75 YEARS OF STRENGTHENING EVERY COMMUNITY WE SERVE.

2020 ANNUAL REPORT

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

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

In 2021, 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 14th time. The competition encourages and motivates Kentucky-based companies to improve their workplace environments, resulting in improved profitability and employee satisfaction.

MISSION STATEMENT

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

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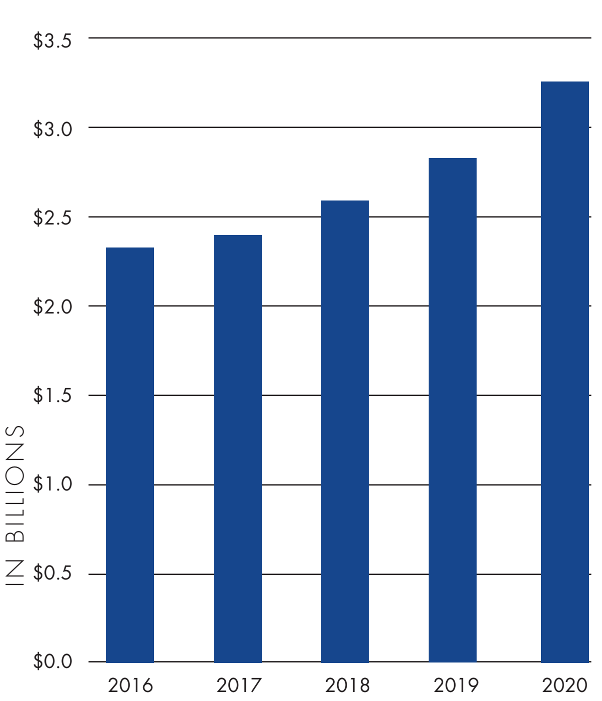
Refer to Marketing for copies: Central Bank & Trust Co., 300 West Vine Street, Lexington, KY 40507

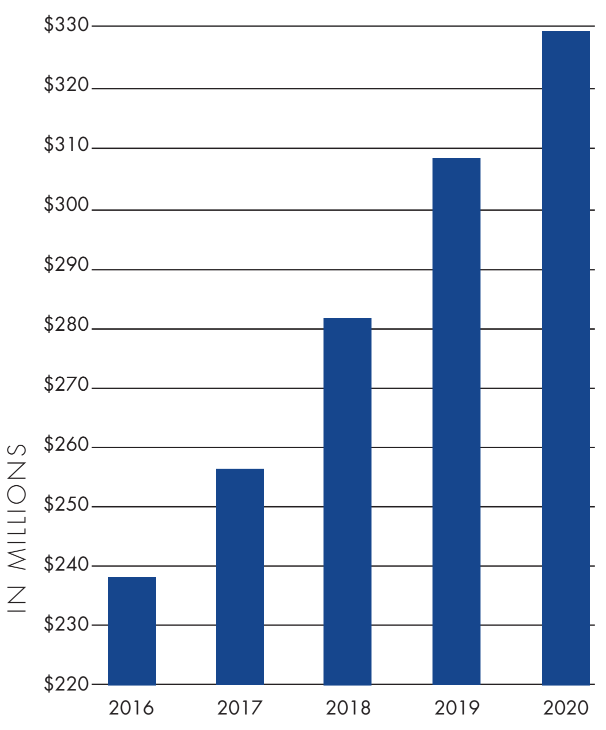
FINANCIAL HIGHLIGHTS

(dollars in thousands, except share data)	2020	2019	2018	2017	2016
	As of and for the twelve months ended December 31				
RESULTS OF OPERATIONS:					
Net income	$ 15,151	$ 31,445	$ 28,128	$ 17,410	$ 17,006
Net income per share	0.44	0.90	0.81	0.50	0.49
Cash dividends per share	0.05	0.05	0.05	0.04	0.03
Book value per share at year end	9.48	8.86	8.06	7.33	6.83
AT DECEMBER 31:					
Assets	$ 3,270,413	$ 2,763,519	$ 2,600,173	$ 2,408,725	$ 2,298,489
Earning assets	3,134,086	2,634,272	2,481,108	2,288,833	2,167,410
Loans, net	2,297,391	2,025,800	2,056,749	1,968,370	1,771,738
Deposits	2,674,055	2,215,844	2,107,493	1,991,028	1,915,781
Shareholders' equity	329,657	308,344	280,590	255,079	237,689
AVERAGES:					
Assets	$ 3,033,257	$ 2,640,451	$ 2,508,594	$ 2,328,930	$ 2,241,332
Earning assets	2,912,431	2,526,382	2,392,888	2,202,883	2,113,110
Loans, net	2,253,730	2,075,030	2,001,079	1,854,129	1,693,741
Deposits	2,450,501	2,110,887	2,046,598	1,930,081	1,861,980
Shareholders' equity	317,719	295,790	269,106	247,887	231,295
PERFORMANCE RATIOS:					
Return on average assets	0.50%	1.19%	1.12%	0.75%	0.76%
Return on average equity	4.77%	10.63%	10.45%	7.02%	7.35%
Average equity to average assets	10.47%	11.20%	10.73%	10.64%	10.32%
Dividend payout ratio	11.40%	5.53%	6.18%	7.99%	6.14%
Net interest margin (tax equivalent)	3.48%	3.99%	3.95%	3.94%	3.71%
CAPITAL RATIOS:					
Total capital to risk-weighted assets	16.4%	15.4%	13.7%	13.0%	13.4%
Tier I capital to risk-weighted assets	15.3%	14.5%	12.8%	12.1%	12.3%
Common equity Tier I to risk-weighted assets	14.6%	13.9%	12.1%	11.4%	11.6%
Tier I capital to average assets	10.4%	11.7%	11.2%	10.9%	10.6%

End of Period Total Assets



Shareholders' Equity



BUILDING A BETTER KENTUCKY,

UK HEALTHCARE

Central Bank has always bled UK blue. In fact, we've been a dedicated and proud supporter of the Commonwealth's flagship university for many years, with a focus on improvement projects, athletics and healthcare. But, in 2020, the world changed – and there were more reasons than ever to help. In addition to our typical financial support, we donated $100,000 to UK Healthcare for Personal Protective Equipment (PPE) at the beginning of the pandemic. Because during a time when staying safe meant staying home, healthcare workers were out on the frontlines every day healing and helping others. We felt this donation was particularly appropriate as it assisted in keeping these healthcare heroes safe while recognizing their extraordinary efforts.

PPE FOR LOCAL SCHOOLS

One of the biggest challenges of 2020 was keeping children and teachers safe in the midst of the pandemic. So, Central Bank partnered with the E.D. Bullard Company, a local manufacturer of high-quality personal protective equipment, to make a sizable donation of face shields to schools in many of our markets. While most schools conducted virtual learning this year, we wanted them to be ready when children returned to the classrooms. We were successful in providing each school we connected with in our markets every shield they requested. Overall, we donated and hand-delivered 12,200 shields for faculty and staff at nearly 100 schools.

ONE PARTNERSHIP AT A TIME.

NOURISH POWERED BY FOODCHAIN

At Central Bank, helping those in need is part of our commitment to the communities we serve. That's why we proudly offered our financial support to Nourish Lexington. In collaboration with FoodChain, Nourish Lexington has provided over 225,000 meals to hungry families since the beginning of the pandemic. Its efforts have also been greatly supported through the skills and resources of many of our local food system professionals, including farmers, cooks, distributors, marketers and servers. Still, the need for freshly prepared meals for children, families and seniors remains great. Donations are gladly accepted to help Nourish Lexington continue to provide meals to those who need it most.

CENTRAL BANK CENTER

In early 2020, our sponsorship and naming rights to the new Central Bank Center (formerly Lexington Center) were announced. Our support will help fund the center's renovation. When complete, this renovation and expansion of the convention center is expected to bring a 15% increase in event activity to Lexington's downtown. The Central Bank Center project underscores our commitment to taking an active role in the success of the communities we serve. Because while this project is taking place in Lexington, the economic growth and community development that results from it will reverberate across the Commonwealth. This new partnership also adds value to our existing relationships with our loyal customer base, as plans are underway to roll out exclusive benefits for Central Bank customers inside Central Bank Center.

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

Influencing all industries in some way, the economic challenges created by the pandemic have been both profound and far-reaching. We began the year poised for outstanding performance across our service lines and optimistic we could deliver another record year. As we approached the second quarter, it became apparent that forces outside our control would temper these expectations. In the wake of new and unexpected circumstances and with the introduction of the Small Business Administration's (SBA) Paycheck Protection Program (PPP) loans, our focus quickly shifted to business lending. As requests for PPP loans poured in, we worked around the clock to process applications for customers and noncustomers alike, remaining motivated by the difference we knew these funds were making in the communities we serve. Aside from our lending efforts, I am pleased to report that after a turbulent start, our Investment, Insurance and Wealth Management groups rebounded to achieve relatively high-performing years. A notable highlight for 2020, Central Bank Mortgage processed a record volume of mortgage loans, contributing to our performance in the non-interest income category.

I am also happy to report that as consumers and businesses across our footprint looked for guidance throughout an unstable year, they consistently turned to us as their trusted, local advisor. For more than 75 years, our Company has dedicated itself to community banking. Founded on a goal of providing outstanding service to our customers and communities, we maintain a commitment to offering a broad selection of products and services. Today, we are building on that tradition by continuing to deliver on our promises even in times of uncertainty. I am acutely aware of how fortunate we are to be part of the Central Bank family and to report successes on the heels of one of the most challenging years in recent history.

PERFORMANCE

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

- Net income was $15.2 million or $0.44 per share for 2020. In 2019, earnings were $31.4 million or $0.90 per share.
- Deposits grew $458 million or 20.7%, ending the year at $2.7 billion.
- Total loans increased $278 million or 13.6%, ending the year at $2.3 billion.
- Shareholders' equity grew 6.9% to $330 million.

PRODUCTS & SERVICES

In early 2020, the introduction of a new business banking strategy underscored our commitment to strengthening existing business relationships while also demonstrating to prospective clients the clear advantages of a partnership with Central Bank. Notable highlights of the new program include enhancements to the Central @ Work program and updates to the Business 150 Checking Account.

With regard to PPP, we opened our program to customers and noncustomers from the outset. As our diligent Lending and Operations staffs became PPP experts almost overnight, they witnessed many local business owners struggling to find a lender to help them submit their loan requests to the SBA in time to secure funds. We have seen many new relationships form because we were able to assist these local businesses during a time when they were not sure where to turn for help. In terms of our existing clients, we have been fortunate that working closely with them during the PPP process has allowed us to gain an understanding of their business operations in ways we might not have had otherwise. From both new and existing clients, we continue to hear what these funds have meant for their businesses, especially in regard to keeping their employees on payroll.

As the year progressed, we recognized the need to accelerate planned advancements to our commercial online and mobile banking products to meet the increasingly sophisticated needs of our business clients. Today, we offer a robust commercial online banking platform, but plans are underway to upgrade to a new platform by the summer of 2021. Benefits of the new commercial online banking platform include a new mobile banking app with remote deposit, single sign-on to auxiliary services, customizable dashboard views, streamlined functionality and more.

On the consumer side, adoption of our digital banking products gained unprecedented momentum as our customers sought to expand their banking and transaction options. As a result, many customers who were unlikely to adopt online or mobile banking in the past were pleased to find these products add value and ease to their existing banking relationships. As engagement with our digital products continues to expand, our dedicated staff proactively and continually direct their energy to projects that enhance these already robust digital platforms.

While much of this letter focuses on the increasing number of our customers who chose to transact with the Bank online or with mobile banking, we recognize the importance of access to trusted local experts who are available at our brick-and-mortar locations. We continue to prioritize in-person service options, adding staff when needed to keep pace with our growing customer base and market footprint.

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

LOOKING FORWARD

As we enter 2021, we look ahead with excitement to the celebration of Central Bank's 75th anniversary in April. While we have grown significantly from our beginnings at the corner of Short and Upper streets in downtown Lexington, we remain just as dedicated to the community-driven mission of our founder, Garvice D. Kincaid, as when we first opened our doors in 1946. Today, this commitment lives on through Mr. Kincaid's daughter, Joan D. Kincaid. As Vice Chairman of the Board, Joan ensures that while innovation continues, the bank stays true to her father's founding principles. Energized by our upcoming milestone and motivated by our many accomplishments in 2020, we look forward to the year ahead. With customer service that remains unmatched by any of our competitors, continued advances within online and mobile banking, renewed emphasis on our retail and small-business banking strategies and an unwavering focus on the communities we serve, we expect 2021 to be another successful year.

Joan D. Kincaid
Vice Chairman of the Board

RETIREES

In the words of our founder, "No one person is responsible for our success. A leader is only as good as his followers, and – in this regard – I consider myself fortunate to be blessed with so many talented and hardworking associates. It has been a team effort." It is with this sentiment that we thank nine long-term employees who completed their service to reach well-earned retirements: Connie Skees (Consumer Lending, 41 years); Sharon Smith (Commercial Mortgage Lending, 38 years); Marie Young (Loan Review, 23 years); Mike Wynn (Retail Banking, 21 years); Karen Pugh (Loan Services, 17 years); Karen Butler (Retail Banking, 15 years); Brenda Graham (Retail Banking, 15 years); Glenn D. Leveridge (Winchester Market President, 12 years); and Malia Herzog (Retail Banking, six years). They were dedicated Central Bankers who served our Bank and their customers with distinction. We honor their service and congratulate them on their achievements.

WITH APPRECIATION

As with each year, our directors offer support and leadership that remain key components of our success. During a time when it was more important than ever to remain connected to our local markets, their insight was invaluable to us.

After joining the Central Bank and Central Bancshares Boards of Directors in 2011, Nick Nicholson announced his retirement from both Boards in December 2020. Nick proved to be a great asset to the Bank with his business insight and experience. We wish Nick and his family the best as he now enjoys retirement.

Perhaps now more than ever, I am honored to say our Bank is in the hands of knowledgeable and caring staff. We call them Central Bankers, and they are the foundation of this Company. Their commitment to service and to our customers is unwavering. Thanks to their support, we were named one of Kentucky's Best Places to Work for the 14th year.

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

Luther Deaton, Jr.
Chairman, President & CEO
March 11, 2021

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

Central Bancshares, Inc. (the "Company"), a bank holding company located in Lexington, Kentucky, is the parent company of Central Bank & Trust Co. (the "Bank"). At December 31, 2020, the Company had 28 full service banking centers located in Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full service brokerage business and a full service insurance agency.

COVID-19

In March 2020, COVID-19 ("Pandemic") was declared a pandemic by the World Health Organization and a national emergency by U.S. President Trump. The Pandemic created significant widespread economic and financial disruptions at state, national, and international levels during 2020. The Pandemic has adversely affected individuals, businesses, and government operations including the Company and its customers.

Among the many other significant effects, the Pandemic has led to higher unemployment, an increase in the provision for loan losses, and reductions in the rates and yields on interest earning assets and interest paying liabilities. Information security and operational risks were also heightened due to an increase in the use of a more remote workforce, mainly during the early part of the Pandemic when government entities placed tight restrictions on in-person gatherings with the goal of limiting the spread of the virus. Certain businesses, such as hotels and lodging providers, restaurants, entertainment facilities, retail, and commercial real estate, have been more heavily impacted than others by travel and other restrictions that have been imposed.

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

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

RESULTS OF OPERATIONS

The Company reported net income of $15.2 million or $0.44 per common share for 2020 compared with $31.4 million or $0.90 per common share for 2019. Return on average assets and average equity was 0.50% and 4.77%, respectively, for 2020 compared with 1.19% and 10.63% a year earlier. The decrease in net income for 2020 is primarily the result of an increase in the provision for loan losses of $5.1 million and higher non-interest expenses of $16.1 million or 15.7%, partially offset by lower income tax expense of $2.9 million or 72.0%.

NET INTEREST INCOME

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings used to fund those assets. Net interest income is the largest source of revenue for the Company, which represented 71.1% of total revenue for 2020.

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

Net interest income was $102 million in 2020, an increase of $796 thousand or 0.79% compared to $101 million in 2019. The improvement in net interest income was primarily attributed to rate decreases related to interest bearing liabilities, partially offset by an increase in average earning assets of 15.2%. The $9.2 million or 56.9% decrease in total interest expense on deposits and borrowed funds exceeded the $8.4 million or 7.2% decline from interest on earning assets.

Market interest rates decreased significantly over a short period of time in early 2020 in response to Federal Reserve actions to lower the short-term targeted federal funds rate to a range of between zero and 0.25%, with two separate rate reductions totaling 150 basis points occurring during March in reaction to the Pandemic. The Federal Reserve has indicated that it expects to maintain the federal funds rate at its current level until labor market conditions improve and inflation reaches 2% and is on track to moderately exceed that level for some time. As a result, the Company expects its net interest income to contract and further compress net interest margin over the near term.

The Company's net interest spread was 3.32% and 3.63% for 2020 and 2019, respectively. This represents a decrease of 31 basis points and was driven by a 90 basis point decline in the average rate earned on earning assets, partially offset by a 59 basis point decline in the average rate paid on interest

bearing liabilities. In the current low interest rate environment, it is not practical or possible to reduce certain deposit rates by the same magnitude as the fall in rates on earning assets. As such, earning assets with higher yields have more of an opportunity to reprice to lower rates than existing low-rate deposits. Rate reductions on earning assets were partially offset by a $388 million or 15.2% increase in average earning assets.

Net interest margin for 2020 was 3.48%, down 51 basis points from a year earlier. The impact of noninterest bearing sources of funds added 16 basis points to net interest margin during 2020, a decrease of 20 basis points in the comparison. The benefit of noninterest bearing sources of funds to net interest margin decreases as the cost of funds declines.

Total interest income for 2020 was $109 million, a decrease of $8.4 million or 7.2% compared to $117 million for 2019. The decrease in interest income occurred in all major earning asset categories and was driven by lower interest rates. Higher average earning asset balances partly offset the significant decrease in rates, but a greater portion of the balances was made up of lower yielding interest bearing deposits with other financial institutions.

Average loans were $2.3 billion for 2020, an increase of $180 million or 8.6%, but the increase was offset by a lower average rate earned of 56 basis points to 4.55%. Lower yielding average interest bearing deposits with other financial institutions and securities increased $166 million or 85.8% and $41.4 million or 16.5%, but were offset by a decrease in their respective yield of 175 basis points and 110 basis points.

Total interest expense for 2020 was $7.0 million, a decrease of $9.2 million or 56.9% from the prior year. Interest expense on deposits, the largest component of interest expense, was $5.5 million for 2020, down $8.3 million or 59.9%. Interest expense decreased in all major categories of the deposit portfolio, driven by the rapid drop in rates that occurred in the first quarter related to the Pandemic. Although rates decreased drastically and over a short period of time, average deposit balances grew significantly throughout the portfolio compared to 2019 with the exception of time deposits.

Interest expense on time deposits decreased $5.6 million or 58.8%, driven by a lower average rate paid of 99 basis points to 0.86%. A lower average balance of $55.2 million or 10.7% also contributed to a lesser extent. Interest expense on money market, NOW, and savings accounts decreased $1.6 million or 64.4%, $765 thousand or 56.9%, and $246 thousand or 69.7%, respectively. The decrease in each of those categories was rate-driven, which more than offset higher average balances for each of those categories in the yearly comparison.

Interest expense on borrowed funds was $1.4 million for 2020, a decrease of $895 thousand or 38.8%. Interest on short-term borrowings, primarily repurchase agreements with commercial customers, decreased $575 thousand or 78.0% due to a lower average rate paid of 41 basis points to 0.09%. Overall balances were up $30.8 million or 21.1%.

The table below reflects information regarding the Company's average balances, interest income or expense, and average rates earned and paid by each major balance sheet category for the years ended December 31, 2020 and 2019.

NET INTEREST MARGIN ANALYSIS

(dollars in thousands)

	2020			2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets						
Loans[1,2]	$ 2,274,331	$ 103,522	4.55%	$ 2,094,164	$ 106,981	5.11%
Interest-bearing deposits	359,367	1,306	0.36%	193,458	4,080	2.11%
Federal Home Loan Bank stock	6,751	152	2.25%	6,751	337	5.00%
Securities[1]	292,582	4,169	1.42%	251,143	6,331	2.52%
Total interest-earning assets	$ 2,933,031	$ 109,149	3.72%	$ 2,545,516	$ 117,729	4.62%
Interest-bearing liabilities						
Deposits						
NOW accounts	$ 370,100	$ 579	0.16%	$ 316,774	$ 1,344	0.42%
Savings deposits	181,980	107	0.06%	153,332	353	0.23%
Money market deposits	502,187	908	0.18%	435,178	2,548	0.59%
Time deposits	462,033	3,955	0.86%	517,230	9,591	1.85%
Total interest-bearing deposits	1,516,300	5,549	0.37%	1,422,514	13,836	0.97%
Short-term borrowings	176,880	162	0.09%	146,115	737	0.50%
Long-term borrowings	57,004	1,248	2.19%	60,013	1,568	2.61%
Total interest-bearing liabilities	$ 1,750,184	$ 6,959	0.40%	$ 1,628,642	$ 16,141	0.99%
Net interest margin		$ 102,190	3.48%		$ 101,588	3.99%

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

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS

(dollars in thousands)

	2020/2019			2019/2018		
		Increase/(Decrease) Due To			Increase/(Decrease) Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ (3,459)	$ (12,221)	$ 8,762	$ 8,655	$ 5,010	$ 3,645
Interest-bearing deposits	(2,774)	(4,799)	2,025	974	221	753
Federal Home Loan Bank stock	(185)	(185)	-	(60)	(60)	-
Securities	(2,162)	(3,082)	920	1,279	732	547
Total interest income	(8,580)	(20,287)	11,707	10,848	5,903	4,945
Interest expense						
Deposits						
NOW accounts	(765)	(961)	196	103	171	(68)
Savings deposits	(246)	(302)	56	57	51	6
Money market deposits	(1,640)	(1,983)	343	369	488	(119)
Time deposits	(5,636)	(4,703)	(933)	3,439	1,763	1,676
Short-term borrowings	(575)	(704)	129	111	27	84
Long-term borrowings	(320)	(244)	(76)	528	17	511
Total interest expense	(9,182)	(8,897)	(285)	4,607	2,517	2,090
Net interest income	$ 602	$ (11,390)	$ 11,992	$ 6,241	$ 3,386	$ 2,855

Interest expense on long-term borrowings, consisting of Federal Home Loan Bank ("FHLB") advances and subordinated debentures, decreased $320 thousand or 20.4% primarily due to a decrease in the average rate paid on the subordinate debentures at the parent company. The rate paid on this debt is variable and decreased in each of the four reset periods during 2020. This led to a 42 basis point overall decrease in the average rate paid on total long-term borrowings to 2.19%.

The Company's 2020 average loans to average deposits ratio decreased to 92.8% from 99.2% in 2019. The decrease was driven by average deposit growth of $340 million or 16.1%, which outpaced an increase in average loans of $180 million or 8.6%.

Overall liquidity levels continued to be strong in 2020 due to significant deposit growth which was well in excess of loan demand. Liquidity position and related metrics are closely monitored as management seeks the appropriate balance between the relative safety of higher liquidity levels and corresponding lower yields, versus the interest rate risk inherent in obtaining higher yields over a longer term investment.

The table above reflects the changes in net interest income in 2020 and 2019 due to changes in rates and volumes computed on a tax equivalent basis.

NON-INTEREST INCOME

Total non-interest income was $41.2 million for 2020, an increase of $1.3 million or 3.25% from 2019. Non-interest income was driven higher primarily by mortgage banking and wealth management activities of $2.5 million or 64.0% and $972 thousand or 6.7%, respectively. These were partially offset by decreases in service charges on deposit accounts of $1.4 million or 19.6% and volume related credit card and interchange fees of $527 thousand or 8.5%. The current year also includes a $357 thousand increase in write-downs of other real estate owned while a $418 thousand termination fee was received upon the exit of a tax credit partnership in 2019.

The increase in mortgage banking income was led by higher net gains on the sale of real estate mortgage loans sold in the secondary market. The Company sells a significant majority of these long-term, fixed-rate mortgages it originates as part of its overall management of interest rate risk. Gains on the sale of mortgage loans were driven by record origination volume primarily from homeowner refinancing activity at historically low interest rates. Loans originated for sale to the secondary market were $334 million in 2020, up 60.0% from a year earlier.

Wealth management income primarily includes trust administration, retirement and estate planning, insurance commissions, and investment brokerage fees. Such fees totaled $15.5 million for 2020, with low double digit percentage increases for insurance related commissions and brokerage fees due to volume demand. Insurance commissions largely increased due to higher commercial lines and contingency fees along with an increase in title policy volume that correlate to mortgage loan originations. Trust fees increased $245 thousand or 3.0% primarily due to growth in average assets under management of $88.0 million or 5.1% from a combination of higher market valuations and a net addition in the overall number of accounts managed. Total assets under management increased to $2.0 billion at year-end 2020.

The $1.4 million decrease in service charges on deposit accounts is attributed to lower NSF and overdraft charges of $1.6 million or 34.0%. Although recurring deposit service charges were up $146 thousand or 5.6% due to an increase in the number of deposit accounts and balances, customer

ANALYSIS OF NON-INTEREST INCOME
(dollars in thousands)

	2020	2019	2018	2020/2019 CHANGE	2020/2019 %	2019/2018 CHANGE	2019/2018 %
Service charges on deposit accounts	$ 5,834	$ 7,253	$ 7,261	$ (1,419)	(19.56)%	$ (8)	(0.11)%
Mortgage banking income	6,425	3,918	3,095	2,507	63.99 %	823	26.59 %
Card and interchange fees	5,705	6,232	6,250	(527)	(8.46)%	(18)	(0.29)%
Trust fees	8,471	8,226	7,878	245	2.98 %	348	4.42 %
Electronic banking fees	6,441	5,944	5,532	497	8.36 %	412	7.45 %
Net gain (loss) on sales and write-downs of OREO	(472)	(109)	(632)	(363)	333.03 %	523	(82.75)%
Other fees and income	8,781	8,423	8,021	358	4.25 %	402	5.01 %
Total non-interest income	$ 41,185	$ 39,887	$ 37,405	$ 1,298	3.25 %	$ 2,482	6.64 %

spending behavior tended to be more conservative during most of the year which correlated to government shutdowns of much of the economy due to the Pandemic.

NON-INTEREST EXPENSE

Total non-interest expense for 2020 was $119 million, an increase of $16.1 million or 15.7% compared with 2019. The increase in non-interest expense is largely attributed to termination of the Company's noncontributory defined benefit pension plan ("Pension Plan" or "Plan") and contributions to its employee stock ownership plan ("ESOP"). Other components of salaries and benefits totaled $51.4 million for 2020, an increase of $2.8 million or 5.7%. Commission expenses related to mortgage banking and insurance brokerage were the primary driver of the increase, which grew $1.5 million or 42.2% in the aggregate.

The Company's Board of Directors in 2019 approved a resolution to terminate its Pension Plan effective January 8, 2020. The Plan, which covered substantially all employees with five or more years of service prior to December 31, 2009, was curtailed in 2009 by fully vesting and freezing benefits for eligible employees at that time. The Company received approval from the Internal Revenue Service and the Pension Benefit Guaranty Corporation to terminate the Plan during 2020 and the settlement of all assets and liabilities under the Plan was completed by December 31, 2020. Participants were provided distribution options to either purchase an annuity, receive a lump-sum cash payment, or directly roll their funds into a qualifying retirement plan. Total pension expense, including the non-qualified plan discussed below, was $10.6 million in 2020, an increase of $7.7 million in the annual comparison. Pension expense for 2020 includes a net settlement loss of $5.6 million.

The Company maintains a non-qualified supplemental pension plan ("Supplemental Plan") covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. Net periodic pension costs for the plan were $752 thousand and $492 thousand for 2020 and 2019. Similar to the Pension Plan, the Company in 2009 curtailed the Supplemental Plan, fully vesting and freezing participant benefits.

ESOP expense was $5.0 million and $1.8 million for 2020 and 2019, respectively. This represents an increase of $3.3 million. Contributions to the ESOP can fluctuate over time and are highly dependent upon the share price and number of Company shares that become available from owners electing to sell their shares back to the ESOP. The number of available shares to purchase increased significantly during 2020 as the pool of new retirees had a greater number of shares than is typically available and the Company elected to exercise its right to purchase.

Card and interchange expense was $5.2 million, down $721 thousand or 12.2% compared to $5.9 million a year earlier. The decrease was primarily attributed to lower debit and credit card reward expense of $532 thousand or 38.4% combined with lower interchange fees of $168 thousand or 4.9% due to lower volumes.

ANALYSIS OF NON-INTEREST EXPENSE
(dollars in thousands)

	2020	2019	2018	2020/2019 CHANGE	2020/2019 %	2019/2018 CHANGE	2019/2018 %
Salaries and benefits	$ 56,395	$ 50,351	$ 47,175	$ 6,044	12.00 %	$ 3,176	6.73 %
Occupancy and equipment	18,943	17,483	16,752	1,460	8.35 %	731	4.36 %
Processing charges	7,141	6,722	5,927	419	6.23 %	795	13.41 %
Advertising and business development	7,670	7,574	6,304	96	1.27 %	1,270	20.15 %
Card and interchange expenses	5,209	5,930	5,413	(721)	(12.16)%	517	9.55 %
Professional services	1,944	1,734	2,073	210	12.11 %	(339)	(16.35)%
Bank franchise tax	2,915	2,886	2,567	29	1.00 %	319	12.43 %
FDIC insurance assessment	753	177	853	576	325.42 %	(676)	(79.25)%
Other real estate owned, net	78	176	123	(98)	(55.68)%	53	43.09 %
Pension plan settlement loss	5,586	-	-	5,586	0.00 %	-	0.00%
Other	12,025	9,494	9,699	2,531	26.66 %	(205)	(2.11)%
Total non-interest expense	$ 118,659	$ 102,527	$ 96,886	$ 16,132	15.73 %	$ 5,641	5.82 %

INCOME TAXES

The Company recorded income tax expense of $1.1 million for 2020 compared with $4.0 million for 2019, a decrease of $2.9 million or 72.0%. The decrease is mainly attributed to a decline of $19.2 million or 54.1% in pre-tax income combined with an increase in Federal income tax credits of $891 thousand or 87.6% related to investments in tax credit partnerships. The effective income tax rates were 6.9% and 11.3% for the current and preceding year, respectively. The increase in tax credits for 2020 reduced the effective income tax rate by 548 basis points.

The Commonwealth of Kentucky enacted tax reform during 2019. Under this reform, which consisted of two separate legislative initiatives as further described below, the Company recorded a total tax benefit and corresponding deferred tax asset of $1.8 million.

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

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

The Company's tax planning strategy includes the participation in Industrial Revenue Bond lending for nonprofit organizations to increase tax-exempt income. It is also a limited partner in 20 low-income housing projects and four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation tax credits.

FINANCIAL CONDITION

Total assets of the Company at year-end 2020 were $3.3 billion, an increase of $507 million or 18.3% compared with year-end 2019. Balance sheet growth was funded mainly by higher deposits of $458 million or 20.7% and commercial sweep accounts of $61.4 million or 43.7%, partially offset by a decrease in FHLB borrowings of $25.1 million or 49.8%. Earning assets were $3.1 billion or 95.8% of total assets at December 31, 2020 compared with $2.6 billion or 95.3% of total assets a year earlier. Although earning assets make up a higher percentage of total assets, the overall yield declined due to significant market rate decreases in 2020 and a greater proportion of lower yielding interest bearing deposits with other financial institutions. Loans outstanding, net of the allowance for loan losses, increased $272 million or 13.4%. Cash and cash equivalents were up $206 million or 54.9% in the comparison and the securities portfolio was relatively unchanged at $276 million.

Shareholders' equity was $330 million at December 31, 2020, up $21.3 million or 6.9% for the year. The increase in equity was driven by net income for the year of $15.2 million and other comprehensive income of $7.9 million, partly offset by cash dividends of $1.7 million. Other comprehensive income represents changes in net assets from non-owner sources. For the Company, this represents the after tax amount of unrealized gains and losses on available for sale investment securities and changes in the funded status of its pension plans. Other comprehensive income for 2020 mainly represents the impact of terminating the Pension Plan, which includes $8.3 million related to reclassification adjustments for amounts previously accrued and recognized in net income. Such items consist of amortization of the net actuary loss, actuary gains arising during the period, and the settlement loss upon termination.

EARNING ASSETS

Gross loans outstanding were $2.3 billion at December 31, 2020, an increase of $278 million or 13.6% from the prior year-end. Commercial loan balances, which were up $264 million or 61.8%, were driven primarily by the Company's active participation in the initial round of the PPP lending program where it originated $408 million and received $13.1 million from the SBA in processing fees. These fees are being earned over the estimated life of the loans and included in interest income. Any unearned processing fees existing at the time a PPP loan is forgiven are recognized immediately in income.

During 2020, SBA forgiveness activity decreased gross PPP balances outstanding to $325 million at year-end and the Company earned $7.9 million of the processing fees through 2020. Substantially all of the remaining outstanding balance related to the initial round of PPP lending is expected to be forgiven during the first nine months of 2021. The PPP program was reauthorized in late 2020 to provide for additional maximum funding as set forth in the legislation or through March 31, 2021, whichever occurs first. The Company is participating in the second round of the program, although it expects to be at a reduced level than the initial round.

Residential real estate and installment loans increased $27.1 million or 6.2% and $28.5 million or 31.0%, respectively. Historic low interest rates were the main catalyst for the level of growth in these segments. Additionally, for installment loans, there was a pickup in demand for outdoor equipment and recreational types of assets as many consumers sought alternatives imposed by certain COVID-19 indoor restrictions.

Commercial real estate loans, the largest component of the portfolio, was $1.0 billion at year-end 2020. This represents a decrease of $34.9 million or 3.3% due primarily to several large early payoffs. Opportunities and current loan pipelines are encouraging, but significant issues concerning the Pandemic and its impact on the economy remain.

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(dollars in thousands)

	2020	2019	2018	2017	2016
Allowance for loan losses					
Balance January 1	$ 19,106	$ 20,183	$ 20,485	$ 20,582	$ 21,840
Provision for loan losses	7,812	2,672	2,120	2,310	4,464
Less: net charge-offs	(1,733)	(3,749)	(2,422)	(2,407)	(5,722)
Balance December 31	$ 25,185	$ 19,106	$ 20,183	$ 20,485	$ 20,582
Average loans, net of unearned income	$ 2,274,331	$ 2,094,164	$ 2,020,794	$ 1,875,414	$ 1,715,145
Loans, net of unearned income, at year-end	2,322,576	2,044,906	2,076,932	1,988,855	1,792,320
Nonperforming loans at year-end	22,744	7,474	11,730	13,589	26,245
Other real estate owned at year-end	1,385	1,888	3,225	2,721	5,050
Ratios:					
Provision for loan losses to average loans	0.34%	0.13%	0.10%	0.12%	0.26%
Net charge-offs to average loans	0.08%	0.18%	0.12%	0.13%	0.33%
Allowance for loan losses to loans	1.08%	0.93%	0.97%	1.03%	1.15%
Allowance for loan losses to nonperforming loans	110.73%	255.63%	172.06%	150.75%	78.42%
Nonperforming loans to loans	0.98%	0.37%	0.56%	0.68%	1.46%
Nonperforming assets to total assets	0.74%	0.34%	0.58%	0.68%	1.36%
Nonperforming assets to total shareholders' equity and allowance for loan losses	6.80%	2.86%	4.97%	5.92%	12.12%
Total delinquent loans at year-end	1.17%	0.53%	0.79%	1.04%	1.92%

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

Total debt securities were $276 million at year-end 2020, relatively unchanged from a year earlier. Funds made available from the increase in deposits have been loaned out to the extent possible based on prudent underwriting standards and overall demand. Excess funds have generally been held in short-term interest bearing deposits with other financial institutions due to the relative lack of suitable return available on longer-term investment instruments.

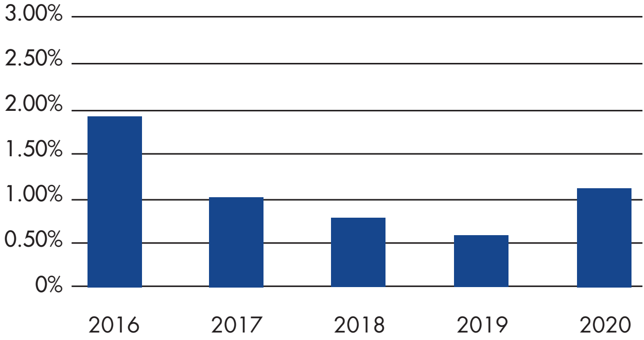
On-balance sheet liquidity remained strong at year-end 2020, with a $206 million or 54.9% increase in the level of cash and cash equivalents combined with a lower ratio of loans to deposits. Internal liquidity ratios, which are monitored closely on a regular basis, are within long-standing parameters established by policy and regulatory guidance. Total deposits were $2.7 billion at year-end 2020, an increase of $458 million or 20.7%. Federal funds purchased and short-term customer repurchase agreements were $202 million, up $61.4 million or 43.5% due to higher repurchase balances. Long-term borrowings decreased $25.1 million due to scheduled principal repayments during the year.

ALLOWANCE FOR LOAN LOSSES

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

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

Delinquency



The allowance for loan losses was $25.2 million and $19.1 million at December 31, 2020 and 2019, an increase of $6.1 million or 31.8%. The allowance for loan losses was 1.08% of the loan portfolio as of year-end 2020 compared with 0.93% a year ago. The 2020 provision for loan losses was $7.8 million, an increase of $5.1 million or 192% in the annual comparison. Net loan charge-offs were $1.7 million and $3.7 million for 2020 and 2019, respectively. Net charge-offs as a percentage of average loans were 0.08% in 2020, a decrease of 10 basis points from 0.18% a year earlier. Net charge-offs for 2020 were at the lowest level both in terms of the dollar amount and as a percentage of average loans since pre-2000.

Certain credit quality metrics of the loan portfolio worsened in 2020 when compared to a year earlier. These declines are primarily the result of a small number of larger balance credits. The overall improvements in credit quality trends experienced over the last several years remained relatively stable, although government financial support for businesses and individuals in response to the Pandemic has thus far minimized the magnitude of a more severe adverse impact to the Company and the banking sector in general. Certain industry sectors have been impacted to a greater degree by the economic effects of COVID-19. Businesses that more heavily rely on large gatherings of people such as hotels, restaurants, and sporting events are likely to have longer lasting negative effects and be slower to recover than for other businesses.

Nonperforming loans consist of those that have been classified as nonaccrual as well as those which are past due over 90 days and still accruing interest. Nonperforming loans increased $15.3 million to $22.7 million at year-end 2020, driven by the addition of two larger balance commercial real estate credits with an aggregate total balance of $13.6 million. As a percentage of year-end loans, nonperforming loans were 0.98%, up from 0.37%. The allowance for loan losses as a percentage of nonperforming loans was 111% at year-end 2020 compared with 256% at year-end 2019. The Company has allocated $1.3 million of specific reserves to the two credits noted above.

Loans identified as special mention and substandard increased $11.5 million or 11.8% in the annual comparison, led by four commercial real estate credits secured by hotel properties impacted by travel restrictions related to COVID-19. As a percentage of the loan portfolio, special mention and substandard credits decreased 7 basis points to 4.69% due to the $278 million larger loan portfolio.

Impaired loans, which are those where it is considered probable that all principal and interest amounts will not be collected in accordance with the original loan terms, were $78.3 million at year-end 2020. This represents an increase of $9.5 million or 13.8%, which includes three of the special mention and substandard hotel credits above with a total outstanding balance of $13.8 million. Specific reserves on impaired loans were $3.2 million or 4.1% of the outstanding balance at year-end 2020 compared with $2.4 million or 3.5% a year earlier.

Management considered the effect of the Pandemic on the Company's loan portfolio, its borrowers, and the local economy. Significant analyses have been performed particularly on the commercial and commercial real estate loan portfolios in order to evaluate the impact of COVID-19 and to identify loss exposures. Reserves have been adjusted accordingly. While management uses the best information available at the time of the analysis and is comfortable with the overall adequacy of the allowance for loan losses at December 31, 2020, future adjustments may be necessary if economic conditions worsen or if assumptions in the evaluation differ substantially from actual results.

DEPOSITS

Total deposits were $2.7 billion at year-end 2020, an increase of $458 million or 20.7% from December 31, 2019. Deposit balance growth is attributed largely to government stimulus programs designed to assist both individuals and business entities through a time of economic hardship caused by the Pandemic. Deposit balances also benefited from customers that generally have tended to spend less, as well as from any unspent PPP funds initially deposited by bank customers. Non-interest bearing deposits were up $332 million or 44.7% followed by an increase in interest bearing deposits of $127 million or 8.6%.

Deposit balances increased in all major categories with the exception of time accounts, as such balances typically fall when interest rates decline. Non-interest bearing deposits were 40.1% of total deposits at year-end 2020, up from 33.5%. Commercial demand deposits increased $244 million or 48.2%. Interest bearing accounts increased as follows: money market $125 million or 28.6%, interest checking $65.4 million or 18.7%, and savings $55.3 million or 35.8%. Time deposits decreased $119 million or 22.2%, with a significant portion of the balances retained by the Bank and transferred into other deposit categories.

SHORT-TERM BORROWINGS

Short-term borrowing sources consist primarily of repurchase agreements and sweep accounts of commercial customers. The cash management services offered by the Company continue to be a valued service for our commercial deposit customers. The balance in commercial sweep accounts was $202 million at December 31, 2020, an increase of $61.4 million or 43.7% from a year ago. These accounts are overnight repurchase agreements requiring a direct pledge from the Company's investment portfolio.

LONG-TERM BORROWINGS

Long-term borrowings consist of FHLB advances and subordinated debentures. At December 31, 2020, the Company had $25.3 million of outstanding borrowings from the FHLB, a decrease of $25.1 million compared with the prior year-end which is primarily attributed to a fixed rate bullet advance that matured in July. Nearly all of the remaining $25.3 million FHLB debt is scheduled to mature in 2023, with a weighted average rate of 2.44%. The Company is subject to a prepayment penalty if it were to repay any of the advances prior to maturity. The advances are borrowed under a blanket

lien agreement and are collateralized by FHLB stock and fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans.

In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15 thousand trust preferred securities with a liquidation amount of $1 thousand per security. The Company issued $15.5 million of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust in the amount of $464 thousand and the proceeds of the preferred securities sold by the trust of $15.0 million. The subordinated debentures mature on June 15, 2035, and have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The interest rate in effect as of the last determination date for 2020 was 1.97%, a decrease of 167 basis points or 45.9% from a year ago.

The subordinated debentures are redeemable in whole or in part, without penalty, at the Company's option. The subordinated debentures, net of the Company's investment in the trust, may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. At year-end 2020 and 2019, the Company's Tier 1 capital included $15.0 million, which represents the full amount of the subordinated debentures net of the investment in the trust.

CAPITAL

Capital adequacy guidelines issued by regulatory agencies of bank holding companies and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items. Federal banking agencies adopted rules during 2013 to bring U.S banking organizations into compliance with capital standards based on final rules issued by the Basel Committee on Banking Supervision. Such standards, commonly referred to as "Basel III," became effective January 1, 2015 with all of the requirements being gradually implemented over a multi-year schedule and fully phased in on January 1, 2019. The Company's capital ratios at December 31, 2020 and 2019 continued to significantly exceed the levels required to be considered "well capitalized" under regulatory guidance on a fully phased-in basis and, as a result, the implementation of Basel III had no material impact to capital.

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

As of December 31, 2020, the Company had the following capital ratios for regulatory purposes:

	Common Equity Tier 1 Risk-based Capital Ratio[1]	Tier 1 Risk-based Capital Ratio[1]	Total Risk-based Capital Ratio[1]	Tier 1 Leverage Capital Ratio[2]
Company	14.6%	15.3%	16.4%	10.4%
Bank	15.0	15.0	16.2	10.2

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

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

INDEPENDENT AUDITOR'S REPORT

Crowe LLP
Independent Member Crowe Global

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Central Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Bancshares, Inc. as of December 31, 2020 and 2019, 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, 2020, 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 11, 2021 expressed an unmodified opinion.

Crowe LLP
Louisville, Kentucky
March 11, 2021

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31	
	2020	2019
ASSETS		
Cash and due from financial institutions	$ 51,737	$ 57,755
Interest-bearing deposits with other financial institutions	530,600	318,200
Total cash and cash equivalents	582,337	375,955
Available for sale debt securities	262,208	258,055
Held to maturity debt securities	13,692	19,083
Total debt securities	275,900	277,138
Loans held for sale	23,364	6,303
Loans, net of allowance of $25,185 (2020) and $19,106 (2019)	2,297,391	2,025,800
Premises and equipment, net	26,533	28,300
Other real estate owned	1,385	1,888
Interest receivable	8,510	6,583
Federal Home Loan Bank stock, at cost	6,751	6,751
Goodwill	14,313	14,313
Other assets	33,929	20,488
Total assets	$ 3,270,413	$ 2,763,519
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 1,073,189	$ 741,492
Interest bearing	1,600,866	1,474,352
Total deposits	2,674,055	2,215,844
Federal funds purchased and repurchase agreements	202,413	141,011
Federal Home Loan Bank advances	25,309	50,403
Subordinated debentures	15,464	15,464
Interest payable	226	592
Other liabilities	23,289	31,861
Total liabilities	2,940,756	2,455,175
SHAREHOLDERS' EQUITY		
Common stock (voting), $10 par value; 350,000 shares authorized; 347,922 shares issued and outstanding	3,479	3,479
Common stock (non-voting), no par value; 34,650,000 shares authorized; 34,444,278 shares issued and outstanding	-	-
Additional paid-in capital	6,890	6,890
Retained earnings	320,103	306,679
Accumulated other comprehensive loss	(815)	(8,704)
Total shareholders' equity	329,657	308,344
Total liabilities and shareholders' equity	$ 3,270,413	$ 2,763,519

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Years Ended December 31 2020	2019
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 102,891	$ 106,156
Debt securities	4,169	6,331
Deposits with other financial institutions	1,458	4,417
	108,518	116,904
INTEREST EXPENSE		
Deposits	5,549	13,836
Federal funds purchased and repurchase agreements	162	737
Federal Home Loan Bank advances	858	910
Subordinated debentures	390	658
	6,959	16,141
Net interest income	101,559	100,763
Provision for loan losses	7,812	2,672
Net interest income after provision for loan losses	93,747	98,091
NON-INTEREST INCOME		
Service charges on deposit accounts	5,834	7,253
Mortgage banking income	6,425	3,918
Card and interchange fees	5,705	6,232
Trust fees	8,471	8,226
Electronic banking	6,441	5,944
Net gain/loss on sales and write-downs of other real estate owned	(472)	(109)
Other fees and income	8,781	8,423
	41,185	39,887
NON-INTEREST EXPENSE		
Salaries and benefits	56,395	50,351
Occupancy and equipment	18,943	17,483
Processing charges	7,141	6,722
Advertising and business development	7,670	7,574
Card and interchange expenses	5,209	5,930
Professional services	1,944	1,734
Bank franchise tax	2,915	2,886
FDIC assessment	753	177
Other real estate owned, net	78	176
Pension plan settlement loss	5,586	-
Other	12,025	9,494
	118,659	102,527
Income before income taxes	16,273	35,451
Income taxes	1,122	4,006
Net income	$ 15,151	$ 31,445
Basic earnings per share	$ 0.44	$ 0.90
Weighted average number of common shares outstanding	34,674,509	34,792,200

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Years Ended December 31 2020	2019
Net income	$ 15,151	$ 31,445
Other comprehensive income:		
Unrealized gains/losses on debt securities:		
Unrealized holding loss arising during the period	(283)	(339)
Tax effect	59	71
Net of tax	(224)	(268)
Defined benefit pension plans:		
Net gain (loss) arising during the period	419	(4,473)
Reclassification adjustment for amortization of net loss realized in net income	4,264	2,342
Reclassification adjustment for recognized settlement loss	5,586	-
Tax effect	(2,156)	448
Net of tax	8,113	(1,683)
Total other comprehensive income (loss)	7,889	(1,951)
Comprehensive income	$ 23,040	$ 29,494

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

Years Ended December 31, 2020 and 2019	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Total
Balances, January 1, 2019	$ 3,479	$ 6,890	$ 276,974	$ (6,753)	$ -	$ 280,590
Net income	-	-	31,445	-	-	31,445
Cash dividends declared ($0.05 per share)	-	-	(1,740)	-	-	(1,740)
Other comprehensive loss	-	-	-	(1,951)	-	(1,951)
Balances, December 31, 2019	$ 3,479	$ 6,890	$ 306,679	$ (8,704)	$ -	$ 308,344
Net income	-	-	15,151	-	-	15,151
Cash dividends declared ($0.05 per share)	-	-	(1,727)	-	-	(1,727)
Advances to ESOP	-	-	-	-	(2,806)	(2,806)
Repayment of advances from ESOP	-	-	-	-	2,806	2,806
Other comprehensive loss	-	-	-	7,889	-	7,889
Balances, December 31, 2020	$ 3,479	$ 6,890	$ 320,103	$ (815)	$ -	$ 329,657

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 15,151	$ 31,445
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	7,812	2,672
Deferred income tax (benefit) expense	196	(1,580)
Depreciation and amortization	5,786	5,090
Net gain/loss on sales and write-downs of other real estate owned	472	111
Pension plan settlement loss	5,586	-
Contribution to defined benefit pension plan	(9,440)	-
Pension plan expense	4,690	2,867
Net gain on sale of loans	(6,113)	(3,785)
Net change in:		
Loans held for sale	(10,948)	1,606
Interest receivable	(1,927)	177
Other assets	(16,876)	(4,263)
Interest payable	(366)	(22)
Other liabilities	861	(1,612)
Net cash (used in) provided by operating activities	(5,116)	32,706
CASH FLOWS FROM INVESTING ACTIVITIES		
Available for sale debt securities:		
Purchases	(671,213)	(864,730)
Maturities, calls, and return of principal	667,207	774,498
Held to maturity debt securities:		
Maturities, calls, and return of principal	4,855	51,098
Net change in loans	(279,403)	28,383
Purchases of premises and equipment	(2,771)	(1,240)
Proceeds from sale of other real estate owned	31	1,120
Net cash used in investing activities	(281,294)	(10,871)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	458,211	108,351
Net change in federal funds purchased and repurchase agreements	61,402	(1,104)
Repayment of Federal Home Loan Bank advances	(30,094)	(19)
Issuance of Federal Home Loan Bank advances	5,000	25,000
Cash dividends paid	(1,727)	(1,740)
Net cash provided by financing activities	492,792	130,488
Net change in cash and cash equivalents	206,382	152,323
Cash and cash equivalents, beginning of year	375,955	223,632
Cash and cash equivalents, end of year	$ 582,337	$ 375,955
Supplemental cash flow information:		
Interest paid	$ 7,325	$ 16,163
Income taxes paid	2,005	5,250
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$ -	$ 243
Sale and financing of other real estate owned	-	349
Transfer of matured held to maturity security to other assets	500	-

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 11, 2021, which is the date the financial statements were available to be issued.

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

In March 2020, the World Health Organization declared novel coronavirus disease 2019 ("COVID-19") as a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, including those in markets in which the Company is located or does business.

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

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

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

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

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

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

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

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

Loan disclosures include presenting certain disaggregated information based on recorded investment. The recorded investment in a loan includes its principal amount outstanding adjusted for certain items that include net deferred loan costs or fees, charge-offs, and accrued interest. The Company had a total of $6,657 and $1,178 of net deferred loan fees at year-end 2020 and 2019, respectively, included in the carrying amount of loans on the consolidated balance sheets. The amount of net deferred loan fees is not material and is omitted from the computation of the recorded investment included in Note 3 that follows. Similarly, accrued interest receivable on loans was $8,182 and $5,778 at year-end 2020 and 2019, respectively, which has also been omitted from certain information presented in Note 3.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. At December 31, 2020, 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.

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

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

Investment in Limited Partnerships: The Company is a limited equity partner in 20 low-income housing projects and four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation tax credit generation. The investments are accounted for using the equity method and are included in other assets on the consolidated balance sheets. The investments had a balance of $14,688 and $7,455 at year-end 2020 and 2019, respectively. At year-end 2020, remaining funding commitments were $968.

The Company recognized amortization expense related to its limited partnerships of $1,642 and $901 for 2020 and 2019, respectively, which is included in other non-interest expense on the consolidated statements of income. Tax credits recognized were $1,909 and $1,018. No impairment losses were incurred in either of the years presented.

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

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

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

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on debt securities available for sale, net of related income tax, and changes in the funded status of the defined benefit pension plans, net of related income tax. Accumulated other comprehensive income (loss) is recognized as a separate component of equity. Accumulated other comprehensive loss at December 31, 2020 of $(815) was comprised of $(1,642) related to the non-qualified pension plan and $827 related to unrealized gains and losses on available for sale debt securities. Accumulated other comprehensive loss at December 31, 2019 of $(8,704) was comprised of $(9,755) related to the defined benefit and non-qualified pension plans and $1,051 related to unrealized gains and losses on available for sale debt securities.

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

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

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements. The average balance requirement was $0 and $48,407 at December 31, 2020 and 2019, respectively.

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

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

NOTE 2 – SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2020				
U.S. government sponsored entities and agencies	$ 68,307	$ 8	$ (53)	$ 68,262
Agency mortgage-backed securities – residential	161,591	906	(106)	162,391
Agency mortgage-backed securities – commercial	14,985	8	(102)	14,891
States and political subdivisions	500	10	-	510
Corporate debt securities	15,778	376	-	16,154
	$ 261,161	$ 1,308	$ (261)	$ 262,208
2019				
U.S. Treasury securities	$ 40,010	$ 31	$ (1)	$ 40,040
U.S. government sponsored entities and agencies	70,262	9	(27)	70,244
Agency mortgage-backed securities – residential	116,709	395	(163)	116,941
Agency mortgage-backed securities – commercial	14,012	2	(98)	13,916
Corporate debt securities	15,732	1,209	(27)	16,914
	$ 256,725	$ 1,646	$ (316)	$ 258,055

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

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2020				
Agency mortgage-backed securities – residential	$ 13,692	$ 674	$ -	$ 14,366
	$ 13,692	$ 674	$ -	$ 14,366
2019				
Agency mortgage-backed securities – residential	$ 18,583	$ 142	$ (8)	$ 18,717
States and political subdivisions	500	-	-	500
	$ 19,083	$ 142	$ (8)	$ 19,217

The amortized cost and fair value of debt securities at December 31, 2020 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	$ 1,996	$ 2,006	$ -	$ -
Due from one to five years	63,915	64,160	-	-
Due from five to ten years	7,783	7,760	-	-
Due after ten years	10,891	11,000	-	-
Agency mortgage-backed securities – residential	161,591	162,391	13,692	14,366
Agency mortgage-backed securities – commercial	14,985	14,891	-	-
Total	$ 261,161	$ 262,208	$ 13,692	$ 14,366

Debt securities with a carrying amount of $260,961 and $209,923 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and repurchase agreements.

At December 31, 2020 and 2019, there were no holdings of debt securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10.0% of shareholders' equity.

There were no sales of debt securities in 2020 or 2019.

Debt securities with unrealized losses at year-end 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below.

	Less than 12 Months		12 Months or More		Total	
Available for sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2020						
U.S. government sponsored entities and agencies	$ 51,841	$ (45)	$ 1,411	$ (8)	$ 53,252	$ (53)
Agency mortgage-backed securities – residential	58,259	(70)	2,678	(36)	60,937	(106)
Agency mortgage-backed securities – commercial	4,021	(17)	9,809	(85)	13,830	(102)
Total available for sale	$ 114,121	$ (132)	$ 13,898	$ (129)	$ 128,019	$ (261)
2019						
U.S. Treasury securities	$ 19,988	$ (1)	$ -	$ -	$ 19,988	$ (1)
U.S. government sponsored entities and agencies	61,267	(24)	448	(3)	61,715	(27)
Agency mortgage-backed securities – residential	61,480	(147)	18,523	(16)	80,003	(163)
Agency mortgage-backed securities – commercial	3,391	(10)	9,029	(88)	12,420	(98)
Corporate debt securities	-	-	4,973	(27)	4,973	(27)
Total available for sale	$ 146,126	$ (182)	$ 32,973	$ (134)	$ 179,099	$ (316)

	Less than 12 Months		12 Months or More		Total	
Held to maturity	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
2020						
None						
2019						
Agency mortgage-backed securities – residential	$ 835	$ (8)	$ -	$ -	$ 835	$ (8)
Total held to maturity	$ 835	$ (8)	$ -	$ -	$ 835	$ (8)

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

NOTE 3 – LOANS

Loans at December 31 were as follows:

	2020	2019
Commercial[1]	$ 692,370	$ 427,991
Commercial real estate	1,037,712	1,072,617
Residential real estate	467,731	440,598
Installment	120,492	91,958
Credit card receivables	10,928	12,920
	2,329,233	2,046,084
Deferred loan fees, net[2]	(6,657)	(1,178)
Allowance for loan losses	(25,185)	(19,106)
Loans, net	$ 2,297,391	$ 2,025,800

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

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

The following table presents the activity in the allowance for loan losses by segment of loans for the years ended December 31, 2020 and 2019:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2020							
Allowance for loan losses:							
Beginning balance	$ 4,077	$ 10,276	$ 2,189	$ 1,130	$ 290	$ 1,144	$ 19,106
Provision for loan losses	950	4,240	900	1,597	314	(189)	7,812
Loans charged off	(1,082)	-	(14)	(1,786)	(354)	-	(3,236)
Recoveries	289	69	150	914	81	-	1,503
Total ending allowance balance	$ 4,234	$ 14,585	$ 3,225	$ 1,855	$ 331	$ 955	$ 25,185
2019							
Allowance for loan losses:							
Beginning balance	$ 5,107	$ 10,458	$ 2,183	$ 1,192	$ 242	$ 1,001	$ 20,183
Provision for loan losses	1,263	174	115	686	291	143	2,672
Loans charged off	(2,446)	(698)	(224)	(1,469)	(333)	-	(5,170)
Recoveries	153	342	115	721	90	-	1,421
Total ending allowance balance	$ 4,077	$ 10,276	$ 2,189	$ 1,130	$ 290	$ 1,144	$ 19,106

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, 2020 and 2019:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2020							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 386	$ 2,670	$ 134	$ -	$ 54	$ -	$ 3,244
Collectively evaluated for impairment	3,848	11,915	3,091	1,855	277	955	21,941
Total ending allowance balance	$ 4,234	$ 14,585	$ 3,225	$ 1,855	$ 331	$ 955	$ 25,185
Loans:							
Individually evaluated for impairment	$ 13,294	$ 63,198	$ 1,753	$ 47	$ 54	$ -	$ 78,346
Collectively evaluated for impairment	679,076	974,514	465,978	120,445	10,874	-	2,250,887
Total ending loans balance	$ 692,370	$ 1,037,712	$ 467,731	$ 120,492	$ 10,928	$ -	$ 2,329,233
2019							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 895	$ 1,372	$ 139	$ -	$ 21	$ -	$ 2,427
Collectively evaluated for impairment	3,182	8,904	2,050	1,130	269	1,144	16,679
Total ending allowance balance	$ 4,077	$ 10,276	$ 2,189	$ 1,130	$ 290	$ 1,144	$ 19,106
Loans:							
Individually evaluated for impairment	$ 12,776	$ 53,043	$ 2,981	$ 41	$ 21	$ -	$ 68,862
Collectively evaluated for impairment	415,215	1,019,574	437,617	91,917	12,899	-	1,977,222
Total ending loans balance	$ 427,991	$ 1,072,617	$ 440,598	$ 91,958	$ 12,920	$ -	$ 2,046,084

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

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

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

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

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, 2020 and 2019:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2020	2019	2020	2019
Commercial	$ 1,823	$ 1,663	$ -	$ -
Commercial real estate	18,064	3,000	361	-
Residential real estate	1,840	2,268	84	-
Installment	522	512	-	-
Credit card receivables	28	10	22	21
Total	$ 22,277	$ 7,453	$ 467	$ 21

The following table presents the aging of the recorded investment in past due loans as of December 31, 2020 and 2019 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, 2020					
Commercial	$ 526	$ 875	$ 1,401	$ 690,969	$ 692,370
Commercial real estate	1,275	16,344	17,619	1,020,093	1,037,712
Residential real estate	390	791	1,181	466,550	467,731
Installment	2,624	331	2,955	117,537	120,492
Credit card receivables	107	22	129	10,799	10,928
Total	$ 4,922	$ 18,363	$ 23,285	$ 2,305,948	$ 2,329,233
December 31, 2019					
Commercial	$ 380	$ 597	$ 977	$ 427,014	$ 427,991
Commercial real estate	1,081	1,959	3,040	1,069,577	1,072,617
Residential real estate	1,070	869	1,939	438,659	440,598
Installment	1,234	257	1,491	90,467	91,958
Credit card receivables	95	27	122	12,798	12,920
Total	$ 3,860	$ 3,709	$ 7,569	$ 2,038,515	$ 2,046,084

Related Party Loans: The Company has entered into loan transactions with its directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties was $16,352 and $367 at December 31, 2020 and 2019, respectively.

Troubled Debt Restructurings: The Company has troubled debt restructurings of $53,074 and $22,484 as of December 31, 2020 and 2019, respectively, and has allocated $921 and $377 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2020 and 2019. The Company has committed to lend additional amounts totaling up to $651 and $145 as of December 31, 2020 and 2019, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2020 and 2019, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a restructuring of the loan terms to reduce the payment and require only interest for a period of time.

The following table presents loans by segment that were either renewed or modified as troubled debt restructurings that occurred during the years ended December 31, 2020 and 2019:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2020:			
Troubled debt restructurings:			
Commercial			
Renewal	3	$ 1,010	$ 1,010
Other	5	4,852	4,852
Total commercial	8	5,862	5,862
Comercial real estate			
Renewal	12	4,160	4,260
Other	12	27,939	28,332
Total comercial real estate	24	32,099	32,592
Total troubled debt restructurings	32	$ 37,961	$ 38,454
December 31, 2019:			
Troubled debt restructurings:			
Commercial real estate			
Renewal	2	$ 429	$ 429
Total commercial real estate	2	429	429
Residential real estate			
Renewal	2	406	406
Other	1	1,105	1,105
Total residential real estate	3	1,511	1,511
Total troubled debt restructurings	5	$ 1,940	$ 1,940

The troubled debt restructurings described above increased the allowance for loan losses by $677 and resulted in no charge-offs during the year ended December 31, 2020. The troubled debt restructurings described above increased the allowance for loan losses by $1 and resulted in no charge-offs during the year ended December 31, 2019.

There were two commercial loans with a recorded investment of $467 and two commercial real estate loans with a recorded investment of $1,728 for which there was a payment default during the year ended December 31, 2020 for credits that were restructured during the previous 12 months. For the year ended December 31, 2019, there were no payment defaults within 12 months following the modification. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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

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

Section 4013 of the CARES Act provides banks and other financial institutions the ability to make loan modifications related to COVID-19 without categorizing the loans as a troubled debt restructuring. The Company implemented a short-term loan modification program in the second quarter of 2020 intended to provide temporary relief for borrowers who expected to be or may have already been adversely affected by COVID-19 by providing short-term deferrals of loan payments. The Company offered options including full principal and interest payment deferral generally for up to 60 or 90 days. For certain types of loans and for certain industries more heavily impacted by COVID-19, the Company has extended deferral options. The Company's short-term loan modifications have declined throughout the year from $429 million at June 30, 2020 to $349 million at December 31, 2020. Installment loans and credit card receivables make up 65.0% of the number and 4.0% of the balance of Section 4013 modified loans outstanding at year-end 2020. Commercial real estate loans make up 15.6% of the number and 68.8% of the balances and other commercial lending accounts for 8.8% of the number and 21.4% of balances.

Credit Quality Indicators: The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $100 and non-homogeneous loans, such as

commercial, commercial real estate and residential real estate loans, and homogeneous loans that are part of a borrowing relationship. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

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

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

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

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

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

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2020						
Commercial	$ 677,028	$ 658	$ 14,684	$ -	$ -	$ 692,370
Commercial real estate	946,775	19,896	71,041	-	-	1,037,712
Residential real estate	351,127	836	1,627	-	114,141	467,731
Installment	-	36	92	-	120,364	120,492
Credit card receivables	-	30	82	-	10,816	10,928
	$ 1,974,930	$ 21,456	$ 87,526	$ -	$ 245,321	$ 2,329,233
December 31, 2019						
Commercial	$ 411,470	$ 2,008	$ 14,513	$ -	$ -	$ 427,991
Commercial real estate	995,954	14,329	62,334	-	-	1,072,617
Residential real estate	316,207	926	3,099	-	120,366	440,598
Installment	-	-	93	-	91,865	91,958
Credit card receivables	-	8	138	-	12,774	12,920
	$ 1,723,631	$ 17,271	$ 80,177	$ -	$ 225,005	$ 2,046,084

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled $333,677 and $208,528 during 2020 and 2019, respectively. Proceeds from the sale of loans were $322,729 in 2020 and $210,134 in 2019. Mortgage loans held for sale were $23,364 and $6,303 at year-end 2020 and 2019. The Company had commitments to originate $176,340 in loans at December 31, 2020, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $44,492 and $44,183 at December 31, 2020 and 2019, respectively.

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

	2020	2019
Beginning of year	$ 196	$ 204
Originated	92	41
Amortized to expense	(54)	(49)
End of year	$ 234	$ 196

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $349 and $331 at year-end 2020 and 2019.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2020	2019
Other real estate owned, beginning of year	$ 1,888	$ 3,225
Acquisition and improvement	-	243
Proceeds from sales	(31)	(1,469)
Write-downs to estimated fair value	(485)	(128)
Net gain (loss) on sales	13	17
Other real estate owned, end of year	$ 1,385	$ 1,888

Expenses related to other real estate owned include:

	2020	2019
Net gain on sales	$ (13)	$ (17)
Write-downs to estimated fair value	485	128
Operating expenses, net	78	176
	$ 550	$ 287

At December 31, 2020 and 2019, the recorded investment in mortgage loans secured by residential real estate that were in the process of foreclosure was $782 and $849, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2020	2019
Land	$ 2,991	$ 2,991
Buildings and improvements	19,110	19,037
Leasehold improvements	33,586	33,378
Furniture, fixtures and equipment	45,749	43,602
Construction in progress	1,672	1,308
	103,108	100,316
Accumulated depreciation	(76,575)	(72,016)
Total	$ 26,533	$ 28,300

Depreciation and amortization expense amounted to $4,538 and $4,379 in 2020 and 2019, respectively.

Operating Leases: The Company leases its main office, 14 banking center locations and its mortgage and insurance center in addition to its land leases for three banking centers. The Company currently subleases a portion of its space to two tenants. Rent expense for the Company was $6,196 and $5,948 in 2020 and 2019, respectively. Rent commitments under noncancelable operating leases, before considering renewal options that generally are present, were as follows:

2021	$ 6,870
2022	6,602
2023	3,806
2024	1,892
2025	1,878
Thereafter	7,130
Total[1]	$ 28,178

[1]Payments have not been reduced by minimum sublease rentals of $1,104 due in the future under noncancelable subleases.

NOTE 7 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2020 and 2019 were $156,234 and $215,405, respectively.

Scheduled maturities of time deposits at year-end 2020 are as follows:

2021	$	340,620
2022		33,493
2023		17,608
2024		17,861
2025		7,178
Thereafter		-
Total	$	416,760

Deposits from directors and executive officers and companies in which they have beneficial ownership were $18,261 and $16,324 at December 31, 2020 and 2019, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

	2020	2019
Maturity of July 2020 at a rate of 1.74% at year-end 2019.	$ -	$ 25,000
Maturity of September 2023 at a fixed rate of 2.44% at year-end 2020 and 2019.	25,000	25,000
Maturities January 2022 through December 2027, fixed rates ranging from 2.00% to 5.50%, averaging 2.44% at year-end 2020 and 2019.	309	403
Total	$ 25,309	$ 50,403

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The advances are borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans with an aggregate unpaid principal balance of $381,033 and $375,947 at December 31, 2020 and 2019, respectively. Based on this collateral and the holding of Federal Home Loan Bank stock, the Company is eligible to borrow up to a total of $159,110 at year-end 2020. In addition, the Federal Home Loan Bank issues letters of credit on behalf of the Bank as security for certain deposit relationships, as the need arises. Outstanding letters of credit at December 31, 2020 and 2019 were $87,336 and $78,297, respectively.

Subordinated Debentures: In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 trust preferred securities with a liquidation amount of $1 per security. The Company issued $15,464 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $1, on or after June 15, 2010 at 100% of the principal amount, plus accrued and unpaid interest.

The subordinated debentures mature on June 15, 2035. The subordinated debentures are redeemable, in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The interest rate in effect as of the last determination date for 2020 was 1.97%. The Company's investment in the common stock of the trust was $464 and is included in other assets. The subordinated debentures, net of the Company's investment in the trust, may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 9 – FAIR VALUE

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

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

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

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

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

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

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

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

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

Assets Measured on a Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2020):			
Available for sale debt securities:			
U.S. government sponsored entities and agencies	$ -	$ 68,262	$ -
Agency mortgage-backed securities – residential	-	162,391	-
Agency mortgage-backed securities – commercial	-	14,891	-
States and political subdivisions	-	510	-
Corporate debt securities	-	5,154	11,000
Assets (2019):			
Available for sale debt securities:			
U.S. Treasury securities	$ 40,040	$ -	$ -
U.S. government sponsored entities and agencies	-	70,244	-
Agency mortgage-backed securities – residential	-	116,941	-
Agency mortgage-backed securities – commercial	-	13,916	-
Corporate debt securities	-	4,973	11,941

There were no transfers between level 2 and level 3 during 2020 or 2019. During the period from January 1, 2020 to December 31, 2020, there was $1,112 of total loss recognized in other comprehensive income and $171 of net accretion recognized on debt securities classified as level 3. During the period from January 1, 2019 to December 31, 2019, there was $489 of total loss recognized in other comprehensive loss and $112 of net accretion recognized on debt securities classified as level 3. The key unobservable input in determining the fair value of the debt securities was a discount rate of 3.80% and 3.36% at December 31, 2020 and 2019, respectively.

Assets Measured on a Non-Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2020):			
Impaired loans:			
Commercial	$ -	$ -	$ 545
Commercial real estate	-	-	7,866
Other real estate owned:			
Commercial real estate	-	-	1,000
Assets (2019):			
Impaired loans:			
Commercial	$ -	$ -	$ 13
Commercial real estate	-	-	5,952
Residential real estate	-	-	218
Other real estate owned:			
Commercial real estate	-	-	17

Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $9,793, with a valuation allowance of $1,382 at December 31, 2020, resulting in $1,382 of additional provision for loan losses for the year ended December 31, 2020. Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $8,528, with a valuation allowance of $2,345 at December 31, 2019, resulting in $1,624 of additional provision for loan losses for the year ended December 31, 2019.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $1,000 which includes direct write-downs of $485 for 2020. Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $17 which includes direct write-downs of $19 for 2019.

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, 2020 and 2019:

	Valuation Techniques	Fair Value	Asset Category	Unobservable Input(s)	Range (Weighted Average)
2020	Sales approach	$ 9,411	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	25%–50% (34%)
2019	Sales approach	$ 6,200	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	23%–100% (33%)

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following:

	2020	2019
Current income tax expense:		
Federal	$ 2,380	$ 5,586
State	-	-
Total current income tax expense	2,380	5,586
Deferred income tax expense (benefit):		
Federal	(1,291)	226
State	33	(1,806)
Total deferred income tax expense (benefit)	(1,258)	(1,580)
Total income tax expense	$ 1,122	$ 4,006

The tax provision is less than that obtained by using the statutory federal income tax rates due to tax credits generated by the Company's limited partnership interest in 20 low-income housing projects, four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation tax credit generation, and tax exempt interest income totaling $2,521 and $3,641 for 2020 and 2019.

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

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

	2020	2019
Deferred tax assets	$ 11,596	$ 12,366
Deferred tax liabilities	(3,771)	(3,701)
	$ 7,825	$ 8,665

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

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

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. In assessing realizability, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences at December 31, 2020; therefore, no valuation allowance for the realization of deferred tax assets is considered necessary.

The Company has no unrecognized tax benefits as of December 31, 2020 and 2019. 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, 2020 and 2019. The Company and its subsidiary file a consolidated U.S. Corporation federal income tax return and the Company and its non-bank subsidiaries file Kentucky Corporation income tax returns. The federal return is subject to examination by taxing authorities for all years after 2016 and the Kentucky returns are subject to examination by taxing authorities for all years after 2015. The Company has certain returns that are subject to examination for the 2004 tax year.

NOTE 11 – RETIREMENT PLANS

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

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

	December 31, 2020	December 31, 2019
Benefit obligation	$ -	$ (30,257)
Fair value of plan assets	-	19,868
Funded status	$ -	$ (10,389)

	2020	2019
Employer contributions	$ 9,440	$ -
Benefits paid	28,605	4,585
Annuity purchased	1,007	-

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2020 and 2019 were $0 and $(10,473), respectively, and resulted primarily from net actuarial gains and loss in the Plan for each respective year and a pension settlement loss for 2020. The accumulated benefit obligation was $0 and $30,257 at year-end 2020 and 2019.

Components of the Company's net periodic pension cost and other amounts recognized in other comprehensive income (loss) for 2020 and 2019 for its Pension Plan included the following:

	2020	2019
Interest cost on projected benefit obligation	$ 625	$ 1,181
Expected return on plan assets	(411)	(896)
Amortization of net loss	3,724	2,090
Net periodic pension cost[1]	3,938	2,375
Net (gain) loss	(1,163)	3,414
Settlement loss	(5,586)	-
Amortization of net loss	(3,724)	(2,090)
Total recognized in other comprehensive income (loss)	(10,473)	1,324
Total recognized in net periodic pension cost and other comprehensive income (loss)	$ (6,535)	$ 3,699

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

The weighted-average assumptions used to determine net periodic pension cost were a discount rate and expected return on plan assets of 3.10% for 2020 and 4.25% for 2019. The weighted-average assumptions used to determine the pension benefit obligation for year-end 2019 were a discount rate and expected return on plan assets of 3.10%. The discount rate is not applicable for year-end 2020 since there is no future pension benefit obligation of the Plan.

Plan Assets: Prior to Plan termination, the Company's overall investment strategy was to achieve a mix of long-term growth and fixed income investments. The target allocations for plan assets were to maintain an asset mix of approximately 30% equities and 70% fixed income investments. Equity securities primarily included investments in mutual funds and blue chip stocks. Fixed income securities included taxable municipal securities, corporate debt, and fixed income mutual funds.

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

The Company's Pension Plan asset allocation at year-end 2019 is presented in the table below. Disclosures are not applicable for the current year since the Plan was terminated prior to year-end 2020.

Asset Class	Percentage of Plan Assets at Year-End 2020	Percentage of Plan Assets at Year-End 2019	Weighted-Average Expected Long-Term Rate of Return
Equities:			
Common stock	-%	14.6%	-%
Common stock mutual funds	-	16.0	-
Real estate investment trust	-	1.0	-
Fixed income:			
Cash and cash equivalents	-	14.0	-
Fixed income mutual funds	-	28.9	-
Debt securities:			
Corporate debt	-	-	-
Obligations of states and political subdivisions	-	25.5	-
	-%	100.0%	-%

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

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

Fixed Income Securities: The fair values for fixed income securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities or other available market information, including matrix pricing models developed by sources considered by management to be reliable (Level 2).

The fair value of Plan assets at December 31, 2019, by asset category, is presented in the table below. These disclosures are not applicable for the current year since the Plan was terminated prior to year-end 2020.

		Fair Value Measurements at December 31 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Cash and cash equivalents	$ 2,771	$ 2,771	$ -	$ -
Equities:				
Common stock	2,907	2,907	-	-
Common stock mutual funds	3,183	3,183	-	-
Real estate investment trust	195	195	-	-
Fixed income:				
Fixed income mutual funds	5,737	5,737	-	-
Obligations of states and political subdivisions	5,075	-	5,075	-
Total plan assets	$ 19,868	$ 14,793	$ 5,075	$ -

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

The Company maintains a non-qualified supplemental pension plan ("Supplemental Plan") covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. The benefit obligation related to this unfunded plan was $7,777 and $6,822 at December 31, 2020 and 2019, respectively. Net periodic pension costs for the plan were $752 and $492 for 2020 and 2019, respectively, and are included in other non-interest expense in the consolidated statements

of income. Amounts recognized in accumulated other comprehensive income (loss) related to this plan at December 31, 2020 and 2019 were $(1,966) and $(1,762), respectively, and were the result of a net actuarial loss in the plan.

Similar to its Pension Plan, the Company in 2009 curtailed the Supplemental Plan, fully vesting and freezing participant benefits. The Supplemental Plan remains active.

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $342 in 2020 and $71 in 2019. The accrued liability associated with these plans of $1,987 and $1,668 at December 31, 2020 and 2019 is included in other liabilities. The amount recognized in other comprehensive income was $0 and $(113) at year-end 2020 and 2019.

Employee Stock Ownership Plan: The Company maintains an employee stock ownership plan (the "ESOP"). Contributions are determined annually by the Board of Directors in amounts not to exceed 15.0% of the total compensation of all participants. ESOP expense was $5,030 and $1,767 in 2020 and 2019, respectively. As of December 31, 2020 and 2019, a total of 35,900 and 35,712 voting common shares with a fair value of $392 and $375, respectively, were allocated to active participants. In addition, at year-end 2020 and 2019 there were a total of 3,553,584 and 3,535,396 non-voting common shares with a fair value of $38,414 and $36,768 allocated to active participants, as well as $166 and $179 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, 2020 is the fair value of all ESOP shares distributed in 2020 and shares to be distributed in 2021 to participants who had terminated as of year-end 2020. 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 $1,964 and $1,779 in 2020 and 2019, respectively.

NOTE 12 – REGULATORY MATTERS

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

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

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

Under the Basel III rules, the Company is required to hold a capital conservation buffer of 2.5% above the adequately capitalized risk-based capital ratios. Fully phased in on January 1, 2019, the Basel III rules require the Company to effectively maintain a minimum Common Equity Tier 1 Risk-based ratio of 7.0%, a minimum Tier 1 Risk-based ratio of 8.5%, a minimum Total Risk-based ratio of 10.5%, and a minimum Tier 1 Leverage ratio of 4.0%. Accumulated other comprehensive income (loss) is not included in computing regulatory capital. Management believes that as of December 31, 2020, the Company and Bank each 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 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be well capitalized, the Bank must maintain minimum Common Equity Tier 1 Risk-based, Tier 1 Risk-based, Total Risk-based, and Tier 1 Leverage ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
December 31, 2020								
Total Risk-based Capital[1]:								
Company	$ 356,344	16.4%	$	173,490	8.0%		N/A	N/A
Bank	350,732	16.2		173,379	8.0	$	216,724	10.0%
Tier 1 Risk-based Capital[1]:								
Company	$ 331,159	15.3%	$	130,118	6.0%		N/A	N/A
Bank	325,547	15.0		130,034	6.0	$	173,379	8.0%
Common Equity Tier 1 Risk-based Capital[1]:								
Company	$ 316,159	14.6%	$	97,588	4.5%		N/A	N/A
Bank	325,547	15.0		97,526	4.5	$	140,871	6.5%
Tier 1 Leverage Capital[2]:								
Company	$ 331,159	10.4%	$	127,257	4.0%		N/A	N/A
Bank	325,547	10.2		127,219	4.0	$	159,024	5.0%
December 31, 2019								
Total Risk-based Capital[1]:								
Company	$ 336,840	15.4%	$	174,729	8.0%		N/A	N/A
Bank	332,710	15.2		174,619	8.0	$	218,274	10.0%
Tier 1 Risk-based Capital[1]:								
Company	$ 317,734	14.5%	$	131,046	6.0%		N/A	N/A
Bank	313,604	14.4		130,964	6.0	$	174,618	8.0%
Common Equity Tier 1 Risk-based Capital[1]:								
Company	$ 302,734	13.9%	$	98,285	4.5%		N/A	N/A
Bank	313,604	14.4		98,223	4.5	$	141,878	6.5%
Tier 1 Leverage Capital[2]:								
Company	$ 317,734	11.7%	$	108,378	4.0%		N/A	N/A
Bank	313,604	11.6		108,355	4.0	$	135,444	5.0%

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

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

Under the dividend limitations described above, the Bank could pay dividends in 2021 of $40,199 plus any 2021 earnings retained through the date of the dividend declaration.

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

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

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

	2020	2019
Standby letters of credit	$ 34,312	$ 43,563
Commitments to extend credit	$ 234,237	$ 214,928
Unused lines of credit	$ 470,101	$ 450,817

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

NOTE 14 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2020	2019
Non-interest income:		
Service charges on deposit accounts	$ 5,834	$ 7,253
Mortgage banking income[1]	6,425	3,918
Card and interchange fees	5,705	6,232
Trust fees	8,471	8,226
Electronic banking	6,441	5,944
Net gain/loss on sales and write-downs of other real estate owned	(472)	(109)
Other fees and income:		
Insurance commissions and fees	5,071	4,535
Brokerage commissions and fees	1,998	1,806
Commercial loan fees[1]	832	736
Other	880	1,346
Total non-interest income	$ 41,185	$ 39,887

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

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

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

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

Trust Fees: The Company earns fees by providing a comprehensive base of traditional services such as trust administration, estate planning and settlement, individual retirement planning, and corporate retirement plan services. These fees are primarily earned and

accrued over the period of time the Company provides the contracted services and are generally assessed monthly based on a tiered scale of the market value of the assets of the accounts. Fees are generally paid out of the assets held in the customer's account.

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

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

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

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

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

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