiting risk in the portfolio as much as possible. Most of the investments made during 2009 were U. S. Treasury or government agency securities with a maturity of 18 months or less. This strategy produced a very low risk investment portfolio, bolstering the liquidity of the Company, but also producing a relatively low yield of 1.81 percent. This is a decline in yield on the investment portfolio from 2008 of 189 basis points.

While the average yield on earning assets declined 81 basis points from 2008 to 2009, the cost of paying liabilities declined 66 basis points over the same period. The Company began to see some improvement in the net interest margin in the fourth quarter of 2009. Competitive pressures on the pricing of certificates of deposit have begun to subside. Management is watching the Company's liquidity needs, and competitive pricing on deposits, with a commitment to impose discipline in the deposit pricing process in order to improve the net interest margin. Short-term improvement in the net interest margin will come through controlling the cost of our funding liabilities. Long-term work needs to be done on managing the yields on earning assets, as well as controlling interest costs, but immediate improvement will come through the pricing on deposit liabilities.

Gross loans outstanding averaged $1.62 billion for 2009, increasing $136 million, or 9.17 percent on average over 2008. Despite the intense competition for deposit relationships, the Company was able to increase average deposits by $167 million, or 11.48 percent during 2009. Deposits averaged $1.62 billion during 2009.

Safety of the deposit relationship was a primary concern of depositors in 2009. New reports of bank failures around the country produced a heightened awareness of FDIC insurance

coverage. The Company was able to use its four banking charters to offer diversification to the depositors and to help them obtain additional FDIC insurance coverage while staying with their banking institution of choice. The Company also chose to participate in the Transaction Account Guarantee Program with the FDIC. This provided deposit customers with FDIC insurance on their transaction accounts which pay an interest rate of 50 basis points or less, on an unlimited balance. Participation in this program enabled the Company to generate average growth in Demand Deposit balances of 8.81 percent. While this program will expire on June 30, 2010, the Company is already working with these customers to provide deposit strategies that will encourage the depositors to keep their money in the Banks following the expiration of the program.

The Company averaged a loan to deposit ratio of 100.06 percent during 2009, a decrease of 211 basis points from the 2008 percentage of 102.17 percent. Management considers the rate of growth in both loans and deposits to be very strong for 2009. Liquidity was a primary concern of many financial institutions during 2009, and an emphasis with regulatory agencies. This reduction in the loan to deposit ratio is a positive reflection of management's attention to liquidity management.

In March 2009, the Company issued $22.6 million in Trust Preferred Securities with a fixed rate of interest of 10 percent. The Company still has $15 million in Trust Preferred Securities outstanding from a previous issue, which have a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) and 1.75 percent, which was 2.00 percent at year end 2009. Interest expense associated with these two debt issues totaled $2.2 million for 2009, an average rate of 6.43 percent.

The table below reflects the changes in net interest income in 2009 and 2008 due to changes in rates and volumes.

Non-Interest Income

Generation of non-interest income has traditionally been a strength of the Company's financial performance. This was true in 2009, although the Company's success in this area was masked by losses on the disposal of and valuation reserves that had to be established for other real estate. While non-interest income totaled $26.7 million for 2009, a decrease of $6.5 million from 2008, included in this total are losses of $5.6 million related to other real estate. The majority of these losses are at this point unrealized, but are the result of the values of properties being written down to the current estimated fair market value.

The Company generated $3.2 million in fees from its trust services during 2009, a decrease of $660,000 from 2008, or 17.03 percent. At year end 2009, total assets under management in the Trust Department stood at $760 million, an increase of $88.2 million over December 31, 2008. Between September 2008 and February 2009 market values of assets invested in the stock market declined approximately 60 percent. Starting in March of 2009, there has been substantial recovery of values. This reduction in market value impacts the fees generated by the Trust Department. Business development in our Trust Department was strong, generating 85 new accounts in 2009.

RATE/VOLUME ANALYSIS
(In Thousands)

	2009/2008			2008/2007		
		Increase/Decrease Due To			Increase/Decrease Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Commercial loans	$ (436)	$ (8,157)	$ 7,721	$ (8,238)	$ (13,982)	$ 5,744
Mortgage loans	(1,307)	(2,720)	1,413	(5,205)	(3,661)	(1,544)
Consumer loans	(710)	(1,597)	887	(832)	253	(1,085)
Investments						
Taxable	(2,880)	(3,775)	895	(2,594)	(2,122)	(472)
Tax exempt	(261)	150	(411)	(206)	166	(372)
Federal funds sold	17	(1,650)	1,667	(767)	(289)	(478)
Total interest income	(5,577)	(17,749)	12,172	(17,842)	(19,635)	1,793
Interest expense						
Deposits						
NOW accounts	89	(445)	534	(566)	(727)	161
Savings deposits	(35)	(48)	13	(173)	(174)	1
Money market deposits	(2,239)	(2,495)	256	(7,936)	(6,984)	(952)
Time deposits	(3,763)	(7,216)	3,453	(6,746)	(7,086)	340
Borrowed funds	(761)	(221)	(540)	(2,500)	(3,111)	611
Total interest expense	(6,709)	(10,425)	3,716	(17,921)	(18,082)	161
Net interest income	**$ 1,132**	**$ (7,324)**	**$ 8,456**	**$ 79**	**$ (1,553)**	**$ 1,632**

Service charges on deposit accounts increased 13.96 percent, or $1.4 million during 2009 compared to 2008. The Company's Courtesy Coverage product permits a personal transaction account which is maintained in good standing to be overdrawn up to $800 for the normal insufficient funds check charge. Net revenue of $9.3 million was generated during 2009 from this product, an increase of $1.1 million or 13.54 percent over 2008. During 2009, Management introduced several changes to the design of this product to promote greater fee-income production. The Courtesy Coverage limit per account was changed from $500 to $800, posting order of debits on checking accounts presented was adjusted, and adjustments were made to operating procedures in approving overdrafts. Management is aware that there has been much discussion of potential legislation, and regulation changes regarding this product. Every precaution will be taken to ensure that the Company stays in compliance with all regulations regarding this product so that we will be able to continue to offer this popular service to our customers.

Loans originated for sale during 2009 totaled $277 million. At the end of 2009, the Company serviced $73 million in loans for Fannie Mae and Freddie Mac. Approximately 3.92 percent of the loans originated for sale during 2009 were sold service retained. Of the $73 million in the serviced loan portfolio, $53 million was sold to Freddie Mac.

During 2009 the Company sold $266 million in mortgage loans, service released. The interest rate on all loans originated for sale is locked with the buyer and the investor, thus the Company has no interest rate risk associated with these transactions. During 2009 the Company generated $4.2 million from loans sold in the secondary market, an increase of $1.97 million from 2008, or 89.49 percent. While activity in the housing market is extremely depressed, lower interest rates have provided an opportunity for homeowners to refinance. Management believes that without significant improvement in the housing industry, fees generated from the sale of loans in the secondary market will decline in 2010. While there may still be some refinancing activity, the majority of these transactions have already taken place, and the rate of new home purchases continues to be depressed.

The Company has partnered with Old Republic Title Co. to offer title insurance products to loan customers. During 2007, the Company generated $371,962 in commissions from title insurance. These commissions totaled $466,689 in 2008, and grew to $625,684 in 2009. The Company was successful in broadening its title insurance into its commercial lending areas during 2009, which should help stabilize this income in down cycles in the housing market. However, Management still anticipates that this income will decline during 2010.

The impact of the sluggish real estate market was felt by our loan customers, particularly those in the real estate development industry. During 2009 the Company experienced higher than typical past due rates in the loan portfolio, a higher level of loan losses than typical, and a higher than normal level of other real estate held. Other real estate is property that has been foreclosed upon, or has been taken back in lieu of payment of customer debt. On December 31, 2009, the Company held $21.8 million in other real estate. This other real estate consists of 36 single unit homes valued at less than $1 million each, one multimillion dollar home, seven pieces of property for residential building lots, six condominium or multifamily developments, and eight commercial buildings. Other real estate is recorded at estimated fair market value, less estimated costs to sell the properties. During 2009, the Company either realized losses on the disposal of pieces of other real estate, or recorded unrealized losses on properties in establishing valuation reserves in the amount of $5.6 million. Management is comfortable that the other real estate portfolio is properly recorded at its estimated fair value as of December 31, 2009, but is also aware that in the current economic conditions it would be probable that some of these values may continue to decline. The Company is aggressively marketing these properties.

During 2008, the Company recorded three large non-recurring non-interest income items. The Company has long been a member of VISA. As a result of the initial public offering of VISA stock, the Company received proceeds totaling $956,491 from the sale of a portion of its interest. Per VISA's settlement agreement with other credit card companies, the Company still holds a significant interest in VISA which will be held in escrow until the later of the

ANALYSIS OF NON-INTEREST INCOME

				2009/2008		2008/2007	
	2009	2008	2007	CHANGE	%	CHANGE	%
Trust income	$ 3,215,789	$ 3,876,040	$ 4,274,823	$ (660,251)	(17.03)%	$ (398,783)	(9.33)%
Service charges on deposit accounts	11,344,331	9,954,873	9,347,519	1,389,458	13.96%	607,354	6.50%
Fees on mortgage loan sales and servicing	4,173,141	2,202,266	3,588,229	1,970,875	89.49%	(1,385,963)	(38.63)%
Service charges on revolving credit	3,239,503	2,910,783	2,725,033	328,720	11.29%	185,750	6.82%
Electronic banking fees	3,599,617	3,285,825	2,930,273	313,792	9.55%	355,552	12.13%
Loss or valuation allowances for ORE	(5,626,820)	(159,172)	(130,688)	(5,467,648)	3435.06%	(28,484)	21.80%
Other income	6,771,107	11,133,371	6,166,201	(4,362,264)	(39.18)%	4,967,170	80.55%
Total non-interest income	**$26,716,668**	**$33,203,986**	**$28,901,390**	**$(6,487,318)**	**(19.54)%**	**$4,302,596**	**14.89%**

settlement of all claims or three years. At that time the Company should receive additional shares of VISA. A determination will be made at that time on the disposition of those shares.

The Company has been involved in two separate legal disputes, seeking damages from service providers. Both of these suits were resolved during 2008 for the benefit of the Company. In August the Company received a settlement in the amount of $1,675,000, and in November received a separate settlement in the amount of $1,500,000. These two settlements are included in non-interest income.

Non-Interest Expense

Non-interest expense for 2009 totaled $81.8 million, an increase of $3.7 million, or 4.80 percent over 2008. During 2009 the Company began to formulate and implement some strategies designed to lower operating expenses in subsequent periods.

Salaries and benefits are the largest component of non-interest expense, totaling $37.8 million, a modest increase of $877,027, or 2.37 percent. On December 31, 2009, the Company employed 505 full-time equivalent employees compared to 528 full-time equivalent employees at the same date in 2008. During 2009 Management completed workflow studies throughout the organization to determine appropriate staffing levels. It was determined that efficiencies could be achieved that would allow for a reduction in workforce. As vacancies have arisen, they have been filled with existing employees, resulting in fewer full-time employees at the end of 2009 than at the end of 2008. The Company has also offered a voluntary early retirement program. The results of this program will be known in early 2010, but Management anticipates a small further reduction in the workforce from this program, probably 10 to 11 full-time equivalent employees.

Occupancy and furniture and equipment expenses increased $270,408, or 1.60 percent over 2008. During the past five years, Management has emphasized renovation of our banking centers, and building a strong technological infrastructure. This process is very close to completion. In 2010 the Company plans on relocating two banking centers, but is not planning any other significant investment in plant or equipment. Part of the cost control strategies Management is implementing is a tighter control over capital spending. New standards are in place for the desired return on investment in capital spending which will help ensure that any capital spending produces an immediate positive impact upon earnings.

As with all federally insured financial institutions, part of the cost of the current economic situation is an increase in FDIC insurance premiums. FDIC insurance premium expense for 2009 was $3.7 million. This is an increase of roughly three times the expense in 2008. During the year, the FDIC collected a special assessment on commercial banks, costing the Company $1 million. The FDIC assessment rate has also been adjusted to be more risk based. The assessment rate that individual banks pay is dependent upon risk factors such as non-performing assets, past due loans, capital to assets ratio, etc. While the Company still pays a relatively low assessment rate, struggles in the loan portfolio have caused this assessment rate to increase. In order to help recapitalize the FDIC insurance fund, the FDIC required banks to prepay three years of premiums on December 31, 2009. The Company recorded a prepaid FDIC insurance asset totaling $9.7 million on December 31, 2009.

With any downturn in the economy, loan collection expenses are expected to increase. During 2009 the Company spent $647,501, or 40.62 percent more on legal fees associated with collection efforts than it spent in 2008. Management also engaged a consulting group to assist with expense control initiatives. This consulting engagement cost $1.8 million.

The Company invested as a limited partner in two historic renovation tax credit projects during 2008. The provision for federal income tax reflects taking advantage of these two tax credits totaling $1,813,374 as well as credits generated from the Company's investment in 11 low-income housing projects. Amortization of the historic tax credits totaled $1,650,171 and is a one time expense included in the non-interest expense of 2008. Amortization of the investment in the 12 low-income housing tax credit projects totaled $1,033,663 in 2009 and $794,830 in 2008. An additional investment in a historic tax credit project was made in 2009, resulting in a tax benefit of $238,260 and amortization expense of $219,178.

Federal Income Tax

The Company had a negative provision for federal income tax of $3.4 million during 2009. The Company's tax planning strategy includes the purchase of additional municipal securities to increase tax exempt income, and participation in Industrial Revenue Bond lending for non-profit organizations. The Company

ANALYSIS OF NON-INTEREST EXPENSE

				2009/2008		2008/2007	
	2009	2008	2007	CHANGE	%	CHANGE	%
Salaries and benefits	$ 37,818,446	$ 36,941,417	$ 37,340,687	$ 877,029	2.37%	$ (399,270)	(1.07)%
Occupancy	10,078,969	10,016,737	8,609,223	62,232	0.62%	1,407,514	16.35%
Furniture and equipment expense	7,108,488	6,900,312	6,668,752	208,176	3.02%	231,560	3.47%
Advertising and business development	3,436,988	3,779,876	3,561,403	(342,888)	(9.07)%	218,473	6.13%
Professional services	4,939,094	2,584,567	2,410,621	2,354,527	91.10%	173,946	7.22%
FDIC insurance expense	3,670,277	1,266,188	217,462	2,404,089	189.87%	1,048,726	482.26%
Other non-interest expense	14,732,569	16,551,649	14,056,313	(1,819,080)	(10.99)%	2,495,336	17.75%
Total non-interest expense	**$ 81,784,831**	**$ 78,040,746**	**$ 72,864,461**	**$ 3,744,085**	**4.80%**	**$ 5,176,285**	**7.10%**

is also a limited partner in 12 low-income housing projects and three historic renovation projects for which it receives tax credits, and is an investor in a Community Development Entity for which it receives New Market Tax Credits. It is the culmination of these various tax-exempt-income-investing activities which generated tax savings and credits in excess of the liability from taxable income.

Financial Condition

On December 31, 2009, total assets of the Company were at a record $2.05 billion, the first year end where assets exceeded $2 billion. Despite difficult economic times, the Company's assets grew $142.7 million, or 7.47 percent, over assets at December 31, 2008. Earning assets totaled $1.86 billion on December 31, 2009, or 90.78 percent of total assets. The Company's investment portfolio, including federal funds sold and money market investments, decreased $46.3 million, while its net loans and leases, including loans held for sale, increased $180.5 million during 2009.

Earning Assets

Gross loans outstanding on December 31, 2009, increased $179.5 million, or 11.52 percent, over December 31, 2008. On average, gross loans and leases increased 9.17 percent, nearly all of which was in the commercial loan portfolio which increased $123.8 million or 11.92 percent. Management recognized that with the slow economy this was a particularly precarious time to be actively lending. However, liquidity concerns of other institutions provided the Company the opportunity to engage in new lending relationships which Management feels will provide positive returns not just now, but for years to come. Each of these new relationships was reviewed with heightened awareness of the impact the economy could have upon the borrower, and they were deemed creditworthy for the long run.

The Company is mindful of the importance of managing exposure to credit risk. This is accomplished through diversification of the loan portfolio, not only by loan type, but by industry and customer. While the Company's loan growth during 2009 was primarily in commercial lending, diversification by industry and geographic region helped to maintain acceptable credit risk exposure. Concentrations of credit are monitored on a monthly basis for compliance with internal and external policies. As a result, there is no undue concentration in any single sector.

Management has always viewed the investment portfolio as a means by which interest rate risk and liquidity are managed. Continued loan demand and added attention to national credit and liquidity markets prompted an emphasis upon liquidity in managing the investment portfolio during 2009. Liquidity management coupled with demand for overnight repurchase accounts and sweep accounts prompted the purchase of short term Treasury and agency securities to meet collateral needs.

Management is continuing to emphasize high-quality bank-qualified municipal bonds in order to protect earnings and manage the Company's federal income tax expense. Short-term government securities with a maturity of two years or less and all variable rate securities are classified as available for sale.

Allowance for Credit Losses

At December 31, 2009, the allowance for credit losses was $20.7 million, or 1.19 percent of gross loans outstanding, compared with $21.8 million, or 1.40 percent, at December 31, 2008. Net credit losses for 2009 totaled $10.8 million, or 0.66 percent of average outstanding loans and leases. The provision for credit losses during 2009 was $9.8 million.

Losses in the loan portfolio exceeded the Company's recent history, and the expectations of Management. The Company saw deterioration on past due percentages in all categories of loans during 2009. Loans secured by real estate and residential properties, as well as development loans, are the areas causing the most concern in the Company's loan portfolio. As with most banks, determining the value of the underlying collateral in these difficult economic times is a challenge.

Loans delinquent 90 days or more as of December 31, 2009, totaled $23.1 million, as compared to $14.4 million on the same date in 2008. Loans in non-accrual status totaled $25.1 million on December 31, 2009, as compared to $11.8 million on the same date in 2008. There were $3.0 million in loans past due 90 days and still accruing interest on December 31, 2009, compared to $3.3 million on December 31, 2008.

The performance of the loan portfolio during 2009 mirrored the weakening of the economy. Total loans delinquent more than 30 days as a percentage of outstanding loans and leases were 2.97 percent on December 31, 2009. This is a 36 basis point increase from December 31, 2008. Management has carefully considered the delinquency in the portfolio as it evaluated the level of allowance for credit losses needed. While no one can say with certainty that the allowance is adequate, Management is comfortable that it is adequate.

Accounting guidance requires identification of all impaired loans. A loan is considered to be impaired when it is probable that all principal and interest amounts will not be collected in accordance with the original loan terms. Loans with a carrying value of $63,620,715 or 3.66 percent of gross loans and leases, were identified as impaired at December 31, 2009.

Deposits

Total deposits were $1.71 billion at year end 2009, an increase of $165.4 million over December 31, 2008. On average, total deposits increased at a rate of 11.48 percent during 2009.

Continuing a pattern which began in 2007, customer demand showed a stronger preference for fixed-rate certificates of deposit. The Company offers fixed-rate certificates of deposit with maturities ranging from seven days to five years. Most of the certificates of deposit purchased by customers have a maturity ranging from six months to 24 months.

However, the Company's participation in the Transaction Account Guarantee Program coupled with the introduction of a new higher rate interest checking account prompted good growth in transaction accounts. Transaction accounts, including demand deposit accounts and interest checking products, grew $94.9 million from December 31, 2008. This is a growth rate of 19.72 percent. Management is formulating strategies to

ANALYSIS OF ALLOWANCE FOR CREDIT LOSSES

	2009	2008	2007	2006	2005
Allowance for Credit Losses					
Balance January 1	$ 21,753,237	$ 20,214,651	$17,114,452	$17,441,082	$14,697,709
Provision for credit losses	9,792,367	8,089,824	8,793,461	1,946,315	2,587,363
Allowance purchased in acquisition	0	0	0	0	3,558,004
Less: Net charge-offs	(10,799,082)	(6,551,238)	(5,693,262)	(2,272,945)	(3,401,994)
Balance December 31	$ 20,746,522	$ 21,753,237	$20,214,651	$17,114,452	$17,441,082
Average loans and leases, net of unearned income (000's)	$ 1,624,235	$ 1,487,745	$ 1,434,177	$ 1,309,009	$ 1,190,960
Loans and leases outstanding at year end, net of unearned income (000's)	$ 1,737,764	$ 1,558,313	$ 1,462,086	$ 1,394,615	$ 1,246,975
Nonperforming loans and leases at year end (000's)	$ 28,147	$ 15,165	$ 10,860	$ 8,428	$ 9,125
Other real estate owned at year end (000's)	$ 21,805	$ 18,856	$ 9,235	$ 6,343	$ 860
Ratios:					
Provision for credit losses to average loans and leases	0.60%	0.54%	0.61%	0.15%	0.22%
Net charge-offs to average loans and leases	0.66%	0.44%	0.40%	0.17%	0.29%
Allowance for credit losses to average loans and leases	1.28%	1.46%	1.41%	1.31%	1.46%
Allowance for credit losses to year end loans and leases	1.19%	1.40%	1.38%	1.23%	1.40%
Allowance for credit losses to nonperforming loans and leases	73.71%	143.44%	186.14%	203.07%	191.14%
Nonperforming loans and leases to average loans and leases	1.73%	1.02%	0.76%	0.64%	0.77%
Nonperforming assets to total assets	2.43%	1.78%	1.09%	0.82%	0.61%
Nonperforming assets to equity capital and reserves	29.09%	20.43%	12.15%	9.29%	6.85%
Total delinquency at year end	2.97%	2.61%	1.28%	1.00%	1.21%

provide for an easy transition of some of these balances once the Transaction Account Liquidity Guarantee Program expires on June 30, 2010.

Non-interest bearing deposits on December 31, 2009, totaled $327.8 million, which was an increase of $37.9 million, or 13.06 percent over the $289.9 million on December 31, 2008.

Short-Term Borrowings

Short-term borrowings consist of federal funds purchased from downstream correspondents, repurchase agreements, sweep accounts of commercial customers, and overnight borrowings from Federal Home Loan Bank. 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 totaled $56.6 million on December 31, 2009. These accounts are overnight repurchase agreements requiring a direct pledge from our investment portfolio.

Strong loan demand, and a loan-to-deposit ratio which on average exceeded 100 percent, prompted the use of overnight borrowing from Federal Home Loan Bank when needed in 2009. The Company currently maintains a line of credit with the Federal Home Loan Bank in excess of $155 million. Overnight advances from the Federal Home Loan Bank in the amount of $20 million were outstanding on December 31, 2009. This reflects a $4 million decrease from the $24 million outstanding on December 31, 2008. On average, overnight advances from the Federal Home Loan Bank during 2009 were $2.7 million, which represents a decrease of $45.0 million over the 2008 average of $47.7 million.

Long-Term Borrowing

The Company's long-term borrowing consists of advances from Federal Home Loan Bank. On December 31, 2009, the Company had $39.5 million outstanding in advances from Federal Home Loan Bank with maturities ranging from February 2010 through December 2027. Each advance is payable at its maturity, with a prepayment penalty. The advances are borrowed under a blanket lien agreement and are collateralized by Federal Home Loan Bank stock and first mortgage loans.

In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $15,464,000 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 $1,000, on or after June 15, 2010, at 100 percent of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on June 15, 2035. The subordinated debentures are also 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

AVERAGE EARNING ASSETS & AVERAGE FUNDS AVAILABLE
(in thousands)

	2009	2008	2007	2009/2008 Change	2009/2008 %	2008/2007 Change	2008/2007 %
Commercial loans	$ 1,163,160	$1,039,311	$ 946,361	$123,849	11.92%	$ 92,950	9.82%
Mortgage loans	298,356	275,157	300,522	23,199	8.43%	(25,365)	(8.44)%
Consumer loans	162,717	173,277	187,294	(10,560)	(6.09)%	(14,017)	(7.48)%
Less: Allowance for credit losses	(21,968)	(20,153)	(16,998)	(1,815)	9.01%	(3,155)	18.56%
Total net loans	1,602,265	1,467,592	1,417,179	134,673	9.18%	50,413	3.56%
Investment securities	146,232	179,038	193,637	(32,806)	(18.32)%	(14,599)	(7.54)%
Money market investments	44,943	2,634	14,761	42,309	1606.26%	(12,127)	(82.16)%
Total investments	191,175	181,672	208,398	9,503	5.23%	(26,726)	(12.82)%
Total earning assets	$ 1,793,440	$1,649,264	$1,625,577	$144,176	8.74%	$ 23,687	1.46%
Demand deposits	$ 289,988	$ 266,500	$ 263,447	$ 23,488	8.81%	$ 3,053	1.16%
Immediately repricing deposits	575,334	528,209	585,739	47,125	8.92%	(57,530)	(9.82)%
Fixed-rate deposits	757,873	661,392	625,745	96,481	14.59%	35,647	5.70%
Total deposits	1,623,195	1,456,101	1,474,931	167,094	11.48%	(18,830)	(1.28)%
Borrowed funds	180,059	203,699	158,717	(23,640)	(11.61)%	44,982	28.34%
Total funds available	**$1,803,254**	**$1,659,800**	**$1,633,648**	**$143,454**	**8.64%**	**$ 26,152**	**1.60%**

option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate (LIBOR) and 1.75 percent, which was 2.00 percent at year end 2009. The Company's investment in the common stock of the trust was $464,000.

In March 2009, Central Bancshares KY Statutory Trust III, a trust formed by the Company, closed a private offering of 22,600 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $23,278,000 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 $1,000, on or after March 31, 2014, at 100 percent of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 31, 2039. The subordinated debentures are also 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 trust preferred securities and subordinated debentures have a 10.00 percent fixed rate of interest. The Company's investment in the common stock of the trust was $678,000.

The $37.6 million in trust preferred securities may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

Capital

Capital adequacy guidelines of the regulatory agencies make regulatory capital requirements more sensitive to the risk profiles of individual banks, take off balance sheet exposure into account in assessing capital adequacy, and minimize disincentives for holding liquid, low risk assets.

In order for a bank holding company to be considered "well capitalized" under prompt corrective action provisions, a company must maintain a Total capital to risk-adjusted assets ratio of 10.0 percent, a Tier I capital to risk-adjusted assets ratio of 6.0 percent, and a Tier I capital to average assets ratio of 5.0 percent. On December 31, 2009, the Company had a Total capital to risk-adjusted assets ratio of 10.7 percent, a Tier I capital to risk-adjusted assets ratio of 9.6 percent, and a Tier I capital to average assets ratio of 8.8 percent.

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

We have audited the accompanying consolidated balance sheets of Central Bancshares, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Bancshares, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP
Lexington, Kentucky
March 22, 2010

CONSOLIDATED BALANCE SHEETS

	December 31 2009	December 31 2008
ASSETS		
Cash and due from financial institutions	$ 48,877,018	$ 55,196,358
Federal funds sold	100,000	6,100,000
Total cash and cash equivalents	48,977,018	61,296,358
Securities available for sale	111,059,738	127,974,466
Securities held to maturity	27,775,211	51,180,754
Total securities	138,834,949	179,155,220
Loans held for sale	7,383,118	5,639,303
Loans	1,730,381,152	1,552,673,616
Allowance for credit losses	(20,746,522)	(21,753,237)
Loans, net	1,717,017,748	1,536,559,682
Premises and equipment, net	48,725,140	53,504,883
Other real estate owned	21,805,408	18,855,521
Interest receivable	6,901,590	7,318,257
Federal Home Loan Bank stock, at cost	7,959,300	7,956,967
Goodwill	15,004,524	15,004,524
Other intangible assets	2,506,736	3,024,966
Other assets	45,373,697	27,723,401
Total assets	$ 2,053,106,110	$ 1,910,399,779
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 327,792,704	$ 289,920,799
Interest bearing	1,377,790,248	1,250,220,382
Total deposits	1,705,582,952	1,540,141,181
Federal funds purchased and repurchase agreements	90,114,080	128,156,652
Federal Home Loan Bank advances	59,526,744	67,225,161
Note payable	-	2,050,000
Subordinated debentures	38,742,000	15,464,000
Interest payable	1,326,099	1,854,910
Other liabilities	6,835,722	10,760,166
Total liabilities	1,902,127,597	1,765,652,070
SHAREHOLDERS' EQUITY		
Common stock, $10 par value, 350,000 shares authorized, 347,922 shares issued	3,479,220	3,479,220
Additional paid-in capital	6,890,468	6,890,468
Retained earnings	142,594,868	142,565,868
Accumulated other comprehensive income (loss)	(1,986,043)	(8,187,847)
Total shareholders' equity	150,978,513	144,747,709
Total liabilities and shareholders' equity	$ 2,053,106,110	$ 1,910,399,779

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2009	2008
INTEREST AND DIVIDEND INCOME		
Loans, including fees	**$ 91,846,260**	$ 94,298,971
Securities:		
U. S. Treasury and government agencies	**756,782**	3,548,163
Obligations of states and political subdivisions	**656,071**	917,155
Mortgage-backed securities	**1,217,742**	1,284,155
Federal funds sold	**121,799**	104,905
Federal Home Loan Bank stock	**368,020**	389,578
	94,966,674	100,543,322
INTEREST EXPENSE		
Deposits	**27,882,819**	33,830,958
Federal funds purchased and repurchase agreements	**215,933**	1,689,908
Federal Home Loan Bank advances	**1,483,276**	2,065,102
Subordinated debentures and note payable	**2,184,087**	889,276
	31,766,115	38,475,244
Net interest income	**63,200,559**	62,068,078
Provision for credit losses	**9,792,367**	8,089,824
Net interest income after provision for credit losses	**53,408,192**	53,978,254
OTHER INCOME		
Service charges on deposit accounts	**11,344,331**	9,954,873
Mortgage loan sales and servicing, net	**4,173,141**	2,202,266
Credit card related fees	**3,239,503**	2,910,783
Trust fees	**3,215,789**	3,876,040
Net loss on sales and write-downs of other real estate	**(5,626,820)**	(159,172)
Other fees and income	**10,370,724**	14,419,196
	26,716,668	33,203,986
OTHER EXPENSES		
Salaries	**28,959,840**	29,625,446
Pension and employee benefits	**8,858,606**	7,315,971
Occupancy expense	**17,187,457**	16,917,049
Other expenses	**26,778,928**	24,182,280
	81,784,831	78,040,746
Income (loss) before income tax benefit	**(1,659,971)**	9,141,494
Income tax benefit	**(3,428,581)**	(58,651)
NET INCOME	**$ 1,768,610**	$ 9,200,145
Basic earnings per share	**$ 5.08**	$ 26.44
Weighted average number of common shares outstanding	**347,922**	347,922

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2009	2008
OPERATING ACTIVITIES		
Interest received	**$ 94,751,280**	$ 102,710,466
Fees, commissions and other income received	**30,760,920**	33,539,236
Interest paid	**(32,294,926)**	(39,042,367)
Proceeds from loans held for sale	**276,509,909**	146,093,416
Originations of loans held for sale	**(274,310,129)**	(141,014,299)
Cash paid to suppliers and employees	**(85,933,947)**	(73,651,446)
Income tax refunded	**981,651**	2,668,716
Net cash from operating activities	**10,464,758**	31,303,722
INVESTING ACTIVITIES		
Securities available for sale:		
Purchases	**(732,387,983)**	(1,121,572,110)
Maturities, calls and return of principal	**749,260,230**	1,120,503,413
Securities held to maturity:		
Purchases	**(1,288,109)**	(4,994,676)
Maturities, calls and return of principal	**25,402,868**	37,231,257
Investment in low-income housing and historic renovation limited partnerships	**(4,348,138)**	(2,350,681)
Net change in loans	**(199,725,486)**	(118,038,657)
Expenditures for bank premises and equipment	**(1,526,481)**	(7,532,083)
Purchase of Federal Home Loan Bank stock	**(2,333)**	(852,600)
Proceeds from sale of other real estate owned	**2,642,162**	2,515,392
Acquisition of insurance agencies	**-**	(382,588)
Net cash from investing activities	**(161,973,270)**	(95,473,333)
FINANCING ACTIVITIES		
Net change in deposits	**165,441,771**	66,368,072
Net change in federal funds purchased and repurchase agreements	**(38,042,572)**	(23,052,157)
Proceeds from Federal Home Loan Bank advances	**175,000,000**	936,000,002
Repayment of Federal Home Loan Bank advances	**(182,698,417)**	(921,812,195)
Proceeds from note payable	**-**	1,000,000
Repayment of note payable	**(2,050,000)**	(2,100,000)
Proceeds from subordinated debentures issued	**23,278,000**	-
Dividends paid	**(1,739,610)**	(3,131,298)
Net cash from financing activities	**139,189,172**	53,272,424
Net change in cash and cash equivalents	**(12,319,340)**	(10,897,187)
Cash and cash equivalents, beginning of year	**61,296,358**	72,193,545
Cash and cash equivalents, end of year	**$ 48,977,018**	$ 61,296,358
RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Net income	**$ 1,768,610**	$ 9,200,145
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	**9,792,367**	8,089,824
Depreciation and amortization	**7,410,560**	7,841,286
Net loss on sales and write-downs of other real estate	**5,626,820**	159,172
Net gain on sale of loans	**(3,943,595)**	(2,114,104)
Net change in:		
Loans held for sale	**2,199,780**	5,079,117
Interest receivable	**416,667**	1,899,722
Prepaid expenses	**(9,569,263)**	6,783,916
Interest payable	**(528,811)**	(567,123)
Income taxes payable	**(2,446,930)**	2,610,065
Other liabilities	**(3,924,444)**	(5,259,241)
Other, net	**3,662,997**	(2,419,057)
Total adjustments	**8,696,148**	22,103,557
Net cash from operating activities	**$ 10,464,758**	$ 31,303,722
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	**$ 11,218,868**	$ 12,295,024

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2009 and 2008

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2008	**$ 3,479,220**	**$ 6,890,468**	**$ 136,497,021**	**$(1,728,156)**	**$ 141,138,553**
Comprehensive income:					
Net income	-	-	9,200,145	-	9,200,145
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	-	-	-	272,679	272,679
Net loss and prior service cost arising during the year on employee pension plan	-	-	-	(6,732,370)	(6,732,370)
Total comprehensive income					2,740,454
Dividends ($9.00 per share)	-	-	(3,131,298)	-	(3,131,298)
Balances, December 31, 2008	**3,479,220**	**6,890,468**	**142,565,868**	**(8,187,847)**	**144,747,709**
Comprehensive income:					
Net income	-	-	1,768,610	-	1,768,610
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	-	-	-	(128,094)	(128,094)
Net gain and prior service cost arising during the year on employee pension plan	-	-	-	6,329,898	6,329,898
Total comprehensive income					7,970,414
Dividends ($5.00 per share)	-	-	(1,739,610)	-	(1,739,610)
Balances, December 31, 2009	**$ 3,479,220**	**$ 6,890,468**	**$ 142,594,868**	**$(1,986,043)**	**$ 150,978,513**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

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"), its wholly-owned Subsidiaries, Central Bank & Trust Co., Central Bank, FSB, Central Bank of Jefferson County, Inc., and Salt Lick Deposit Bank (the "Banks"), and Central Bank & Trust Co.'s wholly-owned Subsidiaries, Central Investment Center, Inc., Central Insurance Services, Inc., CB Investment Managers, LLC, Central Bank Title Agency, LLC, and CBT Real Estate Holdings, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

The Banks grant commercial, consumer and residential loans to customers primarily located in Fayette, Boone, Kenton, Clark, Jessamine, Madison, Scott, Jefferson, Bath and surrounding counties in Kentucky. The Banks provide full banking services, including trust services. Although the Banks have diversified loan portfolios, a substantial portion of their 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 real estate acquired in settlement of loans.

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. The allowance for credit losses, fair values of financial instruments, impairment of securities, mortgage servicing rights and contingent liabilities are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash on hand, amounts due from financial institutions, securities purchased under resell agreements, money market investments and federal funds sold with maturities under 90 days. Generally, federal funds are sold for one-day periods. Net cash flows are reported for loans, deposits, and short-term borrowing transactions.

Securities: The Banks classify their security portfolios into two categories: available for sale and held to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities are classified as held to maturity when management has the positive intent and ability to hold them to maturity. The Banks have no trading securities.

Securities available for sale are carried at fair value. Adjustments from amortized cost to fair value are recorded in shareholders' equity, net of related income tax, under accumulated other comprehensive income (loss). Securities held to maturity are stated at amortized cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on 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 based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

Management evaluates 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.

Loans and Allowance for Credit Losses: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, reduced by deferred loan fees and an allowance for credit losses. Loan origination fees along with certain direct loan origination costs are deferred and the net amount amortized as a yield adjustment over the life of the related loans.

Interest income is recognized on the accrual basis except for those loans on a nonaccrual income status. Accrual of interest is discontinued on loans when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. 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. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

All interest accrued for the current period but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged off against the allowance for credit losses when management believes the collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes is adequate to absorb probable credit losses incurred on existing loans, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, loss experience, trends in portfolio credit quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. 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 or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

The allowance for credit losses on impaired loans is determined using the present value of estimated future cash flows of the loan, discounted at the loan's effective interest rate, or the fair value of the underlying collateral. A loan is considered to be impaired when it is probable that all principal and interest amounts will not be collected according to the loan contract. Commercial and real estate loans are individually evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer installment loans and credit card receivables, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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 market value. To deliver closed loans to the secondary market and to control its interest rate risk prior to sale, the Company enters "best-efforts" forward sales derivative contracts. Substantially all of the gain on sale generated from mortgage banking activities is recorded when closed loans are delivered into the sales contracts.

As the Company sells loans servicing released and 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 loan sales and servicing, net.

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 tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. 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 adopted guidance issued by the FASB with respect to accounting for uncertainty in income taxes as of January 1, 2009. 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. See Note 11 for the impact of adoption on the Company's provision for income taxes. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Federal Home Loan Bank (FHLB) Stock: The Banks are members 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.

Foreclosed Assets: 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. Costs incurred after acquisition are expensed.

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Other intangible assets consist of customer relationship intangibles arising from acquisitions. They are initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives, which is between 8 and 10 years.

Long-term Assets: Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Trust Department: Revenues from trust department services are recorded on the cash basis, which approximates the accrual basis, in accordance with customary banking practice. Securities and other properties, except cash deposits, 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: Central Bank & Trust Co. is a limited equity partner in 12 low-income housing projects and three historic renovation projects. The investments are accounted for using the equity method and are included in other assets.

Benefit Plans: Pension expense is the net of service and interest cost, return on plan assets, and amortization of gains and losses not immediately recognized. Employee stock ownership 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.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby 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.

Fair Value of Financial Instruments: Fair values of financial instruments, as more fully disclosed in Note 10, 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 are net income divided by the weighted average number of shares outstanding during the period. The Company has no instruments outstanding which are potentially dilutive.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of related income tax, and changes in the funded status of the defined benefit pension plan, net of related income tax. Accumulated other comprehensive income (loss) is recognized as a separate component of equity.

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 Banks to the holding company or by the holding company to shareholders.

Restrictions on Cash: Included in cash and due from financial institutions are certain deposits that are held at the Federal Reserve or maintained in vault cash in accordance with average balance requirements specified by the Federal Reserve Board of Governors. The average balance requirement was $21,548,000 and $16,307,000 at December 31, 2009 and 2008.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current year presentation.

Adoption of New Accounting Standards: In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (ASC 820-10). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position ("FSP") No. 157-2, *Effective Date of FASB Statement No. 157*, which is currently FASB ASC 820-10. This delayed the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The effect of adopting this new guidance was immaterial.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (ASC 805). ASC 805 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. ASC 805 was effective for fiscal years beginning on or after December 15, 2008. The effect of adopting this new guidance was immaterial.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (ASC 855-10). Under ASC 855-10, the effects of events that occur subsequent to the balance-sheet date should be evaluated through the date the financial statements are either issued or available to be issued. Companies should disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Companies are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events).

Companies are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about

conditions that arose after the balance-sheet date (nonrecognized subsequent events), but the standard requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for interim and annual financial periods ending after June 15, 2009, with prospective application. The effect of adopting this new guidance was immaterial.

The Company evaluated subsequent events through March 22, 2010, the date its financial statements were available to be issued and believes that no events have occurred requiring further disclosure or adjustment to the consolidated financial statements.

In June 2009, the FASB replaced Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, with Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which establishes the *FASB Accounting Standards Codification*™ as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification was effective for financial statements issued for periods after September 15, 2009.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1—*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (ASC 260-10). This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, included in the earnings allocation in computing earnings per share ("EPS") under the two-class method. ASC 260-10 provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented were to be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform to the provisions of this FSP. The effect of adopting this new guidance was immaterial.

In December 2008, the FASB issued FSP No. 132(R)-1, *Employer's Disclosures about Postretirement Benefit Plan Assets* (ASC 715-20). The FSP provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other post-retirement plan. These additional disclosures include disclosure of investment policies and fair value disclosures of plan assets, including fair value hierarchy. The FSP also includes a technical amendment that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. This FSP was effective for fiscal years ending after December 15, 2009. Upon initial application, provisions of the FSP are not required for earlier periods that are presented for comparative purposes. The new disclosures have been presented in the notes to the consolidated financial statements.

In April 2009, the FASB issued FSP No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (ASC 320-10), which amended existing guidance for determining whether impairment is other-than-temporary for debt securities. The FSPs require an entity to assess 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 these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment ("OTTI") related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is determined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. ASC 320-10 was effective for interim and annual reporting periods ending June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The new guidance did not have an impact on the financial statements.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC 820-10). This FSP emphasizes that the objective of a fair value measurement does not change even when market activity for the asset or liability has decreased significantly. Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be assigned to the indication of the asset or liability's fair value. Adjustments to those transactions or prices would be needed to determine the appropriate fair value. The FSP, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption for periods ending after March 15, 2009. The effect of adopting this new guidance was immaterial.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, *Measuring Liabilities at Fair Value* (ASC 820). This Update provides amendments to ASC 820 for the fair value measurement of liabilities by clarifying that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or that is consistent with the principles of ASC 820. The amendments in this guidance also clarify that both a quoted price for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance was effective for the first reporting period beginning after issuance. The effect of adopting this new guidance was immaterial.

NOTE 2. SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2009				
U.S. Treasury securities	**$ 21,994,597**	**$ -**	**$ (4,322)**	**$ 21,990,275**
U.S. government agency securities	**81,421,029**	**102,090**	**(95,243)**	**81,427,876**
Obligations of states and political subdivisions	**1,413,065**	**62,055**	**-**	**1,475,120**
Agency mortgage-backed securities: Residential	**5,788,990**	**377,607**	**(130)**	**6,166,467**
Total	**$110,617,681**	**$ 541,752**	**$ (99,695)**	**$111,059,738**
2008				
U.S. government agency securities	$109,639,249	$ 288,573	$ (15,812)	$109,912,010
Obligations of states and political subdivisions	2,137,440	35,854	(9,860)	2,163,434
Agency mortgage-backed securities: Residential	15,558,652	348,109	(7,739)	15,899,022
Total	$127,335,341	$ 672,536	$ (33,411)	$127,974,466

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

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2009				
U.S. government agency securities	**$ 6,918,728**	**$ 301,272**	**$ -**	**$ 7,220,000**
Obligations of states and political subdivisions	**7,247,624**	**350,605**	**(229)**	**7,598,000**
Agency mortgage-backed securities: Residential	**12,458,859**	**370,141**	**-**	**12,829,000**
Other	**1,150,000**	**-**	**-**	**1,150,000**
Total	**$ 27,775,211**	**$ 1,022,018**	**$ (229)**	**$ 28,797,000**
2008				
U.S. government agency securities	$ 17,223,497	$ 327,503	$ -	$ 17,551,000
Obligations of states and political subdivisions	13,576,119	419,881	-	13,996,000
Agency mortgage-backed securities: Residential	19,881,138	247,974	(1,112)	20,128,000
Other	500,000	-	-	500,000
Total	$ 51,180,754	$ 995,358	$ (1,112)	$ 52,175,000

The fair value of securities and carrying amount, if different, at December 31, 2009, by contractual maturity, are shown below. Mortgage-backed securities are shown separately because they are not due at a single maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale
	Carrying Amount	Fair Value	Fair Value
Due in one year or less	$ 936,695	$ 936,000	$ 92,516,295
Due from one to five years	8,840,116	9,215,000	2,397,356
Due from five to ten years	2,403,818	2,543,000	1,034,635
Due after ten years	3,135,723	3,274,000	8,944,985
Agency mortgage-backed securities: Residential	12,458,859	12,829,000	6,166,467
Total	$ 27,775,211	$ 28,797,000	$111,059,738

Securities with a carrying amount of approximately $104,492,000 and $139,818,000 at December 31, 2009 and 2008, were pledged to secure public deposits, repurchase agreements, trust deposits and for other purposes as required or permitted by law.

At December 31, 2009 and 2008, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of shareholders' equity.

No securities were sold in 2009 and 2008.

Securities with unrealized losses at year end 2009 and 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or more Fair Value	12 Months or more Unrealized Loss	Total Fair Value	Total Unrealized Loss
2009						
Available for Sale						
U.S. Treasury securities	$ 6,990,260	$ (4,322)	$ -	$ -	$ 6,990,260	$ (4,322)
U.S. government agency securities	8,575,004	(92,002)	229,181	(3,241)	8,804,185	(95,243)
Agency mortgage-backed securities: Residential	-	-	30,266	(130)	30,266	(130)
Total available for sale	$ 15,565,264	$ (96,324)	$ 259,447	$ (3,371)	$ 15,824,711	$ (99,695)
Held to Maturity						
Obligations of states and political subdivisions	$ 286,465	$ (229)	$ -	$ -	$ 286,465	$ (229)
2008						
Available for Sale						
U.S. government agency securities	$ 573,884	$ (8,857)	$ 275,346	$ (6,955)	$ 849,230	$ (15,812)
Obligations of states and political subdivisions	-	-	186,983	(9,860)	186,983	(9,860)
Agency mortgage-backed securities: Residential	526,734	(6,581)	125,026	(1,158)	651,760	(7,739)
Total available for sale	$ 1,100,618	$ (15,438)	$ 587,355	$ (17,973)	$ 1,687,973	$ (33,411)
Held to Maturity						
Agency mortgage-backed securities: Residential	$ 202,528	$ (53)	$ 2,008,063	$ (1,059)	$ 2,210,591	$ (1,112)

NOTE 3. LOANS

Loans at December 31 were as follows:

	2009	2008
Commercial	$ 1,271,833,443	$ 1,102,354,226
Real estate	304,328,036	279,810,604
Installment	143,693,748	158,860,829
Credit card receivables	11,878,192	12,944,273
Loans held for sale	7,383,118	5,639,303
	1,739,116,537	1,559,609,235
Unearned income	(1,352,267)	(1,296,316)
Allowance for credit losses	(20,746,522)	(21,753,237)
Loans, net	$ 1,717,017,748	$ 1,536,559,682

Activity in the allowance for credit losses was as follows:	2009	2008
Balance, beginning of year	$ 21,753,237	$ 20,214,651
Loans charged off	(11,598,130)	(7,331,676)
Recoveries	799,048	780,438
Provision for credit losses	9,792,367	8,089,824
Balance, end of year	$ 20,746,522	$ 21,753,237

Loans having carrying values of $63,620,715 and $30,903,314 have been recognized as impaired at December 31, 2009 and 2008. The average recorded investment in such impaired loans during 2009 and 2008 was $48,737,289 and $25,719,409. All impaired loans have an allowance for credit losses allocated and the total allocated to those loans was $7,738,700 and $5,515,750 at December 31, 2009 and 2008. Cash payments of interest totaling $1,855,270 and $1,208,526 were received on impaired loans in 2009 and 2008, representing the amount of interest income recorded during impairment.

Nonperforming loans are loans past due over 90 days and nonaccrual loans. Loans past due over 90 days and still on accrual were $3,030,649 and $3,328,217 at December 31, 2009 and 2008. Nonaccrual loans were $25,116,242 and $11,837,321 at December 31, 2009 and 2008.

Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may be included in only one category.

The Company has allocated $2,523,489 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2009. The Company has committed to lend additional amounts totaling up to $8,644 to customers with outstanding loans that are classified as troubled debt restructurings.

The Banks have entered into loan transactions with their directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties was approximately $7,568,000 and $7,895,000 at December 31, 2009 and 2008.

NOTE 4. MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled approximately $276,510,000 and $146,093,000 during 2009 and 2008. The Company had commitments to originate $13,665,000 in loans at December 31, 2009, which it intends to sell after the loans are closed. The Company had approximately $7,383,000 and $5,639,000 in loans held for sale at December 31, 2009 and 2008.

Loans serviced for others, which are not reported as assets, totaled approximately $73,075,000 and $74,690,000 at December 31, 2009 and 2008.

Activity for capitalized mortgage servicing rights included in other assets during 2009 and 2008 was as follows:

	2009	2008
Servicing rights		
Beginning of year	$ 218,491	$ 277,338
Originated	108,444	63,700
Amortized to expense	(97,917)	(122,547)
End of year	$ 229,018	$ 218,491

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be approximately $263,000 and $251,000 at year end 2009 and 2008.

The Company is in discussion with an investor regarding 14 loans which were sold to the investor between 2003 and 2007. The investor has requested that the Company buy back some of these loans. Interpretation regarding the guidelines under which these loans were originated and appraisal requirements are at issue. There has been no indication from the investor that additional loans will be questioned, or that additional buy back requests will be forthcoming, but it is possible that there may be similar compliance issues on a small percentage of the remaining portfolio sold to this investor. The Company has provided for estimated losses at December 31, 2009 and 2008; however, the Company's exposure to losses related to such potential repurchase demands, if any, is not reasonably estimable, but the amounts could be substantial. Management presently does not believe that it has similar exposure on loans sold to other investors.

NOTE 5. OTHER REAL ESTATE OWNED

Activity in the valuation allowance was as follows:

	2009	2008
Beginning of year	$ -	$ -
Additions charged to expense	5,626,820	159,172
Direct write-downs	(2,293,820)	(159,172)
End of year	$ 3,333,000	$ -

Expenses related to foreclosed assets include:

	2009	2008
Net loss (gain) on sales and direct write-downs	$ 2,293,820	$ 159,172
Provision for valuation allowance	3,333,000	-
Operating expenses, net of rental income	884,886	762,258
	$ 6,511,706	$ 921,430

NOTE 6. PREMISES AND EQUIPMENT

Premises and equipment at December 31 are as follows:

	2009	2008
Land	$ 3,814,361	$ 3,814,361
Buildings and improvements	25,092,951	24,224,286
Leasehold improvements	24,253,804	24,004,495
Furniture, fixtures and equipment	33,755,736	32,289,312
Construction in progress	925,276	2,574,315
Accumulated depreciation	(39,116,988)	(33,401,886)
	$ 48,725,140	$ 53,504,883

Depreciation and amortization expense amounted to $6,306,223 and $6,092,749 in 2009 and 2008.

Operating Leases: The Company leases its main office, 11 banking center locations and mortgage center in addition to its land leases for four banking centers. The Company currently subleases a portion of its space to three tenants. Rent expense was approximately $4,644,000 and $4,520,000 in 2009 and 2008. Rent commitments under noncancelable operating leases, and certain renewal provisions, net of subleases, are as follows:

2010	$ 4,751,198
2011	4,941,720
2012	4,990,267
2013	5,097,650
2014	5,178,077
Thereafter	46,996,773
	$ 71,955,685

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

Goodwill was $15,004,524 at December 31, 2009 and 2008.

Impairment exists when a reporting unit's carrying amount of goodwill exceeds its fair value, which is determined through a two-step impairment test. Step 1 includes the determination of the carrying amount of the Company's single reporting unit, including the existing goodwill and other intangible assets, and estimating the fair value of the reporting unit. Management determined the fair value of the reporting unit and compared it to its carrying amount. If the carrying amount of the reporting unit had exceeded its fair value, management would have been required to perform a second step to the impairment test. Step 2 was not necessary in 2009.

Acquired intangible assets were as follows as of December 31:

	2009		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$ 400,000	$ 400,000	$ 400,000	$ 400,000
Customer relationship intangibles	4,923,564	2,416,828	4,923,564	1,898,598

Aggregate amortization expense was $518,230 for 2009 and $478,636 for 2008.

Estimated amortization expense for each of the next five years is as follows:

2010	$ 494,588
2011	494,588
2012	494,588
2013	413,968
2014	263,348

NOTE 8. DEPOSITS

Time deposits of $100,000 or more were $432,301,328 and $417,589,739 at December 31, 2009 and 2008.

Scheduled maturities of time deposits for the next five years are as follows:

2010	$ 624,972,333
2011	105,224,375
2012	16,381,427
2013	4,002,589
2014	12,679,972
Thereafter	61,974
	$ 763,322,670

Deposits of directors and executive officers of the Banks and companies in which they have beneficial ownership were approximately $42,808,000 and $36,055,000 at December 31, 2009 and 2008.

NOTE 9. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

	2009	2008
Advance under Repo Based Advance program expiring January 2010, variable rate, 0.08% at December 31, 2009	**$ 20,000,000**	$ 24,000,000
Maturities February 2010 through December 2027, fixed rates ranging from 1.74% to 8.05%, averaging 3.16% in 2009 and 3.44% in 2008	**39,526,744**	43,225,161
Total	**$ 59,526,744**	$ 67,225,161

Each advance is payable at its maturity date, with a prepayment penalty, except that the Repo Based Advance has no prepayment penalty. The advances were borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and first mortgage loans with an aggregate unpaid principal balance of approximately $236,066,000 and $213,433,000 at December 31, 2009 and 2008. Based on this collateral and the holding of Federal Home Loan Bank stock, the Banks are eligible to borrow up to a total of $155,406,645 at year end 2009.

Payment Information: Scheduled principal repayments associated with the advances over the next five years are as follows:

	FHLB Advances
2010	$ 33,572,585
2011	10,517,800
2012	10,546,723
2013	857,605
2014	447,972
Thereafter	3,584,059
	$ 59,526,744

Subordinated Debentures: In March 2009, Central Bancshares KY Statutory Trust III, a trust formed by the Company, closed a private placement offering of 22,600 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $23,278,000 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 $1,000, on or after March 31, 2014 at 100 percent of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 31, 2039. The subordinated debentures are also 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 $22,600,000 in trust preferred securities may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The trust preferred securities and subordinated debentures have a fixed rate of interest of 10.00%. The Company's investment in the common stock of the trust was $678,000 and is included in other assets.

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 $1,000 per security. The Company issued $15,464,000 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 $1,000, on or after June 15, 2010 at 100 percent of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on June 15, 2035. The subordinated debentures are also 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 $15,000,000 in trust preferred securities may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%, which was 2.00% at year end 2009. The Company's investment in the common stock of the trust was $464,000 and is included in other assets.

NOTE 10. 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:

Investment Securities: The fair values of securities available for sale 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).

Loan Servicing Rights: The fair value of servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally 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 appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Non-recurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities 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 (2009):			
Available for sale securities:			
U.S. Treasury securities	$ -	**$ 21,990,275**	$ -
U.S. government agency securities	-	**81,427,876**	-
Obligations of states and political subdivisions	-	**1,475,120**	-
Agency mortgage-backed securities: Residential	-	**6,166,467**	-
Assets (2008):			
Available for sale securities:			
U.S. government agency securities	$ -	$ 109,912,010	$ -
Obligations of states and political subdivisions	-	2,163,434	-
Agency mortgage-backed securities: Residential	-	15,899,022	-

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities 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 (2009):			
Impaired loans	$ -	$ -	$ **55,882,015**
Other real estate owned	-	-	**21,805,408**
Assets (2008):			
Servicing rights	$ -	$ 251,000	$ -
Impaired loans	-	-	25,388,000

The following represents impairment charges recognized during the period:

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $63,620,715, with a valuation allowance of $7,738,700 at December 31, 2009, resulting in an additional provision for loan losses of $2,418,390 in 2009 and $2,493,875 in 2008.

Other real estate owned, which is measured at the lower of carrying amount or fair value less costs to sell, had a net carrying amount of $21,805,408, which is made up of the outstanding balance of $25,138,408 net of a valuation allowance of $3,333,000 at December 31, 2009, resulting in a write-down of $3,333,000 in 2009 and $0 in 2008.

The carrying amount and estimated fair value of the Company's financial instruments, not previously presented, at December 31 are as follows:

	2009		2008	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ **48,977,018**	$ **48,977,000**	$ 61,296,358	$ 61,296,000
Securities available for sale	**111,059,738**	**111,060,000**	127,974,466	127,974,000
Securities held to maturity	**27,775,211**	**28,797,000**	51,180,754	52,175,000
Loans, net	**1,709,634,630**	**1,713,924,000**	1,530,920,379	1,555,222,000
Loans held for sale	**7,383,118**	**7,457,000**	5,639,303	5,696,000
Federal Home Loan Bank stock	**7,959,300**	**not applicable**	7,956,967	not applicable
Servicing rights	**229,018**	**263,000**	218,491	251,000
Interest receivable	**6,901,590**	**6,902,000**	7,318,257	7,318,000
Financial liabilities				
Deposits	$ **1,705,582,952**	$ **1,711,394,000**	$ 1,540,141,181	$ 1,549,929,000
Federal funds purchased and repurchase agreements	**90,114,080**	**90,114,000**	128,156,652	128,157,000
Federal Home Loan Bank advances	**59,526,744**	**60,490,000**	67,225,161	68,490,000
Note payable	**-**	**-**	2,050,000	2,050,000
Subordinated debentures	**38,742,000**	**35,140,000**	15,464,000	15,464,000
Interest payable	**1,326,099**	**1,326,000**	1,854,910	1,855,000

The following is a summary of the fair value estimation methodologies used by the Company for the financial instruments above:

Cash and cash equivalents and interest receivable and payable are presented at their carrying value, which is a reasonable estimate of their fair value. Fair value for held-to-maturity securities is based on quoted market prices and prices obtained from independent pricing services. The fair value of loans is estimated by discounting the future cash flows using market rates currently offered for loans of similar remaining maturities. It is not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability.

The fair value of non-interest bearing deposits is the amount payable on demand. The fair value of interest bearing deposits is estimated using market rates currently offered for deposits of similar remaining maturities. The carrying amount is the estimated fair value for federal funds purchased and repurchase agreements that reprice frequently and fully. The fair value of Federal Home Loan Bank advances, the note

payable, and the subordinated debentures issued in 2009 is estimated based on rates currently available to the Company for borrowings with similar terms and remaining maturities. The carrying amount of the subordinated debentures issued in 2005 reasonably estimates the fair value as the debentures have a variable rate which reprices frequently.

The estimated fair value of commitments to extend credit and standby letters of credit is estimated using fees currently charged for similar arrangements and is not material in relation to the consolidated financial statements.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2009 and 2008. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 11. INCOME TAXES

The provision for income taxes consists of the following:

	2009	2008
Current	**$ 392,032**	$ 478,017
Deferred	**(3,820,613)**	(536,668)
	$ (3,428,581)	$ (58,651)

The tax provision is less than that obtained by using the statutory federal income tax rates due to tax credits generated by Central Bank & Trust Co.'s limited partnership interest in 12 low-income housing projects, three historic renovation projects, a New Market Tax Credit project, ownership of Qualified Zone Academy Bonds, and tax exempt interest income totaling approximately $4,073,000 and $3,222,000 for 2009 and 2008.

Deferred tax assets and liabilities relate principally to unrealized losses on securities available for sale, adjustment for FASB ASC 715 pension obligations, premises and equipment, mortgage servicing rights, the allowance for credit losses, Federal Home Loan Bank stock dividends, fair value adjustments, prepaid pension benefits and net operating loss carryforwards generated by Central Bank of Jefferson County prior to the Company's acquisition. These net operating loss carryforwards expire in 2025. The utilization of the net operating loss carryforwards is limited annually under Internal Revenue Code Section 382. The Company's deferred tax assets and deferred tax liabilities at December 31 are as follows:

	2009	2008
Deferred tax assets	**$ 17,230,516**	$ 17,232,922
Deferred tax liabilities	**(7,802,474)**	(8,282,565)
	$ 9,428,042	$ 8,950,357

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. No valuation allowance for the realization of deferred tax assets is considered necessary.

The Company adopted guidance issued by the FASB with respect to accounting for uncertainty in income taxes as of January 1, 2009. The Company has no unrecognized tax benefits as of December 31, 2009. The Company does not expect the total amount of unrecognized tax benefits to significantly increase 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, 2009. The Company and its subsidiaries file a consolidated U.S. Corporation federal income tax return and the Company and its non-bank subsidiaries file Kentucky Corporation income tax returns The federal return is subject to examination by taxing authorities for all years after 2005 and the Kentucky returns are subject to examination by taxing authorities for all years after 2004.

NOTE 12. RETIREMENT PLANS

The Company has a noncontributory defined benefit pension plan covering substantially all employees. The plan generally provides pension benefits that are based on compensation levels and years of service. Annual contribution to the plan is made according to established laws and regulations. Plan assets are primarily invested in equity securities, fixed income securities and cash equivalents.

The Company also maintains a non-qualified supplemental pension 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 $2,078,969 and $1,705,814 at December 31, 2009 and 2008.

During 2009, the Company curtailed these defined benefit plans, fully vesting and freezing benefits for all employees.

Information about plan assets, obligations, contributions, and benefits paid follows:

	December 31	
	2009	2008
Benefit obligation	**$ (21,884,186)**	$ (25,807,455)
Fair value of plan assets	**26,276,676**	22,277,585
Funded status	**$ 4,392,490**	$ (3,529,870)

	2009	2008
Employer contribution	**$ 1,000,000**	$ 3,324,725
Benefits paid	**882,307**	369,877

Net periodic pension cost for 2009 and 2008 for the Company's defined benefit pension plans included the following components:

	2009	2008
Service cost – benefits earned during the period	**$ 2,020,402**	$ 1,939,053
Interest cost on projected benefit obligation	**1,775,450**	1,609,932
Actual return on plan assets	**(3,948,207)**	6,345,462
Net amortization and deferral of prior service costs	**3,318,855**	(7,810,086)
Curtailment loss	**10,144**	-
Net periodic pension cost	**$ 3,176,644**	$ 2,084,361

Plan Assets: The Company's overall investment strategy is to achieve a mix of long-term growth and fixed income investments. The target allocations for plan assets are shown in the table below. Equity securities primarily include investments in mutual funds and blue chip stocks. Debt securities include corporate notes, agency securities, and municipal securities.

The weighted-average expected long-term rate of return is estimated based on current trends in the plan assets as well as projected future rates of return on those assets. The long-term rate of return considers historical returns.

The Company's pension plan asset allocation at year end 2009 and 2008, target allocation for 2010, and expected long-term rate of return by asset category are as follows:

Asset Category	**Target Allocation 2010**	**Percentage of Plan Assets at Year End 2009**	**2008**	**Weighted-Average Expected Long-Term Rate of Return**
Equity securities	**50-70%**	**71.3%**	61.5%	1.56%
Debt securities	**25-40**	**28.7**	38.5	5.02
Total		**100.0%**	100.0%	2.60%

Fair Value of Plan Assets: Fair value is the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Equity and Debt Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). 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). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

The fair value of the plan assets at December 31, 2009, by asset category, is as follows:

(Dollars in thousands):	Carrying Value	Fair Value Measurements at December 31, 2009 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan assets:				
Equity securities	$ 21,013	$ 21,013	$ -	$ -
Dept securities	8,458	3,129	5,329	-
Total plan assets	$ 29,471	$ 24,142	$ 5,329	$ -

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $(44,328) and $(118,299) in 2009 and 2008. The accrued liability associated with these plans of $447,982 and $475,811 at December 31, 2009 and 2008 is included in other liabilities.

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 percent of the total compensation of all participants. ESOP expense was $1,134,178 and $795,284 in 2009 and 2008. As of December 31, 2009 and 2008, a total of 34,417 and 34,036 shares with a fair value of approximately $13,767,000 and $15,859,000 were allocated to active participants as well as $81,765 and $189,071 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, 2009, is the fair value of all ESOP shares distributed in 2009 and shares to be distributed in 2010 to participants who had terminated as of year end 2009. 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 $499,502 and $468,600 in 2009 and 2008.

NOTE 13. REGULATORY MATTERS

The Company is a bank holding company and is subject to regulation by the Federal Reserve. Central Bank & Trust Co., Salt Lick Deposit Bank, and Central Bank of Jefferson County, Inc. operate under state bank charters and are subject to regulation by the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation. Central Bank, FSB operates as a federally chartered savings bank and is subject to regulation by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of the Company's and the Banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Banks' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. As of December 31, 2009, Central Bank of Jefferson County, Inc. and Salt Lick Deposit Bank are required under a regulatory agreement to maintain a Tier I capital to average assets ratio of 8.00%. Both Banks were in compliance as of that date.

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.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2009 and 2008, that the Company and the Banks meet all capital adequacy requirements to which they are subject. Notification from the Federal Deposit Insurance Corporation as of December 31, 2009, categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institutions' category.

Actual and required capital amounts and ratios 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, 2009:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	**$192,110,618**	**10.7%**	**$143,449,938**	**8.0%**	**$179,312,423**	**10.0%**
Central Bank & Trust Co.	**145,556,455**	**10.0**	**116,195,017**	**8.0**	**145,243,771**	**10.0**
Central Bank, FSB	**19,054,362**	**12.9**	**11,809,091**	**8.0**	**14,761,364**	**10.0**
Central Bank of Jefferson County, Inc.	**17,436,504**	**11.7**	**11,947,148**	**8.0**	**14,933,935**	**10.0**
Salt Lick Deposit Bank	**7,269,236**	**14.8**	**3,936,889**	**8.0**	**4,921,111**	**10.0**
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	**$171,364,096**	**9.6%**	**$ 71,724,969**	**4.0%**	**$107,587,454**	**6.0%**
Central Bank & Trust Co.	**129,952,500**	**9.0**	**58,097,508**	**4.0**	**87,146,263**	**6.0**
Central Bank, FSB	**17,205,303**	**11.7**	**5,904,546**	**4.0**	**8,856,819**	**6.0**
Central Bank of Jefferson County, Inc.	**15,567,942**	**10.4**	**5,973,574**	**4.0**	**8,960,361**	**6.0**
Salt Lick Deposit Bank	**6,649,737**	**13.5**	**1,968,444**	**4.0**	**2,952,667**	**6.0**
Tier I Capital (to Average Assets):						
Consolidated	**$171,364,096**	**8.8%**	**$ 77,838,820**	**4.0%**	**$ 97,298,524**	**5.0%**
Central Bank & Trust Co.	**129,952,500**	**8.4**	**62,081,374**	**4.0**	**77,601,717**	**5.0**
Central Bank, FSB	**17,205,303**	**9.9**	**6,947,771**	**4.0**	**8,684,714**	**5.0**
* Central Bank of Jefferson County, Inc.	**15,567,942**	**8.7**	**7,166,470**	**4.0**	**8,958,088**	**5.0**
* Salt Lick Deposit Bank	**6,649,737**	**8.0**	**3,345,280**	**4.0**	**4,181,601**	**5.0**

*At December 31, 2009, Central Bank of Jefferson County, Inc. and Salt Lick Deposit Bank are required to maintain a Tier I capital to average assets ratio of 8.0%.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2008:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 168,454,320	10.3%	$130,700,275	8.0%	$ 163,375,343	10.0%
Central Bank & Trust Co.	133,234,055	10.1	105,204,219	8.0	131,505,274	10.0
Central Bank, FSB	17,100,427	12.1	11,345,819	8.0	14,182,274	10.0
Central Bank of Jefferson County, Inc.	13,161,998	10.0	10,522,568	8.0	13,153,210	10.0
Salt Lick Deposit Bank	6,569,523	12.9	4,068,015	8.0	5,085,018	10.0
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$ 148,015,966	9.1%	$ 65,350,137	4.0%	$ 98,025,206	6.0%
Central Bank & Trust Co.	117,197,680	8.9	52,602,109	4.0	78,903,164	6.0
Central Bank, FSB	15,319,877	10.8	5,672,909	4.0	8,509,364	6.0
Central Bank of Jefferson County, Inc.	11,507,981	8.8	5,261,284	4.0	7,891,926	6.0
Salt Lick Deposit Bank	5,931,281	11.7	2,034,007	4.0	3,051,011	6.0
Tier I Capital (to Average Assets):						
Consolidated	$ 148,015,966	8.2%	$ 72,011,324	4.0%	$ 90,014,155	5.0%
Central Bank & Trust Co.	117,197,680	8.2	57,061,317	4.0	71,326,896	5.0
Central Bank, FSB	15,319,877	9.0	6,785,977	4.0	8,482,472	5.0
Central Bank of Jefferson County, Inc.	11,507,981	7.3	6,273,969	4.0	7,842,462	5.0
Salt Lick Deposit Bank	5,931,281	8.0	2,983,140	4.0	3,728,925	5.0

As state-chartered banks, Central Bank & Trust Co., Salt Lick Deposit Bank, and Central Bank of Jefferson County, Inc. are subject to the dividend restrictions set forth by Kentucky Revised Statutes. Under such restrictions, state-chartered banks 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. Salt Lick Deposit Bank and Central Bank of Jefferson County, Inc. are restricted from declaring dividends without permission of the regulatory authorities.

Office of Thrift Supervision ("OTS") regulations limit capital distributions by savings institutions. The least restriction is placed on "tier 1" institutions, defined as well capitalized and with favorable qualitative OTS examination ratings, which can make distributions in a year up to one-half the capital in excess of the most stringent capital requirement at the beginning of the year plus net income to date. Other institutions have more stringent requirements, the most restrictive being prior OTS approval of any capital distribution. Central Bank, FSB is a tier 1 institution.

Under the most restrictive dividend limitations described, the Banks could pay dividends in 2010 of approximately $8,824,000 plus any 2010 earnings retained through the date of the dividend declaration.

The Qualified Thrift Lender test requires at least 65 percent of assets be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, Federal Home Loan Bank advances and dividends, or Central Bank, FSB must convert to a commercial bank charter. Management believes that this test is met.

NOTE 14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Banks are parties to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. The financial instruments are commitments to extend credit, unused lines of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable. The Banks use the same credit policies in making conditional obligations as they do for on-balance- sheet instruments.

At December 31, 2009 and 2008, the Banks have the following financial instruments:

	2009	2008
Standby letters of credit	**$ 22,341,000**	$ 22,104,000
Commitments to extend credit	**$ 228,022,000**	$ 171,834,000
Unused lines of credit	**$ 237,134,000**	$ 223,256,000

Standby letters of credit represent conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as the credit risk involved in extending loans to customers. The Banks hold certificates of deposit and real estate as collateral supporting those commitments for which collateral is deemed necessary.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Commitments are generally made for periods of 45 days or less. The Banks evaluate 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. Collateral held varies but may include accounts receivable, marketable securities, inventory, property and equipment, and income-producing properties.

NOTE 15. OTHER COMPREHENSIVE INCOME

Other comprehensive income (loss) components and related tax effects were as follows:

	2009	2008
Unrealized holding gains and losses on securities available for sale	**$ (197,068)**	$ 419,566
Tax effect	**68,974**	(146,887)
Net of tax amount	**(128,094)**	272,679
Net gain (loss) and prior service cost arising during the year on employee pension plan, and impact of curtailment	**9,738,305**	(10,357,494)
Tax effect	**(3,408,407)**	3,625,124
Net of tax amount	**6,329,898**	(6,732,370)
Other comprehensive income (loss)	**$ 6,201,804**	$ (6,459,691)

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	Balance at December 31, 2008	**Current Period Change**	**Balance at December 31, 2009**
Unrealized gains (losses) on securities available for sale	$ (1,455,477)	$ (128,094)	$ (1,583,571)
Unrealized loss on pension benefits	(6,732,370)	6,329,898	(402,472)
Total	$ (8,187,847)	$ 6,201,804	$ (1,986,043)

NOTE 16 – NON-RECURRING ITEMS

During 2008, the Banks recorded certain non-recurring non-interest income items. In March, a total of $956,491 in proceeds from the VISA initial public offering was received by one Bank. This resulted in a one-time gain in the same amount as the proceeds. In August, another Bank received $1,675,000 in settlement of a claim regarding a prior business arrangement with an outside party. In November, one of the Banks received $1,500,000 in settlement funds as satisfaction of an outstanding claim against a provider of services in regard to documentation required surrounding a credit decision granted and funds disbursed in a prior period.

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