2016 ANNUAL REPORT

WORKING TO STRENGTHEN EVERY COMMUNITY WE SERVE.

Central Bancshares, Inc.

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

In 2017, 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 10th 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.

CONTENTS

Financial Highlights	1
Community	2
Letter to our Shareholders, Customers and Communities	4
Management's Discussion and Analysis	6
Independent Auditor's Report	12
Consolidated Balance Sheets	13
Consolidated Statements of Income	14
Consolidated Statements of Cash Flows	15
Consolidated Statements of Changes in Shareholders' Equity	16
Consolidated Statements of Comprehensive Income	16
Notes to Consolidated Financial Statements	16
Boards of Directors	41
Officers	43

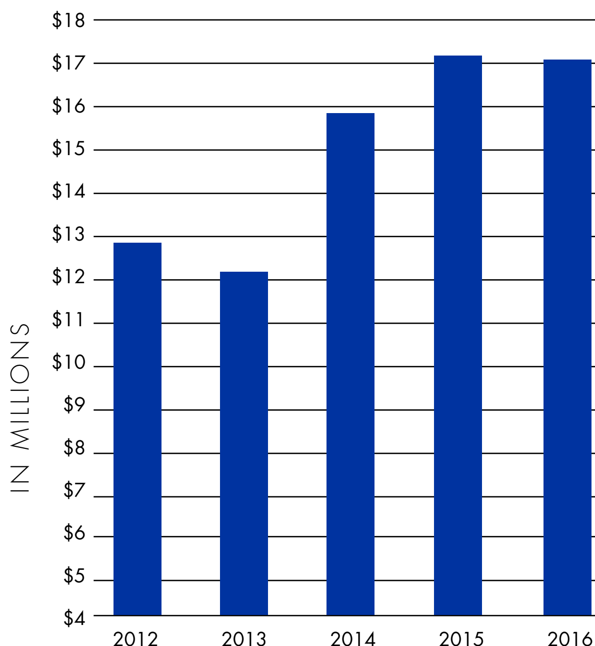
Refer to Marketing for copies: Central Bank & Trust Co., 300 West Vine Street, Lexington, KY 40507

FINANCIAL HIGHLIGHTS

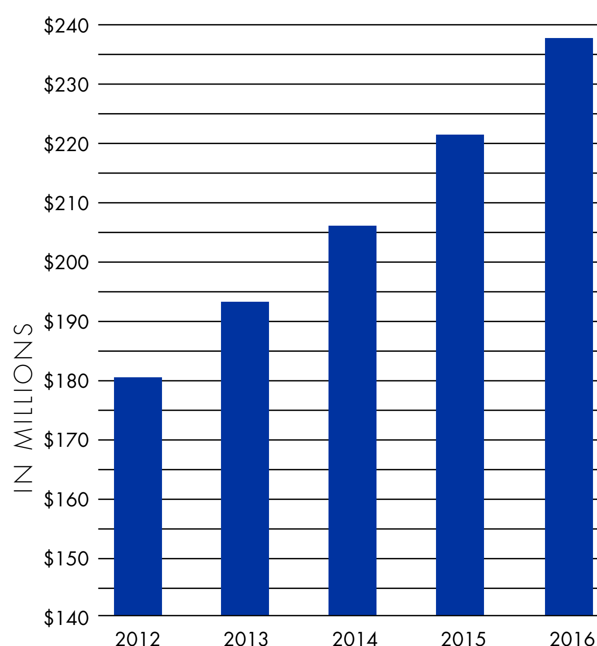
As of and for the 12 months ended December 31 (in thousands except share data)

	2016	2015	2014	2013	2012
RESULTS OF OPERATIONS:					
Net income	$ 17,006	$ 17,138	$ 15,950	$ 12,151	$ 12,881
Net income per share	48.88	49.26	45.84	34.92	37.02
Cash dividends per share	3.00	2.00	1.00	0.00	0.00
Book value per share at year end	683.17	637.37	590.45	554.11	518.24
AT DECEMBER 31:					
Assets	$ 2,298,489	$ 2,192,412	$ 2,107,664	$ 2,092,494	$ 2,175,447
Earning assets	2,167,410	2,062,535	1,969,362	1,946,193	2,000,062
Loans, net	1,771,738	1,658,973	1,624,108	1,602,143	1,645,063
Deposits	1,915,781	1,834,873	1,765,510	1,754,833	1,876,715
Shareholders' equity	237,689	221,755	205,430	192,788	180,308
AVERAGES:					
Assets	$ 2,241,332	$ 2,144,248	$ 2,083,948	$ 2,108,671	$ 2,142,606
Earning assets	2,113,110	2,009,677	1,940,195	1,955,785	1,970,267
Loans, net	1,693,741	1,609,436	1,611,568	1,565,460	1,626,098
Deposits	1,861,980	1,798,520	1,749,203	1,781,992	1,852,678
Shareholders' equity	231,295	214,419	200,720	186,890	174,441
PERFORMANCE RATIOS:					
Return on average assets	0.76%	0.80%	0.77%	0.58%	0.60%
Return on average shareholders' equity	7.35%	7.99%	7.95%	6.50%	7.38%
Average shareholders' equity to average assets	10.32%	10.00%	9.63%	8.86%	8.14%
Dividend payout ratio	6.14%	4.06%	2.18%	0.00%	0.00%
Net interest margin (tax equivalent)	3.71%	3.66%	3.85%	3.64%	3.74%
CAPITAL RATIOS:					
Total capital to risk-weighted assets	13.4%	13.8%	13.5%	13.4%	12.4%
Tier I capital to risk-weighted assets	12.3%	12.6%	12.2%	12.1%	11.2%
Common equity Tier I to risk-weighted assets	11.6%	11.5%	N/A	N/A	N/A
Tier I capital to average assets	10.6%	10.7%	10.2%	10.0%	9.3%

Net Income



Shareholders' Equity



THE PEOPLE IN OUR COMMUNITIES MAKE US STRONGER. WE WORK TO RETURN THE FAVOR.

BLUEGRASS COMMUNITY AND TECHNICAL COLLEGE

Central Bank made a leadership gift to Bluegrass Community and Technical College supporting the school's BuildSmart Initiative. The gift was used to build a state-of-the-art classroom and lab space focused on science education.

THURSDAY NIGHT LIVE

All summer long, Central Bank Thursday Night Live provides an eclectic blend of live music, local food and beverages that attracts thousands to downtown Lexington.

URBAN LEAGUE OF LEXINGTION

Every year, Central Bank is a sponsor of the Urban League banquet. We have also supported the organization's efforts and programs to promote equality in our communities for over 35 years.

FINANCIAL LITERACY DAY

We hosted our first Financial Literacy Day at Bluegrass Community and Technical College. This free public event covered a wide range of financial topics including mortgages, retirement planning, investments, online and mobile banking, insurance and information security.

AMERICAN HEART ASSOCIATION HEART BALL GALA

In addition to serving as a sponsor of this annual event, Central Bank holds internal fundraisers – including employee "Denim Day" – in which all proceeds go to the American Heart Association.

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

Strengthened by more than 70 years of service to Central Kentucky and the Commonwealth, we have become one of the leading community banks in Kentucky. Throughout that time, the bank has been distinguished by its focus on exceptional service to both our customers and communities. The breadth of our financial products has produced new consumer and business relationships, as demonstrated by strong performance across all lines of business in 2016.

As the fourth-largest Kentucky-chartered community bank, we recognize our responsibility to support economic development and community prosperity in these areas we call home. Motivated by this responsibility, we expanded our commercial lending staff in 2016 to stimulate business growth in all our markets, with emphasis on our fastest growth markets, Jefferson County and Northern Kentucky.

Our commitment to the Commonwealth was also underscored by the extension of the Bank's exclusive corporate partnership as the "Official Bank of UK Athletics" until 2030. In conjunction with our other commitments to the community, Gatton College of Business & Economics and UK Healthcare, we continue to make academics, healthcare and athletics priorities for support. We look forward to the opportunities all our commitments provide us to enrich the lives of a wide range of our community members.

We continue, as always, to focus our efforts on the rapidly developing needs of our customers. As those needs grow and change, we pledge to take an active role in enhancing our service both in person and online, where our customers increasingly go for their banking needs. We are dedicated to their success and will continue to work even harder to ensure we consistently outperform their expectations.

PERFORMANCE

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

- Net income stayed constant, at $17,006,000 or $48.88 per share. In 2015 earnings were $17,138,000 or $49.26 per share.
- Deposits grew 4.41 percent, ending the year with $1.92 billion, a new record.
- Net loans increased by 6.80 percent, ending the year at $1.77 billion, also a new record.
- Shareholders' equity grew to $237.69 million, which highlights our commitment to a solid future for our Company.
- Service shops are conducted in our banking centers on a quarterly basis to ensure we are meeting and exceeding customer expectations. In 2016, we reached record levels for service shop performance.

These results leave us poised for another successful year, where we will continue to strive for even better performance as our customers engage in opportunities presented by an improved economy.

PRODUCTS

In the last several years, our dedicated Operations staff has worked diligently to keep pace with continuously evolving online and mobile banking products for consumers and businesses. We can offer the latest technology and convenience to our customers as a direct result of their concentrated efforts. A primary step was the introduction of everyday, extended service for debit and credit cards.

As part of this digital growth, we continue to recognize the importance of maintaining the highest level of security for our customers and their information. In 2015, our commitment to security was evidenced by the introduction of chip-card technology for our debit and credit cards. In the last year, we continued to expand customer acceptance with the addition of secure payment alternatives, such as Apple Pay,™ and the release of customer-driven card-control and monitoring options, such as CardValet® and Visa® Purchase Alerts.

Another exciting development was the addition of uChoose Rewards® for Central debit-card customers. As part of the program, all Central Bank debit-card customers were enrolled to earn points for debit-card purchases, which allowed us to benefit a significant number of Central Bank customers.

Additional efforts to serve more of our customers' growing needs continue to be led by our Mortgage, Wealth Management, Insurance and Investment staffs. Their success has served not only to strengthen our reputation as a leader in the banking industry, but also to solidify our position as a full-service financial institution. Through exceptional and consistent customer service, along with the latest technology and financial tools, we continue to surpass expectations across all our service lines.

LOOKING FORWARD

Yet again, Central Bank is in a strategically enviable position to continue growing in 2017. With customer service that remains unmatched by any of our competitors, continued advances within online and mobile banking, an expanding lending capacity and an unwavering focus on the communities we serve, we are positioned to deliver another successful year.

With this in mind, plans are underway for the expansion of the Bank's social media presence, as we appreciate that this is a platform our customers increasingly visit for their information. Whether customers choose to deal with Central Bank in one of our banking centers, by phone or online, we will expand opportunities for service and communication at the times and places best suited to their needs.

RETIREES

In the last year, nine long-term employees completed their service to reach well-earned retirements. Jane Tucker (Loan Services, 36 years), Carolyn Bishop (Wealth Management, 28 years), Julie Moberly (Wealth Management, 23 years), Cindy Hutchinson (Central Insurance Services, 19 years), Denise Wilson (Louisville – Commercial Lending, 18 years), Michael Withers (Operations, 17 years), Judy Updike (Louisville – Private Banking, 13 years), Tom Porter (Nicholasville – Commercial Lending, 11 years) and Carol Helvey (Retail Banking, nine years) were dedicated Central Bankers who served our Bank and their customers with distinction. We honor their service and congratulate them on their achievements.

WITH APPRECIATION

The continued support and guidance of our directors have been critical to our success. Their collective experience and expertise serve as an exceptional resource, offering a powerful insight and connection to our local markets. Without the leadership of our directors, we would not be successful.

As always, I am honored to be able to say that our Bank is in the hands of the most competent and caring staff. Our Central Bankers are the foundation of this Company, and I am so grateful to them for their commitment to service and to our customers. For that reason, we are honored to be recognized as a 2017 Best Place to Work in Kentucky.

Most important, I would like to thank our customers. Their loyalty and dedication make Central Bank the trusted community bank that is celebrated statewide. They never cease to recognize our tireless efforts to serve them, and for that we are eternally grateful. I am honored to serve an exceptional team of employees and wonderful customers as I look forward to the promising years to come.

Luther Deaton, Jr.
Chairman, President & CEO
March 15, 2017

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

Central Bancshares, Inc. (the "Company"), a bank holding company located in Lexington, Ky., is the parent company of Central Bank & Trust Co. and Central Bank of Jefferson County, Inc. At December 31, 2016, the Company had 26 full-service banking centers located in Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full-service brokerage business and a full-service insurance agency.

RESULTS OF OPERATIONS

The Company reported net income of $17.01 million for 2016, or $48.88 per share compared to $17.14 million for 2015, or $49.26 per share. Return on average equity was 7.35 percent and return on average assets was 0.76 percent for 2016, compared with 7.99 percent and 0.80 percent for 2015. During 2016, net interest income increased by $5.20 million, provision for loan losses increased by $3.50 million, and non-interest income increased by $3.42 million, which partially offset an increase in non-interest expense of $4.47 million.

Net interest income increased primarily as a result of higher loan and securities volumes as well as lower volumes and rates of time deposits and the reduction of $5.28 million in subordinated debentures in March 2016 as the Company used existing cash to pay off this higher rate debt. Although classified loans and delinquent loans as a percentage of total loans declined during 2016, provision for loan losses increased mainly due to increases in loan balances and higher net charge-offs during 2016. Nonperforming asset levels also improved in 2016, mainly due to a decline of loans on nonaccrual status of $8.06 million to $25.60 million at December 31, 2016. During 2016, the Company added $4.69 million to other real estate owned; however, the Company also successfully reduced other real estate owned through sales of $5.56 million and write-downs of other real estate owned of $916,000.

NET INTEREST INCOME

Net interest income in 2016 was $77.72 million compared to $72.52 million in 2015, an increase of 7.17 percent, which was comprised of an increase in interest income of $4.13 million and a decline in interest expense of $1.06 million. Net interest margin, which represents tax equivalent net interest income divided by average interest-earning assets, increased by 5 basis points from 3.66 percent in 2015 to 3.71 percent in 2016. For computational purposes, non-accrual loans are included in interest-earning assets.

During 2016, the tax equivalent rate on interest-earning assets remained relatively constant with a decrease of only 1 basis point to 3.95 percent for 2016 as average interest-earning assets increased by $102.29 million. Overall, the average balance of assets earning lower rates such as federal funds sold decreased and the average balance of assets earning higher rates, such as loans and securities, increased. Average loans increased by $83.16 million or 5.10 percent to $1.72 billion for 2016 with the average rate decreasing by 9 basis points to 4.64 percent during 2016 as pressure on rates continued to be a challenge.

The average balance of securities increased $44.80 million or 19.96 percent to $269.32 million in 2016, while the average tax equivalent rate increased from 1.12 percent in 2015 to 1.31 percent in 2016. Average federal funds sold decreased by $25.68 million or 15.19 percent to $143.30 million in 2016 as the Company was able to employ more of its cash into higher earning assets, while the average rate on federal funds sold increased to 0.54 percent in 2016 compared to 0.26 percent in 2015. Overall liquidity levels remained strong in 2016 and management continued to seek out the appropriate balance between the safety of higher liquidity levels, and its corresponding lower rate, versus the interest rate risk inherent in obtaining a higher rate for a longer-term investment.

While the average rate on interest-earning assets remained relatively constant from 2015 to 2016, the cost of interest-bearing liabilities declined 9 basis points over the same period. The Company was able to lower its cost on interest-bearing deposit accounts from an average of 0.39 percent in 2015 to 0.33 percent in 2016. This was accomplished primarily in the certificate of deposit products as customers continued to migrate away from this traditionally term-based deposit into the more liquid interest-bearing transaction accounts and non-interest bearing products. The short-term borrowing volume increased by $20.94 million or 23.92 percent, while the average rate on short-term borrowings remained at 0.10 percent for 2016 and 2015.

In addition, the average balance and rate of long-term borrowings, consisting of Federal Home Loan Bank advances and subordinated debentures, declined from $23.04 million in 2015 to $16.82 million in 2016. The majority of the decrease was related to a decline in the average balance of subordinated debentures due to the redemption of $5.28 million of subordinated debt on March 31, 2016, which represented the final redemption of the Company's higher rate subordinated debt that was fixed at a rate of 10.00 percent. As of December 31, 2016, the Company had $15.46 million of subordinated debentures with a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) and 1.75 percent,

NET INTEREST MARGIN ANALYSIS
(in thousands)

	2016			2015		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets						
Loans (TE)	$ 1,715,145	$ 79,637	4.64%	$ 1,631,982	$ 77,216	4.73%
Federal funds sold	143,302	768	0.54%	168,978	434	0.26%
Federal Home Loan Bank stock	6,751	270	4.00%	6,751	270	4.00%
Securities (TE)	269,316	3,541	1.31%	224,512	2,508	1.12%
Total interest-earning assets (TE)	**$ 2,134,514**	**84,216**	**3.95%**	**$ 2,032,223**	**80,428**	**3.96%**
Interest-bearing liabilities						
Deposits						
NOW accounts	$ 326,679	524	0.16%	$ 298,770	494	0.17%
Savings deposits	123,764	86	0.07%	108,703	76	0.07%
Money market deposits	461,159	819	0.18%	435,331	767	0.18%
Time deposits	365,199	2,808	0.77%	427,559	3,561	0.83%
Total deposits	1,276,801	4,237	0.33%	1,270,363	4,898	0.39%
Short-term borrowings	108,504	112	0.10%	87,563	88	0.10%
Long-term borrowings	16,815	627	3.73%	23,041	1,054	4.57%
Total interest-bearing liabilities	**$ 1,402,120**	**4,976**	**0.35%**	**$ 1,380,967**	**6,040**	**0.44%**
NET INTEREST MARGIN (TE)		**$ 79,240**	**3.71%**		**$ 74,388**	**3.66%**

(TE) Income and rate stated at a tax-equivalent basis for nontaxable loans and securities.

which was 2.71 percent at year-end 2016. The average rate on long-term borrowings declined from 4.57 percent to 3.73 percent from 2015 to 2016, largely in response to the repayment of the higher rate subordinated debt. The Company's average loan to deposit ratio increased from 90.74 percent in 2015 to 92.11 percent in 2016 as the average balance of loans increased by $83.16 million and total average deposits increased by $63.46 million.

The table above reflects information regarding the Company's average balances, interest income or expense, and average rates by each major balance sheet category for the years ended December 31, 2016 and 2015.

The table below reflects the changes in net interest income in 2016 and 2015 due to changes in rates and volumes computed on a tax equivalent basis.

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS
(in thousands)

	2016/2015			2015/2014		
		Increase/Decrease Due To			Increase/Decrease Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ 2,421	$ (1,438)	$ 3,859	$ (2,971)	$ (2,853)	$ (118)
Federal funds sold	334	473	(139)	246	1	245
Federal Home Loan Bank stock	0	0	0	(5)	(3)	(2)
Securities	1,033	446	587	7	261	(254)
Total interest income	3,788	(519)	4,307	(2,723)	(2,594)	(129)
Interest expense						
Deposits						
NOW accounts	30	(15)	45	103	61	42
Savings deposits	10	(1)	11	8	0	8
Money market deposits	52	6	46	41	(6)	47
Time deposits	(753)	(273)	(480)	(942)	(390)	(552)
Short-term borrowings	24	3	21	(1)	(1)	0
Long-term borrowings	(427)	(195)	(232)	(672)	(100)	(572)
Total interest expense	(1,064)	(474)	(590)	(1,463)	(436)	(1,027)
Net interest income	**$ 4,852**	**$ (44)**	**$ 4,896**	**$ (1,260)**	**$ (2,158)**	**$ 898**

NON-INTEREST INCOME

Total non-interest income was $38.97 million in 2016, an increase of $3.42 million from 2015. Mortgage banking income increased by $230,000 from $4.29 million in 2015 to $4.52 million in 2016 as secondary market mortgage activity increased. Service charges on deposits continued to be challenged in 2016 as this source of income continued to adjust to consumer protection legislation. The largest increase in non-interest income was a $1.92 million increase in net gains (losses) and write-downs of other real estate owned which was a net loss of $1.81 million in 2015 compared to a net gain of $118,000 in 2016. The Company continued to decrease the amount of properties held in other real estate owned and was able to minimize the losses on properties sold and held.

The Company generated $6.76 million in fees from its trust services during 2016, an increase of $195,000 from 2015, or 2.97 percent. Total assets under management in the Trust Department remained stable at $1.45 billion at year-end 2016 and 2015.

Insurance commissions earned through Central Insurance Services, Inc. remained stable, increasing slightly from $4.15 million in 2015 to $4.16 million in 2016, representing a 0.39 percent increase. Central Investment Center, Inc. generated revenue of $2.06 million in 2016, which was a decrease of 4.81 percent from $2.16 million in 2015.

Service charges on deposit accounts declined $324,000 or 3.96 percent from $8.17 million in 2015 to $7.85 million in 2016 as consumer protection legislation and greater competition for fees from outside the banking industry continue to drive down the volume of overdraft fee income.

Mortgage banking income increased from $4.29 million in 2015 to $4.52 million in 2016, an increase of $230,000 or 5.36 percent. Loans originated for sale were $221.35 million in 2016 compared to $206.82 million in 2015, an increase of $14.53 million as interest rates remained historically low and home purchase activity increased. One residual impact of the most recent economic difficulties was the higher level of foreclosed real estate. Other real estate owned is property that has been foreclosed upon, or has been returned to the Bank in lieu of payment of customer debt. At December 31, 2016, the Company held $5.05 million in other real estate, which is a decline of $756,000 from year-end 2015. Other real estate owned is recorded at fair value less estimated costs to sell the properties. During 2016, the Company realized net gains on the disposal of other real estate and write-downs to the fair value of other real estate totaling $118,000 compared to net losses and write-downs of $1.81 million recorded in 2015. Management is focused on reducing the level of other real estate, which helps to reduce expenses on properties held, and is comfortable that the other real estate owned portfolio is properly recorded at its estimated fair value less costs to sell as of December 31, 2016.

NON-INTEREST EXPENSE

Non-interest expense for 2016 totaled $91.35 million, an increase of $4.47 million or 5.15 percent from 2015. While salaries and benefits expense, occupancy and equipment expense, processing charges, advertising and business development expense, and other non-interest expenses increased, these increases were partially offset by a decline in FDIC insurance expense as the FDIC Insurance Fund reached its target ratio which decreased the Company's insurance assessments.

Salaries and benefits are the largest component of non-interest expense, totaling $45.39 million in 2016, an increase of $2.60 million, or 6.07 percent from 2015. The higher 2016 expense was largely attributed to higher benefit costs which continue to increase in the current economic environment, higher expense related to the Company's Employee Stock Ownership Plan, and an increase in the number of personnel. On December 31, 2016, the Company employed 493 full-time-equivalent employees compared to 484 full-time-equivalent employees at the same date in 2015.

ANALYSIS OF NON-INTEREST INCOME

(in thousands)

				2016/2015		2015/2014	
	2016	2015	2014	CHANGE	%	CHANGE	%
Trust fees	$ 6,755	$ 6,560	$ 5,802	$ 195	2.97 %	$ 758	13.06 %
Service charges on deposit accounts	7,849	8,173	8,785	(324)	(3.96)%	(612)	(6.97)%
Mortgage banking income	4,524	4,294	2,971	230	5.36 %	1,323	44.53 %
Card and interchange fees	6,247	5,724	5,298	523	9.14 %	426	8.04 %
Electronic banking fees	5,276	4,885	4,587	391	8.00 %	298	6.50 %
Net gain (loss) and write-downs of OREO	118	(1,806)	(4,013)	1,924	(106.53)%	2,207	(55.00)%
Other non-interest income	8,204	7,723	8,029	481	6.23 %	(306)	(3.81)%
Total non-interest income	$ 38,973	$ 35,553	$ 31,459	$ 3,420	9.62 %	$ 4,094	13.01 %

Processing charges increased by $1.03 million or 18.90 percent, mainly due to increases in Internet banking and ATM processing expenses. In addition, expenses related to credit and debit cards increased, mainly due to enhanced rewards programs offered for customers. As more customers utilize Internet and mobile banking, debit cards, credit cards, and other methods for their transactions besides the physical branch locations, expenses in these categories also increase.

INCOME TAXES

The Company recorded income tax expense of $3.87 million in 2016 compared to $3.10 million in 2015 representing effective tax rates of 18.54 percent for 2016 and 15.31 percent for 2015. The Company's tax planning strategy includes the holding of municipal securities and the participation in Industrial Revenue Bond lending for nonprofit organizations to increase tax-exempt income. The Company is also a limited partner in 17 low-income housing projects and a historic renovation project for which it receives tax credits, and is an investor in a Community Development Entity for which it receives New Market Tax Credits. It is the culmination of these investing activities which lowers the overall effective tax rate to the levels experienced in 2016 and 2015.

FINANCIAL CONDITION

At December 31, 2016, total assets of the Company were $2.30 billion, an increase of $106.08 million, or 4.84 percent, compared to total assets at December 31, 2015. During 2016, the Company saw its highest loan growth in several years and was able to utilize on-balance sheet liquidity for asset deployment. Earning assets totaled $2.17 billion on December 31, 2016, or 94.30 percent of total assets. The Company's net loans increased $112.77 million, or 6.80 percent, federal funds sold decreased by $40.10 million, or 28.04 percent, and the securities portfolio increased by $34.96 million, or 14.24 percent.

EARNING ASSETS

Gross loans outstanding totaled $1.79 billion at December 31, 2016, an increase of $112.01 million, or 6.66 percent. Loan demand in all segments of loans increased during 2016. In particular, the Company was able to increase its presence in the Northern Kentucky market, while continuing the focus of maintaining strong customer relationships in all markets.

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

On-balance sheet liquidity has been at all-time highs in recent years and remained strong in 2016, although the company was able to employ more of its existing cash into higher earning assets during 2016. Total deposits increased by $80.91 million from year-end 2015 to year-end 2016, and management deployed these funds as well as some of the Company's federal funds sold into securities and loans.

DEPOSITS

Total deposits were $1.92 billion at year-end 2016, an increase of $80.91 million, or 4.41 percent from December 31, 2015. Interest bearing deposits increased by $24.08 million or 1.91 percent year over year, while non-interest bearing deposits increased by $56.83 million from year-end 2015 to year-end 2016, an increase of 9.85 percent.

Management concentrated its efforts on maintaining current customer relationships, while reducing the cost of funding particularly in certificates of deposit. As a result the Company continued to experience significant growth in demand deposit, NOW, money market, and savings balances. The Company

ANALYSIS OF NON-INTEREST EXPENSE

(in thousands)

				2016/2015		2015/2014	
	2016	2015	2014	CHANGE	%	CHANGE	%
Salaries and benefits	$ 45,394	$ 42,795	$ 39,968	$ 2,599	6.07 %	$ 2,827	7.07 %
Occupancy and equipment	17,950	17,626	17,190	324	1.84 %	436	2.54 %
Processing charges	6,474	5,445	5,428	1,029	18.90 %	17	0.31 %
Advertising and business development	5,646	5,473	4,544	173	3.16 %	929	20.44 %
Professional services	2,283	2,167	2,360	116	5.35 %	(193)	(8.18)%
FDIC insurance expense	1,383	1,707	1,810	(324)	(18.98)%	(103)	(5.69)%
Other non-interest expense	12,224	11,668	12,441	556	4.77 %	(773)	(6.21)%
Total non-interest expense	$ 91,354	$ 86,881	$ 83,741	$ 4,473	5.15 %	$ 3,140	3.75 %

offers fixed-rate certificates of deposit with maturities ranging from seven days to five years; however, with the continuing low levels of market rates, demand for these products continues to be low.

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 totaled $105.69 million at December 31, 2016, which was an increase of $11.80 million from $93.89 million at December 31, 2015. 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 advances from the Federal Home Loan Bank and subordinated debentures. At December 31, 2016, the Company had $564,000 outstanding in advances from the Federal Home Loan Bank compared to $715,000 at December 31, 2015. The advances outstanding at December 31, 2016 mature between January 2022 and December 2027, and have a weighted average rate of 2.44 percent at December 31, 2016. Each advance is payable at its maturity, with a prepayment penalty. The advances are borrowed under a blanket lien agreement, and are collateralized by Federal Home Loan Bank stock and eligible 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 and the proceeds of the preferred securities sold by the trust. 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 percent, which was 2.71 percent on December 31, 2016.

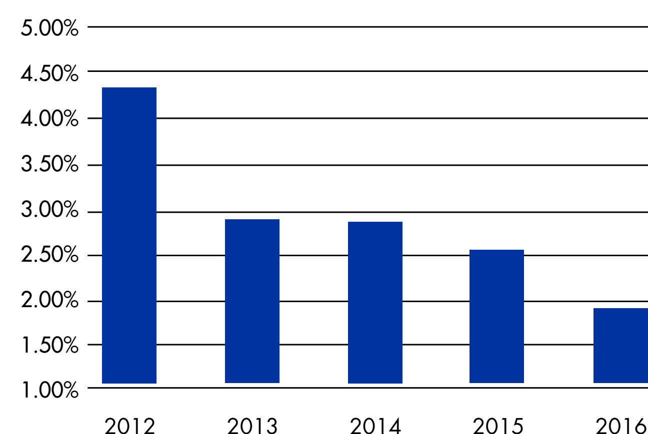
In March 2009, Central Bancshares KY Statutory Trust III, a trust formed by the Company, closed a private offering of 22,600 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $23.3 million of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust at a fixed rate of 10.00 percent. On March 31, 2014, the Company redeemed $13.2 million of the subordinated debentures, on March 31, 2015, the Company redeemed $4.8 million, and on March 31, 2016, the Company redeemed the final $5.28 million.

The trust preferred securities are included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

ALLOWANCE FOR LOAN LOSSES

At December 31, 2016, the allowance for loan losses was $20.58 million, or 1.15 percent of gross loans outstanding, compared with $21.84 million, or 1.30 percent at December 31, 2015. The provision for loan losses during 2016 was $4.46 million compared to $961,000 during 2015. Higher levels of net charge-offs as well as an increase in gross loans of $112.01 million contributed to the higher level of provision for loan losses in 2016.

The credit quality of the loan portfolio during 2016 demonstrated a marked improvement. Non-performing loans as a percentage of gross loans decreased from 2.13 percent at December 31, 2015 to 1.46 percent at December 31, 2016 and total delinquent loans as a percentage of gross loans decreased from 2.53 percent at December 31, 2015 to 1.92 percent at December 31, 2016. Loans delinquent 90 days or more increased from $22.82 million at December 31, 2015 to $24.99 million at December 31, 2016; however, non-accrual loans declined from $33.66 million at December 31, 2015 to $25.60 million at December 31, 2016. Although net charge-offs in 2016 were $5.72 million compared to $2.16 million in 2015, an increase of $3.56 million, $3.15 million of charge-offs during 2016 were related to one credit. As a result, net charge-offs as a percentage of average loans were 0.33 percent in 2016 compared to 0.13 percent in 2015.



ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(in thousands)

	2016	2015	2014	2013	2012
Allowance for loan losses					
Balance January 1	$ 21,840	$ 23,037	$ 23,913	$ 27,480	$ 28,783
Provision for loan losses	4,464	961	3,217	8,775	12,179
Allowance sold with sale of subsidiary	-	-	-	(640)	-
Net charge-offs	(5,722)	(2,158)	(4,093)	(11,702)	(13,482)
Balance December 31	$ 20,582	$ 21,840	$ 23,037	$ 23,913	$ 27,480
Average loans, net of unearned income	$ 1,715,145	$ 1,631,982	$ 1,635,738	$ 1,592,481	$ 1,656,284
Loans, net of unearned income, at year-end	$ 1,792,320	$ 1,680,813	$ 1,647,145	$ 1,626,056	$ 1,672,543
Nonperforming loans at year-end	$ 26,245	$ 35,754	$ 37,895	$ 38,389	$ 56,041
Other real estate owned at year-end	$ 5,050	$ 5,806	$ 10,332	$ 13,151	$ 20,958
Ratios:					
Provision for loan losses to average loans	0.26%	0.06%	0.20%	0.55%	0.74%
Net charge-offs to average loans	0.33%	0.13%	0.25%	0.73%	0.81%
Allowance for loan losses to loans	1.15%	1.30%	1.40%	1.47%	1.64%
Allowance for loan losses to nonperforming loans	78.42%	61.08%	60.79%	62.29%	49.04%
Nonperforming loans to loans	1.46%	2.13%	2.30%	2.36%	3.35%
Nonperforming assets to total assets	1.43%	1.90%	2.29%	2.46%	3.54%
Nonperforming assets to shareholders' equity and allowance for loan losses	12.91%	17.06%	21.11%	23.78%	37.06%
Total delinquent loans at year-end	1.92%	2.53%	2.89%	2.93%	4.37%

In addition, there was improvement in the level of adversely classified loans and the level of impaired loans during 2016. A loan is considered to be impaired when it is probable that all principal and interest amounts will not be collected in accordance with the original loan terms. Loans deemed to be impaired declined from $75.06 million at December 31, 2015 to $72.48 million at December 31, 2016, a decrease of $2.59 million. The provision and allowance for loan losses are based on management's ongoing review of the loan portfolio and other qualitative factors on a monthly basis and are subject to review by the Board of Directors and the periodic evaluation by various regulatory authorities. 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, 2016, future adjustments may be necessary if economic conditions worsen or if assumptions in the evaluation differ substantially from actual results.

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. As of January 1, 2015, new capital guidelines from the Basel Committee on Banking Supervision (Basel III rules) became effective with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. Capital ratios remained strong during 2016, even with the implementation of the new Basel III rules and the redemption of the $5.28 million in subordinated debentures which were part of Tier 1 capital.

In order for a bank holding company to be considered "well capitalized," a company must maintain a Total capital to risk-weighted assets ratio of 10.0 percent, a Tier I capital to risk-weighted assets ratio of 8.0 percent, a Common Tier 1 equity to risk-weighted assets ratio of 6.5 percent, and a Tier I capital to average assets ratio of 5.0 percent. On December 31, 2016, the Company had a Total capital to risk-weighted assets ratio of 13.4 percent, a Tier I capital to risk-weighted assets ratio of 12.3 percent, a Common Tier 1 equity to risk-weighted assets ratio of 11.6 percent, and a Tier I capital to average assets ratio of 10.6 percent.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Central Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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, 2016 and 2015, 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, 2016, 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 3, 2017 expressed an unmodified opinion.

Crowe Horwath LLP

Crowe Horwath LLP
Louisville, Kentucky
March 3, 2017

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

	December 31			
		2016		2015
ASSETS				
Cash and due from financial institutions	$	48,514	$	40,197
Federal funds sold		102,900		143,000
Total cash and cash equivalents		151,414		183,197
Available for sale securities		169,942		117,871
Held to maturity securities		110,604		127,712
Total securities		280,546		245,583
Loans held for sale		5,395		8,148
Loans, net of allowance of $20,582 and $21,840		1,771,738		1,658,973
Premises and equipment, net		33,966		36,925
Other real estate owned		5,050		5,806
Interest receivable		5,422		5,294
Federal Home Loan Bank stock, at cost		6,751		6,751
Goodwill		14,313		14,313
Other intangible assets		-		80
Other assets		23,894		27,342
Total assets	$	2,298,489	$	2,192,412
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Non-interest bearing	$	633,571	$	576,745
Interest bearing		1,282,210		1,258,128
Total deposits		1,915,781		1,834,873
Federal funds purchased and repurchase agreements		106,191		94,395
Federal Home Loan Bank advances		564		715
Subordinated debentures		15,464		20,742
Interest payable		219		244
Other liabilities		22,581		19,688
Total liabilities		2,060,800		1,970,657
SHAREHOLDERS' EQUITY				
Common stock, $10 par value, 350,000 shares authorized, 347,922 shares issued		3,479		3,479
Additional paid-in capital		6,890		6,890
Retained earnings		233,557		217,595
Accumulated other comprehensive income (loss)		(6,237)		(6,209)
Total shareholders' equity		237,689		221,755
Total liabilities and shareholders' equity	$	2,298,489	$	2,192,412

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except share data)

	Years Ended December 31 2016	2015
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 78,134	$ 75,364
Securities:		
Taxable	3,497	2,476
Tax-exempt	28	21
Federal funds sold and other	1,039	703
	82,698	78,564
INTEREST EXPENSE		
Deposits	4,237	4,898
Subordinated debentures	491	893
Other borrowings	248	249
	4,976	6,040
Net interest income	77,722	72,524
Provision for loan losses	4,464	961
Net interest income after provision for loan losses	73,258	71,563
NON-INTEREST INCOME		
Service charges on deposit accounts	7,849	8,173
Mortgage banking income	4,524	4,294
Card and interchange fees	6,247	5,724
Trust fees	6,755	6,560
Electronic banking	5,276	4,885
Net gain (loss) on sales and write-downs of other real estate owned	118	(1,806)
Other fees and income	8,204	7,723
	38,973	35,553
NON-INTEREST EXPENSE		
Salaries and benefits	45,394	42,795
Occupancy and equipment	17,950	17,626
Processing charges	6,474	5,445
Advertising and business development	5,646	5,473
Card and interchange expenses	4,609	4,182
Professional services	2,283	2,167
FDIC assessment	1,383	1,707
Other real estate owned, net	482	450
Other	7,133	7,036
	91,354	86,881
Income before income taxes	20,877	20,235
Income taxes	3,871	3,097
Net income	$ 17,006	$ 17,138
Basic earnings per share	$ 48.88	$ 49.26
Weighted average number of common shares outstanding	347,922	347,922

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands except share data)

	Years Ended December 31 2016	2015
OPERATING ACTIVITIES		
Net income	$ 17,006	$ 17,138
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	4,464	961
Depreciation and amortization	6,784	7,287
Net loss (gain) on sales and write-downs of other real estate owned	(118)	1,806
Net gain on sale of loans	(4,324)	(4,193)
Net change in:		
Loans held for sale	7,077	2,651
Interest receivable	(128)	(98)
Other assets	1,532	723
Interest payable	(25)	(56)
Other liabilities	3,377	2,484
Net cash from operating activities	35,645	28,703
INVESTING ACTIVITIES		
Available for sale securities:		
Purchases	(141,692)	(30,155)
Sales	-	9,967
Maturities, calls and return of principal	88,759	21,728
Held to maturity securities:		
Purchases	(45,000)	(74,436)
Maturities, calls and return of principal	61,976	36,606
Net change in loans	(121,915)	(37,657)
Purchases of premises and equipment	(1,347)	(4,090)
Proceeds from sale of other real estate owned	5,560	4,551
Net cash from investing activities	(153,659)	(73,486)
FINANCING ACTIVITIES		
Net change in deposits	80,908	69,363
Net change in federal funds purchased and repurchase agreements	11,796	3,506
Repayment of Federal Home Loan Bank advances	(151)	(2,074)
Redemption of subordinated debentures	(5,278)	(4,800)
Cash dividends paid	(1,044)	(696)
Net cash from financing activities	86,231	65,299
Net change in cash and cash equivalents	(31,783)	20,516
Cash and cash equivalents, beginning of year	183,197	162,681
Cash and cash equivalents, end of year	$ 151,414	$ 183,197
Supplemental cash flow information:		
Interest paid	$ 5,001	$ 6,100
Income taxes paid	2,750	3,240
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$ 4,686	$ 1,831

See accompanying notes.

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

Years Ended December 31, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2015	$ 3,479	$ 6,890	$ 201,153	$ (6,092)	$ 205,430
Net income	-	-	17,138	-	17,138
Cash dividends declared ($2 per share)	-	-	(696)	-	(696)
Other comprehensive income (loss)				(117)	(117)
Balances, December 31, 2015	3,479	6,890	217,595	(6,209)	221,755
Net income	-	-	17,006	-	17,006
Cash dividends declared ($3 per share)	-	-	(1,044)	-	(1,044)
Other comprehensive income (loss)				(28)	(28)
Balances, December 31, 2016	$ 3,479	$ 6,890	$ 233,557	$ (6,237)	$ 237,689

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands except share data)

	Years Ended December 31 2016	2015
Net income	$ 17,006	$ 17,138
Other comprehensive income (loss):		
Unrealized gains/losses on securities:		
Unrealized holding gain (loss) arising during the period	(530)	55
Tax effect	188	(19)
Net of tax	(342)	36
Defined benefit pension plans:		
Net gain (loss) arising during the period	483	(235)
Tax effect	(169)	82
Net of tax	314	(153)
Total other comprehensive income (loss)	(28)	(117)
Comprehensive income	$ 16,978	$ 17,021

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(in thousands except share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 3, 2017, 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, amounts due from financial institutions, and federal funds sold with maturities under 90 days. Net cash flows are reported for customer loan and deposit transactions, and federal funds purchased and repurchase agreements.

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

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

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

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

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

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

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

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

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

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

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

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

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

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 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 or to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrowers and guarantors to evaluate ability to repay the loans.

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

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

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

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

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

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

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

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

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

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

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

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet. Other intangible assets consisting of customer relationship intangibles arising from acquisitions are amortized on the straight-line method over their estimated useful lives, which range from 8 to 10 years.

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: Revenues from trust department services are recorded on the cash basis, which approximates the accrual basis. Securities and other properties, except cash deposits, held by the trust department in a fiduciary or agency capacity are not included in the consolidated financial statements since such items are not assets of the Company.

Investment in Limited Partnerships: Central Bank & Trust Co. is a limited equity partner in 17 low-income housing projects and one historic renovation project. The investments are accounted for using the equity method and are included in other assets. The investments had a balance of $4,666 and $6,574 at year-end 2016 and 2015. At year-end 2016, remaining funding commitments were $1,743.

Benefit Plans: Pension expense is the net of interest cost, return on plan assets, and amortization of gains and losses not immediately recognized. Employee stock ownership and 401(k) plan expense is the amount contributed determined by Board decision. Deferred compensation plan expense is allocated over years of service.

All ESOP shares are allocated to participants as of the end of each fiscal year. Compensation expense is based on the price paid for the shares acquired by the plan during the year. Since all ESOP shares are allocated to participants, all dividends reduce retained earnings.

Fair Value of Financial Instruments: Fair values of financial instruments, as more fully disclosed in Note 10, are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in

assumptions or in market conditions could significantly affect the estimates.

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

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on 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. The accumulated other comprehensive income (loss) at December 31, 2016 of $(6,237) was comprised of $(6,055) related to the defined benefit and non-qualified pension plans and $(182) related to unrealized gains and losses on available for sale securities. The accumulated other comprehensive income (loss) at December 31, 2015 of $(6,209) was comprised of $(6,359) related to the defined benefit and non-qualified pension plans and $150 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 Banks to the holding company or by the holding company to shareholders.

Restrictions on Cash: Included in cash and due from financial institutions are certain deposits held at the Federal Reserve Bank or maintained in vault cash in accordance with average balance requirements specified by the Federal Reserve. The average balance requirement was $38,924 and $35,404 at December 31, 2016 and 2015. These funds earn interest at an interest rate determined by the Federal Reserve.

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

Adoption of New Accounting Standards: In January 2016, the FASB amended existing guidance by issuing ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and it eliminates the requirement for public business entities 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. These amendments are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition; however, it is expected to have an impact on the Company's fair value disclosures.

In February 2016, the FASB amended existing guidance by issuing ASU 2016-02, *Leases (Topic 842)*. The guidance requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The adoption of this standard is not expected to have a material effect on the Company's operating results, but is expected to have a material impact on the Company's consolidated balance sheets.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The guidance was issued to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loans and securities held to maturity. It also applies to off-balance sheet credit exposures not accounted for as insurance such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. For debt securities with other-than-temporary impairment, the guidance will be applied prospectively. Existing purchased credit impaired assets will be grandfathered and classified as purchased credit deteriorated assets at the date of adoption. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. For public business entities that do not meet the definition of an SEC filer, the standard will be effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this standard is expected to have a material effect on the Company's operating results and financial condition, but the impact has not yet been quantified.

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
2016				
U.S. government sponsored entities and agencies	$ 73,453	$ 140	$ (331)	$ 73,262
Agency mortgage-backed securities: residential	81,418	386	(96)	81,708
Corporate bonds	15,356	-	(384)	14,972
	$ 170,227	$ 526	$ (811)	$ 169,942
2015				
U.S. government sponsored entities and agencies	$ 54,524	$ 139	$ (127)	$ 54,536
Agency mortgage-backed securities: residential	47,880	394	(77)	48,197
Corporate bonds	15,222	-	(84)	15,138
	$ 117,626	$ 533	$ (288)	$ 117,871

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
2016				
U.S. government sponsored entities and agencies	$ 60,500	$ -	$ (603)	$ 59,897
Agency mortgage-backed securities: residential	35,253	24	(464)	34,813
States and political subdivisions	14,851	49	(1)	14,899
	$ 110,604	$ 73	$ (1,068)	$ 109,609
2015				
U.S. government sponsored entities and agencies	$ 68,250	$ 8	$ (50)	$ 68,208
Agency mortgage-backed securities: residential	42,446	158	(188)	42,416
States and political subdivisions	17,016	147	(40)	17,123
	$ 127,712	$ 313	$ (278)	$ 127,747

The amortized cost and fair value of debt securities at December 31, 2016 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	$ 7,886	$ 7,898	$ 11,501	$ 11,539
Due from one to five years	25,323	25,126	63,850	63,2579
Due from five to ten years	6,241	6,210	-	-
Due after ten years	49,359	49,000	-	-
Agency mortgage-backed securities: residential	81,418	81,708	35,253	34,813
Total	$ 170,227	$ 169,942	$ 110,604	$ 109,609

Securities with a carrying amount of $177,942 and $148,935 at December 31, 2016 and 2015, were pledged to secure public deposits and repurchase agreements.

At December 31, 2016 and 2015, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of shareholders' equity.

There were no sales of securities in 2016. Proceeds from the sale of securities were $9,967 in 2015, and there were no gross gains or losses associated with sales.

Securities with unrealized losses at year-end 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below.

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2016						
Available for sale:						
U.S. government sponsored entities and agencies	$ 25,329	$ (258)	$ 13,727	$ (73)	$ 39,056	$ (331)
Agency mortgage-backed securities: residential	27,857	(42)	6,476	(54)	34,333	(96)
Corporate bonds	10,017	(338)	4,954	(46)	14,971	(384)
Total available for sale	$ 63,203	$ (638)	$ 25,157	$ (173)	$ 88,360	$ (811)
2015						
Available for sale:						
U.S. government sponsored entities and agencies	$ 27,250	$ (106)	$ 4,649	$ (21)	$ 31,899	$ (127)
Agency mortgage-backed securities: residential	7,629	(5)	8,954	(72)	16,583	(77)
Corporate bonds	4,916	(84)	-	-	4,916	(84)
Total available for sale	$ 39,795	$ (195)	$ 13,603	$ (93)	$ 53,398	$ (288)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrecognized Loss	12 Months or More Fair Value	12 Months or More Unrecognized Loss	Total Fair Value	Total Unrecognized Loss
2016						
Held to maturity:						
U.S. government sponsored entities and agencies	$ 59,897	$ (603)	$ -	$ -	$ 59,897	$ (603)
Agency mortgage-backed securities: residential	34,099	(464)	-	-	34,099	(464)
States and political subdivisions	1,502	(1)	718	-	2,220	(1)
Total held to maturity	$ 95,498	$ (1,068)	$ 718	$ -	$ 96,216	$ (1,068)
2015						
Held to maturity:						
U.S. government sponsored entities and agencies	$ 55,500	$ (50)	$ -	$ -	$ 55,500	$ (50)
Agency mortgage-backed securities: residential	28,511	(122)	1,844	(66)	30,355	(188)
States and political subdivisions	6,329	(40)	-	-	6,329	(40)
Total held to maturity	$ 90,340	$ (212)	$ 1,844	$ (66)	$ 92,184	$ (278)

Unrealized losses on debt securities have not been recognized into income because the issued bonds are of high credit quality (rated AA or higher) as of December 31, 2016 and at acquisition date, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

NOTE 3 – LOANS

Loans at December 31 were as follows:

	2016	2015
Commercial	$ 366,499	$ 331,936
Commercial real estate	963,612	930,243
Residential real estate	377,050	346,073
Installment	74,017	61,602
Credit card receivables	12,821	12,138
	1,793,999	1,681,992
Deferred loan fees, net	(1,679)	(1,179)
Allowance for loan losses	(20,582)	(21,840)
Loans, net	$ 1,771,738	$ 1,658,973

The following table presents the activity in the allowance for loan losses by segment of loans for the years ended December 31, 2016 and 2015:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2016							
Allowance for loan losses:							
Beginning balance	$ 5,001	$ 12,830	$ 2,164	$ 972	$ 220	$ 653	$ 21,840
Provision for loan losses	(78)	3,090	287	814	271	80	4,464
Loans charged off	(667)	(5,325)	(614)	(1,289)	(260)	-	(8,155)
Recoveries	818	900	72	553	90	-	2,433
Total ending allowance balance	$ 5,074	$ 11,495	$ 1,909	$ 1,050	$ 321	$ 733	$ 20,582
2015							
Allowance for loan losses:							
Beginning balance	$ 6,044	$ 11,056	$ 4,613	$ 985	$ 241	$ 98	$ 23,037
Provision for loan losses	(308)	2,038	(2,084)	597	163	555	961
Loans charged off	(1,589)	(873)	(420)	(1,261)	(313)	-	(4,456)
Recoveries	854	609	55	651	129	-	2,298
Total ending allowance balance	$ 5,001	$ 12,830	$ 2,164	$ 972	$ 220	$ 653	$ 21,840

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, 2016 and 2015:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2016							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 755	$ 3,287	$ 105	$ -	$ -	$ -	$ 4,147
Collectively evaluated for impairment	4,319	8,208	1,804	1,050	321	733	16,435
Total ending allowance balance	$ 5,074	$ 11,495	$ 1,909	$ 1,050	$ 321	$ 733	$ 20,582
Loans:							
Individually evaluated for impairment	$ 12,845	$ 53,142	$ 6,445	$ 38	$ 7	$ -	$ 72,477
Collectively evaluated for impairment	353,654	910,470	370,605	73,979	12,814	-	1,721,522
Total ending loans balance	$ 366,499	$ 963,612	$ 377,050	$ 74,017	$ 12,821	$ -	$ 1,793,999
2015							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 509	$ 4,882	$ 542	$ -	$ -	$ -	$ 5,933
Collectively evaluated for impairment	4,492	7,948	1,622	972	220	653	15,907
Total ending allowance balance	$ 5,001	$ 12,830	$ 2,164	$ 972	$ 220	$ 653	$ 21,840
Loans:							
Individually evaluated for impairment	$ 9,667	$ 57,544	$ 7,846	$ -	$ 6	$ -	$ 75,063
Collectively evaluated for impairment	322,269	872,699	338,227	61,602	12,132	-	1,606,929
Total ending loans balance	$ 331,936	$ 930,243	$ 346,073	$ 61,602	$ 12,138	$ -	$ 1,681,992

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2016:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2016						
With no related allowance recorded:						
Commercial	$ 12,096	$ 10,927	$ -	$ 6,038	$ 351	$ 351
Commercial real estate	26,812	25,268	-	20,824	506	506
Residential real estate	3,483	3,407	-	2,093	26	26
Installment	99	38	-	43	-	-
Credit card receivables	7	7	-	5	-	-
Subtotal	42,497	39,647	-	29,003	883	883
With an allowance recorded:						
Commercial	$ 2,147	$ 1,918	$ 755	$ 4,389	$ 45	$ 45
Commercial real estate	28,773	27,874	3,287	32,360	748	748
Residential real estate	3,547	3,038	105	4,675	94	94
Installment	-	-	-	-	-	-
Credit card receivables	-	-	-	4	-	-
Subtotal	34,467	32,830	4,147	41,428	887	887
Total	$ 76,964	$ 72,477	$ 4,147	$ 70,431	$ 1,770	$ 1,770

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

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2015:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2015						
With no related allowance recorded:						
Commercial	$ 314	$ 267	$ -	$ 3,104	$ 1	$ 1
Commercial real estate	11,220	10,355	-	14,325	242	242
Residential real estate	1,317	1,184	-	3,183	22	22
Installment	-	-	-	83	-	-
Credit card receivables	6	6	-	7	1	1
Subtotal	12,857	11,812	-	20,702	266	266
With an allowance recorded:						
Commercial	$ 10,753	$ 9,400	$ 509	$ 7,872	$ 350	$ 350
Commercial real estate	48,798	47,189	4,882	38,251	1,033	1,033
Residential real estate	7,129	6,662	542	6,536	186	186
Installment	-	-	-	37	-	-
Credit card receivables	-	-	-	-	-	-
Subtotal	66,680	63,251	5,933	52,696	1,569	1,569
Total	$ 79,537	$ 75,063	$ 5,933	$ 73,398	$ 1,835	$ 1,835

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

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

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2016 and 2015:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2016	2015	2016	2015
Commercial	$ 2,038	$ 1,148	$ -	$ 252
Commercial real estate	17,995	27,426	-	1,606
Residential real estate	5,159	4,886	444	360
Installment	347	170	27	20
Credit card receivables	60	27	175	13
Total	$ 25,599	$ 33,657	$ 646	$ 2,251

The following table presents the aging of the recorded investment in past due loans as of December 31, 2016 and 2015 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, 2016					
Commercial	$ 3,680	$ 930	$ 4,610	$ 361,889	$ 366,499
Commercial real estate	1,962	20,448	22,410	941,202	963,612
Residential real estate	2,420	3,216	5,635	371,415	377,050
Installment	1,952	188	2,140	71,877	74,017
Credit card receivables	100	209	309	12,512	12,821
Total	$ 10,113	$ 24,991	$ 35,104	$ 1,758,895	$ 1,793,999
December 31, 2015					
Commercial	$ 481	$ 272	$ 753	$ 331,183	$ 331,936
Commercial real estate	2,843	20,212	23,055	907,188	930,243
Residential real estate	3,571	2,208	5,779	340,294	346,073
Installment	1,307	95	1,402	60,200	61,602
Credit card receivables	142	29	171	11,967	12,138
Total	$ 8,344	$ 22,816	$ 31,160	$ 1,650,832	$ 1,681,992

Related Party Loans: The Banks have entered into loan transactions with their directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties was $1,153 and $2,247 at December 31, 2016 and 2015.

Troubled Debt Restructurings: The Company has troubled debt restructurings of $54,215 and $55,890 as of December 31, 2016 and 2015, and has allocated $1,785 and $2,676 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2016 and 2015. The Company has committed to lend additional amounts totaling up to $110 and $341 as of December 31, 2016 and 2015 to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2016 and 2015, 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 modified as troubled debt restructurings that occurred during the years ended December 31, 2016 and 2015:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2016:			
Troubled debt restructurings:			
Commercial	**8**	**$ 1,747**	**$ 2,646**
Commercial real estate	**25**	**25,331**	**19,906**
Residential real estate	**8**	**897**	**897**
Total	**41**	**$ 27,975**	**$ 23,449**
December 31, 2015:			
Troubled debt restructurings:			
Commercial	9	$ 1,725	$ 1,725
Commercial real estate	17	15,487	15,537
Residential real estate	10	1,778	1,778
Total	36	$ 18,990	$ 19,040

The troubled debt restructurings described above increased the allowance for loan losses by $3,286 and resulted in $3,156 of charge-offs during the year ended December 31, 2016. The troubled debt restructurings described above increased the allowance for loan losses by $183 and resulted in charge-offs of $331 during the year ended December 31, 2015.

There was one residential real estate loan with a recorded investment of $53 for which there was a payment default within 12 months following the modification during the year ended December 31, 2016. There was one commercial loan with a recorded investment of $13 for which there was a payment default within 12 months following the modification during the year ended December 31, 2015. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructuring that subsequently defaulted described above did not result in an increase in the allowance for loan losses or charge-offs during the year ended December 31, 2016. The troubled debt restructuring that subsequently defaulted described above resulted in an increase in the allowance for loan losses of $13 and resulted in charge-offs of $13 during the year ended December 31, 2015.

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

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

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2016						
Commercial	$ 352,283	$ 1,757	$ 12,459	$ -	$ -	$ 366,499
Commercial real estate	893,029	11,847	58,736	-	-	963,612
Residential real estate	250,959	1,454	7,148	-	117,489	377,050
Installment	-	-	10	8	73,999	74,017
Credit card receivables	-	11	52	-	12,758	12,821
	$ 1,496,271	$ 15,069	$ 78,405	$ 8	$ 204,246	$ 1,793,999
December 31, 2015						
Commercial	$ 317,328	$ 558	$ 14,050	$ -	$ -	$ 331,936
Commercial real estate	846,666	13,638	69,939	-	-	930,243
Residential real estate	230,458	2,831	6,576	-	106,208	346,073
Installment	-	4	34	-	61,564	61,602
Credit card receivables	-	17	53	-	12,068	12,138
	$ 1,394,452	$ 17,048	$ 90,652	$ -	$ 179,840	$ 1,681,992

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled $224,104 and $206,819 during 2016 and 2015. The Company had commitments to originate $18,472 in loans at December 31, 2016, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $49,369 and $44,653 at December 31, 2016 and 2015.

Activity for mortgage servicing rights included in other assets during 2016 and 2015 was as follows:

	2016	2015
Beginning of year	$ 164	$ 188
Originated	93	36
Amortized to expense	(56)	(60)
End of year	$ 201	$ 164

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $329 and $335 at year-end 2016 and 2015.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2016	2015
Other real estate owned, beginning of year	$ 5,806	$ 10,332
Acquisition and improvement	4,686	1,831
Proceeds from sales	(5,560)	(4,551)
Provision for valuation allowance	(916)	(1,935)
Net gain (loss) on sales	1,034	129
Other real estate owned, end of year	$ 5,050	$ 5,806

Activity in the valuation allowance was as follows:

	2016	2015
Beginning of year	$ 4,156	$ 4,996
Additions charged to expense	916	1,935
Reductions from sales	(3,503)	(2,775)
End of year	$ 1,569	$ 4,156

Expenses related to other real estate owned include:

	2016	2015
Net loss (gain) on sales	$ (1,034)	$ (129)
Provision for valuation allowance	916	1,935
Operating expenses, net	482	450
	$ 364	$ 2,256

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2016	2015
Land	$ 2,991	$ 2,991
Buildings and improvements	21,558	21,549
Leasehold improvements	30,193	29,869
Furniture, fixtures and equipment	39,125	37,575
Construction in progress	579	1,151
	94,446	93,135
Accumulated depreciation	(60,480)	(56,210)
Total	$ 33,966	$ 36,925

Depreciation and amortization expense amounted to $4,306 and $4,288 in 2016 and 2015.

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 three tenants. Rent expense for the Company was $5,526 and $5,418 in 2016 and 2015. Rent commitments under noncancelable operating leases, before considering renewal options that generally are present, were as follows:

2017	$ 6,028
2018	6,007
2019	5,753
2020	5,725
2021	5,461
Thereafter	9,113
	$ 38,087

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $14,313 at December 31, 2016 and 2015.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2016, 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.

There were no acquired intangible assets at December 31, 2016. Acquired intangible assets of $4,924 from prior years' acquisitions were fully amortized during 2016 with amortization expense of $80 and $240 in 2016 and 2015.

NOTE 8 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2016 and 2015 were $106,964 and $117,780.

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

2017	$ 227,280
2018	57,169
2019	29,414
2020	14,972
2021	21,526
Thereafter	81
	$ 350,442

Deposits of directors and executive officers of the Banks and companies in which they have beneficial ownership were $11,112 and $23,565 at December 31, 2016 and 2015.

NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

	2016	2015
Maturities January 2022 through December 2027, fixed rates ranging from 2.00% to 5.50%, averaging 2.44% at year-end 2016 and 2015.	**$ 564**	$ 715

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The advances are borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and first mortgage loans with an aggregate unpaid principal balance of $327,641 and $303,477 at December 31, 2016 and 2015. Based on this collateral and the holding of Federal Home Loan Bank stock, the Banks are eligible to borrow up to a total of $152,113 at year-end 2016. In addition, the Federal Home Loan Bank issues letters of credit on behalf of a subsidiary bank of the Company as security for certain deposit relationships, as the need arises. Outstanding letters of credit at December 31, 2016 and 2015 were $84,965 and $84,378.

Subordinated Debentures: In March 2009, Central Bancshares KY Statutory Trust III, a trust formed by the Company, closed a private placement offering of 22,600 trust preferred securities with a liquidation amount of $1 per security. The Company issued $23,278 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 had the right to redeem the subordinated debentures, in whole or in part, in a principal amount, with integral multiples of $1, on or after March 31, 2014 at 100% of the principal amount, plus accrued and unpaid interest.

The subordinated debentures were $0 and $5,278 at December 31, 2016 and 2015 and had a fixed rate of interest of 10.00%. On March 31, 2014, the Company exercised its right to redeem 13,200 of the trust preferred securities for $13,200 in cash. On March 31, 2015, the Company exercised its right to redeem 4,800 of the trust preferred securities for $4,800 in cash. On March 31, 2016, the Company redeemed the remainder of the subordinated debentures for net cash of $4,600, with $5,278 paid to the trust and the trust paying the Company for the $678 of the Company's investment in the common stock of the trust.

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 which was 2.71% at year-end 2016, equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The Company's investment in the common stock of the trust was $464 and is included in other assets.

The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

Line of Credit: The Company has an outstanding line of credit for $10,000 from a commercial bank for the purpose of securing additional funds for capital infusion to its subsidiaries or for debt service needs. As of December 31, 2016, the Company had not drawn upon this line. Terms of the line of credit include a variable interest rate equal to the sum of prime as published in *The Wall Street Journal* and 0.50% (4.25% as of December 31, 2016) with a floor of 4.75%, and monthly payments of interest only with the balance due at maturity on September 30, 2017. The line of credit is secured by 100% of the stock of Central Bank & Trust Co.

NOTE 10 – FAIR VALUE

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

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

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

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

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

Investment Securities: The fair values 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. The most recent analysis performed indicated that discounts ranging from approximately 10% to 40% should be applied to all appraisal values, depending on the age of the appraisal and any known deterioration in value since the date of the appraisal.

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 (2016):			
Available for sale securities:			
U.S. government sponsored entities and agencies	$ -	$ 73,262	$ -
Agency mortgage-backed securities: Residential	-	81,708	-
Corporate bonds	-	4,954	10,018
Assets (2015):			
Available for sale securities:			
U.S. government sponsored entities and agencies	$ -	$ 54,536	$ -
Agency mortgage-backed securities: Residential	-	48,197	-
Corporate bonds	-	15,138	-

There were no transfers between Level 1 and Level 2 during 2016 or 2015. Two corporate bonds with a fair value of $10,018 at December 31, 2016 were transferred from Level 2 to Level 3 because of a lack of observable market data for the securities. The Company's policy is to recognize transfers into or out of a level as of the end of the reporting period. As a result, the fair value for these securities was transferred on December 31, 2016

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 (2016):			
Impaired loans:			
Commercial	$ -	$ -	$ 464
Commercial real estate	-	-	4,782
Residential real estate	-	-	531
Other real estate owned:			
Commercial real estate	-	-	2,640
Residential real estate	-	-	529
Assets (2015):			
Impaired loans:			
Commercial	$ -	$ -	$ 683
Commercial real estate	-	-	4,306
Residential real estate	-	-	5,681
Other real estate owned:			
Commercial real estate	-	-	4,330
Residential real estate	-	-	1,017

Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $9,580, with a valuation allowance of $3,803 at December 31, 2016, resulting in $490 of additional provision for loan losses for the year ended December 31, 2016. Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $16,132, with a valuation allowance of $5,462 at December 31, 2015, resulting in $1,144 of additional provision for loan losses for the year ended December 31, 2015.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $3,169 which is made up of the outstanding balance of $4,738 net of a valuation allowance of $1,569 at December 31, 2016, resulting in an additional provision of $916 for the year ended December 31, 2016. Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $5,347, which is made up of the outstanding balance of $9,503, net of a valuation allowance of $4,156 at December 31, 2015, resulting in an additional provision of $1,935 for the year ended December 31, 2015.

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, 2016 and 2015:

	Valuation Techniques	Fair Value	Asset Category	Unobservable Input(s)	Range (Weighted Average)
2016	Sales approach	$ 5,032	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	3%–37% (13%)
	Income approach	$ 3,914	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	4%–4% (4%)
2015	Sales approach	$ 9,663	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	4%–37% (22%)
	Income approach	$ 6,354	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	4%–15% (7%)

The carrying amount and estimated fair value of the Company's financial instruments at December 31 are as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 151,414	$ 151,414	$ 183,197	$ 183,197
Available for sale securities	169,942	169,942	117,871	117,871
Held to maturity securities	110,604	109,609	127,712	127,747
Loans held for sale	5,395	5,395	8,148	8,148
Loans, net	1,771,738	1,766,530	1,658,973	1,654,927
Federal Home Loan Bank stock	6,751	N/A	6,751	N/A
Interest receivable	5,422	5,422	5,294	5,294
Financial liabilities:				
Deposits	$ 1,915,781	$ 1,914,924	$ 1,834,873	$ 1,833,930
Federal funds purchased and repurchase agreements	106,191	106,191	94,395	94,395
Federal Home Loan Bank advances	564	583	715	745
Subordinated debentures	15,464	19,847	20,742	26,767
Interest payable	219	219	244	244

The following is a summary of the fair value estimation methodologies, not previously presented, used by the Company for the financial instruments above:

The carrying amounts of cash and cash equivalents, and interest receivable and payable approximate fair value. The fair value of loans, excluding loans held for sale, is estimated by discounting the future cash flows using market rates currently offered for loans of similar remaining maturities. Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors. It is not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability.

The fair value of non-interest bearing deposits is the amount payable on demand. The fair value of interest bearing deposits is estimated using market rates currently offered for deposits of similar remaining maturities. The carrying amount is the estimated fair value for federal funds purchased and repurchase agreements that reprice frequently and fully. The fair value of Federal Home Loan Bank advances and the subordinated debentures is estimated based on rates currently available to the Company for borrowings with similar terms and remaining maturities.

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

NOTE 11 – INCOME TAXES

The provision for income taxes consists of the following:

	2016	2015
Current	$ 2,597	$ 2,579
Deferred	1,274	518
	$ 3,871	$ 3,097

The tax provision is less than that obtained by using the statutory federal income tax rates due to tax credits generated by Central Bank & Trust Co.'s limited partnership interest in 17 low-income housing projects, one New Market Tax Credit project, ownership of Qualified Zone Academy Bonds, and tax exempt interest income totaling $2,820 and $3,461 for 2016 and 2015.

Deferred tax assets and liabilities relate principally to unrealized losses on securities available for sale, adjustment for pension obligations, premises and equipment, mortgage servicing rights, the allowance for loan losses, Federal Home Loan Bank stock dividends, fair value adjustments, prepaid pension benefits, other real estate owned losses, partnership investments, and net operating loss carryforwards generated by Central Bank of Jefferson County prior to the Company's acquisition. At December 31, 2016, the Company had net operating loss carryforwards of $788 which expire in 2025. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. The utilization of the net operating loss carryforwards is limited annually under Internal Revenue Code Section 382.

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

	2016	2015
Deferred tax assets	$ 21,834	$ 23,402
Deferred tax liabilities	(6,919)	(7,230)
	$ 14,915	$ 16,172

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

The Company has no unrecognized tax benefits as of December 31, 2016 and 2015. 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, 2016 and 2015. The Company and its subsidiaries file a consolidated U.S. Corporation federal income tax return and the Company and its non-bank subsidiaries file Kentucky Corporation income tax returns. The federal return is subject to examination by taxing authorities for all years after 2012 and the Kentucky returns are subject to examination by taxing authorities for all years after 2011. The Company has certain returns that are subject to examination for the 2004 tax year.

NOTE 12 – RETIREMENT PLANS

The Company has a funded noncontributory defined benefit pension plan covering substantially all employees with five or more years of service prior to December 31, 2009. The plan generally provides pension benefits that are based on compensation levels and years of service. Annual contribution to the plan is made according to established laws and regulations. Plan assets are primarily invested in equity securities, fixed income securities and cash equivalents. The plan provides defined benefits based on years of service and final average salary. The Company uses December 31 as the measurement date for its pension plans.

The Company also maintains a non-qualified supplemental pension plan covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. The benefit obligation related to this unfunded plan was $4,619 and $4,176 at December 31, 2016 and 2015. Amounts recognized in accumulated other comprehensive income (loss) related to this plan at December 31, 2016 and 2015 were $(933) and $(918) and were the result of a net actuarial loss in the plan.

During 2009, the Company curtailed these defined benefit plans, fully vesting and freezing benefits for all employees. The Company expects to make no contributions to the plans in 2017.

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

	December 31,	
	2016	2015
Benefit obligation	$ **(31,576)**	$ (32,131)
Fair value of plan assets	**27,994**	28,821
Funded status	$ **(3,582)**	$ (3,310)

	2016	2015
Employer contributions	$ **-**	$ -
Benefits paid	**1,865**	865

The following benefit payments are expected:

2017	$ 828
2018	766
2019	834
2020	981
2021	1,165
2022–2026	7,892

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2016 and 2015 were $(8,383) and $(8,881) and were the result of a net actuarial loss in the plan.

The accumulated benefit obligation was $31,576 and $32,131 at year-end 2016 and 2015.

Components of net periodic pension cost and other amounts recognized in other comprehensive income (loss) for 2016 and 2015 for the Company's defined benefit pension plans included the following

	2016	2015
Interest cost on projected benefit obligation	$ 1,360	$ 1,340
Expected return on plan assets	(1,220)	(1,243)
Amortization of net gain (loss)	630	600
Net periodic pension cost	770	697
Net gain (loss)	132	923
Amortization of net gain (loss)	(630)	(600)
Total recognized in other comprehensive income (loss)	(498)	323
Total recognized in net periodic pension cost and other comprehensive income (loss)	$ 272	$ 1,020

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income (loss) into net periodic pension cost over the next fiscal year was $581 and $630 as of December 31, 2016 and 2015.

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 2016 and 2015. The weighted-average assumptions used to determine pension benefit obligations were a discount rate and expected return on plan assets of 4.25% for year-end 2016 and 2015.

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 2016 are to maintain an asset mix of approximately 40% equities and 60% fixed income debt securities. Equity securities primarily include investments in mutual funds and blue chip stocks. Fixed income debt securities include agency securities and municipal securities.

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

The Company's pension plan asset allocation at year-end 2016 and 2015, and expected long-term rate of return by asset category are as follows:

Asset Class	Percentage of Plan Assets at Year-End 2016	Percentage of Plan Assets at Year-End 2015	Weighted-Average Expected Long-Term Rate of Return
Equities:			
Common stock	25.85%	27.02%	6.00%–8.00%
Mutual funds	16.73	13.80	6.00%–8.00%
Real estate investment trust	0.74	2.01	6.00%–8.00%
Fixed income:			
Cash and cash equivalents	2.26	1.02	0.00%
Debt securities:			
U.S. government agency securities	0.00	0.00	4.00%
Obligations of states and political subdivisions	54.42	56.15	4.00%
	100.00%	100.00%	

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, mutual funds, and the real estate investment trust, are determined by quoted market prices (Level 1).

Fixed Income Debt Securities: The fair values for fixed income debt securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

The fair value of the plan assets at December 31, 2016 and 2015, 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)
2016				
Plan assets:				
Cash and cash equivalents	$ 632	$ 632	$ -	$ -
Equities:				
Common stock	7,239	7,239	-	-
Mutual funds	4,683	4,683	-	-
Real estate investment trust	206	206	-	-
Fixed income debt securities:				
Obligations of states and political subdivisions	15,233	-	15,233	-
Total plan assets	$ 27,993	$ 12,760	$ 15,233	$ -
2015				
Plan assets:				
Cash and cash equivalents	$ 294	$ 294	$ -	$ -
Equities:				
Common stock	7,786	7,786	-	-
Mutual funds	3,979	3,979	-	-
Real estate investment trust	579	579	-	-
Fixed income debt securities:				
U.S. government agency securities	1	-	1	-
Obligations of states and political subdivisions	16,182	-	16,182	-
Total plan assets	$ 28,821	$ 12,638	$ 16,183	$ -

There were no transfers between Level 1 and Level 2 during 2016 or 2015.

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $92 and $94 in 2016 and 2015. The accrued liability associated with these plans of $1,163 and $1,070 at December 31, 2016 and 2015 is included in other liabilities.

Employee Stock Ownership Plan: The Company maintains an employee stock ownership plan (the "ESOP"). Contributions are determined annually by the Board of Directors in amounts not to exceed 15 percent of the total compensation of all participants. ESOP expense was $1,181 and $693 in 2016 and 2015. As of December 31, 2016 and 2015, a total of 37,466 and 37,532 shares with a fair value of $25,964 and $23,833 were allocated to active participants as well as $112 and $75 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, 2016 is the fair value of all ESOP shares distributed in 2016 and shares to be distributed in 2017 to participants who had terminated as of year-end 2016. 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 $1,611 and $1,359 in 2016 and 2015.

NOTE 13 – REGULATORY MATTERS

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. Central Bank & Trust Co. and Central Bank of Jefferson County, Inc. operate under state bank charters and are subject to regulation by the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation.

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. The 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 with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% in 2015 to 2.50% by 2019. The capital conservation buffer for 2016 is 0.625%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2016, the Company and Banks meet all capital adequacy requirements to which they are subject.

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 2016 and 2015, the most recent regulatory notifications categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institutions' category.

Actual and required capital amounts and ratios, exclusive of 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, 2016						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 262,074	13.4%	$ 156,770	8.0%	N/A	N/A
Central Bank & Trust Co.	239,345	13.1	145,728	8.0	$ 182,161	10.0%
Central Bank of Jefferson County, Inc.	20,938	14.7	11,383	8.0	14,228	10.0
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$ 241,492	12.3%	$ 117,577	6.0%	N/A	N/A
Central Bank & Trust Co.	220,120	12.1	109,296	6.0	$ 145,728	8.0%
Central Bank of Jefferson County, Inc.	19,581	13.8	8,537	6.0	11,383	8.0
Common Tier I (CET 1):						
Consolidated	$ 226,246	11.6%	$ 88,183	4.5%	N/A	N/A
Central Bank & Trust Co.	220,120	12.1	81,972	4.5	$ 118,404	6.5%
Central Bank of Jefferson County, Inc.	19,581	13.8	6,403	4.5	9,248	6.5
Tier I Capital (to Average Assets):						
Consolidated	$ 241,246	10.6%	$ 90,736	4.0%	N/A	N/A
Central Bank & Trust Co.	220,120	10.4	84,354	4.0	$ 105,442	5.0%
Central Bank of Jefferson County, Inc.	19,581	11.3	6,941	4.0	8,676	5.0

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
December 31, 2015								
Total Capital (to Risk-Weighted Assets):								
Consolidated	$ 250,997	13.8%	$	145,922	8.0%		N/A	N/A
Central Bank & Trust Co.	227,359	13.4		135,336	8.0	$	169,170	10.0%
Central Bank of Jefferson County, Inc.	19,809	14.6		10,874	8.0		13,592	10.0
Tier I Capital (to Risk-Weighted Assets):								
Consolidated	$ 229,157	12.6%	$	109,441	6.0%		N/A	N/A
Central Bank & Trust Co.	206,918	12.2		101,502	6.0	$	135,336	8.0%
Central Bank of Jefferson County, Inc.	18,410	13.5		8,155	6.0		10,874	8.0
Common Tier I (CET 1):								
Consolidated	$ 209,557	11.5%	$	82,081	4.5%		N/A	N/A
Central Bank & Trust Co.	206,918	12.2		76,126	4.5	$	109,960	6.5%
Central Bank of Jefferson County, Inc.	18,410	13.5		6,116	4.5		8,835	6.5
Tier I Capital (to Average Assets):								
Consolidated	$ 229,157	10.7%	$	85,704	4.0%		N/A	N/A
Central Bank & Trust Co.	206,918	10.4		79,501	4.0	$	99,376	5.0%
Central Bank of Jefferson County, Inc.	18,410	10.4		7,101	4.0		8,876	5.0

The Company's principal source of funds is dividends received from the Banks. As state-chartered banks, Central Bank & Trust Co. and Central Bank of Jefferson County, Inc. are subject to the dividend restrictions set forth by Kentucky Revised Statutes. Under such restrictions, state-chartered banks may not pay dividends in excess of year-to-date net income combined with the preceding two years' undistributed net income or loss unless approval from the Kentucky Commissioner of Banking is obtained.

Under the most restrictive dividend limitations described, the Banks could pay dividends in 2017 of $26,318 plus any 2017 earnings retained through the date of the dividend declaration.

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

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

At December 31, 2016 and 2015, the Banks had the following financial instruments:

	2016	2015
Standby letters of credit	$ 29,480	$ 32,645
Commitments to extend credit	$ 260,844	$ 290,556
Unused lines of credit	$ 350,955	$ 290,835

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

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

Commitments are generally made for periods of 45 days or less. The Banks evaluate each customer's creditworthiness on a case-by-case basis. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Collateral held varies but may include accounts receivable, marketable securities, inventory, property and equipment, and income-producing properties.

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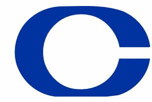

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