2019 ANNUAL REPORT

WORKING TO STRENGTHEN EVERY COMMUNITY WE SERVE.

Central Bancshares, Inc.

Central Bank & Trust Co. • Central Insurance Services • Central Investment Center, Inc.

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

In 2020, the Kentucky Chamber of Commerce and the Kentucky Society for Human Resource Management (KYSHRM) named Central Bank one of the Best Places to Work in Kentucky – for the 13th time. The competition encourages and motivates Kentucky-based companies to improve their workplace environments, resulting in improved profitability and employee satisfaction.

MISSION STATEMENT

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

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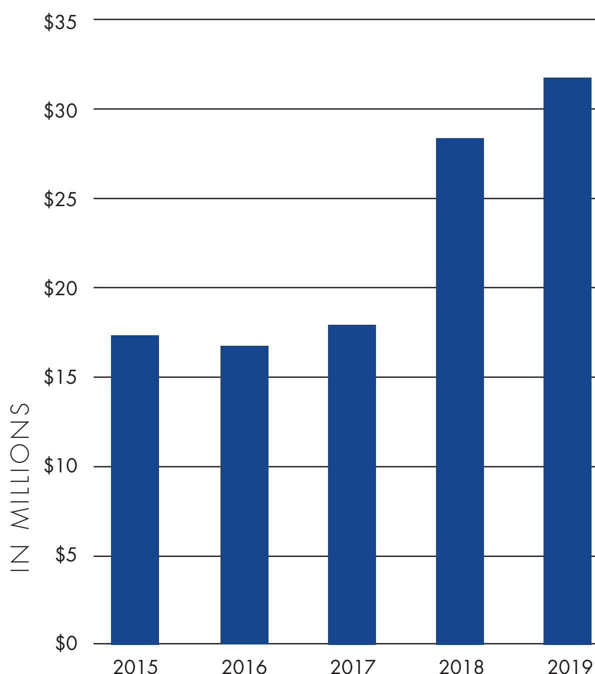
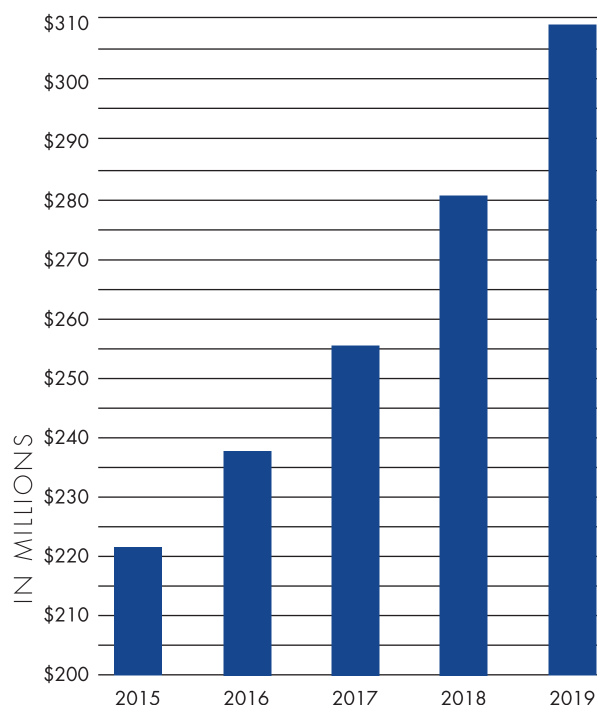
Refer to Marketing for copies: Central Bank & Trust Co., 300 West Vine Street, Lexington, KY 40507

FINANCIAL HIGHLIGHTS

As of and for the twelve months ended December 31 (in thousands except share data)

	2019	2018	2017	2016	2015
RESULTS OF OPERATIONS:					
Net income	$ 31,445	$ 28,128	$ 17,410	$ 17,006	$ 17,138
Net income per share	0.90	0.81	0.50	0.49	0.49
Cash dividends per share	0.05	0.05	0.04	0.03	0.02
Book value per share at year end	8.86	8.06	7.33	6.83	6.37
AT DECEMBER 31:					
Assets	$ 2,763,519	$ 2,600,173	$ 2,408,725	$ 2,298,489	$ 2,192,412
Earning assets	2,634,272	2,481,108	2,288,833	2,167,410	2,062,535
Loans, net	2,025,800	2,056,749	1,968,370	1,771,738	1,658,973
Deposits	2,215,844	2,107,493	1,991,028	1,915,781	1,834,873
Shareholders' equity	308,344	280,590	255,079	237,689	221,755
AVERAGES:					
Assets	$ 2,640,451	$ 2,508,594	$ 2,328,930	$ 2,241,332	$ 2,144,248
Earning assets	2,526,382	2,392,888	2,202,883	2,113,110	2,009,677
Loans, net	2,075,030	2,001,079	1,854,129	1,693,741	1,609,436
Deposits	2,110,887	2,046,598	1,930,081	1,861,980	1,798,520
Shareholders' equity	295,790	269,106	247,887	231,295	214,419
PERFORMANCE RATIOS:					
Return on average assets	1.19%	1.12%	0.75%	0.76%	0.80%
Return on average equity	10.63%	10.45%	7.02%	7.35%	7.99%
Average equity to average assets	11.20%	10.73%	10.64%	10.32%	10.00%
Dividend payout ratio	5.53%	6.18%	7.99%	6.14%	4.06%
Net interest margin (tax equivalent)	3.99%	3.95%	3.94%	3.71%	3.66%
CAPITAL RATIOS:					
Total capital to risk-weighted assets	15.4%	13.7%	13.0%	13.4%	13.8%
Tier I capital to risk-weighted assets	14.5%	12.8%	12.1%	12.3%	12.6%
Common equity Tier I to risk-weighted assets	13.9%	12.1%	11.4%	11.6%	11.5%
Tier I capital to average assets	11.7%	11.2%	10.9%	10.6%	10.7%





BUILDING A BETTER KENTUCKY,

UNIVERSITY OF KENTUCKY

At Central Bank, our continued support of the Commonwealth's flagship university reflects our commitment to Kentucky as a whole. And that commitment has recently grown with our sponsorship and naming rights to the new Central Bank Center (formerly Lexington Center) that includes Rupp Arena at Central Bank Center. Of course, Central Bank's support for the University of Kentucky goes beyond the sports-related sponsorships we've become so widely known for. Central Bank is also helping to improve academic development and the general health of our communities through our support of UK, the Gatton College of Business and Economics and the Sanders-Brown Center on Aging.

TRANSYLVANIA UNIVERSITY

Central Bank's long-term partnership with Transylvania University has continued to flourish and, indeed, moved forward in a big way in early 2019. The bank announced a 10-year commitment of $2 million for the advancement of academic programs at the school's Lexington campus as well as plans for a new student center. This commitment is of special significance for Central Bank Vice Chairman Joan Kincaid. Joan's mother, Nellie Kincaid, was a proud Transylvania graduate. What's more, this 10-year commitment has resulted in the addition of one of Transylvania University's newest residence halls, Kincaid Hall. Offering four floors of rooms as well as a beautiful common area, it was dedicated on October 18, 2019.

ONE PARTNERSHIP AT A TIME.

ST. ELIZABETH HEALTHCARE

It's not often a partnership can potentially save lives and result in a better quality of life for cancer survivors. But that's precisely the goal of our new relationship with the St. Elizabeth Cancer Center. In 2019, Central Bank pledged to match community donations up to $1 million to support the new comprehensive cancer center that is scheduled to open in the summer of 2020 in Edgewood, Ky. The 233,000-square-foot facility will offer cancer screening, prevention education, individually tailored treatment plans and more with the hope of increasing early detection and improving and saving lives throughout the region. This partnership is an investment in our friends, families and clients throughout Northern Kentucky. Once open, the St. Elizabeth Cancer Center will serve the region as Greater Cincinnati's leading comprehensive cancer center.

KENTUCKY DERBY MUSEUM

Currently in our second year of partnership with the Kentucky Derby Museum, Central Bank was proud to begin serving as the presenting sponsor of the Kentucky Derby Museum Gala in 2019. The event serves as the Museum's largest signature fund-raiser and is invaluable to the Museum's curatorial and educational services. As a partner, Central Bank will be helping create vital support for the Museum's missions and programs, including in-house education programs for students in Pre-K through 12th grade (using resources related to the equine industry) and the Museum's traveling Education Outreach that provides learning opportunities to schools across the region.

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

As we enter our 75th year of service to the Commonwealth, I am very pleased to announce that 2019 was another successful year for Central Bancshares, Inc. Central Bank achieved outstanding performance, strong customer growth and an increased share of a continually evolving digital space for the financial services industry. The breadth of our financial products has produced new consumer and business relationships, as demonstrated by notable achievements across all lines of business in 2019.

As part of our commitment to the Commonwealth, we announced our involvement in a landmark naming-rights agreement to rebrand Lexington's and Central Kentucky's premier convention center complex as Central Bank Center. When complete, renovation and expansion of the convention center space are expected to bring a 15% increase in event activity to Lexington's downtown. In conjunction with our other commitments to the community, the Central Bank Center project underscores our commitment to maintain an active role in the success of the communities we serve. While Central Bank Center is located in Lexington, the economic growth and community development that result from the project will reverberate across the state. This new partnership also allows us to add value to our existing relationships with our loyal customer base, as plans are underway to roll out exclusive benefits for Central Bank customers inside Central Bank Center during 2020 and beyond.

As the leading community bank in Central Kentucky, Central Bank is known statewide as an advocate for the businesses, consumers and communities of Kentucky. At our core, we believe we are chartered to serve the needs of our communities and understand this goal can be best accomplished when we become involved at a personal and corporate level to support growth and prosperity in the areas we serve. When our customers and local businesses are successful, ultimately our Bank will share that success.

PERFORMANCE

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

- Net income rose to $31.4 million or $.90 per share. In 2018, earnings were $28.1 million or $.81 per share.
- Deposits grew 5.1%, ending the year at $2.2 billion.
- Net loans decreased by 1.5%, ending the year at $2.0 billion.
- Shareholders' equity grew 9.9% to $308 million, reflecting outstanding performance that highlights our commitment to our Company's future.

Since customer service is our most powerful strategy for acquiring new customers, we use service shops to manage service performance in our 28 banking centers. We continue to track results for digital shops that survey our online and mobile banking platforms to ensure they are meeting the same high standards we expect of our in-person and phone service. Again, in 2019, excellent shop results demonstrated the service excellence that distinguishes Central Bank from our competitors.

PRODUCTS & SERVICES

As digital banking products continued to dominate the financial services landscape in the last year, a growing number of our customers demonstrated preference for these options through increased adoption of our online and mobile banking products. For this reason, our dedicated staff members continue to direct their energy to projects that enhance our already robust digital platforms. As part of their efforts, eStatement enrollment and access were added to the Central***MOBILE*** application, providing convenience for our on-the-go customers. More recently, the implementation of a new online consumer mortgage application contributed to our goal of delivering a faster, easier and more streamlined experience for our customers who choose to transact with us online.

While much of this report focuses on the increasing number of our customers who chose to transact with us online and in mobile banking, it would be remiss of me not to mention our ongoing commitment to provide access to trusted local experts at our brick and mortar locations. Our newest banking centers in Northern Kentucky and Louisville will both celebrate one-year anniversaries during 2020. We are pleased to report both locations were welcomed by their local communities and staff members there have already formed meaningful relationships with residents and businesses in those areas.

To keep pace with our expanded footprint, providing convenience for our growing customer base remained a top priority. Our diligent Operations staff oversaw the installation of four new ATMs in the Lexington market at the following downtown locations: Central Bank Center, Lexington Marriott City Center, Residence Inn Lexington City Center and Rupp Arena. Another new ATM is scheduled to be installed at Newport on the Levee in Northern Kentucky during early 2020.

Efforts to serve more of our customers' growing needs continue to be led by our Mortgage, Wealth Management, Insurance and Investment staffs. As always, their level of commitment to their customers consistently exceeds expectations and allows us to advance our position as a full-service financial institution.

LOOKING FORWARD

Motivated by the successes of the past year, we approach 2020 with the energy needed to produce another outstanding year. With customer service that remains unmatched by any of our competitors, continued advances within online and mobile banking, renewed emphasis on our retail and small business banking strategies and an unwavering focus on the communities we serve, we expect 2020 to be another successful year when viewed within the context of the many and various challenges that have manifested themselves recently.

As business banking continues to surge, our attention remains focused on the lending, cash management and corporate services needed by today's increasingly sophisticated business owners. Plans are underway to offer these customers a comprehensive package to serve their banking needs in early May 2020. We believe our commitment to growing businesses and communities is essential to expanding our market footprint and service commitment.

RETIREES

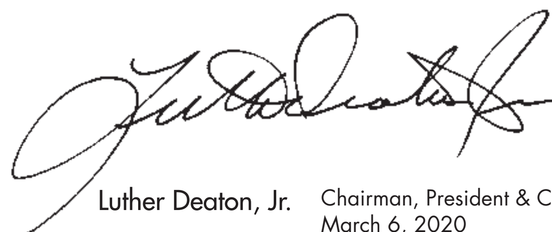
In the last year, nine long-term employees completed their service to reach well-earned retirements: Jerry Smalley (Small Business Lending, 42 years); Gayle Dockery (Trust, 37 years); Margie Ford (Commercial Lending, 33 years); Steve Kelly (Marketing, 30 years); Patricia Wheatley (Marketing, 21 years); Jeanie Gammon (Mortgage Lending/ Hurstbourne, 18 years); Rita Bugg (Private Banking, 15 years); Beverly Williams (Union, 14 years); and Valerie Wilson (Human Resources, 13 years). They were dedicated Central Bankers who served our Bank and their customers with distinction. We honor their service and congratulate them on their achievements.

WITH APPRECIATION

As with each year, our directors offer support and leadership that remain key components of our success. Their collective experience and expertise serve as an exceptional resource, offering powerful insight and connection to our local markets. Early in 2020, we were fortunate to add Ulysses Lee "Junior" Bridgeman to the Central Bancshares Board of Directors. A native of Indiana, Mr. Bridgeman came to Kentucky to attend the University of Louisville, where he celebrated a successful basketball career. Today, he is the president and chief executive officer of Bridgeman Foods Inc. In 2017, Bridgeman Foods Inc. began bottling for The Coca-Cola Company.

As always, I am honored to say our Bank is in the hands of knowledgeable and caring staff. We call them Central Bankers, and they are the foundation of this Company. Their commitment to service and to our customers is unwavering. Thanks to their support, we have been named a Best Place to Work in Kentucky for the 13th year.

Most important, none of our success would be possible without our loyal customers. I would like to thank them for entrusting Central Bank with their financial needs and for their dedication to our Company. I am eternally grateful for their kind words and recognition of our tireless efforts to serve them. It is a privilege to have such a dedicated team of employees and loyal customers as we look forward to the promising year ahead.



Luther Deaton, Jr.
Chairman, President & CEO
March 6, 2020

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

Central Bancshares, Inc. (the "Company"), a bank holding company located in Lexington, Kentucky, is the parent company of Central Bank & Trust Co. (the "Bank"). At December 31, 2019, the Company had 28 full service banking centers located in Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full service brokerage business and a full service insurance agency.

RESULTS OF OPERATIONS

The Company reported net income of $31.4 million or $0.90 per common share for 2019 compared with $28.1 million or $0.81 per common share for 2018. Return on average assets and average equity was 1.19% and 10.63%, respectively, for 2019 compared with 1.12% and 10.45% a year earlier. The increase in net income for 2019 is the result of higher pre-tax income of $2.7 million or 8.1% combined with a reduction in income tax expense of $658 thousand or 14.1%. The increase in pre-tax income was driven by higher net interest income and non-interest income of $6.4 million or 6.8% and $2.5 million or 6.6%, respectively, partially offset by an increase in non-interest expense of $5.6 million or 5.8%.

The decrease in tax expense for 2019 is attributed to Kentucky tax reform enacted during the year. As a result, the Company recorded deferred income tax benefits of $1.8 million in 2019 from this initiative.

NET INTEREST INCOME

Net interest income was $101 million in 2019, an increase of $6.4 million or 6.8% compared to $94.4 million in 2018. The increase was primarily driven by a higher average rate earned on loans combined with growth in the average loan balance outstanding, partially offset by an increase in interest expense mainly as deposit costs have repriced upward. Market interest rates generally decreased during 2019 in response to the Federal Reserve actions to lower the short-term targeted federal funds rate, with three separate 25 basis point reductions taking place during the last half of the year. As a result, the Company expects its net interest margin to trend downward in the near term as those market rate declines are reflected in new or repriced loans and deposits.

Net interest spread results from the difference between the taxable equivalent yield on earning assets and the rates paid on interest bearing liabilities. Net interest margin represents taxable equivalent net interest income divided by average interest-earning assets. Net interest margin will exceed net interest spread because of the existence of noninterest bearing sources of funds, primarily demand deposits and shareholders' equity, that are available to fund earning assets. In the current low interest rate environment, it may not be practical or possible to reduce certain deposit rates by the same magnitude as rates on earning assets. As such, earning assets with higher yields have more of an opportunity to reprice to lower rates than lower-rate deposits.

The Company's net interest spread was 3.63% and 3.68% for 2019 and 2018, respectively. This represents a decrease of five basis points and was driven by the pace at which either new or existing funding sources repriced higher during the year compared with the yield on earning assets. The overall yield on earning assets improved 19 basis points in the annual comparison, but was offset by a 24 basis point increase in the cost of interest bearing liabilities.

Net interest margin for 2019 was 3.99%, up four basis points from a year earlier. The impact of noninterest bearing sources of funds added 36 basis points to net interest margin during 2019, an increase of nine basis points in the comparison.

Total interest income for 2019 was $117 million, an increase of $11.0 million or 10.4% compared to $106 million for 2018. The increase in interest income was driven primarily from higher interest on loans and investment securities of $8.8 million or 9.0% and $1.3 million or 25.3%, respectively. The increase in interest income on loans was due to a 24 basis point increase in the average rate earned on the portfolio to 5.11% and, to a lesser extent, a $73.4 million or 3.6% higher average balance outstanding. The increase in interest on investment securities is mainly due to a 30 basis point increase in the average rate earned combined with a higher average balance outstanding of $23.3 million or 10.2%.

Total interest expense for 2019 was $16.1 million, up $4.6 million or 39.9% from the prior year. Interest expense on deposits, the largest component of interest expense, was $13.8 million for 2019, an increase of $4.0 million or 40.2%. Interest expense increased in all major categories of the deposit portfolio, primarily from higher rates that were in place mainly in the first half of the year along with an increase in average time deposits outstanding.

Interest expense on time deposits grew $3.4 million or 55.9%, with a nearly equal impact from an increase in the average rate paid to 1.85% from 1.48% and an increase in average balances outstanding of $101 million or 24.2%. Interest expense on money market, NOW, and savings accounts were up $369,000, $103,000, and $57,000, respectively. The increase in each of those categories was rate-driven; average balances for money market and NOW accounts each decreased during 2019.

Interest expense on borrowed funds was $2.3 million for 2019, an increase of $639,000 or 38.4%. Interest on short-term borrowings, primarily repurchase agreements with commercial customers, was up $111,000 or 17.7% due to an increase in the average balance of $16.9 million or 13.1% combined with a higher average rate paid of two basis points to 0.50%.

Interest expense on long-term borrowings, consisting of Federal Home Loan Bank ("FHLB") advances and subordinated debentures, increased $528,000 or 50.8%.

NET INTEREST MARGIN ANALYSIS

(dollars in thousands)

	2019			2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets						
Loans[1,2]	$ 2,094,164	$ 106,981	5.11%	$ 2,020,794	$ 98,326	4.87%
Interest-bearing deposits	193,458	4,080	2.11%	157,212	3,106	1.98%
Federal Home Loan Bank stock	6,751	337	5.00%	6,751	397	5.88%
Securities[1]	251,143	6,331	2.52%	227,846	5,052	2.22%
Total interest-earning assets	**$ 2,545,516**	**117,729**	**4.62%**	**$ 2,412,603**	**106,881**	**4.43%**
Interest-bearing liabilities						
Deposits						
NOW accounts	$ 316,774	1,344	0.42%	$ 334,356	1,241	0.37%
Savings deposits	153,332	353	0.23%	150,294	296	0.20%
Money market deposits	435,178	2,548	0.59%	459,123	2,179	0.47%
Time deposits	517,230	9,591	1.85%	416,307	6,152	1.48%
Total interest-bearing deposits	1,422,514	13,836	0.97%	1,360,080	9,868	0.73%
Short-term borrowings	146,115	737	0.50%	129,241	626	0.48%
Long-term borrowings	60,013	1,568	2.61%	40,457	1,040	2.57%
Total interest-bearing liabilities	**$ 1,628,642**	**16,141**	**0.99%**	**$ 1,529,778**	**11,534**	**0.75%**
Net interest margin		**$ 101,588**	**3.99%**		**$ 95,347**	**3.95%**

[1]Income and yield stated at a tax equivalent basis using a marginal corporate federal tax rate of 21%.
[2]Loan balances include principal balances on nonaccrual loans.

In early 2019, the Company borrowed an additional $25.0 million from the FHLB under a 54-month fixed rate advance which drove the average outstanding balance up $19.1 million or 75.0%. The average rate paid on total long-term borrowings increased four basis points to 2.61% due to the additional FHLB fixed rate borrowings and variable rate subordinated debentures, which repriced to a higher average rate during 2019.

The table above reflects information regarding the Company's average balances, interest income or expense, and average rates earned and paid by each major balance sheet category for the years ended December 31, 2019 and 2018.

The table below reflects the changes in net interest income in 2019 and 2018 due to changes in rates and volumes computed on a tax equivalent basis.

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS

(dollars in thousands)

	2019/2018			2018/2017		
		Increase/(Decrease) Due To			Increase/(Decrease) Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ 8,655	$ 5,010	$ 3,645	$ 10,086	$ 3,084	$ 7,002
Interest-bearing deposits	974	221	753	2,011	985	1,026
Federal Home Loan Bank stock	(60)	(60)	0	60	60	0
Securities	1,279	732	547	941	1,322	(381)
Total interest income	10,848	5,903	4,945	13,098	5,451	7,647
Interest expense						
Deposits						
NOW accounts	103	171	(68)	500	524	(24)
Savings deposits	57	51	6	135	123	12
Money market deposits	369	488	(119)	914	950	(36)
Time deposits	3,439	1,763	1,676	3,365	2,523	842
Total deposits	3,968	2,473	1,495	4,914	4,120	794
Short-term borrowings	111	27	84	292	185	107
Long-term borrowings	528	17	511	269	(88)	357
Total interest expense	4,607	2,517	2,090	5,475	4,217	1,258
Net interest income	**$ 6,241**	**$ 3,386**	**$ 2,855**	**$ 7,623**	**$ 1,234**	**$ 6,389**

The Company's average loans to average deposits ratio increased to 99.3% for 2019 from 98.8% in 2018. The increase was driven by average loan growth of $73.5 million or 3.6%, which outpaced an increase in average deposits of $64.3 million or 3.1%.

Overall liquidity levels continued to be strong in 2019. Liquidity position and related metrics are closely monitored as management seeks the appropriate balance between the relative safety of higher liquidity levels and corresponding lower yields, versus the interest rate risk inherent in obtaining higher yields over a longer term investment.

NON-INTEREST INCOME

Total non-interest income was $39.9 million for 2019, an increase of $2.5 million or 6.6% from 2018. Improvements were reported across a wide range of line items, led by an increase in mortgage banking income of $823,000 or 26.6% and a positive variance related to repossessed property activity of $523,000 or 82.8%. Mortgage banking income had a strong finish to the year aided by refinancing activity that received a boost from lower market interest rates in the last half of the year. Loans originated for sale and subsequently sold were $209 million in 2019, an increase of $48.4 million or 30.3% from 2018. The Company had a net loss on the sale and write-downs of other real estate owned of $109,000 in 2019, an improvement from $632,000 a year earlier.

Other positive variances in the yearly comparison include higher fees from electronic banking of $412,000 or 7.5% and trust income of $348,000 or 4.4%. The increase in electronic banking income is primarily attributed to a higher volume of debit card transactions and related interchange income. The increase in trust revenue was driven by growth in average assets under management of $84.1 million or 5.1%, with a year-end 2019 balance of $1.8 billion. Other fees and income include a termination fee of $418,000 received upon the exit of a tax credit partnership.

NON-INTEREST EXPENSE

Total non-interest expense for 2019 was $103 million, an increase of $5.6 million or 5.8% compared with 2018. The increase in non-interest expense is largely attributed to expansion activities in the form of two additional branch locations that were opened in early 2019. The more significant components of non-interest expense that increased include salaries and benefits, occupancy and equipment, processing charges, advertising and business development, card and interchange expenses, and franchise taxes. Those line item increases were partially offset by declines in professional services, Federal Deposit Insurance Corporation ("FDIC") insurance assessment expense, and all other expenses, net.

Salaries and benefits, the largest component of non-interest expense, was $50.4 million for 2019. This represents an increase of $3.2 million or 6.7% compared with the prior year. The higher expense in 2019 is attributed primarily to a $2.2 million or 5.3% increase related to additional personnel to staff two new branches combined with normal salary increases, incentive payments, and related payroll taxes. The Company had 535 full time equivalent employees at year-end 2019, up from 498 a year earlier.

Benefit costs were up $975,000 or 18.0%, driven mainly by contributions to the Company's Employee Stock Ownership Plan ("ESOP"). Contributions to the ESOP can fluctuate over time and are highly dependent upon the share price and number of Company shares that become available from owners electing to sell their shares back to the ESOP.

Occupancy and equipment expense was $17.5 million, an increase of $731,000 or 4.4% mainly due to additional rent, depreciation, and equipment expenses related to the opening of two branch locations. Processing charges were $6.7 million, up $795,000 or 13.4% primarily as a result of volume increases in credit card, ATM, and internet banking activity and core data system improvements. Advertising and business development expenses were $7.6 million, an increase of $1.3 million or 20.2% due to a higher level of community sponsorships and charitable contributions of $847,000 or 26.0% and, to a lesser extent, higher advertising and media costs of $225,000 or 10.1% due in part to branch expansion efforts. Other promotional and business development expenses increased $151,000 or 58.2%.

Card and interchange expenses were $5.9 million, up $517,000 or 9.6% driven mainly by higher debit and credit card reward activity of $485,000 or 53.9%. Debit card reward redemptions spiked upward during the fourth quarter

ANALYSIS OF NON-INTEREST INCOME

(dollars in thousands)

				2019/2018		2018/2017	
	2019	2018	2017	CHANGE	%	CHANGE	%
Service charges on deposit accounts	$ 7,253	$ 7,261	$ 7,725	$ (8)	(0.11)%	$ (464)	(6.01)%
Mortgage banking income	3,918	3,095	3,821	823	26.59 %	(726)	(19.00)%
Card and interchange fees	6,232	6,250	5,905	(18)	(0.29)%	345	5.84 %
Trust fees	8,226	7,878	7,193	348	4.42 %	685	9.52 %
Electronic banking fees	5,944	5,532	5,037	412	7.45 %	495	9.83 %
Net (loss) gain on sales and write-downs of OREO	(109)	(632)	782	523	(82.75)%	(1,414)	(180.82)%
Other fees and income	8,423	8,021	8,231	402	5.01 %	(210)	(2.55)%
Total fees and income	$ 39,887	$ 37,405	$ 38,694	$ 2,482	6.64 %	$ (1,289)	(3.33)%

of 2019 and represented a significant portion of the increase in total reward cost for the year. Near term future amounts are expected to increase at a more moderate level. Bank franchise tax expense was $2.9 million, an increase of $319,000 or 12.4% due to earnings and capital growth over the last several years that has increased the taxable base amount.

Professional services fees were $1.7 million for 2019, a decrease of $339,000 or 16.4% led by a decline in legal expense of $253,000 or 26.7%. FDIC insurance assessment expense was $177,000, a decrease of $676,000 or 79.3%. In 2019, the FDIC Deposit Insurance Fund reserve ratio reached 1.36%, the level that allows small banks (as defined by regulation) to access credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%. The Company used $384,000 of its credits to offset amounts that were due in 2019. There is approximately $208,000 of remaining credits available to offset future assessments, all of which is expected to be exhausted in early 2020. Continued improvement in the Bank's performance risk ratings lowered its base assessment rates, which also contributed to the decrease in expense for the year.

All other non-interest expenses were $9.7 million, a decrease of $152,000 or 1.5% compared to a year ago. The decrease is mainly attributed to lower amortization of partnership tax credits of $420,000 or 31.8% as certain of those investments in prior years have been fully amortized and expense recorded in 2018 in the amount of $394,000 to adjust dealer receivables to net realizable value. Those decreases were nearly offset by the non-service cost components of the Company's defined benefit pension plan, which increased $809,000 or 39.3%. This increase was driven mainly by a higher amount of amortization of the net actuarial loss resulting from changes in annual plan valuation assumptions.

INCOME TAXES

The Company recorded income tax expense of $4.0 million for 2019 compared with $4.7 million for 2018, a decrease of $658,000 or 14.1%. The decrease is attributed to Kentucky tax reform enacted during 2019. Under this reform, which consisted of two separate legislative initiatives as further described below, the Company recorded a total tax benefit and corresponding deferred tax asset of $1.8 million.

As a financial institution doing business in Kentucky, the Bank is currently subject to a capital-based Kentucky bank franchise tax and exempt from Kentucky corporate income tax. Kentucky enacted HB354 in March 2019, which will transition the Bank to a corporate income tax from the bank franchise tax beginning January 1, 2021. The current Kentucky corporate income tax rate is 5%. The Company recorded an income tax benefit and a deferred tax asset, net of federal benefit, of $898,000 upon enactment of HB354.

In April 2019, Kentucky enacted HB458, which allows for entities in a combined filing group to share net operating loss carryforwards with other tax members of the combined group. The Company had previously filed separate parent company returns which generated net operating losses. The Bank and the parent company will begin filing a combined Kentucky income tax return in 2021; therefore, the Bank income will be able to be offset by parent company losses subject to any limitations in the statute. The parent company recorded a state tax benefit and a deferred tax asset of $908,000 during 2019 as a result of this change.

The Company's effective income tax rates were 11.3% and 14.2% for 2019 and 2018, respectively. The effective tax rate for 2019 was 16.4% when factoring out the benefit of Kentucky tax reform.

The Company's tax planning strategy includes the participation in Industrial Revenue Bond lending for nonprofit organizations to increase tax-exempt income. It is also a limited partner in 17 low-income housing projects, four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation credits, and is an investor in a Community Development Entity for which it receives New Markets Tax Credits.

FINANCIAL CONDITION

Total assets of the Company at year-end 2019 were $2.8 billion, an increase of $163 million or 6.3% compared with year-end 2018. Balance sheet growth was funded mainly by the combination of higher deposits of $108 million or 5.1% and an increase in FHLB borrowings of $25.0 million or 98.3%. Earning assets were $2.6 billion or 95.3% of total assets at December 31, 2019 compared with $2.5 billion or 95.4% of total assets a year earlier. Loans outstanding, net

ANALYSIS OF NON-INTEREST EXPENSE

(dollars in thousands)

				2019/2018		2018/2017	
	2019	2018	2017	CHANGE	%	CHANGE	%
Salaries and benefits	$ 50,351	$ 47,175	$ 45,682	$ 3,176	6.73 %	$ 1,493	3.27 %
Occupancy and equipment	17,483	16,752	16,246	731	4.36 %	506	3.11 %
Processing charges	6,722	5,927	6,141	795	13.41 %	(214)	(3.48)%
Advertising and business development	7,574	6,304	6,181	1,270	20.15 %	123	1.99 %
Card and interchange expenses	5,930	5,413	4,801	517	9.55 %	612	12.75 %
Professional services	1,734	2,073	2,173	(339)	(16.35)%	(100)	(4.60)%
Bank franchise tax	2,886	2,567	2,391	319	12.43 %	176	7.36 %
FDIC assessment	177	853	1,125	(676)	(79.25)%	(272)	(24.18)%
Other real estate owned, net	176	123	728	53	43.09 %	(605)	(83.10)%
Other	9,494	9,699	8,338	(205)	(2.11)%	1,361	16.32 %
Total non-interest expense	$ 102,527	$ 96,886	$ 93,806	$ 5,641	5.82 %	$ 3,080	3.28 %

of the allowance for loan losses, decreased $30.9 million or 1.5%. Cash and cash equivalents were up $152 million or 68.1% in the comparison and the securities portfolio increased $39.0 million or 16.4%.

EARNING ASSETS

Gross loans outstanding were $2.0 billion at December 31, 2019, a decrease of $32.0 million or 1.5% from the prior year-end. Although economic conditions during 2019 were generally strong and loan pipelines for the Company remain encouraging, several large early payoffs in the last half of the year drove the overall decline. Commercial loans were up $33.5 million or 8.5%, but were offset primarily by a decrease in commercial real estate and residential real estate loans of $56.7 million or 5.0% and $6.0 million or 1.3%, respectively. Installment loans, which are generally secured by assets such as automobiles, trucks, and other personal assets, were down $3.2 million or 3.3%. Credit card balances declined $202,000 or 1.5%.

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

Total investment securities were $277 million at year-end 2019. This represents an increase of $39.0 million or 16.4% from a year earlier. The increase in investment securities is primarily a function of the overall higher level of liquidity. As loan levels have declined, the Company has redirected funds in excess of its short-term liquidity needs out of interest bearing cash to the investment securities portfolio in an effort to increase interest income and net interest margin.

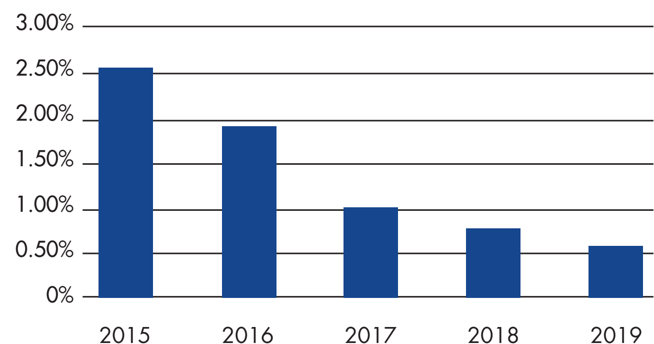
On-balance sheet liquidity remained strong at year-end 2019, with an increase in the level of cash and cash equivalents combined with a lower ratio of loans to deposits. Internal liquidity ratios, which are monitored closely on a regular basis, are within long-standing parameters established by policy and regulatory guidance. Total deposits were $2.2 billion at year-end 2019, an increase of $108 million or 5.1%. Federal funds purchased and short-term customer repurchase agreements were relatively unchanged at $141 million. The Company increased its long term funding by borrowing an additional $25.0 million from the FHLB in early 2019.

ALLOWANCE FOR LOAN LOSSES

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

The allowance for loan losses was $19.1 million and $20.2 million at December 31, 2019 and 2018, a decrease of $1.1 million or 5.3%. As a percentage of total loans, the allowance was 0.93% at year-end 2019, down 4 basis points from 0.97% at year-end 2018. The 2019 provision for loan losses was $2.7 million, an increase of $552,000 or 26.0% in the annual comparison. Net loan charge-offs were $3.7 million and $2.4 million for 2019 and 2018, respectively. The $1.3 million or 54.8% increase was due to one commercial loan relationship with a charge-off, net of recoveries, of $2.0 million. Net charge-offs as a percentage of average loans were 0.18% in 2019, an increase of six basis points from 0.12% a year earlier. The commercial loan charge-off identified above represents 10 basis points of average loans outstanding for 2019.

Delinquency



Overall improvements in credit quality trends experienced in the last several years continued into 2019. Despite a decrease in loans outstanding of $32.0 million, nonperforming loans as a percentage of gross loans decreased 19 basis points to 0.37% at year-end 2019 compared to a year ago. Total delinquencies improved to 0.53% of the portfolio, down from 0.79%. Loans past due 90 days or more and nonaccrual loans decreased $3.7 million or 50.0% and $4.2 million or 35.9%, respectively, driven by the larger balance commercial loan charge-off noted in the preceding paragraph. The principal balance outstanding on this group of credits was $2.2 million at year-end 2018. As a percentage of nonperforming loans, the allowance for loan losses was 256% at year-end 2019 compared with 172% at year-end 2018.

Loans identified as special mention and substandard increased $15.4 million or 18.7% in the annual comparison, with the amount as a percentage of the portfolio up 81 basis points to 4.77%. The increase was driven mainly by the addition of three separate credit relationships totaling $17.0 million in the aggregate secured by commercial real estate, with specific reserves on those balances of $363,000. Impaired loans, which are those where it is considered probable that all principal and interest amounts will not be collected in accordance with the original loan terms, were $68.9 million at year-end 2019. This represents an increase of $22.1 million or 47.2% compared with year-end 2018. There were four separate credit relationships, which include the three identified above, with a total outstanding balance of $30.9 million that drove the increase. Specific reserves on impaired loans were $2.4 million or 3.5% of the outstanding balance at year-end 2019 compared with $3.4 million or 7.2% a year earlier.

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(dollars in thousands)

	2019	2018	2017	2016	2015
Allowance for loan losses					
Balance January 1	$ 20,183	$ 20,485	$ 20,582	$ 21,840	$ 23,037
Provision for loan losses	2,672	2,120	2,310	4,464	961
Less: Net charge-offs	(3,749)	(2,422)	(2,407)	(5,722)	(2,158)
Balance December 31	$ 19,106	$ 20,183	$ 20,485	$ 20,582	$ 21,840
Average loans, net of unearned income	$ 2,094,164	$ 2,020,794	$ 1,875,414	$ 1,715,145	$ 1,631,982
Loans, net of unearned income, at year-end	2,044,906	2,076,932	1,988,855	1,792,320	1,680,813
Nonperforming loans at year-end	7,474	11,730	13,589	26,245	35,754
Other real estate owned at year-end	1,888	3,225	2,721	5,050	5,806
Ratios:					
Provision for loan losses to average loans	0.13%	0.10%	0.12%	0.26%	0.06%
Net charge-offs to average loans	0.18%	0.12%	0.13%	0.33%	0.13%
Allowance for loan losses to loans	0.93%	0.97%	1.03%	1.15%	1.30%
Allowance for loan losses to nonperforming loans	255.63%	172.06%	150.75%	78.42%	61.08%
Nonperforming loans to loans	0.37%	0.56%	0.68%	1.46%	2.13%
Nonperforming assets to total assets	0.34%	0.58%	0.68%	1.36%	1.90%
Nonperforming assets to shareholders' equity and allowance for loan losses	2.86%	4.97%	5.92%	12.12%	17.06%
Total delinquent loans at year-end	0.53%	0.79%	1.04%	1.92%	2.53%

The allowance for loan losses is maintained at a level management believes is adequate to cover probable losses in the loan portfolio. The allowance is subject to review by the Company's Board of Directors and is periodically evaluated by regulatory authorities. The determination of the appropriate level of allowance for loan losses requires significant judgment in order to reflect credit losses specifically identified in the loan portfolio, as well as management's best estimate of probable incurred credit losses in the loan portfolio at the balance sheet date. While management uses the best information available at the time of the evaluation and is comfortable with the overall adequacy of the allowance for loan losses at December 31, 2019, future adjustments may be necessary if economic conditions worsen or if assumptions in the evaluation differ substantially from actual results.

DEPOSITS

Total deposits were $2.2 billion at year-end 2019, an increase of $108 million or 5.1% from December 31, 2018. Interest bearing deposits were up $90.7 million or 6.6% followed by an increase in non-interest bearing deposits of $17.7 million or 2.4%.

The increase in interest bearing deposits was driven by higher time deposits of $65.3 million or 13.9%. This increase is due to a combination of management's efforts to promote a variable rate certificate of deposit product and consumer preferences to move balances into certain other higher earning account types. The increase in non-interest bearing deposits was driven by higher individual and commercial account balances of $7.9 million or 4.2% and $6.2 million or 1.2%, respectively.

Variable rate time deposits are up $95.2 million or 40.0% for 2019, partially offset by a decrease in fixed rate time deposits of $29.3 million or 15.5%. Interest bearing demand and savings accounts were up $27.6 million or 8.6% and $2.7 million or 1.8%. Money market deposits decreased $5.0 million or 1.1%.

SHORT-TERM BORROWINGS

Short-term borrowing sources consist primarily of repurchase agreements and sweep accounts of commercial customers. The cash management services offered by the Company continue to be a valued service for our commercial deposit customers. The balance in commercial sweep accounts was $141 million at December 31, 2019, relatively unchanged from $142 million from a year ago. These accounts are overnight repurchase agreements requiring a direct pledge from the Company's investment portfolio.

LONG-TERM BORROWINGS

The Company's long-term borrowings consist of FLHB advances and subordinated debentures. At December 31, 2019, the Company had $50.4 million of outstanding borrowings from the FHLB, up $25.0 million compared with the prior year-end as a result of an additional advance in early 2019. The 2019 advance of $25.0 million has a fixed interest rate of 2.44% and matures in 2023. FHLB borrowings of $25.0 million with a fixed interest rate of 1.74% mature in July 2020. All other remaining principal amounts of $403,000 mature between January 2022 and December 2027, and have a weighted average rate of 2.44%. A prepayment penalty would be applicable if the Company paid off any of the advances prior to maturity. The advances are borrowed under a blanket lien agreement, and are collateralized by FHLB stock and fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans.

In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $15.5 million of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust in the amount of $464,000 and the proceeds of the preferred securities sold by the trust of $15.0 million. The subordinated debentures mature on June 15, 2035, and have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The interest rate in effect as of the last determination date for 2019 was 3.64%, a decrease of 90 basis points from a year ago.

The subordinated debentures are redeemable in whole or in part, without penalty, at the Company's option. The subordinated debentures, net of the Company's investment in the trust, may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. At year-end 2019 and 2018, the Company's Tier 1 capital included $15.0 million, which represents the full amount of the subordinated debentures net of the investment in the trust.

CAPITAL

Capital adequacy guidelines of the regulatory agencies, and additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items. Federal banking agencies adopted rules during 2013 to bring U.S banking organizations into compliance with capital standards based on final rules issued by the Basel Committee on Banking Supervision. Such standards, commonly referred to as "Basel III," became effective January 1, 2015 with all of the requirements being gradually implemented over a multi-year schedule and fully phased in on January 1, 2019. The Company's capital ratios strengthened during 2019 and continued to be well above the minimum requirements to be considered "well capitalized" under regulatory guidance, including on a fully phased-in basis.

The Bank is subject to capital-based regulatory requirements which place banks in one of five categories based upon their capital levels and other supervisory criteria. These five categories are: (1) well-capitalized, (2) adequately capitalized, (3) undercapitalized, (4) significantly undercapitalized, and (5) critically undercapitalized. To be well-capitalized, a bank must have a Common Equity Tier 1 Risk-based Capital ratio of at least 6.5%, a Tier 1 Risk-based Capital ratio of 8.0%, a Total Risk-based Capital ratio of at least 10.0%, and a Tier 1 Leverage ratio of at least 5.0%.

The Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRC") signed into law in 2018 required the federal banking agencies to establish regulatory capital requirements as an alternative to complying with Basel III rules for qualified institutions with less than $10.0 billion of consolidated assets. The EGRC includes establishment of a Community Bank Leverage ratio ("CBLR") between 8.0% and 10.0% of Tier 1 capital to average assets. Federal banking agencies adopted final regulations in 2019 that set the CBLR at greater than 9.0%, effective January 1, 2020. Eligible institutions electing to follow the alternative regulatory capital structure that maintain a CBLR above the threshold are exempt from all other leverage and risk based capital requirements, including those set forth in the Basel III rules. Subject to a two-quarter grace period, should the institution fail to maintain capital in excess of the CBLR it will again be subject to the requirements of the Basel III rules. Banks that wish to use the CBLR will elect to do so through their March 31, 2020 Call Reports filed with federal bank regulatory agencies. The Bank expects that it will not elect to adopt the CBLR.

As of December 31, 2019, the Company had the following capital ratios for regulatory purposes:

	Common Equity Tier 1 Risk-based Capital Ratio[1]	Tier 1 Risk-based Capital Ratio[1]	Total Risk-based Capital Ratio[1]	Tier 1 Leverage Capital Ratio[2]
Central Bancshares, Inc.	13.9%	14.5%	15.4%	11.7%
Central Bank & Trust Co.	14.4	14.4	15.2	11.6

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

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

INDEPENDENT AUDITOR'S REPORT

Crowe LLP
Independent Member Crowe Global

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, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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. 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, 2019 and 2018, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also have audited in accordance with auditing standards generally accepted in the United States of America, Central Bancshares, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 6, 2020 expressed an unmodified opinion.

Crowe LLP

Crowe LLP
Louisville, Kentucky
March 6, 2020

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31	
	2019	2018
ASSETS		
Cash and due from financial institutions	$ 57,755	$ 48,381
Interest-bearing deposits with other financial institutions	318,200	175,251
Total cash and cash equivalents	375,955	223,632
Available for sale debt securities	258,055	167,929
Held to maturity debt securities	19,083	70,224
Total debt securities	277,138	238,153
Loans held for sale	6,303	4,124
Loans, net of allowance of $19,106 (2019) and $20,183 (2018)	2,025,800	2,056,749
Premises and equipment, net	28,300	31,439
Other real estate owned	1,888	3,225
Interest receivable	6,583	6,760
Federal Home Loan Bank stock, at cost	6,751	6,751
Goodwill	14,313	14,313
Other assets	20,488	15,027
Total assets	$ 2,763,519	$ 2,600,173
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 741,492	$ 723,841
Interest bearing	1,474,352	1,383,652
Total deposits	2,215,844	2,107,493
Federal funds purchased and repurchase agreements	141,011	142,115
Federal Home Loan Bank advances	50,403	25,422
Subordinated debentures	15,464	15,464
Interest payable	592	614
Other liabilities	31,861	28,475
Total liabilities	2,455,175	2,319,583
SHAREHOLDERS' EQUITY		
Common stock (voting), $10 par value; 350,000 shares authorized; 347,922 shares issued and outstanding	3,479	3,479
Common stock (non-voting), no par value; 34,650,000 shares authorized; 34,444,278 and zero shares issued and outstanding at December 31, 2019 and 2018, respectively	-	-
Additional paid-in capital	6,890	6,890
Retained earnings	306,679	276,974
Accumulated other comprehensive loss	(8,704)	(6,753)
Total shareholders' equity	308,344	280,590
Total liabilities and shareholders' equity	$ 2,763,519	$ 2,600,173

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Years Ended December 31 2019	2018
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 106,156	$ 97,372
Debt securities	6,331	5,052
Deposits with other financial institutions	4,417	3,503
	116,904	105,927
INTEREST EXPENSE		
Deposits	13,836	9,868
Federal funds purchased and repurchase agreements	737	626
Federal Home Loan Bank advances	910	446
Subordinated debentures	658	594
	16,141	11,534
Net interest income	100,763	94,393
Provision for loan losses	2,672	2,120
Net interest income after provision for loan losses	98,091	92,273
NON-INTEREST INCOME		
Service charges on deposit accounts	7,253	7,261
Mortgage banking income	3,918	3,095
Card and interchange fees	6,232	6,250
Trust fees	8,226	7,878
Electronic banking	5,944	5,532
Net (loss) gain on sales and write-downs of other real estate owned	(109)	(632)
Other fees and income	8,423	8,021
	39,887	37,405
NON-INTEREST EXPENSE		
Salaries and benefits	50,351	47,175
Occupancy and equipment	17,483	16,752
Processing charges	6,722	5,927
Advertising and business development	7,574	6,304
Card and interchange expenses	5,930	5,413
Professional services	1,734	2,073
Bank franchise tax	2,886	2,567
FDIC assessment	177	853
Other real estate owned, net	176	123
Other	9,494	9,699
	102,527	96,886
Income before income taxes	35,451	32,792
Income taxes	4,006	4,664
Net income	$ 31,445	$ 28,128
Basic earnings per share	$ .90	$ .81
Weighted average number of common shares outstanding	34,792,200	34,792,200

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Years Ended December 31 2019	2018
Net income	$ 31,445	$ 28,128
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding (loss) gain arising during the period	(339)	366
Tax effect	71	(76)
Net of tax	(268)	290
Defined benefit pension plans:		
Net (loss) arising during the period	(2,131)	(1,478)
Tax effect	448	311
Net of tax	(1,683)	(1,167)
Total other comprehensive income (loss)	(1,951)	(877)
Comprehensive income	$ 29,494	$ 27,251

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

Years Ended December 31, 2019 and 2018	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2018	$ 3,479	$ 6,890	$ 250,586	$ (5,876)	$ 255,079
Net income	-	-	28,128	-	28,128
Cash dividends declared ($0.05 per share)	-	-	(1,740)	-	(1,740)
Other comprehensive loss	-	-	-	(877)	(877)
Balances, December 31, 2018	$ 3,479	$ 6,890	$ 276,974	$ (6,753)	$ 280,590
Net income	-	-	31,445	-	31,445
Cash dividends declared ($0.05 per share)	-	-	(1,740)	-	(1,740)
Other comprehensive loss	-	-	-	(1,951)	(1,951)
Balances, December 31, 2019	$ 3,479	$ 6,890	$ 306,679	$ (8,704)	$ 308,344

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 31,445	$ 28,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,672	2,120
Deferred income tax (benefit) expense	(1,580)	882
Depreciation and amortization	5,090	5,872
Net gain/loss on sales and write-downs of other real estate owned	111	632
Net gain on sale of loans	(3,785)	(2,960)
Net change in:		
Loans held for sale	1,606	4,164
Interest receivable	177	(815)
Other assets	(4,263)	(2,532)
Interest payable	(22)	275
Other liabilities	1,255	4,019
Net cash provided by operating activities	32,706	39,785
CASH FLOWS FROM INVESTING ACTIVITIES		
Available for sale securities:		
Purchases	(864,730)	(827,555)
Maturities, calls, and return of principal	774,498	797,973
Held to maturity securities:		
Maturities, calls, and return of principal	51,098	7,658
Net change in loans	28,383	(93,177)
Purchases of premises and equipment	(1,240)	(4,120)
Proceeds from sale of other real estate owned	1,120	1,542
Net cash used in investing activities	(10,871)	(117,679)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	108,351	116,465
Net change in federal funds purchased and repurchase agreements	(1,104)	43,718
Repayment of Federal Home Loan Bank advances	(19)	(18)
Issuance of Federal Home Loan Bank advances	25,000	-
Cash dividends paid	(1,740)	(1,740)
Net cash provided by financing activities	130,488	158,425
Net change in cash and cash equivalents	152,323	80,531
Cash and cash equivalents, beginning of year	223,632	143,101
Cash and cash equivalents, end of year	$ 375,955	$ 223,632
Supplemental cash flow information:		
Interest paid	$ 16,163	$ 11,259
Income taxes paid	5,250	3,360
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$ 243	$ 2,690
Sale and financing of other real estate owned	349	12

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 6, 2020, 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.

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

Securities: Debt securities are classified 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 Bank has no trading securities. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Securities held to maturity are stated at amortized cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on 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.

Loan disclosures include presenting certain disaggregated information based on recorded investment. The recorded investment in a loan includes its principal amount outstanding adjusted for certain items that include net deferred loan costs or fees, charge-offs, and accrued interest. The Company had a total of $1,178 and $1,715 of net deferred loan fees at year-end 2019 and 2018, respectively,

included in the carrying amount of loans on the consolidated balance sheets. The amount of net deferred loan fees is not material and is omitted from the computation of the recorded investment included in Note 3 that follows. Similarly, accrued interest receivable on loans was $5,778 and $5,730 at year-end 2019 and 2018, respectively, which has also been omitted from certain information presented in Note 3.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 is 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. At December 31, 2019, 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.

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

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

Investment in Limited Partnerships: The Company is a limited equity partner in 17 low-income housing projects, four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation credit generation, and one New Markets Tax Credit Fund. The investments are accounted for using the equity method and are included in other assets on the consolidated balance sheets. The investments had a balance of $7,455 and $3,102 at year-end 2019 and 2018, respectively. At year-end 2019, remaining funding commitments were $1,521.

The Company recognized amortization expense related to its limited partnerships of $901 and $1,320 for 2019 and 2018, respectively, which is included in other non-interest expense on the consolidated statements of income. Tax credits recognized were $1,018 and $1,711. No impairment losses were incurred in either of the years presented.

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

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

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of shares outstanding during the period. The Company has no shares outstanding which are potentially dilutive. Earnings and dividends per share have been restated for all share dividends through the date of the issuance of the financial statements as further described under the heading "Common Shares" below.

Comprehensive Income: Comprehensive income 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 plans, net of related income tax. Accumulated other comprehensive income (loss) is recognized as a separate component of equity. Accumulated other comprehensive loss at December 31, 2019 of $(8,704) was comprised of $(9,755) related to the defined benefit and non-qualified pension plans and $1,051 related to unrealized gains and losses on available for sale securities. Accumulated other comprehensive income (loss) at December 31, 2018 of $(6,753) was comprised of $(8,072) related to the defined benefit and non-qualified pension plans and $1,319 related to unrealized gains and losses on available for sale securities.

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

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

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements. The average balance requirement was $48,407 and $48,544 at December 31, 2019 and 2018, respectively.

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

Common Shares: During October 2018, the Company issued 34,444,278 shares of non-voting, no par value common stock through a share dividend to holders of its voting common shares as of the record date. Except with respect to voting rights, shares of the non-voting common stock have the same preferences, limitations, and relative rights as, and shall be identical in all respects to, the voting common shares.

Adoption of New Accounting Standards: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and has issued several amendments to the standard in subsequent years. The core principle of ASU No. 2014-09 is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company's revenue is comprised of net interest income and non-interest income. Guidance from the standard explicitly excludes net interest income as well as other revenues for financial assets and liabilities including loans, leases, and securities. Accordingly, a significant portion of the Company's revenues are not impacted by the standard. Revenue streams within the scope of the ASU include service charges on deposit accounts, trust fees, and certain other components of non-interest income. The Company has analyzed its revenue streams under Topic 606 and determined that there were no material changes to existing recognition practices and therefore no cumulative adjustment was necessary. The Company adopted ASU No. 2014-09 and all subsequent amendments effective January 1, 2019. Additional disclosures required by the new standard are included in Note 14.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* and, in February 2018, issued an amendment for technical corrections and improvements related to this ASU. The amendments in this ASU require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). In addition, this ASU eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. For equity securities without a readily determinable fair value, the Company elected the practical expedient and recorded them at cost adjusted for impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) are to be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted ASU No. 2016-01 effective January 1, 2019. There was no impact to the Company's consolidated financial statements upon adoption.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments apply to all entities that offer employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under *Topic 715, Compensation — Retirement Benefits*. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable (e.g., as a cost of internally manufactured inventory or a self-constructed asset). The ASU is effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The adoption of this update in 2019 had no material impact on the Company's consolidated financial statements, although reclassifications in the amounts of $2,867 and $2,058 were made from salaries and benefits expense to other non-interest expense for 2019 and 2018, respectively.

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) were as follows:

		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
2019								
U.S. Treasury securities	$	40,010	$	31	$	(1)	$	40,040
U.S. government sponsored entities and agencies		70,262		9		(27)		70,244
Agency mortgage-backed securities – residential		116,709		395		(163)		116,941
Agency mortgage-backed securities – commercial		14,012		2		(98)		13,916
Corporate debt securities		15,732		1,209		(27)		16,914
	$	256,725	$	1,646	$	(316)	$	258,055
2018								
U.S. government sponsored entities and agencies	$	44,075	$	12	$	(171)	$	43,916
Agency mortgage-backed securities – residential		80,565		360		(47)		80,878
Agency mortgage-backed securities – commercial		26,011		-		(184)		25,827
Corporate debt securities		15,609		1,709		(10)		17,308
	$	166,260	$	2,081	$	(412)	$	167,929

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

		Carrying Amount		Gross Unrecognized Gains		Gross Unrecognized Losses		Fair Value
2019								
Agency mortgage-backed securities – residential	$	18,583	$	142	$	(8)	$	18,717
States and political subdivisions		500		-		-		500
	$	19,083	$	142	$	(8)	$	19,217
2018								
U.S. government sponsored entities and agencies	$	45,500	$	-	$	(527)	$	44,973
Agency mortgage-backed securities – residential		23,154		2		(654)		22,502
States and political subdivisions		1,570		-		(4)		1,566
	$	70,224	$	2	$	(1,185)	$	69,041

The amortized cost and fair value of debt securities at December 31, 2019 are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without penalties. Mortgage-backed securities not due at a single maturity date are shown separately.

	Available for Sale				Held to Maturity			
		Amortized Cost		Fair Value		Amortized Cost		Fair Value
Due in one year or less	$	104,928	$	104,910	$	500	$	500
Due from one to five years		764		762		-		-
Due from five to ten years		9,580		9,585		-		-
Due after ten years		10,732		11,941		-		–
Agency mortgage-backed securities – residential		116,709		116,941		18,583		18,717
Agency mortgage-backed securities – commercial		14,012		13,916		-		-
Total	$	256,725	$	258,055	$	19,083	$	19,217

Securities with a carrying amount of $209,923 and $215,174 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and repurchase agreements.

At December 31, 2019 and 2018, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10.0% of shareholders' equity.

There were no sales of securities in 2019 or 2018.

Securities with unrealized losses at year-end 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below.

Available for sale	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2019						
U.S. Treasury securities	$ 19,988	$ (1)	$ -	$ -	$ 19,988	$ (1)
U.S. government sponsored entities and agencies	61,267	(24)	448	(3)	61,715	(27)
Agency mortgage-backed securities – residential	61,480	(147)	18,523	(16)	80,003	(163)
Agency mortgage-backed securities – commercial	3,391	(10)	9,029	(88)	12,420	(98)
Corporate debt securities	-	-	4,973	(27)	4,973	(27)
Total available for sale	$ 146,126	$ (182)	$ 32,973	$ (134)	$ 179,099	$ (316)
2018						
U.S. government sponsored entities and agencies	$ 9,761	$ (34)	$ 18,578	$ (137)	$ 28,339	$ (171)
Agency mortgage-backed securities – residential	36,758	(31)	6,549	(16)	43,307	(47)
Agency mortgage-backed securities – commercial	15,245	(121)	10,582	(63)	25,827	(184)
Corporate debt securities	-	-	4,990	(10)	4,990	(10)
Total available for sale	$ 61,764	$ (186)	$ 40,699	$ (226)	$ 102,463	$ (412)

Held to maturity	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
2019						
Agency mortgage-backed securities – residential	$ 835	$ (8)	$ -	$ -	$ 835	$ (8)
Total held to maturity	$ 835	$ (8)	$ -	$ -	$ 835	$ (8)
2018						
U.S. government sponsored entities and agencies	$ -	$ -	$ 44,973	$ (527)	$ 44,973	$ (527)
Agency mortgage-backed securities – residential	-	-	22,145	(654)	22,145	(654)
States and political subdivisions	996	(4)	-	-	996	(4)
Total held to maturity	$ 996	$ (4)	$ 67,118	$ (1,181)	$ 68,114	$ (1,185)

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

NOTE 3 – LOANS

Loans at December 31 were as follows:

	2019	2018
Commercial	$ 427,991	$ 394,493
Commercial real estate	1,072,617	1,129,355
Residential real estate	440,598	446,565
Installment	91,958	95,112
Credit card receivables	12,920	13,122
	2,046,084	2,078,647
Deferred loan fees, net	(1,178)	(1,715)
Allowance for loan losses	(19,106)	(20,183)
Loans, net	$ 2,025,800	$ 2,056,749

The following table presents the activity in the allowance for loan losses by segment of loans for the years ended December 31, 2019 and 2018:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2019							
Allowance for loan losses:							
Beginning balance	$ 5,107	$ 10,458	$ 2,183	$ 1,192	$ 242	$ 1,001	$ 20,183
Provision for loan losses	1,263	174	115	686	291	143	2,672
Loans charged off	(2,446)	(698)	(224)	(1,469)	(333)	-	(5,170)
Recoveries	153	342	115	721	90	-	1,421
Total ending allowance balance	$ 4,077	$ 10,276	$ 2,189	$ 1,130	$ 290	$ 1,144	$ 19,106
2018							
Allowance for loan losses:							
Beginning balance	$ 5,203	$ 10,766	$ 1,895	$ 1,070	$ 264	$ 1,287	$ 20,485
Provision for loan losses	263	694	473	866	110	(286)	2,120
Loans charged off	(673)	(1,401)	(306)	(1,492)	(230)	-	(4,102)
Recoveries	314	399	121	748	98	-	1,680
Total ending allowance balance	$ 5,107	$ 10,458	$ 2,183	$ 1,192	$ 242	$ 1,001	$ 20,183

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, 2019 and 2018:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2019							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 895	$ 1,372	$ 139	$ -	$ 21	$ -	$ 2,427
Collectively evaluated for impairment	3,182	8,904	2,050	1,130	269	1,144	16,679
Total ending allowance balance	$ 4,077	$ 10,276	$ 2,189	$ 1,130	$ 290	$ 1,144	$ 19,106
Loans:							
Individually evaluated for impairment	$ 12,776	$ 53,043	$ 2,981	$ 41	$ 21	$ -	$ 68,862
Collectively evaluated for impairment	415,215	1,019,574	437,617	91,917	12,899	-	1,977,222
Total ending loans balance	$ 427,991	$ 1,072,617	$ 440,598	$ 91,958	$ 12,920	$ -	$ 2,046,084
2018							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 1,949	$ 1,269	$ 148	$ -	$ 15	$ -	$ 3,381
Collectively evaluated for impairment	3,158	9,189	2,035	1,192	227	1,001	16,802
Total ending allowance balance	$ 5,107	$ 10,458	$ 2,183	$ 1,192	$ 242	$ 1,001	$ 20,183
Loans:							
Individually evaluated for impairment	$ 10,711	$ 33,204	$ 2,808	$ 38	$ 15	$ -	$ 46,776
Collectively evaluated for impairment	383,782	1,096,151	443,757	95,074	13,107	-	2,031,871
Total ending loans balance	$ 394,493	$ 1,129,355	$ 446,565	$ 95,112	$ 13,122	$ -	$ 2,078,647

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2019:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2019						
With no related allowance recorded:						
Commercial	$ 10,660	$ 10,592	$ -	$ 8,262	$ 513	$ 513
Commercial real estate	34,812	34,399	-	20,744	2,059	2,059
Residential real estate	2,149	1,732	-	1,561	135	135
Installment	44	41	-	39	79	79
Credit card receivables	-	-	-	-	-	-
Subtotal	47,665	46,764	-	30,606	2,786	2,786
With an allowance recorded:						
Commercial	$ 2,318	$ 2,184	$ 895	$ 3,460	$ 48	$ 48
Commercial real estate	18,837	18,644	1,372	22,337	786	786
Residential real estate	1,414	1,249	139	1,312	39	39
Installment	-	-	-	-	-	-
Credit card receivables	21	21	21	18	2	2
Subtotal	22,590	22,098	2,427	27,127	875	875
Total	$ 70,255	$ 68,862	$ 2,427	$ 57,733	$ 3,661	$ 3,661

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2018:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2018						
With no related allowance recorded:						
Commercial	$ 5,999	$ 5,975	$ -	$ 7,767	$ 191	$ 191
Commercial real estate	7,870	7,174	-	14,210	280	280
Residential real estate	1,733	1,434	-	2,340	57	57
Installment	38	38	-	19	2	2
Credit card receivables	-	-	-	-	-	-
Subtotal	15,640	14,621	-	24,336	530	530
With an allowance recorded:						
Commercial	$ 5,001	$ 4,736	$ 1,949	$ 3,909	$ 72	$ 72
Commercial real estate	26,125	26,030	1,269	24,382	1,099	1,099
Residential real estate	1,545	1,374	148	1,283	63	63
Installment	-	-	-	-	-	-
Credit card receivables	15	15	15	8	-	-
Subtotal	32,686	32,155	3,381	29,582	1,234	1,234
Total	$ 48,326	$ 46,776	$ 3,381	$ 53,918	$ 1,764	$ 1,764

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

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2019 and 2018:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2019	2018	2019	2018
Commercial	$ 1,663	$ 3,608	$ -	$ -
Commercial real estate	3,000	4,584	-	-
Residential real estate	2,268	3,083	-	24
Installment	512	306	-	67
Credit card receivables	10	40	21	18
Total	$ 7,453	$ 11,621	$ 21	$ 109

The following table presents the aging of the recorded investment in past due loans as of December 31, 2019 and 2018 by class of loans:

	30–89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2019					
Commercial	$ 380	$ 597	$ 977	$ 427,014	$ 427,991
Commercial real estate	1,081	1,959	3,040	1,069,577	1,072,617
Residential real estate	1,070	869	1,939	438,659	440,598
Installment	1,234	257	1,491	90,467	91,958
Credit card receivables	95	27	122	12,798	12,920
Total	$ 3,860	$ 3,709	$ 7,569	$ 2,038,515	$ 2,046,084
December 31, 2018					
Commercial	$ 214	$ 2,978	$ 3,192	$ 391,301	$ 394,493
Commercial real estate	2,483	3,232	5,715	1,123,640	1,129,355
Residential real estate	1,553	964	2,517	444,048	446,565
Installment	1,334	203	1,537	93,575	95,112
Credit card receivables	98	50	148	12,974	13,122
Total	$ 5,682	$ 7,427	$ 13,109	$ 2,065,538	$ 2,078,647

Related Party Loans: The Company has entered into loan transactions with its directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties was $367 and $693 at December 31, 2019 and 2018, respectively.

Troubled Debt Restructurings: The Company has troubled debt restructurings of $22,484 and $27,986 as of December 31, 2019 and 2018, respectively, and has allocated $377 and $2,219 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2019 and 2018. The Company has committed to lend additional amounts totaling up to $145 and $162 as of December 31, 2019 and 2018, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2019 and 2018, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a restructuring of the loan terms to reduce the payment and require only interest for a period of time.

The following table presents loans by segment that were either renewed or modified as troubled debt restructurings that occurred during the years ended December 31, 2019 and 2018:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2019:			
Troubled debt restructurings:			
Commercial real estate			
Renewal	2	$ 429	$ 429
Total commercial real estate	2	429	429
Residential real estate			
Renewal	2	406	406
Other	1	1,105	1,105
Total residential real estate	3	1,511	1,511
Total troubled debt restructurings	5	$ 1,940	$ 1,940
December 31, 2018:			
Troubled debt restructurings:			
Commercial			
Renewal	5	$ 528	$ 528
Total commercial	5	528	528
Commercial real estate			
Renewal	11	6,876	6,876
Other	2	876	876
Total commercial real estate	13	7,752	7,752
Residential real estate			
Renewal	1	87	87
Total residential real estate	1	87	87
Total troubled debt restructurings	19	$ 8,367	$ 8,367

The troubled debt restructurings described above increased the allowance for loan losses by $1 and resulted in no charge-offs during the year ended December 31, 2019. The troubled debt restructurings described above increased the allowance for loan losses by $382 and resulted in $125 of charge-offs during the year ended December 31, 2018.

There were no payment defaults during the year ended December 31, 2019 for credits that were restructured during the previous 12 months. For the year ended December 31, 2018, there was one residential real estate loan with a recorded investment of $87 and two commercial real estate loans with a recorded investment of $868 for which there was a payment default within 12 months following the modification. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above for 2018 did not result in an increase in the allowance for loan losses or charge-offs during the year ended December 31, 2018.

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.

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

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

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

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

Loans not meeting the aforementioned criteria that are analyzed individually as part of the described process outlined here 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, including delinquency and other performance indicators, are used for loans that are not rated.

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

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2019						
Commercial	$ 411,470	$ 2,008	$ 14,513	$ -	$ -	$ 427,991
Commercial real estate	995,954	14,329	62,334	-	-	1,072,617
Residential real estate	316,207	926	3,099	-	120,366	440,598
Installment	-	-	93	-	91,865	91,958
Credit card receivables	-	8	138	-	12,774	12,920
	$ 1,723,631	$ 17,271	$ 80,177	$ -	$ 225,005	$ 2,046,084
December 31, 2018						
Commercial	$ 375,956	$ 1,178	$ 17,359	$ -	$ -	$ 394,493
Commercial real estate	1,071,020	6,261	52,074	-	-	1,129,355
Residential real estate	310,154	1,302	3,746	-	131,363	446,565
Installment	-	15	55	-	95,042	95,112
Credit card receivables	-	17	90	-	13,015	13,122
	$ 1,757,130	$ 8,773	$ 73,324	$ -	$ 239,420	$ 2,078,647

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled $208,528 and $160,095 during 2019 and 2018, respectively. The Company had commitments to originate $4,289 in loans at December 31, 2019, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $44,183 and $47,131 at December 31, 2019 and 2018, respectively.

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

	2019	2018
Beginning of year	$ 204	$ 208
Originated	41	55
Amortized to expense	(49)	(59)
End of year	$ 196	$ 204

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $331 and $353 at year-end 2019 and 2018.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2019	2018
Other real estate owned, beginning of year	$ 3,225	$ 2,721
Acquisition and improvement	243	2,690
Proceeds from sales	(1,469)	(1,554)
Write-downs to estimated fair value	(128)	(630)
Net gain (loss) on sales	17	(2)
Other real estate owned, end of year	$ 1,888	$ 3,225

Expenses related to other real estate owned include:

	2019	2018
Net (gain) loss on sales	$ (17)	$ 2
Write-downs to estimated fair value	128	630
Operating expenses, net	176	123
	$ 287	$ 755

At December 31, 2019 and 2018, the recorded investment in mortgage loans secured by residential real estate that were in the process of foreclosure was $849 and $917, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2019	2018
Land	$ 2,991	$ 2,991
Buildings and improvements	19,037	19,009
Leasehold improvements	33,378	32,721
Furniture, fixtures and equipment	43,602	41,382
Construction in progress	1,308	2,922
	100,316	99,025
Accumulated depreciation	(72,016)	(67,586)
Total	$ 28,300	$ 31,439

Depreciation and amortization expense amounted to $4,379 and $4,361 in 2019 and 2018, respectively.

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 two tenants. Rent expense for the Company was $5,948 and $5,530 in 2019 and 2018, respectively. Rent commitments under noncancelable operating leases, before considering renewal options that generally are present, were as follows:

2020	$ 6,453
2021	6,192
2022	5,732
2023	2,956
2024	1,062
Thereafter	4,073
Total[1]	$ 26,468

[1]Payments have not been reduced by minimum sublease rentals of $1,555 due in the future under noncancelable subleases.

NOTE 7 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2019 and 2018 were $215,405 and $175,242, respectively.

Scheduled maturities of time deposits at year-end 2019 are as follows:

2020	$	450,125
2021		32,425
2022		20,938
2023		14,797
2024		17,101
Thereafter		-
Total	$	535,386

Deposits from directors and executive officers and companies in which they have beneficial ownership were $16,324 and $9,604 at December 31, 2019 and 2018, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

		2019		2018
Maturity of July 2020 at a rate of 1.74% at year-end 2019 and 2018.	$	25,000	$	25,000
Maturity of September 2023 at a fixed rate of 2.44% at year-end 2019.		25,000		-
Maturities January 2022 through December 2027, fixed rates ranging from 2.00% to 5.50%, averaging 2.44% at year-end 2019 and 2018.		403		422
Total	$	50,403	$	25,422

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 fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans with an aggregate unpaid principal balance of $375,947 and $383,529 at December 31, 2019 and 2018, respectively. Based on this collateral and the holding of Federal Home Loan Bank stock, the Company is eligible to borrow up to a total of $79,379 at year-end 2019. In addition, the Federal Home Loan Bank issues letters of credit on behalf of the Bank as security for certain deposit relationships, as the need arises. Outstanding letters of credit at December 31, 2019 and 2018 were $78,297 and $78,884, respectively.

Subordinated Debentures: In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 trust preferred securities with a liquidation amount of $1 per security. The Company issued $15,464 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $1, 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 redeemable, in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The interest rate in effect as of the last determination date for 2019 was 3.64%. The Company's investment in the common stock of the trust was $464 and is included in other assets. The subordinated debentures, net of the Company's investment in the trust, may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 9 – FAIR VALUE

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

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

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

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

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

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

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

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

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

Assets Measured on a Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2019):			
Available for sale securities:			
U.S. Treasury securities	$ 40,040	$ -	$ -
U.S. government sponsored entities and agencies	-	70,244	-
Agency mortgage-backed securities – residential	-	116,941	-
Agency mortgage-backed securities – commercial	-	13,916	-
Corporate debt securities	-	4,973	11,941
Assets (2018):			
Available for sale securities:			
U.S. government sponsored entities and agencies	$ -	$ 43,916	$ -
Agency mortgage-backed securities – residential	-	80,878	-
Agency mortgage-backed securities – commercial	-	25,827	-
Corporate debt securities	-	4,990	12,318

There were no transfers between Level 2 and Level 3 during 2019 or 2018. During the period from January 1, 2019 to December 31, 2019, there was $489 of total loss recognized in other comprehensive income (loss) and $112 of net accretion recognized on investment securities classified as Level 3. During the period from January 1, 2018 to December 31, 2018, there was $807 of total gain recognized in other comprehensive income (loss) and $121 of net accretion recognized on investment securities classified as Level 3. The key unobservable input in determining the fair value of the investment securities was a discount rate of 3.36% and 3.15% at December 31, 2019 and 2018, respectively.

Assets Measured on a Non-Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2019):			
Impaired loans:			
Commercial	$ -	$ -	$ 13
Commercial real estate	-	-	5,952
Residential real estate	-	-	218
Other real estate owned:			
Commercial real estate	-	-	17
Assets (2018):			
Impaired loans:			
Commercial	$ -	$ -	$ 934
Commercial real estate	-	-	1,318
Residential real estate	-	-	218
Other real estate owned:			
Commercial real estate	-	-	36

Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $8,528, with a valuation allowance of $2,345 at December 31, 2019, resulting in $1,624 of additional provision for loan losses for the year ended December 31, 2019. Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $5,479, with a valuation allowance of $3,009 at December 31, 2018, resulting in $663 of additional provision for loan losses for the year ended December 31, 2018.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $17 which includes direct write-downs of $19 for 2019. Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $36 which includes direct write-downs of $7 for 2018.

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, 2019 and 2018:

	Valuation Techniques	Fair Value	Asset Category	Unobservable Input(s)	Range (Weighted Average)
2019	Sales approach	$ 6,200	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	23%–100% (33%)
2018	Sales approach	$ 1,354	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	10%–100% (59%)
	Income approach	$ 1,152	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	10%–10% (10%)

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following:

	2019	2018
Current income tax expense:		
Federal	$ 5,586	$ 3,782
State	-	-
Total current income tax expense	5,586	3,782
Deferred income tax expense (benefit):		
Federal	226	882
State	(1,806)	-
Total deferred income tax expense (benefit)	(1,580)	882
Total income tax expense	$ 4,006	$ 4,664

The tax provision is less than that obtained by using the statutory federal income tax rates due to tax credits generated by the Company's limited partnership interest in 17 low-income housing projects, four Community Reinvestment Funds, one New Markets Tax Credit project, ownership of Qualified Zone Academy Bonds, one Historic Rehabilitation project, and tax exempt interest income totaling $3,641 and $3,967 for 2019 and 2018.

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, nonaccrual loans, FHLB stock dividends, fair value adjustments, losses on other real estate owned, and partnership investments.

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

	2019	2018
Deferred tax assets	$ 12,366	$ 10,369
Deferred tax liabilities	(3,701)	(3,803)
	$ 8,665	$ 6,566

As a financial institution doing business in Kentucky, the Bank is currently subject to a capital-based Kentucky bank franchise tax and exempt from Kentucky corporate income tax. Kentucky enacted HB354 in March 2019, which will transition the Bank to a corporate income tax from the bank franchise tax beginning January 1, 2021. The current Kentucky corporate income tax rate is 5%. The Company recorded an income tax benefit and a deferred tax asset, net of federal benefit, of $898 upon enactment of HB354.

In April 2019, Kentucky enacted HB458, which allows for entities in a combined filing group to share net operating loss carryforwards with other tax members of the combined group. The Company had previously filed separate parent company returns which generated net operating losses. The Bank and the parent company will begin filing a combined Kentucky income tax return in 2021 and therefore the Bank income will be able to be offset by parent company losses subject to any limitations in the statute. The parent company recorded a state tax benefit and a deferred tax asset of $908 during 2019 as a result of this change.

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. In assessing realizability, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences at December 31, 2019; therefore, no valuation allowance for the realization of deferred tax assets is considered necessary.

The Company has no unrecognized tax benefits as of December 31, 2019 and 2018. 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, 2019 and 2018. The Company and its subsidiary 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 2015 and the Kentucky returns are subject to examination by taxing authorities for all years after 2014. The Company has certain returns that are subject to examination for the 2004 tax year.

NOTE 11 – RETIREMENT PLANS

The Company has a funded noncontributory defined benefit pension plan ("Pension Plan" or "Plan") covering substantially all employees with five or more years of service prior to December 31, 2009. The Plan generally provides benefits that are based on compensation levels and years of service. Annual contributions to the Pension Plan are 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.

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

	December 31,	
	2019	2018
Benefit obligation	$ (30,257)	$ (28,777)
Fair value of plan assets	19,868	22,087
Funded status	$ (10,389)	$ (6,690)

	2019	2018
Employer contributions	$ -	$ -
Benefits paid	4,585	3,467
Annuity purchased	-	4,027

The following benefit payments are expected in the periods indicated:

2020	$ 418
2021	858
2022	949
2023	1,039
2024	1,211
2025–2029	7,926

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2019 and 2018 were $(10,473) and $(9,149), respectively, and resulted from a net actuarial loss in the Plan. The accumulated benefit obligation was $30,257 and $28,777 at year-end 2019 and 2018.

Components of the Company's net periodic pension cost and other amounts recognized in other comprehensive income (loss) for 2019 and 2018 for its defined benefit pension plan included the following:

	2019	2018
Interest cost on projected benefit obligation	$ 1,181	$ 1,422
Expected return on plan assets	(896)	(1,265)
Amortization of net loss	2,090	1,452
Net periodic pension cost[1]	2,375	1,609
Net loss (gain)	3,414	2,836
Amortization of net (gain) loss	(2,090)	(1,452)
Total recognized in other comprehensive income (loss)	1,324	1,384
Total recognized in net periodic pension cost and other comprehensive income (loss)	$ 3,699	$ 2,993

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

The estimated net loss for the Plan that will be amortized from accumulated other comprehensive income (loss) into net periodic pension cost over the next fiscal year was $5,237 and $2,090 as of December 31, 2019 and 2018.

The weighted-average assumptions used to determine net periodic pension cost were a discount rate and expected return on plan assets of 4.25% for 2019 and 2018. The weighted-average assumptions used to determine pension benefit obligations were a discount rate and expected return on plan assets of 3.10% and 4.25% for year-end 2019 and 2018.

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 for 2019 are to maintain an asset mix of approximately 30% equities and 70% fixed income investments. Equity securities primarily include investments in mutual funds and blue chip stocks. Fixed income securities include taxable municipal securities, corporate debt, and fixed income mutual funds.

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 2019 and 2018, and expected long-term rate of return by asset category are as follows:

Asset Class	Percentage of Plan Assets at Year-End 2019	Percentage of Plan Assets at Year-End 2018	Weighted-Average Expected Long-Term Rate of Return
Equities:			
Common stock	14.6%	16.6%	5.00%–7.00%
Common stock mutual funds	16.0	10.4	5.00%–7.00%
Real estate investment trust	1.0	0.9	5.00%–7.00%
Fixed income:			
Cash and cash equivalents	14.0	8.7	0.00%
Fixed income mutual funds	28.9	21.1	2.00%–4.00%
Debt securities:			
Corporate debt	-	6.8	2.00%–4.00%
Obligations of states and political subdivisions	25.5	35.5	2.00%–4.00%
	100.0%	100.0%	

Fair Value of Plan Assets: The Company used the following valuation methods and assumptions to estimate the fair value of assets held by the Plan:

Equities: The fair values for equity securities, including common stock, common stock mutual funds, and the real estate investment trust, are determined by quoted market prices (Level 1).

Fixed Income Securities: The fair values for fixed income 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 or other available market information, including matrix pricing models developed by sources considered by management to be reliable (Level 2).

The fair value of plan assets at December 31, 2019 and 2018, by asset category, is as follows:

		Fair Value Measurements at December 31 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Plan assets:				
Cash and cash equivalents	$ 2,771	$ 2,771	$ -	$ -
Equities:				
Common stock	2,907	2,907	-	-
Common stock mutual funds	3,183	3,183	-	-
Real estate investment trust	195	195	-	-
Fixed income:				
Fixed income mutual funds	5,737	5,737	-	-
Obligations of states and political subdivisions	5,075	-	5,075	-
Total plan assets	$ 19,868	$ 14,793	$ 5,075	$ -
2018				
Plan assets:				
Cash and cash equivalents	$ 1,915	$ 1,915	$ -	$ -
Equities:				
Common stock	3,659	3,659	-	-
Common stock mutual funds	2,306	2,306	-	-
Real estate investment trust	207	207	-	-
Fixed income:				
Fixed income mutual funds	4,656	4,656	-	-
Corporate debt	1,504	-	1,504	-
Obligations of states and political subdivisions	7,840	-	7,840	-
Total plan assets	$ 22,087	$ 12,743	$ 9,344	$ -

There were no transfers between Level 1 and Level 2 during 2019 or 2018.

The Company maintains a non-qualified supplemental pension plan ("Supplemental Plan") covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. The benefit obligation related to this unfunded plan was $6,822 and $5,635 at December 31, 2019 and 2018, respectively. Net periodic pension costs for the plan were $492 and $449 for 2019 and 2018, respectively, and are included in other non-interest expense in the consolidated statements of income. Amounts recognized in accumulated other comprehensive income (loss) related to this plan at December 31, 2019 and 2018 were $(1,762) and $(1,068), respectively, and were the result of a net actuarial loss in the plan.

During 2009, the Company curtailed the Pension Plan and Supplemental Plan, fully vesting and freezing benefits for all employees. During 2018, the Company entered into an agreement with an insurance company to purchase a group annuity contract in the amount of $4,027 to transfer a portion of its Pension Plan liability and related administrative responsibilities to the insurance company. Such liability consisted of actuary-determined obligations and included only existing retirees receiving benefits from the Pension Plan at the time.

In November 2019, the Company's Board of Directors approved a resolution for its intent to terminate the Pension Plan effective January 8, 2020. Notice of this intent was then provided to interested parties. Termination documents were filed with the Internal Revenue Service ("IRS") in 2019. Termination documents are expected to be filed with the Pension Benefit Guaranty Corporation ("PBGC") in early 2020. Termination of the Pension Plan is dependent upon approval from the IRS and PBGC. The approval process is expected to take approximately nine to twelve months. The Company expects to make no contributions to the Pension Plan or Supplemental Plan in 2020 other than amounts that may be required in connection with the final termination of the Pension Plan. The final Company contribution amount is dependent upon numerous factors including, but not limited to, the following: participant choices on how they will receive their accrued benefit (lump sum versus annuity), timing of approvals from regulatory authorities, the level of interest rates, and return on plan assets.

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $71 in 2019 and 2018. The accrued liability associated with these plans of $1,668 and $1,499 at December 31, 2019 and 2018 is included in other liabilities. The amount recognized in other comprehensive income was $(113) at year-end 2019.

Employee Stock Ownership Plan: The Company maintains an employee stock ownership plan (the "ESOP"). Contributions are determined annually by the Board of Directors in amounts not to exceed 15.0% of the total compensation of all participants. ESOP expense was $1,767 and $986 in 2019 and 2018, respectively. As of December 31, 2019 and 2018, a total of 35,712 and 37,281 voting common shares with a fair value of $375 and $368, respectively, were allocated to active participants. In addition, at year-end 2019 and 2018 there were a total of 3,535,396 and 3,690,819 non-voting common shares with a fair value of $36,768 and $36,391 allocated to active participants, as well as $179 and $188 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, 2019 is the fair value of all ESOP shares distributed in 2019 and shares to be distributed in 2020 to participants who had terminated as of year-end 2019. 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 $1,779 and $1,700 in 2019 and 2018, respectively.

NOTE 12 – REGULATORY MATTERS

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

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

In August 2018, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRC"), the Federal Reserve issued an interim final rule expanding the applicability of its small bank holding company policy statement. The interim final rule raised the policy statement's consolidated total assets for bank holding companies to $3.0 billion from $1.0 billion, subject to other requirements. Management believes the Company meets the requirements to be considered a small bank holding company under the policy statement and, as such, is excluded from consolidated capital requirements at December 31, 2019 and 2018; however, the Bank remains subject to regulatory capital requirements administered by the federal banking agencies. Although no longer required, the Company continues to report its consolidated capital ratios for comparison purposes.

Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") became effective for the Company on January 1, 2015 subject to a phase in for certain provisions.

Under the Basel III rules, the Company is required to hold a capital conservation buffer of 2.5% above the adequately capitalized risk-based capital ratios. Fully phased in on January 1, 2019, the Basel III rules require the Company to effectively maintain a minimum Common Equity Tier 1 Risk-based ratio of 7.0%, a minimum Tier 1 Risk-based ratio of 8.5%, a minimum Total Risk-based ratio of 10.5%, and a minimum Tier 1 Leverage ratio of 4.0%. Accumulated other comprehensive income (loss) is not included in computing regulatory capital. Management believes that as of December 31, 2019, the Company and Bank each meet all capital adequacy requirements to which they are subject.

The EGRC also required the federal banking agencies to establish regulatory capital requirements as an alternative to complying with Basel III rules for qualified institutions with less than $10.0 billion of consolidated assets. The EGRC includes establishment of a Community Bank Leverage ratio ("CBLR") between 8.0% and 10.0% of Tier 1 capital to average assets. Federal banking agencies adopted final regulations in 2019 that set the CBLR at greater than 9.0%, effective January 1, 2020. Eligible institutions electing to follow the alternative regulatory capital structure that maintain a CBLR above the threshold are exempt from all other leverage and risk based capital requirements, including those set forth in the Basel III rules. Subject to a two-quarter grace period, should the institution fail to maintain capital in excess of the CBLR it will again be subject to the requirements of the Basel III rules. Banks that wish to use the CBLR will elect to do so through their March 31, 2020 Call Reports filed with federal bank regulatory agencies. The Bank expects that it will not elect to adopt the CBLR.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as are asset growth and expansion, and capital restoration plans are required.

At year-end 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be well capitalized, the Bank must maintain minimum Common Equity Tier 1 Risk-based, Tier 1 Risk-based, Total Risk-based, and Tier 1 Leverage ratios as set forth in the tables below. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
December 31, 2019								
Total Risk-based Capital[1]:								
Company	$ 336,840	15.4%	$	174,729	8.0%		N/A	N/A
Bank	332,710	15.2		174,619	8.0	$	218,274	10.0%
Tier 1 Risk-based Capital[1]:								
Company	$ 317,734	14.5%	$	131,046	6.0%		N/A	N/A
Bank	313,604	14.4		130,964	6.0	$	174,618	8.0%
Common Equity Tier 1 Risk-based Capital[1]:								
Company	$ 302,734	13.9%	$	98,285	4.5%		N/A	N/A
Bank	313,604	14.4		98,223	4.5	$	141,878	6.5%
Tier 1 Leverage Capital[2]:								
Company	$ 317,734	11.7%	$	108,378	4.0%		N/A	N/A
Bank	313,604	11.6		108,355	4.0	$	135,444	5.0%
December 31, 2018								
Total Risk-based Capital[1]:								
Company	$ 307,389	13.7%	$	180,091	8.0%		N/A	N/A
Bank	304,541	13.5		180,054	8.0	$	225,068	10.0%
Tier 1 Risk-based Capital[1]:								
Company	$ 287,206	12.8%	$	135,068	6.0%		N/A	N/A
Bank	284,358	12.6		135,041	6.0	$	180,054	8.0%
Common Equity Tier 1 Risk-based Capital[1]:								
Company	$ 272,206	12.1%	$	101,301	4.5%		N/A	N/A
Bank	284,358	12.6		101,280	4.5	$	146,294	6.5%
Tier 1 Leverage Capital[2]:								
Company	$ 287,206	11.2%	$	102,797	4.0%		N/A	N/A
Bank	284,358	11.1		102,794	4.0	$	128,492	5.0%

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

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

Under the dividend limitations described above, the Bank could pay dividends in 2020 of $54,124 plus any 2020 earnings retained through the date of the dividend declaration.

NOTE 13 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

	2019	2018
Standby letters of credit	$ 43,563	$ 36,524
Commitments to extend credit	$ 214,928	$ 277,316
Unused lines of credit	$ 450,817	$ 465,364

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

NOTE 14 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2019	2018
Non-interest income:		
Service charges on deposit accounts	$ 7,253	$ 7,261
Mortgage banking income[1]	3,918	3,095
Card and interchange fees	6,232	6,250
Trust fees	8,226	7,878
Electronic banking	5,944	5,532
Net gain/loss on sales and write-downs of other real estate owned	(109)	(632)
Other fees and income:		
Insurance commissions and fees	4,535	4,731
Brokerage commissions and fees	1,806	1,931
Commercial loan fees[1]	736	661
Other	1,346	698
Total non-interest income	$ 39,887	$ 37,405

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

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

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

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

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

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

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

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

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

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

NOTE 15 – SUBSEQUENT EVENT

In early 2020, the Company expects to file documents with the PBGC to terminate its Pension Plan effective as of January 8, 2020. The regulatory approval process and participant payouts are expected to take an additional nine to twelve months. Termination of the Plan is expected to have a material negative impact to the Company's consolidated net income in 2020, although the amount cannot presently be determined with certainty due to the many unknown factors used to measure the liability at termination. The unfunded liability of the Plan at December 31, 2019 was $10,389. See Note 11 for additional information with respect to the Pension Plan.

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Corporate Secretary

Edward Barnes
Treasurer

Central Bank, Lexington

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Ranee Leland
Vice President
Corporate Secretary

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Lisa S. Grant, CRCM
Senior Vice President &
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Donna J. Craven, CRCM
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Vice President

Jeff Murphy
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Assistant Vice President

Commercial Real Estate Lending

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Vice President

Paul B. Drake
Vice President

Gary Loucks
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Jordan Owens
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Consumer Lending

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Lorraine Kinley
Vice President

Brian W. West
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Chris McGaughey
CRA Community
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