CONNECTED TO THE PEOPLE WE SERVE.

2013 ANNUAL REPORT

Central Bank & Trust Co.
Central Bank of Jefferson County
Central Insurance Services
Central Investment Center, Inc.

HELPING OUR COMMUNITY INCLUDES TAKING CARE OF OUR PEOPLE.

Central Bank was recognized by American Banker magazine as one of the "Best Banks to Work For" in its inaugural ranking this past year. Only 35 banks in the country were noted in the flagship program.

Banks were evaluated on workplace policies, practices, demographics and employee surveys to assess the experiences and attitudes of individual employees, according to American Banker.

MISSION STATEMENT

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

for additional copies or
INFORMATION

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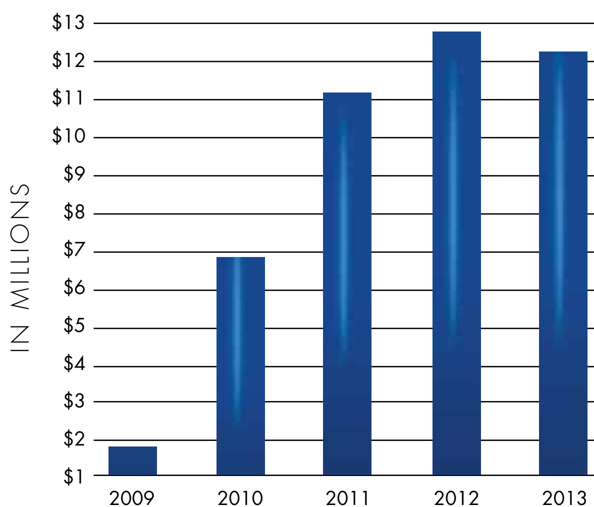
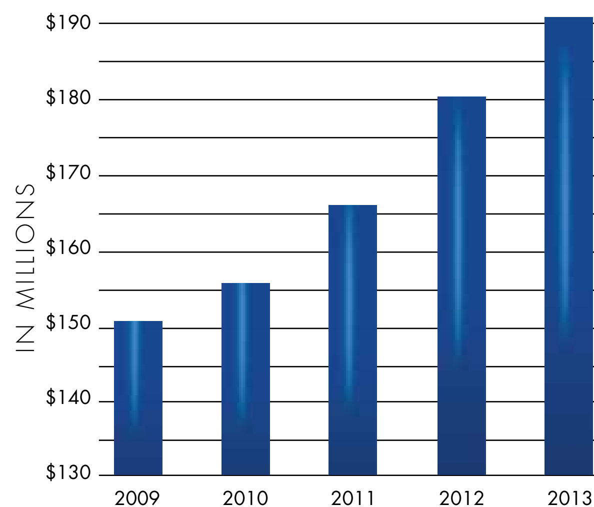
FINANCIAL HIGHLIGHTS

For twelve months ended December 31

	2013	2012	2011	2010	2009
RESULTS OF OPERATIONS:					
Net income	$ 12,150,688	$ 12,880,646	$ 11,017,235	$ 6,907,543	$ 1,768,610
Net income per share	34.92	37.02	31.67	19.85	5.08
Cash dividends per share	0.00	0.00	0.00	0.00	5.00
Book value per share at year end	554.11	518.24	479.72	449.08	433.94
AT DECEMBER 31					
Assets	$ 2,092,493,512	$ 2,175,446,603	$ 2,145,011,752	$ 2,192,013,038	$ 2,053,106,110
Earning assets	1,946,193,278	2,000,062,125	1,956,857,364	2,019,276,028	1,863,911,997
Net loans and leases	1,602,142,845	1,645,063,290	1,644,350,387	1,747,181,237	1,717,017,748
Deposits	1,754,832,529	1,876,715,151	1,858,076,694	1,903,788,824	1,705,582,952
Shareholders' equity	192,788,321	180,307,914	166,906,431	156,243,656	150,978,513
AVERAGES					
Assets	$ 2,108,670,619	$ 2,142,605,932	$ 2,131,379,954	$ 2,145,488,233	$ 1,964,115,041
Earning assets	1,955,785,324	1,970,266,865	1,954,372,859	1,963,138,178	1,793,440,419
Net loans and leases	1,565,460,152	1,626,097,871	1,683,941,150	1,732,507,700	1,602,265,904
Deposits	1,781,992,228	1,852,678,210	1,847,549,623	1,812,588,595	1,623,195,705
Shareholders' equity	186,890,296	174,441,375	162,532,252	155,348,975	146,626,780
PERFORMANCE RATIOS:					
Return on average assets	0.58%	0.60%	0.52%	0.32%	0.09%
Return on average shareholders' equity	6.50%	7.38%	6.78%	4.45%	1.21%
Average shareholders' equity to average assets	8.86%	8.14%	7.63%	7.24%	7.47%
Dividend payout ratio	0.00%	0.00%	0.00%	0.00%	98.36%
Net charge-offs to average loans and leases	0.73%	0.81%	0.60%	0.93%	0.66%
Allowance for loan losses as a percentage of year end loans and leases	1.47%	1.64%	1.72%	1.29%	1.19%
Net interest margin (tax equivalent)	3.64%	3.74%	3.97%	3.85%	3.58%





WHEN INDIVIDUALS SUCCEED, IT MAKES OUR COMMUNITY STRONGER.

GOD'S PANTRY

Those who run the risk of going hungry in our very own communities demand the utmost attention. And we do our part to provide that attention and service through our partnership with God's Pantry. Since 2007 Central Bank has been a sponsor of the Taste of the Bluegrass event, God's Pantry's annual fundraiser that raises thousands of dollars to help feed those in need in Central and Eastern Kentucky.

CHILDREN'S CHARITY

The Children's Charity Fund of the Bluegrass is a local nonprofit organization we have partnered with for many years. Now in its 34th year, the Children's Charity Golf Classic draws celebrities from all over the country to raise money for children in need in Central Kentucky. The charity has raised more than $6 million, with nearly 100% going directly to benefit children in need.

AFFORDABLE HOUSING

Central Bank's Affordable Housing Loan Program is designed for individuals and families who earn low and moderate incomes in the Bank's assessment area and may not qualify for a traditional mortgage product. In 2013, we financed over $4 million in loans through the Affordable Housing Loan Program. The loan program features market rates, down-payment assistance, low closing costs and credit counseling, as well as ongoing borrower-performance monitoring.

NEW UK SPONSORSHIP

Early in 2014, Joan D. Kincaid and Central Bank announced a $7 million combined gift for two critical campus improvement projects focused on business education and health care. The gift supports a new auditorium in the growing Gatton College of Business & Economics and a project in the A.B. Chandler Hospital.

Hospital photo by Tim Webb.

Rendering provided by the University of Kentucky's Gatton College of Business and Economics.

EVERFI

EverFi provides a format for financial education in middle and high schools. We have measured the success of our involvement in the EverFi program by the number of young people who feel prepared for real-world financial decisions upon completion of the program. Those who complete the program are prepared to make sound budgeting decisions as they transition into adulthood.

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

Central Bank has always been an advocate for growth and innovation in the communities we serve. That's most likely how you first heard about our Bank and the reason you have chosen to have a relationship with us. Our customers, employees and shareholders believe in Central Bank because our dedication to doing what is best for them is central to every decision we make. And while we have been supporting our communities since we opened our doors in 1946, in 2014 it's now more important than ever to look out for our neighbors and enrich the fabric of our communities. With the economy showing promising signs of improvement, we are keenly aware of the value of momentum that comes from living in thriving communities. Central and Northern Kentucky and Louisville are experiencing a moment of great opportunity. And I clearly see the importance of the role Central Bank has to play in the current environment. As a financial institution, we have a responsibility to bolster the economic strength of the areas we serve. And as residents of those same areas, we have a vested interest in seeing our efforts succeed for all our citizens.

Our efforts this past year have, as always, been customer-focused. We have been hard at work both in the community and in the digital space where our customers increasingly go for their banking needs. When Central Bankers have the opportunity to interact with their customers, they will always go above and beyond expectations to ensure our customers receive the best service available.

PERFORMANCE

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

- Net income dropped by six percent to $12,150,668 or $34.92 per share. For 2012 the result was $12,880,646 or $37.02 per share.
- Return on average assets was .58 percent.
- Deposits saw a slight decline of three percent, ending the year with $1.75 billion.
- Net loans increased by one percent, ending the year at $1.60 billion.
- Shareholders' equity grew significantly this year to $193 million, which underscores our commitment to a robust future for our Company.

PRODUCTS

We have been hard at work to upgrade our eBanking systems to provide our customers with access to the most current technology available. With the implementation of our new online banking and mobile banking platform early in 2014, Central Bank customers will have the benefit of both our consistently unparalleled customer service, along with technology that rivals that of the largest banks in the country. I applaud the efforts of our dedicated eBanking team that has worked on this project for more than a year.

Another exciting development we implemented this past year was our new fast-issue debit cards. All new checking account customers will receive their debit cards in half the time it once took. We saw an inconvenience for our customers and fixed it. That's the Central Bank way.

You may have also noticed that our website boasts an exciting new feature: online deposit account, loan and credit card applications. In an age of increasing mobility, it made perfect sense to bring this technology to our customers. Just as we've always offered the option to meet you where you are, we now offer these applications straight from our website so you can do more of your banking from the comfort of your home, or the airport, or wherever you may be. We will always look for ways to meet you at your convenience, no matter where that is.

In 2014, a Small Business Department was formed within our Commercial Lending Group. These experienced Business Bankers will be out in our communities focusing their attention on the unique needs of these customers.

Efforts to serve more of our customers' growing needs have been led by our Wealth Management, Insurance, Mortgage and Investment staff, and we are very encouraged by their success. This has allowed us to expand the scope of our brand beyond banking to include these very important services.

LOOKING FORWARD TO 2014

Central Bank is in a strategically enviable position to continue growing in 2014. With a renewed sense of purpose and community, we are with our customers every step of the way. And as the economy continues to show signs of modest but steady recovery, we will be there to help businesses and individuals alike get the loans they need to foster growth in our communities. Central Bank has always been proud to be such an active member of our communities, and the past few years have allowed us to show our true colors. We stood by our customers, big and small, during the financial crisis, and we can now proudly walk with them into the future. We feel that Central Bankers and customers alike deserve the best we can offer, so we do the best we can to deliver expert advice.

This year we updated our Mission Statement to reflect our evolving position within the community. Our focus remains firmly set on the best customer service offered by any bank. Not only will we offer unparalleled customer service, as we always have, we will also compete with the largest banks in terms of innovation and mobile availability. We realize the average person's lifestyle is changing rapidly, and we promise to be available to our customers, both in person and in whichever digital platform they prefer. Central Bank has struck the balance of maintaining traditional values while also moving, without hesitation, into the future.

RETIREES/HONOREES

During 2013, three long-term employees completed their employment to reach well-earned retirements. Ramona Green (Retail Banking, 22 years), George Lathram (Commercial Banking, 11 years) and Marcia Wade (Wealth Management, 32 years) were dedicated Central Bankers who served our Bank and their customers with distinction. We congratulate them on their achievements.

WITH APPRECIATION

As with every year, we wouldn't be where we are without the support and guidance of our directors. They are the rudders that steer us, and I cannot thank them enough. Their collective experience and expertise are invaluable. Year after year our directors ensure the most respected reputation for Central Bank.

Though none of us know what the future holds, we can rest assured that our Bank is in the hands of the most competent and caring staff. We call them Central Bankers. They are the backbone of this company, and I am so grateful for them.

Most importantly, I would like to thank our customers. Your dedication and unwavering loyalty make Central Bank the trusted community bank that we have become. You recognize our tireless efforts to serve you, and for that we are eternally grateful. I am looking forward to a positive year to come, and I'm glad to have such an outstanding team of employees and wonderful customers with me. With this world-class community of people, I know there are great things in store for Central Bank.

Luther Deaton, Jr.

Chairman, President & CEO
March 15, 2014

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

Central Bancshares, Inc. (the "Company"), a bank holding company located in Lexington, Kentucky, is the parent company of Central Bank & Trust Co. and Central Bank of Jefferson County, Inc. At December 31, 2013, the Company had 26 full-service banking centers located in Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full-service brokerage business and a full-service insurance agency. Effective January 1, 2013, the Company sold Salt Lick Deposit Bank, a bank subsidiary whose financial performance is included in all historical periods shown for this report. All assets of Salt Lick Deposit Bank were sold, including the two banking centers located in Bath County.

RESULTS OF OPERATIONS

The Company reported net income of $12,150,668 for 2013, or $34.92 per share. This compares to $12,880,646, or $37.02 per share for 2012, and $11,017,235, or $31.67 per share for 2011. During 2013 both the national and local economies continued to show signs of recovery, and the Company experienced significant improvement in terms of declines in other real estate owned and past due loan levels. However, the need to continue working with clients impacted by the slowing of the economy in previous years remains. During 2013 the Company had $7.0 million of additions to foreclosed real estate which was down $0.5 million from the $7.5 million in foreclosures for 2012. The Company was also successful in the disposal of many parcels of property which had been foreclosed upon in prior periods as evidenced by the $11.8 million in sales proceeds which, when coupled with valuation adjustments, net losses and direct write-downs, reduced the net balance in other real estate on December 31, 2013, to $13.2 million for a decrease of $6.9 million, or 34.61 percent, from the December 31, 2012 balance of $20.1 million. During 2013 the Company continued to experience declining past-due percentages as evidenced by the December 31, 2013 level of 2.93 percent compared to the December 31, 2012 level of 4.37 percent. A full discussion of the performance of the loan portfolio is presented later in this document.

Return on average equity was 6.50 percent and return on average assets was 0.58 percent for 2013, compared with 7.38 percent and 0.60 percent, and 6.78 percent and 0.52 percent, respectively, for 2012 and 2011.

NET INTEREST INCOME

Net interest income in 2013 was $70.2 million compared to $72.5 million in 2012, a decrease of 3.12 percent. 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 seven basis points during 2013, to 3.46 percent, while the net interest margin declined 10 basis points to 3.64 percent for 2013.

During 2013, the tax equivalent yield on earning assets averaged 4.20 percent compared to 4.51 percent in 2012. Even though loan demand began to increase in the latter part of 2013, average loans for the year were less than in 2012. As more funds continued to flow into lower yielding investments, the downward pressure continued to manifest itself in an overall lower yield on earning assets. The tax equivalent yield on outstanding loans declined from 5.32 percent in 2012 to 5.05 percent in 2013. Competition for loans and the continuing decline in market rates were the primary causes for the reduction in yield on the portfolio.

The investment portfolio averaged $390.3 million for 2013, and had an average tax equivalent yield of 0.75 percent. This compares to an average of $344.2 million for 2012, and an average tax equivalent yield of 0.65 percent. The yield curve continued to be relatively flat for 2013 but did exhibit some vitality at points during the year in response to Federal Reserve pronouncements in regard to quantitative easing or lack thereof. The long end of the yield curve experienced the largest shifts as the shorter end remained virtually constant. Overall liquidity levels increased in 2013 versus 2012 and management continued to seek out the appropriate balance between the safety of the increased liquidity, and its corresponding lower yield, versus the interest rate risk inherent in obtaining a higher yield for a longer term investment.

While the average yield on earning assets declined 31 basis points from 2012 to 2013, the cost of paying liabilities declined 24 basis points over the same period. Lackluster overall loan demand in conjunction with industry-wide increases in the availability of deposits continued to ease competitive pressure to acquire funding. The Company was able to lower its cost on interest bearing deposit accounts from an average of 0.83 percent in 2012 to 0.61 percent in 2013. This was accomplished primarily in the certificate of deposit products as customers migrated away from this traditionally term-based deposit into the higher liquid interest-bearing transaction and non-interest bearing products. The Company also saw an increase in its non-deposit funding as the 2013 average of $86.0 million in sweep accounts was $35.6 million, or 70.6 percent, higher than the average for 2012. Many of the Company's business customers moved from non-interest bearing balances to sweeps in response to deposit insurance changes that occurred at the end of 2012.

Gross loans outstanding averaged $1.59 billion for 2013, decreasing $63.8 million, or 3.85 percent on average from 2012. Of this decrease, $53.4 million is attributed to the loans sold in the Salt Lick Deposit Bank transaction. Average deposits for 2013 decreased $70.7 million, or 3.82 percent, compared to 2012. Included in the decrease is $61.7 million in deposits involved with the sale of Salt Lick Deposit Bank.

The Company averaged a loan to deposit ratio of 89.37 percent during 2013, a slight decrease of 3 basis points from the 2012 ratio of 89.40 percent. This is the fifth year in a row that the Company's average loan to deposit ratio has declined. This continuing reduction in the loan to deposit ratio is a positive reflection of management's attention to liquidity management, and part of an overall strategy to control growth on the balance sheet to improve the Company's capital ratios. However, management is aware of the interaction between liquidity and earnings, and is striving to maintain an appropriate balance.

In March 2009, the Company issued $22.6 million in Trust Preferred Securities with a fixed rate of interest of 10 percent. The Company is planning on retiring a significant portion of this issue with the arrival of the March 31, 2014 anniversary date. 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 1.99 percent at year end 2013. Interest expense associated with these two debt issues totaled $2.6 million for 2013, representing an average rate of 6.94 percent.

The table below reflects the changes in net interest income in 2013 and 2012 due to changes in rates and volumes computed on a tax equivalent basis for all interest-sensitive categories.

NON-INTEREST INCOME

Total non-interest income in 2013 continued to be a source of strength for the Company's financial performance with the generation of $35.6 million in revenue. This did result in a decrease of $0.5 million, or 1.45 percent, from the 2012 level of $36.2 million. Fee income was challenged in 2013 as higher mortgage rates led to dampened secondary mortgage activity and service charges on deposits continued to adjust to recent consumer protection legislation.

The Company generated $5.4 million in fees from its trust services during 2013, an increase of $525,000 from 2012, or 10.86 percent. At year end 2013, total assets under management in the Trust Department stood at $1.2 billion, an increase of $175.4 million over December 31, 2012. Personnel in the Trust Department generated $126.0 million in asset growth from business development efforts, with the remaining $49.4 million in growth in assets coming from asset appreciation.

Insurance commissions earned through Central Insurance Services, Inc. reached record levels during 2013 at $3.3

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS

(in thousands)

	2013/2012			2012/2011		
		Increase/Decrease Due To			Increase/Decrease Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ (7,098)	$ (3,876)	$ (3,222)	$ (7,077)	$ (4,105)	$ (2,972)
Investments						
Taxable	863	8	855	(33)	(514)	481
Tax exempt	(50)	27	(77)	(142)	33	(175)
Federal funds sold	(54)	43	(97)	81	(19)	100
Total interest income	(6,339)	(3,798)	(2,541)	(7,171)	(4,605)	(2,566)
Interest expense						
Deposits						
NOW accounts	(123)	(156)	33	(30)	(71)	41
Savings deposits	(4)	(12)	8	(9)	(24)	15
Money market deposits	(451)	(469)	18	(311)	(504)	193
Time deposits	(3,179)	51	(3,230)	(3,476)	(1,863)	(1,613)
Borrowed funds	(322)	(863)	541	(12)	162	(174)
Total interest expense	(4,079)	(1,449)	(2,630)	(3,838)	(2,300)	(1,538)
Net interest income	**$ (2,260)**	**$ (2,349)**	**$ 89**	**$ (3,333)**	**$ (2,305)**	**$ (1,028)**

million versus the 2012 levels of $3.0 million, representing a 12.57 percent increase. Central Investment Center, Inc. generated revenue for 2013 in the amount of $2.5 million which resulted in an increase of 13.11 percent over the 2012 amount of $2.2 million.

Service charges on deposit accounts decreased 7.08 percent, or $681,000, during 2013 compared to 2012. The Company's Courtesy Coverage product generated net revenue of $6.0 million which was $517,000, or 7.93 percent, less than the $6.5 million in 2012. The FDIC issued guidance in late 2010 on how banks are to manage their automated overdraft protection programs. This guidance includes specific instructions on the posting order of items, required counseling with customers who are frequent users of the service, and other specific steps a bank must take to ensure that it is not maximizing fees generated from this product to the detriment of consumers. The Company implemented this new guidance in August 2011. For the years 2013 and 2012, the implementation of this guidance has had a negative impact upon income generated from insufficient-funds charges. Management recognizes that this product will continue to generate significant income for the Company for years to come, but it is a mature product that is not likely to show significant growth without some change in the regulatory environment, or an increase in the base fee.

Loans originated for sale during 2013 totaled $229.3 million. At the end of 2013, the Company serviced $50.4 million in loans for Fannie Mae and Freddie Mac. Approximately 2.72 percent of the loans originated for sale during 2013 were sold service retained.

During 2013 the Company sold $232.3 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 2013 the Company generated $4.6 million in income from loans sold in the secondary market, a decrease of $1.4 million, or 23.66 percent from 2012. Historically low interest rates on mortgages earlier in 2013 led to high levels of re-financing until upward spikes in rates dampened that activity in the middle of the year. Home purchase activity has begun to show signs of increased activity, but not at levels to offset the declines in re-financings.

One residual impact of the recent economic difficulties is the higher level of foreclosed assets consisting primarily of foreclosed real estate. Other real estate owned is property that has been foreclosed upon, or has been returned to the bank in lieu of payment of customer debt. On December 31, 2013, the Company held $13.2 million in other real estate. Other real estate is recorded at estimated fair market value, less estimated costs to sell the properties. During 2013, 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 $2.2 million, which is a decrease of $673,000, or 23.58 percent, from the $2.9 million amount recorded in 2012. Management continues to detect improvement in the real estate market as not only did the losses reduce from the previous year, but the type of properties disposed of ranged from single family residential to larger commercial properties. Management is comfortable that the other real estate portfolio is properly recorded at its estimated fair value as of December 31, 2013, but is also aware that with the lingering weakness in economic conditions it increases the probability that some of these values may continue to decline. The Company continues to aggressively market these properties.

NON-INTEREST EXPENSE

Non-interest expense for 2013 totaled $84.2 million, an increase of $551,000, or 0.66 percent from 2012. The Company actively controls and manages total operating expenses. In the last two years, the Company has experienced only slight increases in operating expenses, less than 1.00 percent per year, despite continued and elevated expenses related to other real estate owned and loan collection efforts.

Salaries and benefits are the largest component of non-interest expense, totaling $40.4 million, an increase of $2.2 million, or 5.84 percent from 2012. The increases for 2013 are largely

ANALYSIS OF NON-INTEREST INCOME

	2013	2012	2011	2013/2012 CHANGE	%	2012/2011 CHANGE	%
Trust income	$ 5,362,726	$ 4,837,557	$ 4,378,124	$ 525,169	10.86%	$ 459,433	10.49%
Service charges on deposit accounts	8,949,052	9,630,467	10,979,706	(681,415)	(7.08)%	(1,349,239)	(12.29)%
Fees on mortgage loan sales and servicing	4,626,694	6,060,758	3,069,097	(1,434,064)	(23.66)%	2,991,661	97.48%
Service charges on revolving credit	4,834,358	4,628,351	4,536,534	206,007	4.45%	91,817	2.02%
Electronic banking fees	4,446,631	4,516,806	4,435,543	(70,175)	(1.55)%	81,263	1.83%
Loss or valuation allowances for ORE	(2,180,304)	(2,853,228)	(2,812,082)	672,924	(23.58)%	(41,146)	1.46%
Other income	9,601,004	9,342,152	9,485,479	258,852	2.77%	(143,327)	(1.51)%
Total non-interest income	$ 35,640,161	$ 36,162,863	$ 34,072,401	$ (522,702)	(1.45)%	$ 2,090,462	6.14%

attributed to higher incentive payouts and increased benefit costs. The higher benefit costs are expected to return to more normalized historical levels in 2014. On December 31, 2013, the Company employed 472 full-time equivalent employees compared to 478 full-time equivalent employees at the same date in 2012.

Expenses related to loan collection efforts including legal fees and costs associated with other real estate owned have been elevated for the past several years, but are beginning to trend downward. During 2013 total legal fees and total expenses associated with other real estate owned were approximately $3.5 million. This is a decline of $637,000, or 15.42 percent from 2012. This is still an unusually high level for these expenses, but management believes that the declining number of properties held, coupled with gradually improving economic conditions, will result in further declines in collection effort expenses in 2014.

FEDERAL INCOME TAX

The Company incurred a provision for federal income tax of $745,000 during 2013. The Company's tax planning strategy includes the holding of municipal securities to increase tax exempt income, and participation in Industrial Revenue Bond lending for nonprofit organizations. The Company is also a limited partner in sixteen low-income housing projects and a historic renovation project 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 lowers the overall tax provision to the level experienced in 2013.

Management is closely monitoring the Company's income tax position to ensure that it will be able to take advantage of all of its deferred tax assets. After a number of years in which the total tax liability was reduced to an actual benefit status, the overall tax position for 2013 has now returned to an expense provision. At this time management believes that the deferred tax assets recorded on the Company's books are not impaired.

FINANCIAL CONDITION

On December 31, 2013, total assets of the Company were $2.09 billion. The Company's assets decreased $83.0 million, or 3.81 percent, as compared to total assets at December 31, 2012. Included in this decrease is the $61.7 million of Salt Lick Deposit Bank assets sold on January 1, 2013. During 2013, management continued a strategy of controlled growth in order to strengthen the Company's capital ratios and to utilize on-balance sheet liquidity for asset deployment. Earning assets totaled $1.96 billion on December 31, 2013, or 93.01 percent of total assets. The Company's investment portfolio increased $103.9 million, while its net loans and leases, including loans held for sale, increased slightly by the amount of $9.1 million, or 0.57 percent.

EARNING ASSETS

Gross loans outstanding totaled $1.63 billion on December 31, 2013. Loan demand in all areas remained mixed during 2013. While the Company did experience a slight increase in commercial loans, the mortgage and consumer loan portfolios declined. Competitive pressures on installment lending, particularly for loans secured by automobiles, continued to produce a rate environment that management did not find attractive. As a result, the Company saw a decline in outstanding installment loans of $27.2 million, or 28.12 percent.

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. Diversification by industry and geographic region within the Company's loan portfolio helps 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, management believes 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. Management noted that new regulatory guidance has resulted

ANALYSIS OF NON-INTEREST EXPENSE

				2013/2012		2012/2011	
	2013	2012	2011	CHANGE	%	CHANGE	%
Salaries and benefits	$ 40,413,662	$ 38,184,558	$ 37,975,052	$ 2,229,104	5.84%	$ 209,506	0.55%
Occupancy	11,339,112	11,624,372	11,192,099	(285,260)	(2.45)%	432,273	3.86%
Furniture and equipment expense	5,498,131	5,584,395	5,797,892	(86,264)	(1.54)%	(213,497)	(3.68)%
Advertising and business development	3,621,026	4,113,871	3,755,161	(492,845)	(11.98)%	358,710	9.55%
Professional services	2,593,437	2,523,676	2,602,890	69,761	2.76%	(79,214)	(3.04)%
FDIC insurance expense	1,897,762	1,889,628	2,303,052	8,134	0.43%	(413,424)	(17.95)%
Other non-interest expense	18,819,525	19,711,207	19,742,610	(891,682)	(4.52)%	(31,403)	(0.16)%
Total non-interest expense	**$ 84,182,655**	**$ 83,631,707**	**$ 83,368,756**	**$ 550,948**	**0.66%**	**$ 262,951**	**0.32%**

in emphasizing on-balance-sheet liquidity, or the lack thereof, and the interest rate risk associated with it. Liquidity levels earlier in the year, coupled with a relatively flat yield curve for most of the year, enabled the Company to deploy limited funds in longer term investments with higher yields without significantly raising the overall risk profile of the institution. A significant portion of the Company's liquidity is placed with the Federal Reserve as an overnight investment. On December 31, 2013, the Company was selling $63.7 million to the Federal Reserve as an overnight investment. On average, this balance was $142.6 million for 2013. For the most part, management is looking for short-term, or variable-rate, government securities to purchase which it typically classifies as available for sale.

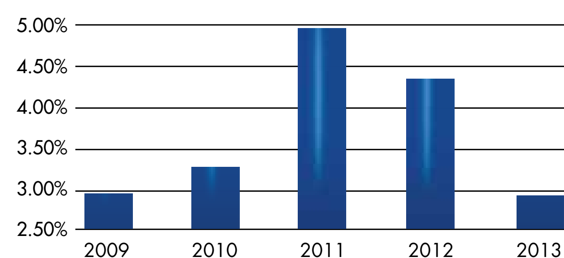
ALLOWANCE FOR LOAN LOSSES

At December 31, 2013, the allowance for loan losses was $23.9 million, or 1.47 percent of gross loans outstanding, compared with $27.5 million, or 1.64 percent, at December 31, 2012. Net loan losses for 2013 totaled $11.7 million, or 0.73 percent of gross average outstanding loans and leases. The provision for loan losses during 2013 was $8.8 million.

Loans delinquent 90 days or more as of December 31, 2013, totaled $25.2 million, as compared to $43.8 million on the same date in 2012. Loans in non-accrual status totaled $37.5 million on December 31, 2013, as compared to $52.7 million on the same date in 2012. There were $886,000 in loans past due at least 90 days and still accruing interest on December 31, 2013, compared to $3.3 million on December 31, 2012.

The performance of the loan portfolio during 2013 demonstrated a marked improvement even in light of the continued weakness of the economy. Total loans delinquent more than 30 days as a percentage of outstanding loans and leases was 2.93 percent on December 31, 2013. This is a decrease of 144 basis points from the 4.37 percent level on December 31, 2012. Management has carefully considered the delinquency in the portfolio as it evaluated the level of allowance for loan losses needed. Based upon the trends discussed, management is of the opinion that the allowance is adequate to address probable incurred credit losses associated with the loan portfolio as of December 31, 2013.

ACC 310-10-35, "Accounting by Creditors for Impairment of a Loan," 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 $94.0 million or 5.78 percent of gross loans and leases were identified as impaired at December 31, 2013. This is a decrease of $15.5 million, or 14.19 percent, from the $109.5 million that was identified as impaired at December 31, 2012.



DEPOSITS

Total deposits were $1.75 billion at year end 2013, a decrease of $60.2 million from December 31, 2012. On average, total deposits decreased at a rate of 3.82 percent, or $70.7 million during 2013. Of this decrease, $61.7 million in average deposits was related to Salt Lick Deposit Bank and its sale transaction.

Due to low loan demand, management concentrated its efforts on maintaining current customer relationships, while reducing the cost of funding particularly in certificates of deposit. As a result the Company continued to experience significant growth in demand deposit, NOW, money market, and savings balances while experiencing a marked decline in certificates of deposit. The Company offers fixed-rate certificates of deposit with maturities ranging from seven days to five years; however, with the continuing low levels of market rates, demand for these products has diminished significantly.

Non-interest bearing deposits on December 31, 2013, totaled $443.6 million, which was an increase of $31.0 million, or 7.51 percent over the $412.6 million on December 31, 2012.

SHORT-TERM BORROWING

Short-term borrowing sources consist primarily of repurchase agreements, sweep accounts of commercial customers, and overnight borrowings from the Federal Home Loan Bank. The cash management services offered by the Company continue to be a valued service for our commercial deposit customers, especially in light of the elimination of unlimited deposit insurance coverage for non-interest bearing accounts by the Federal Deposit Insurance Corporation on December 31, 2012. The balance in commercial sweep accounts totaled $90.4 million on December 31, 2013, which was $30.1 million higher than the $60.3 million balance on December 31, 2012. These accounts are overnight repurchase agreements requiring a direct pledge from the Company's investment portfolio.

As a result of the Company holding larger amounts of on-balance-sheet liquidity coupled with low levels of loan demand, the Company did not utilize the short-term borrowing capacity available with the Federal Home Loan Bank during 2013 or 2012.

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

	2013	2012	2011	2010	2009
Allowance for loan losses					
Balance January 1	$ 27,480,120	$ 28,782,925	$ 22,802,975	$ 20,746,522	$ 21,753,237
Provision for loan losses	8,774,652	12,178,741	16,301,304	18,327,054	9,792,367
Allowance sold with sale of subsidiary	(640,139)	0	0	0	0
Less: Net charge-offs	(11,701,644)	(13,481,546)	(10,321,354)	(16,270,601)	(10,799,082)
Balance December 31	$ 23,912,989	$ 27,480,120	$ 28,782,925	$ 22,802,975	$ 20,746,522
Average loans and leases, net of unearned income (000's)	$ 1,592,481	$ 1,656,284	$ 1,709,584	$ 1,754,495	$ 1,624,235
Loans and leases outstanding at year end, net of unearned income (000's)	$ 1,626,056	$ 1,672,543	$ 1,673,133	$ 1,769,984	$ 1,737,764
Nonperforming loans and leases at year end (000's)	$ 38,389	$ 56,041	$ 52,502	$ 31,300	$ 28,147
Other real estate owned at year end (000's)	$ 13,151	$ 20,958	$ 25,624	$ 24,084	$ 21,805
Ratios:					
Provision for loan losses to average loans and leases	0.55%	0.74%	0.95%	1.04%	0.60%
Net charge-offs to average loans and leases	0.73%	0.81%	0.60%	0.93%	0.66%
Allowance for loan losses to average loans and leases	1.50%	1.66%	1.68%	1.30%	1.28%
Allowance for loan losses to year end loans and leases	1.47%	1.64%	1.72%	1.29%	1.19%
Allowance for loan losses to nonperforming loans and leases	62.29%	49.04%	54.82%	72.85%	73.71%
Nonperforming loans and leases to average loans and leases	2.41%	3.38%	3.07%	1.78%	1.73%
Nonperforming assets to total assets	2.46%	3.54%	3.64%	2.53%	2.43%
Nonperforming assets to equity capital and reserves	23.78%	37.06%	39.92%	30.93%	29.09%
Total delinquency at year end	2.93%	4.37%	4.97%	3.21%	2.97%

LONG-TERM BORROWING

The Company's long-term borrowing consists of advances from the Federal Home Loan Bank. On December 31, 2013, the Company had $2.8 million outstanding in advances from the Federal Home Loan Bank with maturities ranging from October 2015 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 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 1.99 percent on December 31, 2013. 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% 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.

AVERAGE EARNING ASSETS & AVERAGE FUNDS AVAILABLE

(in thousands)

	2013	2012	2011	2013/2012 Change	2013/2012 %	2012/2011 Change	2012/2011 %
Gross loans	$1,592,481	$1,656,284	$1,709,584	$ (63,803)	(3.85)%	$ (53,300)	(3.12)%
Less: Allowance for loan losses	(27,021)	(30,186)	(25,643)	3,165	(10.48)%	(4,543)	17.72%
Total net loans	1,565,460	1,626,098	1,683,941	(60,638)	(3.73)%	(57,843)	(3.43)%
Investment securities	247,685	165,710	130,542	81,975	49.47%	35,168	26.94%
Money market investments	142,641	178,459	139,889	(35,818)	(20.07)%	38,570	27.57%
Total investments	390,326	344,169	270,431	46,157	13.41%	73,738	27.27%
Total earning assets	**$1,955,786**	**$ 1,970,267**	**$ 1,954,372**	**$ (14,481)**	**(0.73)%**	**$ 15,895**	**0.81%**
Demand deposits	$ 417,439	$ 406,306	$ 376,280	$ 11,133	2.74%	$ 30,026	7.98%
Immediately repricing deposits	781,003	742,116	671,951	38,887	5.24%	70,165	10.44%
Fixed-rate deposits	583,550	704,256	799,318	(120,706)	(17.14)%	(95,062)	(11.89)%
Total deposits	1,781,992	1,852,678	1,847,549	(70,686)	(3.82)%	5,129	0.28%
Borrowed funds	127,744	103,394	109,426	24,350	23.55%	(6,032)	(5.51)%
Total funds available	**$1,909,736**	**$ 1,956,072**	**$ 1,956,975**	**$ (46,336)**	**(2.37)%**	**$ (903)**	**(0.05)%**

The $37.6 million in trust preferred securities are 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, 2013, the Company had a Total capital to risk-adjusted assets ratio of 13.4 percent, a Tier I capital to risk-adjusted assets ratio of 12.1 percent, and a Tier I capital to average assets ratio of 10.0 percent.

The Federal Deposit Insurance Corporation issued a final rule in 2013 that revises the existing capital rules to incorporate certain revisions to the Basel capital framework, including Basel III and other elements. The interim final rule strengthens the definition of regulatory capital, increases risk-based capital requirements, and makes selected changes to the calculation of risk-weighted assets. Management believes that with the upcoming implementation dates, which begin January 1, 2015, the Company will continue to meet the requirements to maintain the "well capitalized" standards.

SALE OF SUBSIDIARY

As part of the strategic planning process, management and the Board of Directors determined that the future expansion plans for the company did not include deeper penetration into the Eastern part of Kentucky. As a result, it was determined that the Salt Lick Deposit Bank subsidiary would be sold, an objective completed on January 1, 2013. The Company accepted a cash purchase price of $8.6 million for Salt Lick Deposit Bank and recognized a pre-tax gain of $673,869 from the sale.

On December 31, 2012, Salt Lick Deposit Bank had $72.3 million in total assets, $52.6 million in gross loans, and $61.7 million in total deposits. Shareholder's equity totaled $8.0 million on December 31, 2012. For 2012 Salt Lick Deposit Bank generated net income of $669,000.

Discussions between the Board of Directors and management have resulted in the determination that the cash generated from the sale of Salt Lick Deposit Bank will be used to retire some of the outstanding Trust Preferred Securities as it becomes available to do so on March 31, 2014.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Central Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP
Louisville, Kentucky
March 14, 2014

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

CONSOLIDATED BALANCE SHEETS

	December 31 2013	December 31 2012
ASSETS		
Cash and due from financial institutions	$ 40,134,277	$ 46,597,962
Federal funds sold	63,700,000	174,400,000
Total cash and cash equivalents	103,834,277	220,997,962
Available for sale securities	166,558,094	166,527,755
Held to maturity securities	106,661,352	2,820,945
Total securities	273,219,446	169,348,700
Loans held for sale	2,739,164	11,906,207
Loans, net of allowance of $23,912,989 and $26,839,981	1,599,403,681	1,581,172,476
Premises and equipment, net	37,958,710	37,570,985
Other real estate owned	13,151,094	20,111,669
Interest receivable	5,238,258	5,603,918
Federal Home Loan Bank stock, at cost	7,050,900	7,050,900
Goodwill	14,313,393	14,313,393
Other intangible assets	622,331	1,022,972
Other assets	34,962,258	44,612,665
Assets held for sale, Salt Lick Deposit Bank	-	61,734,756
Total assets	$ 2,092,493,512	$ 2,175,446,603
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 443,597,923	$ 412,619,586
Interest bearing	1,311,234,606	1,402,364,545
Total deposits	1,754,832,529	1,814,984,131
Federal funds purchased and repurchase agreements	90,433,141	60,302,320
Federal Home Loan Bank advances	2,818,909	3,222,343
Subordinated debentures	38,742,000	38,742,000
Interest payable	341,832	549,671
Other liabilities	12,536,780	13,016,614
Liabilities held for sale, Salt Lick Deposit Bank	-	64,321,610
Total liabilities	1,899,705,191	1,995,138,689
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	185,550,960	173,400,292
Accumulated other comprehensive income (loss)	(3,132,327)	(3,462,066)
Total shareholders' equity	192,788,321	180,307,914
Total liabilities and shareholders' equity	$ 2,092,493,512	$ 2,175,446,603

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31 2013	2012
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 78,383,643	$ 85,481,727
Securities:		
U.S. Treasury and government agencies	756,495	388,620
Obligations of states and political subdivisions	132,123	124,198
Mortgage-backed securities	1,303,250	657,656
Corporate debt bonds	63,551	213,090
Federal funds sold	391,020	445,492
Federal Home Loan Bank stock	295,014	353,522
	81,325,096	87,664,305
INTEREST EXPENSE		
Deposits	8,280,033	12,037,119
Federal funds purchased and repurchase agreements	89,112	50,625
Federal Home Loan Bank advances	131,991	454,046
Subordinated debentures	2,610,651	2,649,311
	11,111,787	15,191,101
Net interest income	70,213,309	72,473,204
Provision for loan losses	8,774,652	12,178,741
Net interest income after provision for loan losses	61,438,657	60,294,463
OTHER INCOME		
Service charges on deposit accounts	8,949,052	9,630,467
Mortgage banking income	4,626,694	6,060,758
Credit card related fees	4,834,358	4,628,351
Trust fees	5,362,726	4,837,557
Net loss on sales and write-downs of other real estate owned	(2,180,304)	(2,853,228)
Other fees and income	14,047,635	13,858,958
	35,640,161	36,162,863
OTHER EXPENSES		
Salaries	32,431,901	31,644,833
Employee benefits	7,981,761	6,539,725
Occupancy expense	16,837,243	17,208,767
FDIC assessment	1,897,762	1,889,628
Legal fees	1,480,047	1,506,642
Other real estate owned expenses	2,013,885	2,624,125
Other expenses	21,540,056	22,217,987
	84,182,655	83,631,707
Income before income tax provision (benefit)	12,896,163	12,825,619
Income tax provision (benefit)	745,495	(55,027)
Net income	$ 12,150,668	$ 12,880,646
Basic earnings per share	$ 34.92	$ 37.02
Weighted average number of common shares outstanding	347,922	347,922

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31 2013	2012
OPERATING ACTIVITIES		
Net income	$ 12,150,668	$ 12,880,646
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	8,774,652	12,178,741
Depreciation and amortization	7,025,669	8,005,458
Net loss on sales and write-downs of other real estate owned	2,180,304	2,853,228
Gain on sale of Salt Lick Deposit Bank	(673,869)	-
Net gain on sale of loans	(4,477,146)	(5,786,102)
Net change in:		
Loans held for sale	13,644,190	7,085,762
Interest receivable	365,660	345,370
Prepaid expenses	5,147,791	2,290,155
Interest payable	(207,839)	(152,089)
Income taxes payable	457,529	(978,522)
Other liabilities	(479,835)	1,731,799
Other, net	1,616,928	(1,833,064)
Net cash from operating activities	45,524,702	38,621,382
INVESTING ACTIVITIES		
Securities available for sale:		
Purchases	(58,309,065)	(71,354,048)
Maturities, calls and return of principal	59,089,555	57,304,977
Securities held to maturity:		
Purchases	(108,198,235)	(1,199,952)
Maturities, calls and return of principal	4,054,290	4,560,223
Net change in loans	(34,055,215)	(21,653,789)
Expenditures for premises and equipment	(4,762,146)	(1,702,171)
Proceeds from sale of other real estate owned	11,829,629	9,275,861
Net cash paid in sale of Salt Lick Deposit Bank	(1,912,985)	-
Net change in cash equivalents of Salt Lick Deposit Bank	-	340,678
Net cash from investing activities	(132,264,172)	(24,428,221)
FINANCING ACTIVITIES		
Net change in deposits	(60,151,602)	18,638,457
Net change in federal funds purchased and repurchase agreements	30,130,821	7,807,794
Repayment of Federal Home Loan Bank advances	(403,434)	(10,992,593)
Net cash from financing activities	(30,424,215)	15,453,658
Net change in cash and cash equivalents	(117,163,685)	29,646,819
Cash and cash equivalents, beginning of year	220,997,962	191,351,143
Cash and cash equivalents, end of year	$ 103,834,277	$ 220,997,962
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$ 7,049,358	$ 7,462,484
Transfers from loans to loans held for sale, Salt Lick Deposit Bank	-	52,238,090
Transfers from deposits to deposits held for sale, Salt Lick Deposit Bank	-	61,731,020

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2013 and 2012

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2012	$ 3,479,220	$ 6,890,468	$ 160,519,646	$ (3,982,903)	$ 166,906,431
Net income	-	-	12,880,646	-	12,880,646
Other comprehensive income	-	-	-	520,837	520,837
Balances, December 31, 2012	3,479,220	6,890,468	173,400,292	(3,462,066)	180,307,914
Net income	-	-	12,150,668	-	12,150,668
Other comprehensive income	-	-	-	329,739	329,739
Balances, December 31, 2013	$ 3,479,220	$ 6,890,468	$ 185,550,960	$ (3,132,327)	$ 192,788,321

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31 2013	2012
Net income	$ 12,150,668	$ 12,880,646
Other comprehensive income (loss):		
Unrealized gains/losses on securities:		
Unrealized holding gain (loss) arising during the period	(982,445)	893,380
Tax effect	343,856	(312,683)
Net of tax	(638,589)	580,697
Defined benefit pension plans:		
Net gain (loss) arising during the period	1,489,736	(92,092)
Tax effect	(521,408)	32,232
Net of tax	968,328	(59,860)
Total other comprehensive income	329,739	520,837
Comprehensive income	$ 12,480,407	$ 13,401,483

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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 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. On October 29, 2012, the Company agreed to sell Salt Lick Deposit Bank to a non-related third party financial institution. Salt Lick Deposit Bank's assets and liabilities are presented as assets and liabilities held for sale on the consolidated balance sheet as of December 31, 2012. The sale transaction closed on January 1, 2013. 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 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.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 14, 2014, which is the date the financial statements were available to be issued.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, other real estate valuation allowance, fair values of financial instruments, impairment of securities, mortgage servicing rights, pension obligation 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. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

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, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Securities held to maturity are stated at amortized cost.

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

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

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

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

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

For all loan classes, past due status is based on the contractual terms of the loan.

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

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

Factors considered by management in determining impairment include payment status, collateral value, and the probability of

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

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

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

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

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

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

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

- Consumer loans, including installment loans and credit card receivables, are dependent on local economies. Consumer loans are generally secured by consumer assets, but may be unsecured. The Bank evaluates the borrower's repayment ability through a review of financial information obtained from the borrower.

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

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

The Company primarily sells loans servicing released. A small amount of loans are sold servicing retained; servicing rights are recognized as assets for the allocated value of retained servicing rights on loans sold. Servicing rights are initially recorded at fair value based on market prices for comparable mortgage servicing contracts. Servicing rights are expensed in proportion to, and over

the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates. Any impairment of a grouping is reported as a valuation allowance.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fee income, gains on sales of mortgage loans held for sale and amortization of mortgage servicing rights are reported on the income statement as mortgage 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. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

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

Federal Home Loan Bank (FHLB) Stock: The 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. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Operating costs incurred after acquisition are expensed.

Goodwill and Other Intangible Assets: Goodwill 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 or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with 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.

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 16 low-income housing projects and two 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 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 commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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 is 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 $30,684,000 and $27,159,000 at December 31, 2013 and 2012. These funds earn interest at an interest rate determined by the Federal Reserve.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current year presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

NOTE 2 – SECURITIES

The fair value of 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
2013				
U. S. government agency securities	$ 74,362,608	$ 37,798	$ (276,793)	$ 74,123,613
Agency mortgage-backed securities: Residential	87,587,055	384,146	(404,720)	87,566,481
Corporate bond	5,000,000	-	(132,000)	4,868,000
	$ 166,949,663	$ 421,944	$ (813,513)	$ 166,558,094
2012				
U. S. government agency securities	$ 82,458,382	$ 111,915	$ (45,009)	$ 82,525,288
Obligations of states and political subdivisions	1,229,830	30,116	(2,899)	1,257,047
Agency mortgage-backed securities: Residential	79,971,660	608,253	-	80,579,913
Corporate bond	5,000,000	-	(111,500)	4,888,500
Total	168,659,872	750,284	(159,408)	169,250,748
Less: available for sale securities, held for sale	(2,721,686)	(4,206)	(2,899)	(2,722,993)
	$ 165,938,186	$ 746,078	$ (156,509)	$ 166,527,755

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
2013				
U.S. government agency securities	$ 42,443,811	$ -	$ (1,640,811)	$ 40,803,000
Obligations of states and political subdivisions	13,375,192	35,427	(109,619)	13,301,000
Agency mortgage-backed securities: Residential	50,842,349	21,110	(1,173,459)	49,690,000
	$ 106,661,352	$ 56,537	$ (2,923,889)	$ 103,794,000
2012				
U.S. Treasury securities	$ 325,570	$ 430	$ -	$ 326,000
Obligations of states and political subdivisions	1,026,697	44,303	-	1,071,000
Agency mortgage-backed securities: Residential	1,956,432	88,568	-	2,045,000
Total	3,308,699	133,301	-	3,442,000
Less: held to maturity securities, held for sale	(487,754)	(1,246)	-	(489,000)
	$ 2,820,945	$ 132,055	$ -	$ 2,953,000

The amortized cost and fair value of debt securities at December 31, 2013 are shown below by contractual maturity. Mortgage-backed securities are shown separately because they are not due at a single maturity. Expected maturities may differ from contractual maturities if borrowers 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	Amortized Cost
Due in one year or less	$ -	$ -	$ 30,061,323	$ 30,024,514
Due from one to five years	22,969,003	22,949,000	7,331,405	7,347,224
Due from five to ten years	32,850,000	31,155,000	5,678,866	5,809,968
Due after ten years	-	-	35,920,019	36,180,902
Agency mortgage-backed securities: Residential	50,842,349	49,690,000	87,566,481	87,587,055
Total	$106,661,352	$103,794,000	$ 166,558,094	$ 166,949,663

Securities with a carrying amount of approximately $138,125,000 and $98,012,000 at December 31, 2013 and 2012, were pledged to secure public deposits, repurchase agreements, trust deposits, and for other purposes as required or permitted by law. Included in these amounts were securities with a carrying amount of approximately $2,625,000 that were pledged by Salt Lick Deposit Bank at December 31, 2012.

At December 31, 2013 and 2012, 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.

Securities with unrealized losses at year end 2013 and 2012, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below. The 2012 table includes securities owned by Salt Lick Deposit Bank.

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2013						
Available for sale:						
U.S. government agency securities	$ 35,819,687	$ (260,883)	$ 7,351,760	$ (15,910)	$ 43,171,447	$ (276,793)
Agency mortgage-backed securities: Residential	50,673,933	(404,720)	-	-	50,673,933	(404,720)
Corporate bond	-	-	4,868,000	(132,000)	4,868,000	(132,000)
Total available for sale	$ 86,493,620	$ (665,603)	$ 12,219,760	$ (147,910)	$ 98,713,380	$ (813,513)
2012						
Available for sale:						
U.S. government agency securities	$13,300,736	$ (44,725)	$ 68,553	$ (284)	$13,369,289	$ (45,009)
Obligations of states and political subdivisions	-	-	174,296	(2,899)	174,296	(2,899)
Corporate bond	-	-	4,888,500	(111,500)	4,888,500	(111,500)
Total available for sale	$13,300,736	$ (44,725)	$ 5,131,349	$ (114,683)	$18,432,085	$ (159,408)

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2013						
Held to maturity:						
U.S. government agency securities	$ 30,803,000	$(1,640,811)	$ -	$ -	$ 30,803,000	$(1,640,811)
Obligations of states and political subdivisions	7,240,000	(109,619)	-	-	7,240,000	(109,619)
Agency mortgage-backed securities: Residential	48,484,000	(1,173,459)	-	-	48,484,000	(1,173,459)
Total held to maturity	$ 86,527,000	$(2,923,889)	$ -	$ -	$ 86,527,000	$(2,923,889)

There were no securities held to maturity in an unrealized loss position at December 31, 2012.

Unrealized losses on debt securities have not been recognized into income because the issued bonds are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

NOTE 3 – LOANS

Loans at December 31 were as follows:

	2013	2012
Commercial	$ 345,382,811	$ 345,250,182
Commercial real estate	763,233,086	750,385,561
Residential real estate	438,303,129	460,975,939
Installment	69,521,481	96,714,555
Credit card receivables	7,891,835	7,912,687
	1,624,332,342	1,661,238,924
Deferred loan fees, net	(1,015,672)	(988,377)
Allowance for loan losses	(23,912,989)	(27,480,120)
Loans, net	1,599,403,681	1,632,770,427
Less: loans held for sale, Salt Lick Deposit Bank	-	(52,238,090)
Less: allowance for loan losses associated with loans held for sale, Salt Lick Deposit Bank	-	640,139
	$ 1,599,403,681	$ 1,581,172,476

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 $2,436,000 and $2,106,000 at December 31, 2013 and 2012. The 2012 amount includes approximately $291,000 in loans at Salt Lick Deposit Bank.

The following table presents the activity in the allowance for loan losses by segment of loans for the years ended December 31, 2013 and 2012:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2013							
Allowance for loan losses:							
Beginning balance	$ 6,956,585	$ 13,679,823	$ 4,095,320	$ 1,605,046	$ 503,207	$ -	$ 26,839,981
Provision for loan losses	477,070	4,005,831	3,511,124	606,714	(73,413)	247,326	8,774,652
Loans charged off	(2,485,895)	(8,056,993)	(1,129,019)	(2,007,391)	(234,008)	-	(13,913,306)
Recoveries	275,856	535,233	239,404	1,075,178	85,991	-	2,211,662
Total ending allowance balance	$ 5,223,616	$ 10,163,894	$ 6,716,829	$ 1,279,547	$ 281,777	$ 247,326	$ 23,912,989
2012							
Allowance for loan losses:							
Beginning balance	$ 6,102,247	$ 8,995,142	$ 7,517,186	$ 2,961,504	$ 320,343	$ 2,886,503	$ 28,782,925
Provision for loan losses	7,405,558	7,918,137	(1,024,350)	376,185	389,714	(2,886,503)	12,178,741
Loans charged off	(6,498,771)	(3,066,646)	(2,456,384)	(2,706,762)	(255,345)	-	(14,983,908)
Recoveries	69,139	97,593	272,651	1,014,484	48,495	-	1,502,362
Total ending allowance balance	7,078,173	13,944,226	4,309,103	1,645,411	503,207	-	27,480,120
Less: allowance for loan losses associated with loans held for sale, Salt Lick Deposit Bank	(121,588)	(264,403)	(213,783)	(40,365)	-	-	(640,139)
	$ 6,956,585	$ 13,679,823	$ 4,095,320	$ 1,605,046	$ 503,207	$ -	$ 26,839,981

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by segment of loans and based on impairment method as of December 31, 2013 and 2012 (includes Salt Lick Deposit Bank 2012 balances):

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2013							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 705,058	$ 2,225,907	$ 3,628,904	$ 65,150	$ 1,123	$ -	$ 6,626,142
Collectively evaluated for impairment	4,518,558	7,937,987	3,087,925	1,214,397	280,654	247,326	17,286,847
Total ending allowance balance	$ 5,223,616	$ 10,163,894	$ 6,716,829	$ 1,279,547	$ 281,777	$ 247,326	$ 23,912,989
Loans:							
Individually evaluated for impairment	$ 14,720,067	$ 54,860,322	$ 24,081,626	$ 288,031	$ 7,993	$ -	$ 93,958,039
Collectively evaluated for impairment	330,703,207	708,372,764	413,170,864	69,233,450	7,878,346	-	1,529,358,631
	$ 345,423,274	$ 763,233,086	$ 437,252,490	$ 69,521,481	$ 7,886,339	$ -	$ 1,623,316,670
2012							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 1,609,408	$ 7,060,399	$ 2,744,492	$ 35,391	$ -	$ -	$ 11,449,690
Collectively evaluated for impairment	5,468,765	6,883,827	1,564,611	1,610,020	503,207	-	16,030,430
Total ending allowance balance	$ 7,078,173	$ 13,944,226	$ 4,309,103	$ 1,645,411	$ 503,207	$ -	$ 27,480,120
Loans:							
Individually evaluated for impairment	$ 16,405,703	$ 68,008,554	$ 25,023,325	$ 63,869	$ -	$ -	$ 109,501,451
Collectively evaluated for impairment	328,931,255	682,377,007	434,896,360	96,650,686	7,893,788	-	1,550,749,096
	$345,336,958	$750,385,561	$459,919,685	$ 96,714,555	$ 7,893,788	$ -	$ 1,660,250,547

The following table presents information related to impaired loans by segment of loans as of and for the year ended December 31, 2013:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2013						
With no related allowance recorded:						
Commercial	$ 15,193,010	$ 13,138,159	$ -	$ 14,218,122	$ 294,812	$ 294,812
Commercial real estate	55,564,194	47,956,781	-	64,147,546	1,648,781	1,648,781
Residential real estate	12,696,695	11,755,653	-	14,989,911	157,847	157,847
Installment	320,474	222,881	-	423,887	4,514	4,514
Credit card receivables	33,413	6,870	-	43,362	1,390	1,390
Subtotal	83,807,786	73,080,344	-	93,822,828	2,107,344	2,107,344
With an allowance recorded:						
Commercial	1,583,264	1,581,908	705,058	1,715,410	30,452	30,452
Commercial real estate	6,903,541	6,903,541	2,225,907	7,074,852	151,315	151,315
Residential real estate	12,327,045	12,325,973	3,628,904	13,568,749	442,975	442,975
Installment	65,150	65,150	65,150	65,150	-	-
Credit card receivables	1,123	1,123	1,123	1,189	35	35
Subtotal	20,880,123	20,877,695	6,626,142	22,425,350	624,777	624,777
Total	$ 104,687,909	$ 93,958,039	$ 6,626,142	$ 116,248,178	$ 2,732,121	$ 2,732,121

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

The following table presents information related to impaired loans by segment of loans as of and for the year ended December 31, 2012 (includes information for Salt Lick Deposit Bank):

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2012						
With no related allowance recorded:						
Commercial	$ 14,316,801	$ 12,376,857	$ -	$ 14,096,730	$ 709,891	$ 709,891
Commercial real estate	50,047,210	48,560,322	-	47,231,457	1,533,205	1,533,205
Residential real estate	17,927,305	15,945,224	-	18,556,515	370,313	370,313
Installment	323,242	20,534	-	356,406	1,227	1,227
Subtotal	82,614,558	76,902,937	-	80,241,108	2,614,636	2,614,636
With an allowance recorded:						
Commercial	8,729,409	4,028,846	1,609,408	6,755,979	28,569	28,569
Commercial real estate	21,028,727	19,448,232	7,060,399	18,451,911	166,725	166,725
Residential real estate	9,146,664	9,078,101	2,744,492	7,725,455	284,613	284,613
Installment	43,335	43,335	35,391	46,556	4,227	4,227
Subtotal	38,948,135	32,598,514	11,449,690	32,979,901	484,134	484,134
Total	$ 121,562,693	$ 109,501,451	$ 11,449,690	$ 113,221,009	$ 3,098,770	$ 3,098,770

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality.
For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

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

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by segment of loans as of December 31, 2013 and 2012:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2013	2012	2013	2012
Commercial	$ 2,415,766	$ 6,782,915	$ 699,202	$ 224,657
Commercial real estate	22,347,659	31,965,413	146,499	2,265,166
Residential real estate	12,260,358	13,538,470	15,588	815,550
Installment	457,634	411,674	18,448	7,390
Credit card receivables	21,269	23,904	6,087	6,215
Total	37,502,686	52,722,376	885,824	3,318,978
Less: loans held for sale, Salt Lick Deposit Bank	-	1,126,935	-	40,500
	$ 37,502,686	$ 51,595,441	$ 885,824	$ 3,278,478

The following table presents the aging of the recorded investment in past due loans as of December 31, 2013 and 2012 by segment of loans, including loans of Salt Lick Deposit Bank for 2012:

	30–89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2013					
Commercial	$ 1,090,839	$ 2,286,976	$ 3,377,815	$ 342,004,996	$ 345,382,811
Commercial real estate	3,548,704	16,013,400	19,562,104	743,670,982	763,233,086
Residential real estate	4,189,089	6,607,423	10,796,512	427,506,617	438,303,129
Installment	1,963,891	246,389	2,210,280	67,311,201	69,521,481
Credit card receivables	90,116	11,578	101,694	7,790,141	7,891,835
Total	$ 10,882,639	$ 25,165,766	$ 36,048,405	$ 1,588,283,937	$ 1,624,332,342
December 31, 2012					
Commercial	$ 1,549,270	$ 6,568,911	$ 8,118,181	$ 337,132,001	$ 345,250,182
Commercial real estate	6,819,611	25,267,540	32,087,151	718,298,410	750,385,561
Residential real estate	7,407,193	11,728,388	19,135,581	441,840,358	460,975,939
Installment	2,411,984	209,547	2,621,531	94,093,024	96,714,555
Credit card receivables	164,906	14,330	179,236	7,733,451	7,912,687
Total	$ 18,352,964	$ 43,788,716	$ 62,141,680	$1,599,097,244	$ 1,661,238,924

Troubled Debt Restructurings: The Company has allocated $2,861,575 and $7,937,589 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2013 and 2012. The Company has committed to lend additional amounts totaling up to $346,290 and $251,670 as of December 31, 2013 and 2012 to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2013 and 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from one month to 21 years. Modifications involving an extension of the maturity date were for periods ranging from one month to five years.

The following table presents loans by segment modified as troubled debt restructurings that occurred during the years ended December 31, 2013 and 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2013:			
Troubled debt restructurings:			
Commercial	6	$ 591,590	$ 591,392
Commercial real estate	16	12,117,135	12,147,969
Residential real estate	7	552,733	557,331
Installment	1	67,150	67,150
Credit card receivables	-	-	-
Total	30	$ 13,328,608	$ 13,363,842
December 31, 2012:			
Troubled debt restructurings:			
Commercial	13	$ 4,639,242	$ 4,616,780
Commercial real estate	15	23,860,041	24,240,512
Residential real estate	22	4,081,395	3,994,636
Installment	1	5,348	5,537
Credit card receivables	-	-	-
Total	51	$ 32,586,026	$ 32,857,465

The troubled debt restructurings described above increased the allowance for loan losses by $126,775 and resulted in charge-offs of $1,856,106 during the year ended December 31, 2013. The troubled debt restructurings described above increased the allowance for loan losses by $1,179,380 and resulted in charge-offs of $35,902 during the year ended December 31, 2012. There were no troubled debt restructurings described above which are presented as loans held for sale in the Salt Lick Deposit Bank transaction.

The following table presents loans by segment modified as troubled debt restructurings for which there was a payment default within 12 months following the modification during the years ended December 31, 2013 and 2012 and includes troubled debt restructurings of Salt Lick Deposit Bank for 2012:

	Number of Loans	Recorded Investment
December 31, 2013		
Troubled debt restructurings that subsequently defaulted:		
Commercial	5	$ 242,676
Commercial real estate	5	5,558,750
Residential real estate	5	625,827
Installment	-	-
Credit card receivables	-	-
Total	15	$ 6,427,253
December 31, 2012		
Troubled debt restructurings that subsequently defaulted:		
Commercial	3	$ 212,547
Commercial real estate	5	1,469,159
Residential real estate	9	1,950,628
Installment	-	-
Credit card receivables	-	-
Total	17	$ 3,632,334

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above resulted in a decrease in the allowance for loan losses of $149,553 and resulted in charge-offs of $1,046,765 during the year ended December 31, 2013. The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by $103,820 and resulted in charge-offs of $6,884 during the year ended December 31, 2012. No troubled debt restructurings subsequently defaulted during the year ended December 31, 2012 at Salt Lick Deposit Bank.

The terms of certain other loans were modified during the year ended December 31, 2013 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2013 of $97,067,220. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant. The terms of certain other loans were modified during the year ended December 31, 2012 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2012 of $178,755,568. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

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

Certain loans which were modified during the year ended December 31, 2013 and did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment that was considered to be insignificant, had delays in payment ranging from one day to seven months.

Credit Quality Indicators: The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $25,000 and non-homogeneous loans, such as commercial, commercial real estate and residential real estate loans, and homogeneous loans that are part of a borrowing relationship. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

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

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

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

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

Based on the most recent analysis performed, the risk category of loans by segment of loans, including loans of Salt Lick Deposit Bank for 2012, is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2013						
Commercial	$ 324,673,231	$ 2,495,193	$ 18,100,117	$ 114,270	$ -	$ 345,382,811
Commercial real estate	688,548,901	19,529,065	55,155,120	-	-	763,233,086
Residential real estate	310,904,599	2,951,060	23,384,246	33,477	101,029,747	438,303,129
Installment	-	1,340	275,932	-	69,244,209	69,521,481
Credit card receivables	-	-	7,993	-	7,883,842	7,891,835
	$ 1,324,126,731	$ 24,976,658	$ 96,923,408	$ 147,747	$ 178,157,798	$ 1,624,332,342
December 31, 2012						
Commercial	$ 325,037,922	$ 3,918,642	$ 16,293,618	$ -	$ -	$ 345,250,182
Commercial real estate	664,216,250	27,462,727	58,626,229	80,355	-	750,385,561
Residential real estate	326,184,015	5,769,460	24,560,561	125,728	104,336,175	460,975,939
Installment	-	-	-	-	96,714,555	96,714,555
Credit card receivables	-	-	-	-	7,912,687	7,912,687
	$ 1,315,438,187	$ 37,150,829	$ 99,480,408	$ 206,083	$ 208,963,417	$1,661,238,924

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled approximately $229,343,000 and $286,227,000 during 2013 and 2012. The Company had commitments to originate $9,029,081 in loans at December 31, 2013, which it intends to sell after the loans are closed. The Company had $2,739,164 and $12,292,863 in loans held for sale at December 31, 2013 and 2012 (the 2012 total included $386,656 held for sale by Salt Lick Deposit Bank).

Loans serviced for others, which are not reported as assets, totaled approximately $50,446,000 and $55,554,000 at December 31, 2013 and 2012.

Activity for capitalized mortgage servicing rights included in other assets during 2013 and 2012 was as follows:

	2013	2012
Servicing rights		
Beginning of year	$ 246,312	$ 227,087
Originated	46,728	81,159
Amortized to expense	(66,402)	(61,934)
End of year	$ 226,638	$ 246,312

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be approximately $237,000 and $283,000 at year end 2013 and 2012.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2013	2012
Other real estate owned, beginning of year	$ 20,111,669	$ 25,624,246
Acquisition and improvement of other real estate, net	7,049,358	7,462,484
Proceeds from sales of other real estate	(11,829,629)	(9,275,861)
Provision for valuation allowance of other real estate	(474,661)	(2,224,208)
Net loss on sales and direct write-downs	(1,705,643)	(629,020)
Other real estate owned, end of year	13,151,094	20,957,641
Less: other real estate owned, held for sale	-	(845,972)
	$ 13,151,094	$ 20,111,669

Activity in the valuation allowance was as follows:

	2013	2012
Beginning of year	$ 8,628,335	$ 7,545,922
Additions charged to expense	474,661	2,224,208
Direct write-downs	(1,247,190)	(1,129,295)
End of year	7,855,806	8,640,835
Less: valuation allowance, held for sale	-	(12,500)
	$ 7,855,806	$ 8,628,335

Expenses related to foreclosed assets include:

	2013	2012
Net loss (gain) on sales and direct write-downs	$ 1,705,643	$ 629,020
Provision for valuation allowance	474,661	2,224,208
Operating expenses, net of rental income	1,165,626	1,809,361
	$ 3,345,930	$ 4,662,589

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 are as follows:

	2013	2012
Land	$ 2,990,741	$ 3,580,756
Buildings and improvements	21,132,610	24,060,048
Leasehold improvements	27,261,187	26,493,124
Furniture, fixtures and equipment	40,314,541	38,880,829
Construction in progress	2,021,926	382,506
Accumulated depreciation	(55,762,295)	(52,986,617)
	37,958,710	40,410,646
Less: premises and equipment held for sale, net	-	(2,839,661)
Total	$ 37,958,710	$ 37,570,985

Depreciation and amortization expense amounted to $4,374,421 and $4,775,559 in 2013 and 2012.

Operating Leases: The Company leases its main office, 12 banking center locations and its mortgage and insurance center in addition to its land leases for three banking centers. The Company currently subleases a portion of its space to six tenants. Rent expense for the Company was approximately $5,197,000 and $5,150,000 in 2013 and 2012. Rent commitments under noncancelable operating leases, and certain renewal provisions, net of subleases, are as follows:

2014	$ 5,075,768
2015	5,288,026
2016	5,466,853
2017	5,645,268
2018	5,649,097
Thereafter	47,009,522
	$ 74,134,534

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $14,313,393 and $15,004,524 at December 31, 2013 and 2012. Included in goodwill at December 31, 2012 was $691,131 generated from the Company's acquisition of Salt Lick Deposit Bank.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2013, the Company's reporting unit had positive equity and the Company performed a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment. Management also quantitatively determined the fair value of the reporting unit and compared it to its carrying amount. The result of this assessment supported the qualitative analysis.

Acquired intangible assets were as follows as of December 31:

	2013		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationship intangibles	$ 4,923,564	$ 4,301,233	$ 4,923,564	$ 3,900,592

Aggregate amortization expense was $400,641 for 2013 and $494,588 for 2012.

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

2014	$ 279,078
2015	263,298
2016	79,955
2017	-
2018	-

NOTE 8 – DEPOSITS

Time deposits of $100,000 or more were $306,120,158 and $399,518,990 at December 31, 2013 and 2012, including $20,262,861 at December 31, 2012 representing time deposits included in the Salt Lick Deposit Bank transaction.

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

2014	$ 332,012,293
2015	96,501,920
2016	61,371,650
2017	24,678,515
2018	9,295,330
	$ 523,859,708

Deposits of directors and executive officers of the Banks and companies in which they have beneficial ownership were approximately $36,797,000 and $24,266,000 at December 31, 2013 and 2012. These amounts include approximately $540,000 in deposits at December 31, 2012 for Salt Lick Deposit Bank.

NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

	2013	2012
Maturities October 2015 through December 2027, fixed rates ranging from 1.88% to 5.58%, averaging 3.32% in 2013 and 4.04% in 2012	$ 2,818,909	$ 5,703,898
Less: held for sale in Salt Lick Deposit Bank transaction	-	(2,481,555)
Total	$ 2,818,909	$ 3,222,343

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The advances are borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and first mortgage loans with an aggregate unpaid principal balance of approximately $267,110,000 and $262,583,000 at December 31, 2013 and 2012. Based on this collateral and the holding of Federal Home Loan Bank stock, the Banks are eligible to borrow up to a total of $139,557,427 at year end 2013. On January 14, 2014, the Federal Home Loan Bank issued letters of credit in the amount of $46,100,000 on behalf of a subsidiary bank of the Company as security for deposit relationships. This reduced the overall borrowing eligibility of the Banks to approximately $93,500,000.

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

2014	$ 32,408
2015	1,920,682
2016	31,438
2017	32,212
2018	33,006
Thereafter	769,163
	$ 2,818,909

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% 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% 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 1.99% at year end 2013. The Company's investment in the common stock of the trust was $464,000 and is included in other assets.

The Company has an outstanding line of credit for $10,000,000 from a commercial bank for the purpose of securing additional funds for capital infusion to its Subsidiaries or for debt service needs. As of December 31, 2013, the Company had not drawn upon this line. Terms of the line of credit include a variable interest rate equal to the sum of prime as published in *The Wall Street Journal* and 0.50% (3.75% as of December 31, 2013) with a floor of 4.75%, and monthly payments of interest only with the balance due at maturity on September 30, 2014. The line of credit is secured by 100% of the stock of Central Bank & Trust Co.

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).

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and the client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

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

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once an appraisal is received, a member of the Loan Review Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied to all appraisal values. The Company has all collateral-dependent impaired loans and other real estate owned appraised annually.
Loans Held For Sale: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below and include assets owned by Salt Lick Deposit Bank at December 31, 2012:

	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 (2013):			
Available for sale securities:			
U.S. government agency securities	$ -	$ 74,123,613	$ -
Agency mortgage-backed securities: Residential	-	87,566,481	-
Corporate bond	-	4,868,000	-
Assets (2012):			
Available for sale securities:			
U.S. government agency securities	$ -	$ 82,525,288	$ -
Obligations of states and political subdivisions	-	1,257,047	-
Agency mortgage-backed securities: Residential	-	80,579,913	-
Corporate bond	-	4,888,500	-

There were no transfers between Level 1 and Level 2 during 2013 or 2012.

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below and include assets owned by Salt Lick Deposit Bank at December 31, 2012:

	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 (2013):			
Impaired loans:			
Commercial	$ -	$ -	$ 876,850
Commercial real estate	-	-	4,677,634
Residential real estate	-	-	8,697,069
Other real estate owned:			
Commercial	-	-	1,484,479
Commercial real estate	-	-	5,309,860
Residential real estate	-	-	6,356,755
Loans held for sale	-	2,740,000	-
Assets (2012):			
Impaired loans:			
Commercial	$ -	$ -	$ 2,419,438
Commercial real estate	-	-	12,387,833
Residential real estate	-	-	6,333,609
Installment	-	-	7,944
Other real estate owned:			
Commercial	-	-	3,808,940
Commercial real estate	-	-	15,438,470
Residential real estate	-	-	1,710,231
Loans held for sale in the secondary market	-	12,342,000	-

The following represents impairment charges recognized during the period:

Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $20,877,695, with a valuation allowance of $6,626,142 at December 31, 2013, resulting in $2,488,243 of additional provision for loan losses for the year ended December 31, 2013. At December 31, 2012, such impaired loans had a principal balance of $32,598,514, with a valuation allowance of $11,449,690, resulting in $1,879,473 of additional provision for loan losses for the year ended December 31, 2012.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $13,151,094, which is made up of the outstanding balance of $21,006,900, net of a valuation allowance of $7,855,806 at December 31, 2013, resulting in an additional provision of $474,661 for the year ended December 31, 2013. Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $20,957,641, which is made up of the outstanding balance of $29,598,476, net of a valuation allowance of $8,640,835 at December 31, 2012, resulting in an additional provision of $2,224,208 for the year ended December 31, 2012.

The following table presents qualitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2013 and 2012:

	Valuation Techniques	Fair Value	Asset Category	Unobservable Input(s)	Range (Weighted Average)
2013	Sales approach commercial	$ 17,434,646	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	10%–30% (16%)
	Income approach	$ 9,968,001	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	10%–27% (18%)
2012	Sales approach commercial	$ 16,648,244	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	5%–29% (21%)
	Income approach	$ 25,458,221	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	10%–23% (19%)

The carrying amount and estimated fair value of the Company's financial instruments at December 31, including Salt Lick Deposit Bank's financial instruments at December 31, 2012, are as follows:

	2013		2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 103,834,277	$ 103,834,277	$ 221,725,820	$ 221,725,820
Available for sale securities	166,558,094	166,558,094	169,250,748	169,250,748
Held to maturity securities	106,661,352	103,794,000	3,308,699	3,442,000
Loans, net	1,599,403,681	1,598,561,000	1,632,770,427	1,639,354,000
Loans held for sale	2,739,164	2,740,000	12,292,863	12,342,000
Federal Home Loan Bank stock	7,050,900	not applicable	7,959,300	not applicable
Interest receivable	5,238,258	5,238,258	5,773,081	5,773,081
Financial liabilities:				
Deposits	$ 1,754,832,529	$ 1,757,332,000	$ 1,876,715,151	$ 1,879,986,000
Federal funds purchased and repurchase agreements	90,433,141	90,433,141	60,302,320	60,302,320
Federal Home Loan Bank advances	2,818,909	2,924,000	5,703,898	6,274,000
Subordinated debentures	38,742,000	32,268,000	38,742,000	32,148,000
Interest payable	341,832	341,832	605,084	605,084

The following is a summary of the fair value estimation methodologies, not previously presented, 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. 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 and the subordinated debentures is estimated based on rates currently available to the Company for borrowings with similar terms and remaining maturities.

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, 2013 and 2012. 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:

	2013	2012
Current	$ 731,336	$ 636,761
Deferred	14,159	(691,788)
	$ 745,495	$ (55,027)

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 16 low-income housing projects, one New Market Tax Credit project, ownership of Qualified Zone Academy Bonds, and tax exempt interest income totaling approximately $3,926,000 and $5,009,000 for 2013 and 2012.

Deferred tax assets and liabilities relate principally to unrealized losses on securities available for sale, adjustment for pension obligations, premises and equipment, mortgage servicing rights, the allowance for loan losses, Federal Home Loan Bank stock dividends, fair value adjustments, prepaid pension benefits, other real estate owned losses, partnership investments, and net operating loss carryforwards generated by Central Bank of Jefferson County prior to the Company's acquisition. At December 31, 2013, the Company had net operating loss carryforwards of $2,517,000 which expire in 2025. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. 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:

	2013	2012
Deferred tax assets	$ 23,475,335	$23,400,263
Deferred tax liabilities	(7,591,865)	(7,325,082)
	$ 15,883,470	$16,075,181

Included in these deferred tax items are a liability in the amount of $15,249 as of December 31, 2012 for the Salt Lick Deposit Bank assets and liabilities held for sale. 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 has no unrecognized tax benefits as of December 31, 2013 and 2012. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income tax expense accounts; no such accruals existed as of December 31, 2013 and 2012. 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 2009 and the Kentucky returns are subject to examination by taxing authorities for all years after 2008.

NOTE 12 – RETIREMENT PLANS

The Company has a funded noncontributory defined benefit pension plan covering substantially all employees with five or more years of service prior to December 31, 2009. 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 plan provides defined benefits based on years of service and final average salary. The Company uses December 31 as the measurement date for its pension plans. Employees of Salt Lick Deposit Bank who were participants in the funded noncontributory defined benefit pension plan as of December 31, 2012 continue to participate in the plan after the sale of the bank.

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 $2,590,920 and $2,462,418 at December 31, 2013 and 2012.

During 2009, the Company curtailed these defined benefit plans, fully vesting and freezing benefits for all employees. The Company expects to make no contributions to the plans in 2014.

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

	December 31,	
	2013	2012
Benefit obligation	$ (26,951,994)	$ (26,857,751)
Fair value of plan assets	29,042,540	27,731,460
Funded status	$ 2,090,546	$ 873,709

	2013	2012
Employer contributions	$ -	$ -
Benefits paid	1,149,010	2,335,070

The following benefit payments are expected:

2014	$ 222,000
2015	519,000
2016	731,000
2017	960,000
2018	1,094,000
2019–2023	7,285,000

Amounts recognized in accumulated other comprehensive income at December 31 consist of:

	2013	2012
Net actuarial loss	$ 4,427,407	$ 5,917,143
	$ 4,427,407	$ 5,917,143

The accumulated benefit obligation was $26,951,994 and $26,857,751 at year end 2013 and 2012.

Components of net periodic pension cost and other amounts recognized in other comprehensive income for 2013 and 2012 for the Company's defined benefit pension plans included the following:

	2013	2012
Interest cost on projected benefit obligation	$ 1,259,855	$ 1,296,843
Expected return on plan assets	(1,301,356)	(1,357,326)
Net amortization of net gain (loss)	314,400	304,351
Net periodic pension cost	272,899	243,868
Net gain (loss)	(1,175,336)	(678,726)
Net amortization of net gain (loss)	(314,400)	770,818
Total recognized in other comprehensive income (loss)	(1,489,736)	92,092
Total recognized in net periodic pension cost and other comprehensive income	$ (1,216,837)	$ 335,960

The estimated net gain (loss) for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year was $152,315 and $314,400 as of December 31, 2013 and 2012.

The weighted average assumptions used to determine net periodic pension cost were a discount rate of 4.75% for 2013 and 2012 and an expected return on plan assets of 4.75% for 2013 and 2012.

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 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 2013 and 2012, target allocation for 2014, and expected long-term rate of return by asset category are as follows:

Asset Class	Target Allocation 2014	Percentage of Plan Assets at Year End 2013	Percentage of Plan Assets at Year End 2012	Weighted-Average Expected Long-Term Rate of Return
Equity securities	20–25%	29.15%	26.45%	6.00%–8.00%
Investment funds:				
Mutual funds	10–15%	10.84	13.03	6.00%–8.00%
Real estate investment trust	0–3%	1.69	2.06	6.00%–8.00%
Debt securities:				
U.S. government agency securities	0–3%	0.01	0.01	4.00%
Obligations of states and political subdivisions	50–55%	58.31	58.45	4.00%
		100.00%	100.00%	

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, 2013 and 2012, by asset category, is as follows:

	Carrying Value	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)
2013				
Plan assets:				
Cash and cash equivalents	$ 270,000	$ 270,000	$ -	$ -
Equity securities	8,388,000	8,388,000	-	-
Investment funds:				
Mutual funds	3,119,000	3,119,000	-	-
Real estate investment trust	486,000	486,000	-	-
Debt securities:				
U.S. government agency securities	1,000	-	1,000	-
Obligations of states and political subdivisions	16,779,000	-	16,779,000	-
Total plan assets	$ 29,043,000	$ 12,263,000	$ 16,780,000	$ -
2012				
Plan assets:				
Cash and cash equivalents	$ 235,000	$ 235,000	$ -	$ -
Equity securities	7,273,000	7,273,000	-	-
Investment funds:				
Mutual funds	3,582,000	3,582,000	-	-
Real estate investment trust	567,000	567,000	-	-
Debt securities:				
U.S. government agency securities	1,000	-	1,000	-
Obligations of states and political subdivisions	16,073,000	-	16,073,000	-
Total plan assets	$ 27,731,000	$ 11,657,000	$ 16,074,000	$ -

There were no transfers between Level 1 and Level 2 during 2013 or 2012.

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $123,483 and $36,970 in 2013 and 2012. The accrued liability associated with these plans of $733,112 and $609,629 at December 31, 2013 and 2012 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 $2,036,450 and $609,150 in 2013 and 2012. As of December 31, 2013 and 2012, a total of 37,474 and 34,579 shares with a fair value of approximately $18,100,000 and $13,313,000 were allocated to active participants as well as $1,880 and $6,400 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, 2013 is the fair value of all ESOP shares distributed in 2013 and shares to be distributed in 2014 to participants who had terminated as of year end 2013. 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 $1,378,056 and $1,364,716 in 2013 and 2012.

NOTE 13 – REGULATORY MATTERS

The Company is a bank holding company and is subject to regulation by the Federal Reserve. Central Bank & Trust Co. 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.

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, 2012, Central Bank of Jefferson County, Inc. was required under a regulatory agreement to maintain a Tier I capital to average assets ratio of 8.00 percent. The Bank was in compliance as of that date. This agreement was terminated in 2013.

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, 2013 and 2012, 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, 2013 and 2012, 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, 2013						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 230,650,682	13.4%	$ 138,135,043	8.0%	N/A	N/A
Central Bank & Trust Co.	197,158,195	12.4	126,803,507	8.0	$ 158,504,384	10.0%
Central Bank of Jefferson County, Inc.	18,279,615	12.5	11,709,858	8.0	14,637,322	10.0
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$ 209,038,324	12.1%	$ 69,067,522	4.0%	N/A	N/A
Central Bank & Trust Co.	177,315,243	11.2	63,401,754	4.0	$ 95,102,630	6.0%
Central Bank of Jefferson County, Inc.	16,601,886	11.3	5,854,929	4.0	8,782,393	6.0
Tier I Capital (to Average Assets):						
Consolidated	$ 209,038,324	10.0%	$ 83,370,117	4.0%	N/A	N/A
Central Bank & Trust Co.	177,315,243	9.2	76,913,736	4.0	$ 96,142,170	5.0%
Central Bank of Jefferson County, Inc.	16,601,886	8.6	7,747,820	4.0	9,684,775	5.0
December 31, 2012						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 218,002,426	12.4%	$ 140,183,018	8.0%	N/A	N/A
Central Bank & Trust Co.	188,162,980	12.1	124,630,612	8.0	$155,788,265	10.0%
Central Bank of Jefferson County, Inc.	17,675,825	11.8	12,021,378	8.0	15,026,722	10.0
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$ 196,029,984	11.2%	$ 70,091,509	4.0%	N/A	N/A
Central Bank & Trust Co.	168,623,948	10.8	62,315,306	4.0	$ 93,472,959	6.0%
Central Bank of Jefferson County, Inc.	15,795,230	10.5	6,010,689	4.0	9,016,033	6.0
Tier I Capital (to Average Assets):						
Consolidated	$ 196,029,984	9.3%	$ 84,721,959	4.0%	N/A	N/A
Central Bank & Trust Co.	168,623,948	8.9	75,894,020	4.0	$ 94,867,525	5.0%
* Central Bank of Jefferson County, Inc.	15,795,230	8.7	7,232,695	4.0	9,040,868	5.0

*At December 31, 2012, Central Bank of Jefferson County, Inc. was required to maintain a Tier I capital to average assets ratio of 8.0%.

As state-chartered banks, Central Bank & Trust Co. 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.

Under the most restrictive dividend limitations described, the Banks could pay dividends in 2014 of approximately $21,027,000 plus any 2014 earnings retained through the date of the dividend declaration.

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, 2013 and 2012, the Banks, including Salt Lick Deposit Bank for 2012, had the following financial instruments:

	2013	2012
Standby letters of credit	$ 32,911,000	$ 33,395,000
Commitments to extend credit	$ 172,256,000	$ 127,572,000
Unused lines of credit	$ 261,829,000	$ 254,090,000

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 – BUSINESS COMBINATION

On January 1, 2013, the Company completed the sale of Salt Lick Deposit Bank ("SLDB") to a non-related third-party financial institution. Per the terms of the agreement which was entered into on October 29, 2012, the Company transferred all the assets and liabilities of Salt Lick Deposit Bank in exchange for the sale price of $8,630,000, which was paid in cash resulting in a pre-tax gain of $673,869.

Salt Lick Deposit Bank's assets and liabilities are presented as assets and liabilities held for sale on the consolidated balance sheet as of December 31, 2012. Management evaluated the assets and liabilities held for sale for impairment and, as the transaction resulted in a net gain, determined there was no impairment. Accordingly, the assets and liabilities held for sale on December 31, 2012 by Salt Lick Deposit Bank, immediately preceding the sale date, were carried at their historical cost, net of any previously established valuation allowance.

Following are components of SLDB's assets and liabilities as of December 31, 2012:

Cash and cash equivalents	$ 727,858
Available for sale securities	2,722,993
Held to maturity securities	487,754
Loans held for sale	386,656
Loans	52,238,090
Allowance for loan losses	(640,139)
Premises and equipment, net	2,839,661
Other real estate owned	845,972
Federal Home Loan Bank stock, at cost	908,400
Goodwill	691,131
Other assets	526,380
Total assets held for sale	$ 61,734,756
Deposits	$ 61,731,020
Federal Home Loan Bank advances	2,481,555
Other liabilities	109,035
Total liabilities held for sale	$ 64,321,610

SLDB also held $10,542,985 in intercompany federal funds sold as of December 31, 2012. This amount was eliminated during consolidation.

SLDB's condensed income statement for the year ended December 31, 2012 follows:

Interest and dividend income	$ 3,092,727
Interest expense	770,767
Net interest income	2,321,960
Provision for loan losses	101,313
Noninterest income	716,315
Noninterest expense	1,981,196
Provision for income taxes	286,742
Net income	$ 669,024

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