ALWAYS LEADING. ALWAYS SERVING. ALWAYS HERE.

2022 ANNUAL REPORT

Central Bancshares, Inc.

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

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

In 2023, 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 16th time. The competition encourages and motivates Kentucky-based companies to improve their workplace environments, resulting in improved profitability and employee satisfaction.

MISSION STATEMENT

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

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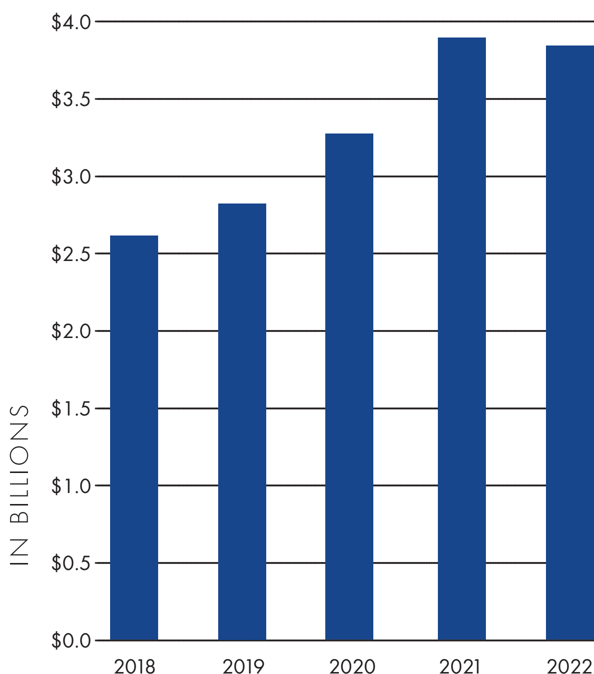
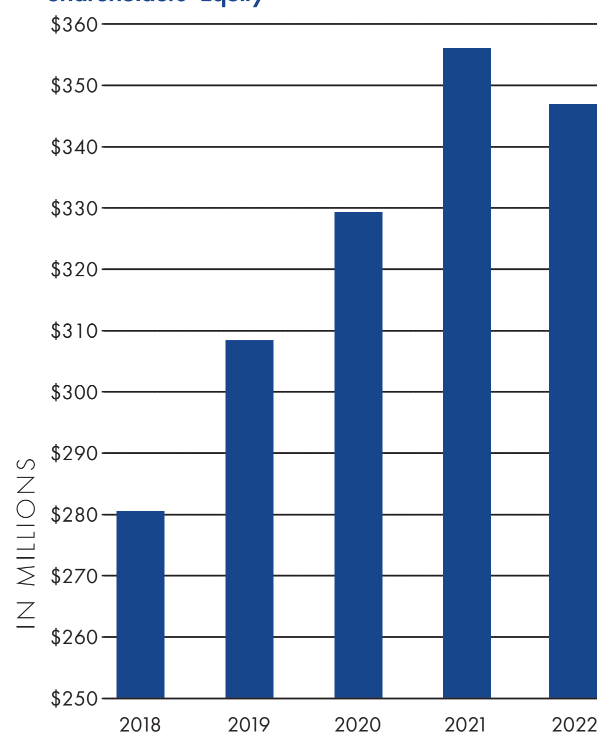
Refer to Marketing for copies: Central Bank & Trust Co., 300 West Vine Street, Lexington, KY 40507

FINANCIAL HIGHLIGHTS

As of and for the twelve months ended December 31

(dollars in thousands, except share data)	2022	2021	2020	2019	2018
RESULTS OF OPERATIONS:					
Net income	$ 21,006	$ 31,150	$ 15,151	$ 31,445	$ 28,128
Basic net income per share	0.61	0.90	0.44	0.90	0.81
Cash dividends per share	0.05	0.05	0.05	0.05	0.05
Book value per share at year end	9.97	10.24	9.48	8.86	8.06
AT DECEMBER 31:					
Assets	$ 3,822,109	$ 3,892,368	$ 3,270,413	$ 2,763,519	$ 2,600,173
Earning assets	3,597,416	3,775,756	3,134,086	2,634,272	2,481,108
Loans, net	2,327,853	2,048,484	2,297,391	2,025,800	2,056,749
Deposits	2,985,850	3,230,568	2,674,055	2,215,844	2,107,493
Shareholders' equity	346,782	356,147	329,657	308,344	280,590
AVERAGES:					
Assets	$ 3,844,649	$ 3,532,637	$ 3,033,257	$ 2,640,451	$ 2,508,594
Earning assets	3,627,290	3,406,562	2,912,431	2,526,382	2,392,888
Loans, net	2,123,899	2,273,501	2,253,730	2,075,030	2,001,079
Deposits	3,104,021	2,909,638	2,450,501	2,110,887	2,046,598
Shareholders' equity	343,967	344,646	317,719	295,790	269,106
PERFORMANCE RATIOS:					
Return on average assets	0.55%	0.88%	0.50%	1.19%	1.12%
Return on average equity	6.11	9.04	4.77	10.63	10.45
Average equity to average assets	8.95	9.76	10.47	11.20	10.73
Dividend payout ratio	8.26	5.58	11.44	5.53	6.18
Net interest margin (tax equivalent)	2.87	3.01	3.48	3.99	3.95
CAPITAL RATIOS:					
Total capital to risk-weighted assets	14.5%	17.5%	16.4%	15.4%	13.7%
Tier I capital to risk-weighted assets	13.5	16.4	15.3	14.5	12.8
Common equity Tier I to risk-weighted assets	13.0	15.7	14.6	13.9	12.1
Tier I capital to average assets	9.9	9.6	10.4	11.7	11.2





OPEN SINCE
1946

NUMEROUS
SPONSORSHIPS
& DONATIONS
IN THE AREAS
WE CALL HOME

28 BANKING CENTERS
IN **8** KENTUCKY COUNTIES

3,500+
EMPLOYEE SERVICE
HOURS IN 2022

ORGANIZATIONS
SUPPORTED:
500+

NAMED A BEST PLACE
TO WORK IN KENTUCKY
FOR **16th** YEAR

COMMUNITY

BANKING

LENDING*

INSURANCE SERVICES**

WEALTH MANAGEMENT**

Mr. Garvice D. Kincaid founded Central Bank on the idea that banks can and should be pillars of their communities – in good times and in bad. As a result of his dedication to this core tenet, Central Bank has grown significantly from our humble beginnings at the corner of Short and Upper streets in downtown Lexington.

> "Banks can and should be pillars of their communities – in good times and in bad."
>
> *- Garvice D. Kincaid, Founder of Central Bank*

Today, we are proud to be community fixtures in eight counties, serving the cities of Berea, Crestview Hills, Florence, Ft. Mitchell, Georgetown, Lexington, Louisville, Nicholasville, Richmond, Union and Winchester. We are proud to call these communities home, and we strive to support them whenever we can.

Member FDIC

*Subject to credit approval.

**Wealth Management Services are provided by Central Bank & Trust Co. CBIA, Inc., dba Central Insurance Services (CIS), is a wholly-owned subsidiary of Central Bank & Trust Co. Insurance products, investment products and securities are:

NOT FDIC Insured	NOT Guaranteed by the Bank	MAY Lose Value	NOT Insured by any Federal Government Agency	NOT a Deposit	Subject to Risk

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

I am proud to say 2022 was another strong year for Central Bancshares, Inc. (the "Company"), in which we exceeded our overall plan. Supported by nearly 80 years of service to the Commonwealth, we focused our efforts on maintaining our position as a source of stability for our customers during the challenging economic conditions all of us continue to face. While our non-interest income categories felt the impacts of inflation and decreased stock market values, all our service lines remained steady and successfully worked to strengthen existing client relationships. Expectedly, after a strong prior year, consumer lending slowed as a result of the rising rate environment. As predicted, the success and recovery of our business communities played a vital role in our achievements in the last year. I am pleased to report we experienced tremendous growth in commercial real estate loans during the last two quarters of 2022. Additionally, we are reporting strong capital levels and a high level of liquidity. Our already high Tier 1 Leverage ratio and tangible equity reported at year-end 2022 have strengthened further through the first two months of 2023.

As we pause to reflect, I am proud to say the definitive key to our success continues to be the superior level of service offered by our team of Central Bankers, combined with our commitment to the communities we serve. The unwavering resolve our team maintains to be the trusted financial resource for our clients is what sets us apart from our competition. It is this same commitment that I believe could sustain us amid even the grayest financial landscape. And it is this same dedication to each customer's financial growth that makes us a leading community bank in Kentucky. Because we know that when individuals are successful, our communities will share in that success. Beyond the impact we make on our customers, we also prioritize community development on a larger scale. This is evidenced by the partnerships we have with nonprofits in each market we serve. Of particular note in 2022, Central Bank made a pledge to donate $10 million to the Markey Cancer Center. Relationships like this one allow us to help support organizations that focus on the collective well-being of the areas we call home, and we will continue to focus on these partnerships in the year ahead.

PERFORMANCE

These financial highlights for the Company include Central Bank & Trust Co. and its wholly-owned 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 $21.0 million or $0.61 per share for 2022. In 2021, net income was $31.2 million or $0.90 per share.
- Total loans increased $282 million or 13.6%, ending the year at $2.4 billion.
- Liquidity measures remain strong and well-above traditional levels.
- Tangible shareholders' equity grew 5.4% to $379 million.

KEY INITIATIVES

As with every year, the projects we completed in 2022 were driven by the needs of our customers and communities. Acknowledging the demand for financial education programs designed for students in our local schools, we focused our efforts on the enhancement of our Financial Literacy program. Most recently, we partnered with a leading financial literacy software provider to use its award-winning, interactive content platform that teaches real-world finance to help make an impact in schools located within our communities. As part of our partnership, we have provided free financial literacy programs to more than 53 educators and 1,580 students in 24 schools. Our ultimate goal is to become a leader in financial education in the Company's markets by offering educational services at scale in conjunction with education providers that make this information accessible for a wider range of learners.

As an organization that positions our customers and communities at the center of everything we do, we also prioritized customer feedback in 2022. We introduced customer relationship surveys to gather feedback directly from our clients via email using a short, digital survey. Our Retail Administration team read every customer comment received through the survey platform and has actively reached out to respond to any concerns or questions identified during its review. The quantitative information gathered from the surveys has also been used to identify gaps in delivery channels, products and customer journeys, providing the insight needed to improve the overall customer experience. We will continue to make improvements to our suite of products and services using this direct input from our customers, which we consider to be the most valuable data available.

As part of our continual effort to offer the latest in online and mobile banking technologies, we completed two major operational projects to enhance the digital experience for our customers. First, our personal mobile banking application was upgraded to integrate additional features. As consumer usage of mobile banking continues to grow, we understand the importance of incorporating new and helpful tools within our app to support the customer experience in that platform. Over the summer, the following services were added to CentralMOBILE:

- The ability to set debit card alerts and controls
- The option to turn a debit card off and on when temporarily misplaced
- Access to request cash at ATMs using the app without a physical debit card

Second, our Operations team also implemented a new online application system for deposit accounts. With this new account origination system, existing and new customers can seamlessly apply for and open checking and savings accounts in less than

10 minutes. The system even allows the applicant to request multiple accounts and send requests for joint owners all in one application. The system was implemented in August, and in just the last five months of 2022, the increase in account openings using the new system helped produce a 29.2% increase in total online deposit accounts opened year over year.

It is important to note that while we are committed to offering the conveniences associated with online and mobile banking options and will continue working on projects to enhance these services, we remain dedicated to providing the same level of in-person service we have been long known for at our physical locations. We understand the importance of forming relationships with our clients and continue to prioritize service options that make those connections possible, adding staff when needed to keep pace with our growing customer base and market footprint. All our initiatives continue to be prioritized based on what we understand to be best for our customers and communities.

LOOKING FORWARD

While we anticipate that 2023 will present all industries with the challenges that accompany the economic uncertainties that surround inflation, we remain optimistic about the future. Businesses need a solid foundation to withstand economic environments like the one we are currently facing, an underpinning we have established by prioritizing our team for almost 80 years. As a result of this continued emphasis on empowering our employees, we have been able to prove time and again that with their help, we can persevere in the face of adversity. As a community-based and full-service financial institution, we are also uniquely poised for success because we offer our clients a singular relationship for all their financial needs. And we do it locally.

This is important because while consumers are looking for more digital options, their appetites for relationship banking and face-to-face interaction are also growing. The convenience offered by digital tools and resources is attractive, but nothing can replace having a person to call or visit when you need help or professional advice. This is especially true when dealing with major life events. That is where we excel, as our customers have come to know that our experienced, local experts are here to provide guidance on their personal and business finances in this and any other economic climate. We are ready to meet the growing demand for this personal service by adding to and developing our team of Central Bankers. This emphasis on client relationships and the expertise of our team plus an unwavering focus on the communities we serve position us to make 2023 another successful year for our Company.

RETIREES

In the words of our founder, Mr. Kincaid, "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 is with this sentiment that we thank 12 long-term employees who completed their service to reach well-earned retirements: Ranee Leland (Bank Administration, 47 years); Lisa Grant (Auditing, 41 years); Theresa Bandy (Retail Banking, 23 years); Barb Johnson (Retail Banking, 22 years); Rhonda Ritchie (Commercial Lending, 22 years); Jan Rexroat (Retail Banking, 21 years); Tim Duncan (Commercial Lending, 20 years); Lee Coleman (Consumer Mortgage Lending, 18 years); Bobby Jones (Financial Intelligence & Security Unit, 16 years); Lela Durman (Retail Banking, 9 years); John Finley (Private Banking, 8 years); and Karen Hartig (Private Banking, 8 years). They were dedicated Central Bankers who served our Company and their customers with distinction. We honor their service and congratulate them on their achievements.

WITH APPRECIATION

Our directors continually offer us insight that helps us stay connected to our local markets. Their collective knowledge, expertise and support are deeply appreciated. Without their leadership, we would not be successful.

As I have described throughout this report, our Central Bankers are hardworking, knowledgeable and caring. I am honored to say that thanks to their support, we were named a Best Place to Work in Kentucky for the 16th year. I maintain deep gratitude for their tireless efforts to serve our customers and our Company.

Most important, I would like to thank our loyal customers. They have more options than ever when it comes to how they manage their financial lives, and we are eternally grateful for the opportunity to serve them. Their dedication to this Company and their recognition of our service to them are a source of motivation and pride for us all. It is with a strong team of employees and our loyal customers that I look to the year ahead with optimism and confidence.

Luther Deaton, Jr. Chairman, President & CEO
March 10, 2023

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"). The Bank is a state-chartered non-member financial institution that is subject to regulation, supervision, and examination by the Federal Deposit Insurance Corporation and the Kentucky Department of Financial Institutions. The Company has 28 full service banking centers located in Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full service brokerage business and a full service insurance agency.

RESULTS OF OPERATIONS

The Company reported net income of $21.0 million or $0.61 per common share for 2022 compared with $31.2 million or $0.90 per common share for 2021. Return on average assets and average equity was 0.55% and 6.11%, respectively, for 2022 compared with 0.88% and 9.04% a year earlier. The decrease in net income for 2022 is primarily the result of higher noninterest expenses and provision for loan losses of $6.3 million or 5.7% and $4.3 million, respectively, combined with a decrease in mortgage banking income of $5.2 million or 73.1%. Net interest income increased $1.7 million or 1.7% in the comparison.

NET INTEREST INCOME

Net interest income is the difference between interest and fee income generated from interest earning assets and the interest paid on interest bearing liabilities used to fund those assets. Net interest income was 70.9% of total revenue for 2022. 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 is the 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.

Fluctuations in interest rates, yield curves, repricing characteristics and changes in the volume and mix of interest earning assets and interest bearing liabilities materially impact net interest income. During 2021, the Federal Reserve Board (the "Fed") left its short term targeted federal funds rate unchanged at a historical low range of 0% to 0.25%. During 2022, the Fed increased the targeted rate by 425 basis points to 4.50% for the upper range in order to help slow inflation. The Fed has indicated it anticipates further increases to the rate during 2023. The increase in the federal funds rate has resulted in higher net interest income for the Company. However, certain longer term market interest rates have exceeded shorter term rates during part of 2022. Such inversion of rates over a prolonged period of time could be less beneficial to the Company's net interest income.

Net interest income was $104 million in 2022, an increase of $1.7 million or 1.7% compared to a year earlier. The increase in net interest income is attributed to the impact of rapid rate increases related primarily from the redeployment of excess liquidity into short term debt securities combined with a higher rate earned on interest bearing deposits with the Federal Reserve.

The Company's net interest spread was 2.70% and 2.92% for 2022 and 2021, respectively. This represents a decrease of 22 basis points and was driven by a 21 basis point increase in the average rate paid on interest bearing liabilities. The increase in the average rate paid is attributed to the overall market rate environment following actions by the Fed.

Net interest margin for 2022 was 2.87%, down 14 basis points from a year earlier. The impact of noninterest bearing sources of funds added 17 basis points to net interest margin during 2022, an increase of eight basis points in the comparison. The benefit of noninterest bearing sources of funds to net interest margin increases as the cost of funds increase.

Total interest income for 2022 was $113 million, an increase of $6.4 million or 6.0% compared to $107 million for 2021. Interest income on debt securities and interest bearing deposit balances increased $11.8 million and $3.1 million, respectively, which more than offset an $8.6 million or 8.3% decrease in interest income on loans. The decrease in interest income on loans is mainly attributed to a $12.0 million or 91.6% decline from Paycheck Protection Program ("PPP") loan interest and fees.

PPP was created by the CARES Act in 2020 to provide funds in the form of loans by eligible lenders to small businesses to cover certain qualified expenses to assist with financial difficulties during the early part of the Covid pandemic. The loans are 100% guaranteed by the Small Business Administration and fully forgiven when used as specified under the terms of the program. Substantially all PPP loans made by the Company have been forgiven as of year-end 2022. On average, PPP loans were $10.1 million in 2022, a decrease of $214 million or 95.5%. Non-PPP loans average $2.1 billion in 2022, up $64.5 million or 3.1%.

Total interest expense for 2022 was $8.8 million, an increase of $4.6 million or 111% from the prior year. Interest expense on deposits, the largest component of interest expense, was $7.3 million for 2022, an increase of $4.2 million or 133%. Interest expense increased in all major categories of the portfolio due to the higher interest rate environment. Interest on time deposits increased $3.5 million or 193%, led by an increase in both the volume and rate paid on variable rate certificates of deposits.

Interest expense on borrowed funds was $1.5 million for 2022, an increase of $472 thousand or 46.1%. Interest on short-term borrowings, consisting of both Federal Home Loan Bank ("FHLB") advances and repurchase agreements with commercial customers, increased $228 thousand due to a higher average rate paid of eight basis points to 0.13%. Overall average balances were up $40.5 million or 19.0%.

Interest expense on long-term borrowings, consisting of FHLB advances and subordinated debentures at the parent company, increased $244 thousand or 26.6%. The increase is due to a higher average rate paid on subordinated debt of 162 basis points to 3.6%. Interest expense on subordinated debentures increased $250 thousand or 83.6%. The interest rate on this debt is variable and increased in each of the quarterly reset periods during 2022. The rate in effect at year-end 2022 was 6.5%, up from 2.0% a year ago and driven by the overall increase in market interest rates during the current year.

The Company's 2022 average loans to average deposits ratio decreased to 69.2% from 79.0% in 2021. The decrease was driven by average deposit growth of $194 million or 6.7% combined with a reduction in average total loans of $150 million or 6.5%.

Overall liquidity remained elevated during 2022 after reaching record levels during the prior year. Deploying excess cash has been challenging, although loan growth picked up markedly during the last half of 2022. 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 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, 2022 and 2021.

NON-INTEREST INCOME

Total non-interest income was $42.6 million for 2022, a decrease of $4.5 million or 9.5% from 2021. The decrease in non-interest income was primarily due to lower mortgage banking income of $5.2 million or 73.1%. Non-interest income was 29.1% of total revenue in 2022, down from 31.5% a year earlier. Total revenue is defined as non-interest income plus net interest income.

Mortgage banking income primarily includes gains on the sale of long-term, fixed-rate mortgage loans the Company originates as part of its management of interest rate risk. Market interest rates heavily influence the origination volume of mortgage loans. The prolonged low interest rate environment that existed during 2020 and much of 2021 resulted in a record number of borrowers that either refinanced their existing home mortgage or borrowed to purchase a residence at historically low mortgage rates. This led to unprecedented levels of mortgage banking revenue for the Company during those years. The rate environment changed significantly with rate increases from the Fed beginning during the first quarter of 2022. As a result, loans originated and sold to the secondary market decreased $255 million or 74.2%. Similarly, gains on the sale of mortgage loans decreased $5.0 million or 72.9%.

Wealth management income includes trust administration, retirement and estate planning, insurance commissions, and investment brokerage fees. Such fees totaled $17.0 million and $17.9 million for 2022 and 2021, respectively. This represents a decrease of $825 thousand or 4.6%. Trust fees declined $393 thousand or 3.9% due primarily to a decrease in stock market valuations during the year. Assets under management were $2.0 billion at year-end 2022, a decrease of $254 million or 11.3% from a year earlier. Insurance commissions decreased $354 thousand or 6.5% due primarily to a lower volume of title policies written. Title insurance fees decreased $381 thousand or 37.8% in the comparison, which corelates to the significant decline in mortgage loan origination activity. Investment brokerage fees decreased $79 thousand or 3.3% mainly due to the overall decline in stock market levels.

Card and interchange fees primarily represent amounts received from card payment networks that are based on a percentage of the underlying transaction value. Higher transaction volumes in 2022 boosted fees by $1.1 million or 15.9%. Customer preferences for electronic payment forms over traditional paper check payments continued to drive increased volume activity.

Service charges on deposit accounts increased $510 thousand or 9.1%, primarily due to higher NSF and overdraft charges of $489 thousand or 17.5%. The increase in NSF and overdraft charges are volume related and generally attributed to certain economic conditions and consumer behavior returning to pre-Covid activity. In much of the prior two years, consumers have

NET INTEREST MARGIN ANALYSIS

(dollars in thousands)

	2022			2021		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets						
Loans[1,2]	$ 2,147,332	$ 94,759	4.41%	$ 2,297,472	$ 103,363	4.50%
Interest-bearing deposits	408,909	4,055	0.99	746,948	1,050	0.14
Federal Home Loan Bank stock	6,431	262	4.07	6,751	135	2.00
Securities[1]	1,088,051	14,581	1.34	379,362	2,823	0.74
Total interest-earning assets	$ 3,650,723	$ 113,657	3.11%	$ 3,430,533	$ 107,371	3.13%
Interest-bearing liabilities						
Deposits						
NOW accounts	$ 531,067	$ 1,078	0.20%	$ 463,015	$ 563	0.12%
Savings deposits	265,071	132	0.05	238,648	119	0.05
Money market deposits	650,166	715	0.11	626,663	621	0.10
Time deposits	340,002	5,371	1.58	367,337	1,834	0.50
Total interest-bearing deposits	1,786,306	7,296	0.41	1,695,663	3,137	0.19
Short-term borrowings	253,843	335	0.13	213,317	107	0.05
Long-term borrowings	40,534	1,160	2.86	40,787	916	2.25
Total interest-bearing liabilities	$ 2,080,683	$ 8,791	0.42%	$ 1,949,767	$ 4,160	0.21%
Net interest margin		$ 104,866	2.87%		$ 103,211	3.01%

[1]Income and yield stated at a tax equivalent basis using a marginal corporate tax rate of 24.95%.

[2]Loan balances include principal balances on nonaccrual loans.

The table below reflects the changes in net interest income in 2022 and 2021 due to changes in rates and volumes computed on a tax equivalent basis.

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS

(dollars in thousands)

	2022/2021			2021/2020		
		Increase/(Decrease) Due To			Increase/(Decrease) Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ (8,604)	$ (1,950)	$ (6,654)	$ (159)	$ (1,206)	$ 1,047
Interest-bearing deposits	3,005	3,680	(675)	(256)	(1,114)	858
Federal Home Loan Bank stock	127	133	(6)	(17)	(17)	-
Securities	11,758	3,528	8,230	(1,346)	(2,356)	1,010
Total interest income	6,286	5,391	895	(1,778)	(4,693)	2,915
Interest expense						
Deposits						
NOW accounts	515	422	93	(16)	(144)	128
Savings deposits	13	-	13	12	(18)	30
Money market deposits	94	70	24	(287)	(476)	189
Time deposits	3,537	3,683	(146)	(2,121)	(1,421)	(700)
Short-term borrowings	228	205	23	(55)	(83)	28
Long-term borrowings	244	250	(6)	(332)	31	(363)
Total interest expense	4,631	4,630	1	(2,799)	(2,111)	(688)
Net interest income	$ 1,655	$ 761	$ 894	$ 1,021	$ (2,582)	$ 3,603

tended to be more conservative by carrying higher deposit balances mainly from government funded payments such as economic stimulus, increased unemployment benefits, and PPP loan proceeds. This generally resulted in lower overdraft fees being charged during that time when deposit balances were at a higher level along with the lower transactional activity that resulted from mandated lockdown periods by authorities.

NON-INTEREST EXPENSE

Total non-interest expense for 2022 was $117 million, an increase of $6.3 million or 5.7% compared with 2021. The increase in non-interest expense is mainly attributed to higher employee benefit costs, volume related processing charges, occupancy expenses, and community sponsorships.

Employee salaries and benefits were 47% and 49% of total noninterest expenses for 2022 and 2021, respectively. Total salary expense, which includes salaries, commissions, and incentives, was $42.4 million for 2022, a decrease of $1.6 million or 3.6%. The decrease in salary expense is attributed to both a reduction in the number of full-time equivalent employees to 499 from 514 in the comparison as well as a reduction in commissions related to lower mortgage origination and insurance volumes.

Employee benefits consists of personnel-related expenses not included in compensation including employee retirement plan contributions, health insurance, and payroll taxes. Total employee benefits increased $2.9 million or 28.5% in the comparison. Contributions to the Company's employee stock ownership plan ("ESOP") were $5.1 million in 2022, an increase from $2.5 million compared to a year earlier. Contributions to the ESOP can fluctuate significantly between periods and are highly dependent upon the price and number of Company shares that become available from participants electing to sell their shares back to the ESOP. The number of available shares to purchase increased during the current year 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 those shares.

Processing charges were $9.0 million for 2022, an increase of $1.1 million or 13.6%. Processing charges primarily include expenditures for core data processing, debit and credit card processing, internet banking, and ATM processing. Processing charges increased during the current year primarily as a result of continuing upgrades to online and mobile banking options.

Card and interchange expense increased $1.7 million or 26.4% in the annual comparison primarily driven by higher debit and credit card reward expense in the amount of $940 thousand or 75.2%. The Company recognizes expense for compensation to cardholders in the form of cash or other rewards for generating card transactions. As pandemic related restrictions have eased, consumers increasingly have begun to resume pre-pandemic activities such as for travel and entertainment. Credit card usage is also trending upward as stimulus and customer deposit balances have declined. Interchange fees and network assessment fees increased $717 thousand or 18.0% and $67 thousand or 5.2%, respectively due to related volume trends.

Occupancy and equipment expense primarily includes depreciation of capital assets, property rental, property taxes, and other operating expenses such as maintenance, utilities, and equipment service contracts. Total occupancy and equipment expense was $20.9 million for 2022, an increase of $1.2 million or 5.9% compared with 2021. The increase is mainly a result of higher premises rent expense recognized of $777 thousand or 12.0% and an increase in depreciation of $566 thousand or 13.6%. Premises rent increased primarily due to recognition of the Company's operating lease right-of-use assets and lease liabilities under Accounting Standards Update No. 2016-02 "Leases (Topic 842)" that was adopted in 2022. Adoption of this standard is more fully described in Note 1 and Note 6 to the Company's 2022 audited consolidated financial statements. The increase in depreciation expense is due mainly to the relocation of certain operating units, capitalized leasehold improvements, and the replacement of outdated furniture and equipment.

ANALYSIS OF NON-INTEREST INCOME

(dollars in thousands)

	2022	2021	2020	2022/2021 CHANGE	2022/2021 %	2021/2020 CHANGE	2021/2020 %
Service charges on deposit accounts	$ 6,131	$ 5,621	$ 5,834	$ 510	9.07 %	$ (213)	(3.65)%
Mortgage banking income	1,913	7,099	6,425	(5,186)	(73.05)	674	10.49
Card and interchange fees	7,976	6,880	5,705	1,096	15.93	1,175	20.60
Trust fees	9,691	10,084	8,471	(393)	(3.90)	1,613	19.04
Electronic banking	7,793	7,613	6,441	180	2.36	1,172	18.20
Net gain (loss) on sales and write-downs of other real estate owned	312	51	(472)	261	511.76	523	(110.81)
Other fees and income	8,825	9,764	8,781	(939)	(9.62)	983	11.19
Total non-interest income	$ 42,641	$ 47,112	$ 41,185	$ (4,471)	(9.49)%	$ 5,927	14.39 %

Advertising and business development include costs related to promoting the Company such as acquiring new business, retaining existing customers, and community support. These expenses were $9.3 million for 2022. This represents an increase of $809 thousand or 9.5% compared to the prior year. Contributions and other community support were $5.8 million, up $588 thousand or 11.1%. The Company remains active in assisting its immediate and surrounding communities with financial assistance to those entities serving the public through education, medical care, youth and elderly programs, and the arts.

Professional service fees include payments to third parties that offer highly specialized services and support in order to assist the Company in meeting its obligations or to improve efficiencies. These services typically include accounting, legal, technology support, or other operational consulting arrangements. Professional services fees decreased $346 thousand or 11.8% in 2022, primarily due to additional expenses related to short-term outsourcing engagements during the prior year to assist in closing the unusually high secondary market mortgage loan volume.

INCOME TAXES

The Company recorded income tax expense of $3.4 million for 2022 compared with $6.6 million for 2021, a decrease of $3.2 million or 48.5%. The decrease is mainly attributed to lower pre-tax income of $13.3 million or 35.3% and a decrease in deferred tax benefit related to the transition to the Kentucky corporate income tax which became effective January 1, 2021. The effective income tax rates were 13.9% and 17.4% for the current and preceding year, respectively.

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 11 low-income housing projects and five 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 2022 were $3.8 billion, a decrease of $70.3 million or 1.8% compared with year-end 2021. Deposit levels decreased during 2022 as customer balances trended toward pre-Covid levels and the effect of economic stimulus measures recede. While total assets and deposits have decreased in the comparison, the buildup of excess liquidity temporarily held in interest bearing deposits at the Fed has generally been reallocated into the loan and securities portfolios. The Company had $300 million of U.S. Treasury securities that matured on the last day of the year which were included with other assets at year-end 2022. Payment for these securities were received the following business day.

Shareholders' equity was $347 million at December 31, 2022, a decrease of $9.4 million or 2.6% compared with the prior year-end. The decrease in equity was primarily driven by an after tax unrealized net loss on available for sale debt securities of $29.5 million, partially offset by net income during 2022 of $21.0 million. Overall market interest rates shifted sharply upwards throughout 2022. As market interest rates increase, the value of existing fixed rate debt securities generally decreases. Capital ratios continue to significantly exceed the levels required to be considered well-capitalized under regulatory guidance. Liquidity measures continue to be well in excess of historical norms for the Company.

ANALYSIS OF NON-INTEREST EXPENSE

(dollars in thousands)

	2022	2021	2020	2022/2021 CHANGE	2022/2021 %	2021/2020 CHANGE	2021/2020 %
Salaries and benefits	$ 55,582	$ 54,260	$ 56,395	$ 1,322	2.44%	$ (2,135)	(3.79)%
Occupancy and equipment	20,879	19,713	18,943	1,166	5.91	770	4.06
Processing charges	8,989	7,910	7,141	1,079	13.64	769	10.77
Advertising and business development	9,343	8,534	7,670	809	9.48	864	11.26
Card and interchange expenses	8,265	6,537	5,209	1,728	26.43	1,328	25.49
Professional services	2,583	2,929	1,944	(346)	(11.81)	985	50.67
Bank franchise tax	-	-	2,915	-	-	(2,915)	(100.00)
FDIC insurance assessment	1,219	1,139	753	80	7.02	386	51.26
Other real estate owned, net	17	46	78	(29)	(63.04)	(32)	(41.03)
Pension plan settlement loss	-	-	5,586	-	-	(5,586)	(100.00)
Other	10,208	9,715	12,025	493	5.07	(2,310)	(19.21)
Total non-interest income	$ 117,085	$ 110,783	$ 118,659	$ 6,302	5.69%	$ (7,876)	(6.64)%

EARNING ASSETS

Earning assets consist primarily of interest bearing deposits with other financial institutions, investment in debt securities, and loans receivable. Funds made available from changes in deposits or other sources 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 the Fed or shorter-term debt securities due to the relative lack of suitable returns available on longer-term investment instruments as well as for liquidity and interest rate risk management.

Gross loans outstanding were $2.4 billion at December 31, 2022, an increase of $282 million or 13.6% from the prior year-end. Commercial real estate loans remain the largest component of the portfolio at $1.3 billion. This represents an increase of $308 million or 31.4% from a year earlier. During 2021, the Company experienced payoffs from the sale of collateral securing several large-balance loans secured by commercial real estate during the last half of the year. These payoffs were more than offset with the funding of new loans during 2022, including construction draws and permanent financing. Loan pipelines remain encouraging, but significant economic uncertainties remain.

Loans secured by residential real estate were $554 million, an increase of $32.8 million or 6.3%. The increase is due in part to higher outstanding balances of 1-4 family adjustable rate mortgages of $14.2 million or 40.1% and home equity lines of credit in the amount of $12.8 million or 13.5%.

Installment loans decreased $39.4 million or 27.4% year over year. Installment loans are primarily secured by consumer asset purchases such as personal vehicles. Installment loans increased during 2021 while interest rates remained at historically low levels and consumers generally had higher deposit balances. The Company began to experience an increase in installment loan delinquencies and charge-offs in early 2022. The combination of increased charge-offs and higher market interest rates led the Company to increase credit underwriting requirements for such loans. As a result, volume activity declined.

Commercial loans balances decreased $21.3 million or 5.1%, driven primarily by loan forgiveness under PPP. The Company originated $163 million and $408 million of PPP loans in 2021 and 2020, respectively. The SBA began to forgive PPP balances during 2020, which have paid down substantially all of the Bank's balances as of year-end 2022.

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 policy and regulatory guidelines. As a result, management believes there is no undue concentration in any single sector.

Total debt securities were $949 million at year-end 2022, an increase of $446 million or 88.6% from a year earlier. The increase is a result of the Company's effort to deploy a portion of its excess liquidity. Purchases of debt securities were $847 million in 2022, which exceeded maturities, calls, and amortization of $61.5 million. A significant portion of purchases in 2022 includes U.S. Treasury obligations of $600 million, U.S. government agencies of $99 million, and mortgage-back securities of $66 million. Purchases of corporate debt securities were $68 million and consist of those issued by regional, national, and international diversified banking organizations.

Deposit account balances are the Company's primary source of funds. Other sources of funds include the ability to borrow from the FHLB, the Fed, and federal funds agreements with other commercial banks. Although deposit balances decreased and loans outstanding increased in the annual comparison, on-balance sheet liquidity continued to be above historical norms throughout 2022. The Company's primary sources of liquidity are cash, cash equivalents, and unencumbered available for sale debt securities. At December 31, 2022 cash and cash equivalents were $74.3 million, down from $1.2 billion a year-earlier.

Unencumbered available for sale debt securities were $791 million at year-end 2022, up $634 million from a year earlier. Loans increased $282 million or 13.6% led by a rebound in commercial real estate lending. Total deposits were down $245 million or 7.6%. The cash needed to fulfill deposit declines and increased loan demand was funded primarily from excess cash deposits held at the Fed. An increase in short-term customer repurchase agreements and short term advances from the FHLB contributed to a lesser extent. Internal liquidity ratios, which are monitored closely on a regular basis, are in excess of long-standing parameters established by policy and regulatory guidance.

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 when received. 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 an appropriate level of allowance for loan losses requires significant judgment in order to reflect credit losses specifically identified in the loan portfolio, as well as management's best estimate of probable incurred credit losses in the loan portfolio at the balance sheet date. While allocations of the allowance may be made for specifically identified loans, the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance for loan losses was $26.3 million and $24.0 million at December 31, 2022 and 2021, an increase of $2.3 million or 9.5%. The allowance for loan losses was 1.12% of the loan portfolio as of year-end 2022 compared with 1.16% a year ago. The provision for loan losses was $5.3 million in 2022, an increase of $4.3 million from a year earlier. Net loan charge-offs were $3.0 million and $2.2 million in the comparison. Net charge-offs as a percentage of average loans were 0.14% in 2022, an increase of 4 basis points from 0.10% a year earlier. Although net charge-offs for 2022 increased in the comparison, the amount in each of the last two years was at or near their lowest levels since pre-2000.

Overall credit quality metrics of the loan portfolio improved as of year-end 2022 compared to a year earlier. Despite the

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)

	2022	2021	2020	2019	2018
Allowance for loan losses					
Balance January 1	$ 23,994	$ 25,185	$ 19,106	$ 20,183	$ 20,485
Provision for loan losses	5,290	1,017	7,812	2,672	2,120
Less: net charge-offs	(3,018)	(2,208)	(1,733)	(3,749)	(2,422)
Balance December 31	$ 26,266	$ 23,994	$ 25,185	$ 19,106	$ 20,183
Average loans, net of unearned income	$ 2,147,945	$ 2,298,270	$ 2,274,331	$ 2,094,164	$ 2,020,794
Loans, net of unearned income, at year-end	2,354,119	2,072,478	2,322,576	2,044,906	2,076,932
Nonperforming loans at year-end	9,696	15,479	22,744	7,474	11,730
Other real estate owned at year-end	-	385	1,385	1,888	3,225
Ratios:					
Provision for loan losses to average loans	0.25%	0.04%	0.34%	0.13%	0.10%
Net charge-offs to average loans	0.14	0.10	0.08	0.18	0.12
Allowance for loan losses to loans	1.12	1.16	1.08	0.93	0.97
Allowance for loan losses to nonperforming loans	270.90	155.01	110.73	255.63	172.06
Nonperforming loans to loans	0.41	0.75	0.98	0.37	0.56
Nonperforming assets to total assets	0.25	0.41	0.74	0.34	0.58
Nonperforming assets to total shareholders' equity and allowance for loan losses	2.60	4.17	6.80	2.86	4.97
Total delinquent loans to loans at year-end	0.97	1.10	1.17	0.53	0.79

overall improvement, installment loan delinquencies remain elevated at 4.8% of their outstanding balance. Installment loan delinquencies relate primarily to activity whereby the Company purchases consumer contracts with automobile dealers. The dealers generate loan applications that are forwarded to the Company for processing the purchase of automobiles. Decisions are made by the Company to either approve or deny funding based on judgments made about the borrower's ability to repay, creditworthiness, and collateral value. Installment loan delinquencies began to trend upward during the last half of 2021. While the Company has reduced its purchasing volume with automobile dealers that has led to a reduction in its past due loans, the percentage of delinquencies remained relatively unchanged.

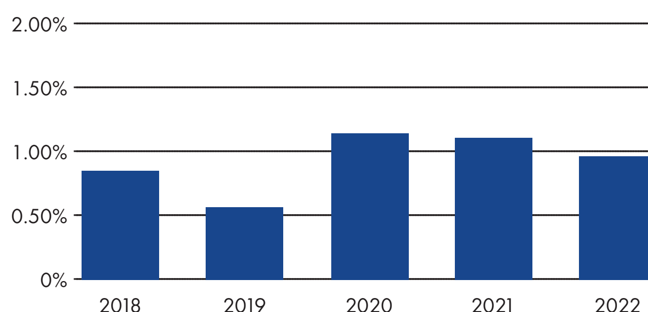
Nonperforming loans consist of those that have been classified as nonaccrual as well as those which are past due over 90 days and still accruing interest. Nonperforming loans decreased $5.8 million or 37.4% to $9.7 million at year-end 2022. The decrease was driven primarily by payoff activity. Payoffs on nonaccrual loans in 2022 include two larger-balance commercial real estate credits totaling $5.6 million with a related charge-off of $126 thousand. As a percentage of year-end loans, nonperforming loans were 0.41%, a decrease from 0.75%. The percentage decrease was also helped by the $282 million or 13.6% increase in loans outstanding in the comparison. The allowance for loan losses as a percentage of nonperforming loans was 271% at year-end 2022 compared with 155% at year-end 2021.

Loans identified as special mention and substandard were $39.6 million at year-end 2022, a decrease of $30.6 million or 43.6% in the annual comparison as reductions have outpaced new additions. The net decrease is primarily attributed to credits that have been either paid off or have had their risk classification upgraded as a result of a more recent evaluation. As a percentage of the loan portfolio, special mention and substandard credits decreased 170 basis points to 1.68%.

Impaired loans are those where it is considered probable that all principal and interest amounts will not be collected in accordance with the original loan terms. Such loans were $44.4 million at year-end 2022, a decrease of $10.7 million or 19.5%. The decrease is mainly attributed to payoffs from loans secured by commercial real estate and for which specific reserves for losses were determined unnecessary. Specific reserves on impaired loans were $745 thousand or 1.7% of their outstanding balance at year-end 2022 compared with $1.7 million or 3.2% a year earlier.

Management considered how the lingering hardships and uncertainty that the Covid related pandemic have impacted the Company's loan portfolio, its borrowers, and the markets in which it operates. Significant analyses have been performed particularly on the commercial and commercial real estate portion of the portfolio in order 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, 2022, future adjustments may be necessary if economic conditions worsen or if assumptions in the evaluation differ substantially from actual results.

Delinquency



DEPOSITS

Total deposits were $3.0 billion at year-end 2022, a decrease of $245 million or 7.6% from year-end 2021. Interest bearing deposits decreased $129 million or 7.0%. Non-interest bearing deposits decreased $116 million or 8.3%. The substantial deposit balance increase of $556 million experienced during 2021 began to trend downward during 2022 similar to levels in the banking industry in general. The Company attributes the decrease in its deposits to lower customer liquidity levels as many have spent down their excess liquidity that was built up with economic stimulus and PPP funds. Rapid increases in interest rates and inflation during 2022 has also led many customers to seek higher returns on their deposit balances outside of the banking system.

The mix of deposit balances shifted more heavily to time deposits during 2022, particularly that of higher-balance certificates of deposits. Time deposits of $250 thousand and above increased $44.7 million or 35.3% at year-end 2022 from a year earlier. Savings deposit balances increased $1.7 million or 0.6%. Demand deposits, interest checking, and money market accounts declined $116 million or 8.2%, $39.2 million or 7.1%, and $112 million or 16.4%, respectively.

SHORT-TERM BORROWINGS

Short-term borrowings consist primarily of FHLB Cash Management Advances ("CMA") and sweep accounts of commercial customers. CMAs offer repayment terms between one day up to one year and are secured similar to that of long-term borrowing from the FHLB. Sweep accounts generally represent larger customer relationships that require the bank to provide a direct pledge from the Company's investment portfolio. Cash management services continue to be a valuable offering to the Company's commercial deposit customers.

CMAs had an outstanding balance of $80.0 million at year-end 2022 and matured on the first business day of 2023. The balance in commercial sweep accounts was $271 million at December 31, 2022, an increase of $30.5 million or 12.7% from a year ago. Since sweep accounts represent larger-balance customer relationships and are used to manage their liquidity needs, large fluctuations in these balances are common.

LONG-TERM BORROWINGS

Long-term borrowings consist of FHLB advances and subordinated debentures with original maturities of greater than one year. At December 31, 2022, the Company had $25.0 million of outstanding long-term fixed-rate borrowings from the FHLB, a decrease of $293 thousand compared to a year earlier. Substantially all of the 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. There is one separate FHLB advance due in each of 2025 and 2027 that together have an outstanding balance of less than $1 thousand. FHLB 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 2022 was 6.52%, up from 1.95% a year ago. The three-month LIBOR has behaved similar to other market interest rates with similar term, which have risen substantially during 2022 as the Fed attempts to slow widespread inflation.

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 2022 and 2021, 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.

LIBOR REFERENCE RATE

In 2017 the Financial Conduct Authority ("FCA"), the authority regulating LIBOR, and other regulatory bodies announced that LIBOR would likely be discontinued at the end of 2021. In November 2020, the FCA announced that many tenors of LIBOR would continue to be published through June 2023. In March 2022, the Adjustable Interest Rate (LIBOR) Act ("LIBOR Act") was signed into law. The LIBOR Act established a uniform benchmark replacement process for financial contracts that mature after the cessation of LIBOR that do not contain clearly defined or practicable fallback provisions. The legislation also provides lenders certain protection from litigation associated with choosing a replacement rate recommended by the Fed.

The Company's subordinate debentures referred to above contain a LIBOR-based reference rate. The trust documents do not provide for a replacement rate or include other fallback provisions. As such, absent an amendment to the trust documents, the LIBOR Act provides that the reference rate of the three-month CME Term Secured Overnight Financing Rate ("SOFR") plus a spread adjustment of 0.26161 will be the new benchmark replacement for the three-month LIBOR. Since SOFR represents a secured rate measuring the cost to borrow cash overnight collateralized by U.S. Treasury securities, the spread adjustment is added to make the rate more comparable to LIBOR, which includes a credit risk component. The Company anticipates that the trust documents will not be amended and, therefore, the SOFR rate will become the replacement rate after June 30, 2023.

Although the interest rate on the Company's subordinate debentures referred to above is LIBOR-based, the phase out of LIBOR as a reference rate is not expected to be material to the Company's financial statements or to its cash flows. The Company does not typically enter into contracts that use LIBOR as a reference rate.

CAPITAL

Capital adequacy guidelines of the regulatory agencies, and additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items. The Bank is subject to capital-based regulatory requirements which place banks into one of five categories based upon their capital levels and other supervisory criteria. These five categories are: (1) well-capitalized, (2) adequately capitalized, (3) undercapitalized, (4) significantly undercapitalized, and (5) critically undercapitalized.

To be well-capitalized, a bank must have a Common Equity Tier 1 Risk-based Capital ratio of at least 6.5%, a Tier 1 Risk-based Capital ratio of 8.0%, a Total Risk-based Capital ratio of at least 10.0%, and a Tier 1 Leverage ratio of at least 5.0%.

The Company's capital ratios at December 31, 2022 and 2021 continued to significantly exceed the levels required to be considered well-capitalized under regulatory guidance.

The Company had the following capital ratios for regulatory purposes as of the date indicated:

	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]
December 31, 2022				
Company	13.0%	13.5%	14.5%	9.9%
Bank	13.3	13.3	14.2	9.7
December 31, 2021				
Company	15.7%	16.4%	17.5%	9.6%
Bank	16.1	16.1	17.2	9.5

[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.

The Tier 1 Leverage Capital Ratio for the Company increased at year-end 2022 due to an increase in Tier 1 Capital of $19.3 million or 5.3% in the form of retained earnings, which outpaced the growth in total assets (as defined) of $103 million or 2.7%. Each of the Risk-based Capital Ratios decreased from a year ago since asset growth was made up primarily from loans and investment securities, which are generally risk-weighted at a higher amount than the cash and cash equivalents that were used as the primary source to fund the growth.

Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Central Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Central Bancshares, Inc. as of December 31, 2022 and 2021, 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.

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, 2022, 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 10, 2023 expressed an unmodified opinion.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Central Bancshares, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Central Bancshares, Inc.'s ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Central Bancshares, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Crowe LLP

Crowe LLP
Louisville, Kentucky
March 10, 2023

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31 2022		December 31 2021
ASSETS			
Cash and due from financial institutions	$	62,177	$ 35,512
Interest-bearing deposits with other financial institutions		12,100	1,210,900
Total cash and cash equivalents		74,277	1,246,412
Available for sale debt securities		941,759	493,802
Held to maturity debt securities		6,761	9,141
Total debt securities		948,520	502,943
Loans held for sale		999	6,598
Loans, net of allowance of $26,266 (2022) and $23,994 (2021)		2,327,853	2,048,484
Premises and equipment, net		96,007	27,016
Other real estate owned		-	385
Interest receivable		12,196	5,939
Federal Home Loan Bank stock, at cost		7,864	6,751
Goodwill		14,313	14,313
Matured U.S. Treasury secruities		300,000	-
Other assets		40,080	33,527
Total assets	$	3,822,109	$ 3,892,368
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Non-interest bearing	$	1,286,178	$ 1,402,270
Interest bearing		1,699,672	1,828,298
Total deposits		2,985,850	3,230,568
Federal funds purchased and repurchase agreements		271,337	240,852
Federal Home Loan Bank advances		105,000	25,293
Subordinated debentures		15,464	15,464
Interest payable		702	196
Other liabilities		96,974	23,848
Total liabilities		3,475,327	3,536,221
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		368,781	349,514
Accumulated other comprehensive loss		(32,368)	(3,736)
Total shareholders' equity		346,782	356,147
Total liabilities and shareholders' equity	$	3,822,109	$ 3,892,368

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Years Ended December 31 2022	2021
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 94,015	$ 102,554
Debt securities	14,581	2,823
Deposits with other financial institutions	4,317	1,185
	112,913	106,562
INTEREST EXPENSE		
Deposits	7,296	3,137
Federal funds purchased and repurchase agreements	141	107
Federal Home Loan Bank advances	805	617
Subordinated debentures	549	299
	8,791	4,160
Net interest income	104,122	102,402
Provision for loan losses	5,290	1,017
Net interest income after provision for loan losses	98,832	101,385
NON-INTEREST INCOME		
Service charges on deposit accounts	6,131	5,621
Mortgage banking income	1,913	7,099
Card and interchange fees	7,976	6,880
Trust fees	9,691	10,084
Electronic banking	7,793	7,613
Net gain on sales of other real estate owned	312	51
Other fees and income	8,825	9,764
	42,641	47,112
NON-INTEREST EXPENSE		
Salaries and benefits	55,582	54,260
Occupancy and equipment	20,879	19,713
Processing charges	8,989	7,910
Advertising and business development	9,343	8,534
Card and interchange expenses	8,265	6,537
Professional services	2,583	2,929
FDIC assessment	1,219	1,139
Other real estate owned, net	17	46
Other	10,208	9,715
	117,085	110,783
Income before income taxes	24,388	37,714
Income taxes	3,382	6,564
Net income	$ 21,006	$ 31,150
Basic earnings per share	$ 0.61	$ 0.90
Weighted average number of common shares outstanding	34,698,685	34,792,200

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands)

	Years Ended December 31	
	2022	2021
Net income	$ 21,006	$ 31,150
Other comprehensive loss:		
Unrealized gains/losses on available for sale debt securities:		
Unrealized holding loss arising during the period	(39,365)	(3,734)
Tax effect	9,822	890
Net of tax	(29,543)	(2,844)
Defined benefit pension plans:		
Net gain (loss) arising during the period	614	(697)
Reclassification adjustment for amortization of net loss realized in net income	600	595
Tax effect	(303)	25
Net of tax	911	(77)
Total other comprehensive loss	(28,632)	(2,921)
Comprehensive (loss) income	$ (7,626)	$ 28,229

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

Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP Shares	Total
Balances, January 1, 2021	$ 3,479	$ 6,890	$ 320,103	$ (815)	$ -	$ 329,657
Net income	-	-	31,150	-	-	31,150
Cash dividends declared ($0.05 per share)	-	-	(1,739)	-	-	(1,739)
Other comprehensive loss	-	-	-	(2,921)	-	(2,921)
Balances, December 31, 2021	$ 3,479	$ 6,890	$ 349,514	$ (3,736)	$ -	$ 356,147
Net income	-	-	21,006	-	-	21,006
Cash dividends declared ($0.05 per share)	-	-	(1,739)	-	-	(1,739)
Advances to ESOP	-	-	-	-	(2,554)	(2,554)
Repayment of advances from ESOP	-	-	-	-	2,554	2,554
Other comprehensive loss	-	-	-	(28,632)	-	(28,632)
Balances, December 31, 2022	$ 3,479	$ 6,890	$ 368,781	$ (32,368)	$ -	$ 346,782

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 21,006	$ 31,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,290	1,017
Deferred income tax benefit	(62)	(560)
Depreciation and amortization	7,815	6,478
Net gain on sales of other real estate owned	(312)	(51)
Net loss on disposals of premises and equipment	-	70
Noncash operating lease expense	4,905	-
Repayment of operating lease liabilities	(4,384)	-
Pension plan expense	839	808
Net gain on sale of loans	(1,843)	(6,805)
Net change in:		
Loans held for sale	7,442	23,571
Interest receivable	(6,257)	2,571
Other assets	1,190	4,387
Interest payable	506	(30)
Other liabilities	1,191	(351)
Net cash provided by operating activities	37,326	62,255
CASH FLOWS FROM INVESTING ACTIVITES		
Available for sale debt securities:		
Purchases	(847,329)	(307,763)
Maturities, calls, and return of principal	59,091	72,185
Held to maturity debt securities:		
Maturities, calls, and return of principal	2,371	4,533
Investment in low income tax housing	(310)	(4,544)
Net change in loans	(284,659)	247,890
Purchases of premises and equipment	(1,944)	(4,729)
Proceeds from sale of other real estate owned	697	1,051
Purchase of Federal Home Loan Bank stock	(2,059)	-
Redemption of Federal Home Loan Bank stock	946	-
Net cash (used in) provided by investing activities	(1,073,196)	8,623
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(244,718)	556,513
Net change in federal funds purchased and repurchase agreements	30,485	38,439
Repayment of Federal Home Loan Bank advances	(18,293)	(16)
Issuance of Federal Home Loan Bank advances	98,000	-
Cash dividends paid	(1,739)	(1,739)
Net cash (used in) provided by financing activities	(136,265)	593,197
Net change in cash and cash equivalents	(1,172,135)	664,075
Cash and cash equivalents, beginning of year	1,246,412	582,337
Cash and cash equivalents, end of year	$ 74,277	$ 1,246,412
Supplemental cash flow information:		
Interest paid	$ 8,285	$ 4,190
Income taxes paid	2,550	6,720
Supplemental noncash disclosures:		
U.S. Treasury securities matured, transferred to other assets	300,000	-
Recognition of right-of-use assets and operating lease liabilities	89,732	-
Reductions to right-of-use assets due to modifications	13,038	-

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 10, 2023, which is the date the financial statements were available to be issued.

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

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

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost. Such deposits consist primarily of cash on deposit with the Federal Reserve Bank.

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 $2,835 and $2,541 of net deferred loan fees at year-end 2022 and 2021, 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 $6,561 and $5,021 at year-end 2022 and 2021, 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 restructuring and 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, although many closings on refinancing transactions during 2021 extended beyond 90 days due to record volume levels commonly experienced in the industry as a result of very low market interest rates at the time. 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.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less estimated 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 arises from business combinations and is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with finite useful lives are amortized over their estimated useful lives to their estimate residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

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 11 low-income housing projects and five 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 $15,360 and $17,198 at year-end 2022 and 2021, respectively. At year-end 2022, remaining funding commitments were $2,354.

The Company recognized amortization expense related to its limited partnerships of $2,148 and $2,034 for 2022 and 2021, respectively, which is included in other non-interest expense on the consolidated statements of income. Tax credits recognized were $2,365 and $2,273 . 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. Other comprehensive income includes unrealized gains and losses on debt securities available for sale, net of related income tax, and changes in the funded status of its supplemental non-qualified pension and deferred compensation plans, net of related income tax. Accumulated other comprehensive income is recognized as a separate component of equity. Accumulated other comprehensive loss at December 31, 2022 of $32,368 was comprised of $808 related to the non-qualified pension plan and $31,560 related to an unrealized net loss on available for sale debt securities. Accumulated other comprehensive loss at December 31, 2021 of $3,736 was comprised of $1,719 related to the non-qualified pension plan and $2,017 related to an unrealized net loss 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: The Company is required to maintain a deposit balance with the Federal Reserve Bank to meet its clearing requirements. The Company was previously required to also maintain an average balance to meet statutory required reserves. The reserve requirement was at zero as of December 31, 2022.

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.

Adoption of New Accounting Standard: The Company on January 1, 2022 adopted Accounting Standards Update ("ASU") No. 2016-02 "Leases (Topic 842)" and subsequent related amendments that require recognition of most operating leases on the balance sheet. The standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability for all leases with terms longer than 12 months. Leases are classified as either finance or operating at the lease commencement date, with classification affecting the pattern of expense recognition in the income statement. The standard was adopted under the modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions.
- Carry over of historical initial direct cost balances for existing leases.
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component.

Adoption of the standard resulted in the recognition of operating right-of-use assets and operating lease liabilities of $88,479 as of January 1, 2022. These amounts were determined based on the present value of remaining lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. Subsequent to adoption, the incremental borrowing rate is determined as of the date of lease commencement or renewal. There was no material impact of the timing of expense or income recognition in the Company's Consolidated Income Statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 6 – Premises and Equipment.

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company's leases do not contain residual value guarantees or material variable lease payments that will impact its ability to pay dividends or cause it to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's consolidated statements of income. The Company's variable lease expense includes rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance, and other costs associated with the lease.

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 loss were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2022				
U.S. Treasury securities	$ 435,779	$ -	$ (14,495)	$ 421,284
U.S. government sponsored entities and agencies	254,117	27	(13,377)	240,767
Agency mortgage-backed securities – residential	191,559	42	(12,624)	178,977
Agency mortgage-backed securities – commercial	9,822	33	(12)	9,843
States and political subdivisions	12,989	-	(134)	12,855
Corporate debt securities	79,545	1,140	(2,652)	78,033
	$ 983,811	$ 1,242	$ (43,294)	$ 941,759
2021				
U.S. Treasury securities	$ 136,778	$ -	$ (927)	$ 135,851
U.S. government sponsored entities and agencies	156,753	98	(1,442)	155,409
Agency mortgage-backed securities – residential	170,016	838	(1,580)	169,274
Agency mortgage-backed securities – commercial	12,401	91	(16)	12,476
States and political subdivisions	500	5	-	505
Corporate debt securities	20,041	247	(1)	20,287
	$ 496,489	$ 1,279	$ (3,966)	$ 493,802

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2022				
Agency mortgage-backed securities – residential	$ 6,761	$ -	$ (492)	$ 6,269
	$ 6,761	$ -	$ (492)	$ 6,269
2021				
Agency mortgage-backed securities – residential	$ 9,141	$ 284	$ -	$ 9,425
	$ 9,141	$ 284	$ -	$ 9,425

The amortized cost and fair value of debt securities at December 31, 2022 are shown below 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	$ 279,685	$ 273,929	$ -	$ -
Due from one to five years	459,242	436,209	-	-
Due from five to ten years	32,268	30,426	-	-
Due after ten years	11,235	12,375	-	-
Agency mortgage-backed securities – residential	191,559	178,977	6,761	6,269
Agency mortgage-backed securities – commercial	9,822	9,843	-	-
Total	$ 983,811	$ 941,759	$ 6,761	$ 6,269

Debt securities with a carrying amount of $405,622 and $316,906 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and repurchase agreements.

At December 31, 2022 and 2021, 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 2022 or 2021.

Debt securities with unrealized losses at year-end 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below. There were no unrealized losses for securities classified as held to maturity at year-end 2021.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2022						
Available for sale						
U.S. Treasury securities	$ 293,643	$ (6,095)	$ 127,641	$ (8,400)	$ 421,284	$ (14,495)
U.S. government sponsored entities and agencies	111,010	(3,565)	125,587	(9,812)	236,597	(13,377)
Agency mortgage-backed securities – residential	132,990	(4,196)	40,357	(8,428)	173,347	(12,624)
Agency mortgage-backed securities – commercial	1,023	(3)	1,385	(9)	2,408	(12)
States and political subdivisions	12,855	(134)	-	-	12,855	(134)
Corporate debt securities	65,657	(2,652)	-	-	65,657	(2,652)
Total available for sale	$ 617,178	$ (16,645)	$ 294,970	$ (26,649)	$ 912,148	$ (43,294)
Held to maturity						
Agency mortgage-backed securities – residential	$ 6,269	$ (492)	$ -	$ -	$ 6,269	$ (492)
Total held to maturity	$ 6,269	$ (492)	$ -	$ -	$ 6,269	$ (492)
2021						
Available for sale						
U.S. Treasury securities	$ 135,851	$ (927)	$ -	$ -	$ 135,851	$ (927)
U.S. government sponsored entities and agencies	134,293	(1,441)	132	(1)	134,425	(1,442)
Agency mortgage-backed securities – residential	55,162	(1,547)	12,827	(33)	67,989	(1,580)
Agency mortgage-backed securities – commercial	-	-	3,227	(16)	3,227	(16)
Corporate debt securities	$ 6,001	$ (1)	$ -	$ -	$ 6,001	$ (1)
Total available for sale	$ 331,307	$ (3,916)	$ 16,186	$ (50)	$ 347,493	$ (3,966)

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:

	2022	2021
Commercial[1]	$ 394,489	$ 415,776
Commercial real estate	1,290,618	982,152
Residential real estate	554,334	521,493
Installment	104,552	143,968
Credit card receivables	12,961	11,630
	2,356,954	2,075,019
Deferred loan fees, net[2]	(2,835)	(2,541)
Allowance for loan losses	(26,266)	(23,994)
Loans, net	$ 2,327,853	$ 2,048,484

[1]Includes $1,363 and $32,831 at December 31, 2022 and December 31, 2021, respectively, 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").

[2]Includes $26 and $908 at December 31, 2022 and December 31, 2021, respectively, 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, 2022 and 2021:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2022							
Allowance for loan losses:							
Beginning balance	$ 4,476	$ 11,626	$ 3,543	$ 3,080	$ 337	$ 932	$ 23,994
Provision for loan losses	60	2,559	467	2,365	27	(188)	5,290
Loans charged off	(336)	(126)	(3)	(7,209)	(139)	-	(7,813)
Recoveries	139	73	19	4,499	65	-	4,795
Total ending allowance balance	$ 4,339	$ 14,132	$ 4,026	$ 2,735	$ 290	$ 744	$ 26,266
2021							
Allowance for loan losses:							
Beginning balance	$ 4,234	$ 14,585	$ 3,225	$ 1,855	$ 331	$ 955	$ 25,185
Provision for loan losses	219	(2,561)	359	2,913	110	(23)	1,017
Loans charged off	(155)	(432)	(87)	(3,752)	(163)	-	(4,589)
Recoveries	178	34	46	2,064	59	-	2,381
Total ending allowance balance	$ 4,476	$ 11,626	$ 3,543	$ 3,080	$ 337	$ 932	$ 23,994

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, 2022 and 2021:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2022							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 83	$ 343	$ 319	$ -	$ -	$ -	$ 745
Collectively evaluated for impairment	4,256	13,789	3,707	2,735	290	744	25,521
Total ending allowance balance	$ 4,339	$ 14,132	$ 4,026	$ 2,735	$ 290	$ 744	$ 26,266
Loans:							
Individually evaluated for impairment	$ 4,388	$ 37,384	$ 2,637	$ 25	$ -	$ -	$ 44,434
Collectively evaluated for impairment	390,101	1,253,234	551,697	104,527	12,961	-	2,312,520
Total ending loans balance	$ 394,489	$ 1,290,618	$ 554,334	$ 104,552	$ 12,961	$ -	$ 2,356,954
2021							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 425	$ 1,006	$ 273	$ -	$ 43	$ -	$ 1,747
Collectively evaluated for impairment	4,051	10,620	3,270	3,080	294	932	22,247
Total ending allowance balance	$ 4,476	$ 11,626	$ 3,543	$ 3,080	$ 337	$ 932	$ 23,994
Loans:							
Individually evaluated for impairment	$ 7,090	$ 45,648	$ 2,352	$ 37	$ 43	$ -	$ 55,170
Collectively evaluated for impairment	408,686	936,504	519,141	143,931	11,587	-	2,019,849
Total ending loans balance	$ 415,776	$ 982,152	$ 521,493	$ 143,968	$ 11,630	$ -	$ 2,075,019

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2022						
With no related allowance recorded:						
Commercial	$ 4,550	$ 4,305	$ -	$ 4,809	$ 167	$ 172
Commercial real estate	30,143	29,365	-	27,122	1,543	1,528
Residential real estate	1,817	1,536	-	1,431	59	58
Installment	26	25	-	31	2	2
Credit card receivables	-	-	-	-	-	-
Subtotal	36,536	35,231	-	33,393	1,771	1,760
With an allowance recorded:						
Commercial	$ 85	$ 83	$ 83	$ 930	$ 3	$ 3
Commercial real estate	8,027	8,019	343	14,395	426	437
Residential real estate	1,101	1,101	319	1,062	7	10
Installment	-	-	-	-	-	-
Credit card receivables	-	-	-	22	-	-
Subtotal	9,213	9,203	745	16,409	436	450
Total	$ 45,749	$ 44,434	$ 745	$ 49,802	$ 2,207	$ 2,210

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2021:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2021						
With no related allowance recorded:						
Commercial	$ 5,488	$ 5,313	$ -	$ 8,209	$ 353	$ 396
Commercial real estate	25,598	24,877	-	29,036	1,950	2,046
Residential real estate	1,499	1,328	-	1,103	67	67
Installment	37	37	-	42	2	2
Credit card receivables	-	-	-	-	-	-
Subtotal	32,622	31,555	-	38,390	2,372	2,511
With an allowance recorded:						
Commercial	$ 1,846	$ 1,777	$ 425	$ 1,983	$ 83	$ 75
Commercial real estate	20,916	20,771	1,006	25,387	615	973
Residential real estate	1,147	1,024	273	950	39	37
Installment	-	-	-	-	-	-
Credit card receivables	43	43	43	48	3	3
Subtotal	23,952	23,615	1,747	28,368	740	1,088
Total	$ 56,574	$ 55,170	$ 1,747	$ 66,758	$ 3,112	$ 3,599

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, 2022 and 2021:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2022	2021	2022	2021
Commercial	$ 694	$ 1,154	$ 516	$ -
Commercial real estate	3,538	9,797	-	-
Residential real estate	2,209	1,966	1,471	891
Installment	1,214	1,609	-	27
Credit card receivables	44	24	10	11
Total	$ 7,699	$ 14,550	$ 1,997	$ 929

The following table presents the aging of the recorded investment in past due loans as of December 31, 2022 and 2021 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, 2022					
Commercial	$ 76	$ 668	$ 744	$ 393,745	$ 394,489
Commercial real estate	800	789	1,589	1,289,029	1,290,618
Residential real estate	806	2,856	3,662	550,672	554,334
Installment	4,465	524	4,989	99,563	104,552
Credit card receivables	155	30	185	12,776	12,961
Total	$ 6,302	$ 4,867	$ 11,169	$ 2,345,785	$ 2,356,954
December 31, 2021					
Commercial	$ 743	$ 113	$ 856	$ 414,920	$ 415,776
Commercial real estate	766	5,641	6,407	975,745	982,152
Residential real estate	967	1,561	2,528	518,965	521,493
Installment	6,035	945	6,980	136,988	143,968
Credit card receivables	84	18	102	11,528	11,630
Total	$ 8,595	$ 8,278	$ 16,873	$ 2,058,146	$ 2,075,019

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 $14,707 and $13,104 at December 31, 2022 and 2021, respectively.

Troubled Debt Restructurings: The Company has troubled debt restructurings of $34,690 and $40,916 as of December 31, 2022 and 2021, respectively, and has allocated $299 and $959 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022 and 2021. The Company has committed to lend additional amounts totaling up to $564 and $52 as of December 31, 2022 and 2021, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2022 and 2021, 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, 2022 and 2021:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2022			
Troubled debt restructurings:			
Commercial			
Renewal	2	$ 291	$ 291
Total commercial	2	291	291
Commercial real estate			
Renewal	6	12,063	12,063
Total commercial real estate	6	12,063	12,063
Residential real estate			
Renewal	1	264	264
Total residential real estate	1	264	264
Total troubled debt restructurings	9	$ 12,618	$ 12,618
December 31, 2021			
Troubled debt restructurings:			
Commercial			
Renewal	2	$ 296	$ 296
Total commercial	2	296	296
Commercial real estate			
Renewal	12	29,731	29,731
Other	1	933	925
Total commercial real estate	13	30,664	30,656
Total troubled debt restructurings	15	$ 30,960	$ 30,952

There was no increase to the allowance for loan losses related to the troubled debt restructurings in the table above. Charge-offs related to these troubled debt restructurings were $0 and $204 for 2022 and 2021, respectively.

There was one commercial real estate loan with a recorded investment of $75 for which there was a payment default during the year ended December 31, 2022 for credits that were restructured during the previous 12 months. For the year ended December 31, 2021, there were three commercial loans with a recorded investment of $572 and two commercial real estate loans with a recorded investment of $1,566 for which there was a payment default within 12 months following the modification. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructuring that subsequently defaulted described above for 2022 resulted in net charge-offs of $0 during the year ended December 31, 2022. The troubled debt restructurings that subsequently defaulted for 2021 resulted in net charge-offs of $193 during the year ended December 31, 2021.

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

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

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

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

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

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

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

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2022						
Commercial	$ 392,240	$ 544	$ 1,705	$ -	$ -	$ 394,489
Commercial real estate	1,256,849	1,361	32,408	-	-	1,290,618
Residential real estate	443,510	887	2,549	-	107,388	554,334
Installment	-	-	25	-	104,527	104,552
Credit card receivables	-	-	75	-	12,886	12,961
	$ 2,092,599	$ 2,792	$ 36,762	$ -	$ 224,801	$ 2,356,954
December 31, 2021						
Commercial	$ 407,697	$ 298	$ 7,781	$ -	$ -	$ 415,776
Commercial real estate	923,460	734	57,958	-	-	982,152
Residential real estate	423,565	1,001	2,248	-	94,679	521,493
Installment	-	30	37	-	143,901	143,968
Credit card receivables	-	22	56	-	11,552	11,630
	$ 1,754,722	$ 2,085	$ 68,080	$ -	$ 250,132	$ 2,075,019

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled $88,531 and $343,453 during 2022 and 2021, respectively. Proceeds from the sale of loans were $95,973 in 2022 and $367,024 in 2021. Mortgage loans held for sale were $999 and $6,598 at year-end 2022 and 2021. The Company had commitments to originate $1,585 in loans at December 31, 2022, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $40,220 and $43,532 at December 31, 2022 and 2021, respectively.

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

	2022	2021
Beginning of year	$ 266	$ 234
Originated	21	94
Amortized to expense	(67)	(62)
End of year	$ 220	$ 266

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $302 and $326 at year-end 2022 and 2021.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2022	2021
Other real estate owned, beginning of year	$ 385	$ 1,385
Proceeds from sales	(697)	(1,051)
Net gain on sales	312	51
Other real estate owned, end of year	$ -	$ 385

Expenses related to other real estate owned include:

	2022	2021
Net gain on sales	$ (312)	$ (51)
Operating expenses, net	17	46
	$ (295)	$ (5)

At December 31, 2022 and 2021, the recorded investment in mortgage loans secured by residential real estate that were in the process of foreclosure was $1,121 and $601, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2022	2021
Land	$ 2,991	$ 2,991
Buildings and improvements	18,205	18,066
Leasehold improvements	35,936	33,258
Furniture, fixtures and equipment	50,101	47,196
Construction in progress	572	4,337
	107,805	105,848
Accumulated depreciation	(83,587)	(78,832)
Operating lease – right-of-use asset	71,789	-
Total	$ 96,007	$ 27,016

Depreciation and amortization expense amounted to $4,742 and $4,176 in 2022 and 2021, respectively.

Leases: A right-of-use lease asset and operating lease liability were recorded in premises and equipment and other liabilities on the consolidated balance sheet upon the adoption of ASU No. 2016-02 during the first quarter of 2022.

The Company enters into leases in the normal course of business. Substantially all of the Company's operating leases are for various branch locations, back-office operations, and its insurance and investment brokerage offices. The Company's leases have remaining terms ranging from one to 25 years, some of which include renewal options to extend the lease in five-year increments for up to 20 years and some of which include options to terminate the lease within 11 years. In addition, the Company has entered into two subleases for space in certain vacated branch locations with remaining lease terms of less than one year. The Company elected the practical expedient to expense short-term lease expense associated with leases with original terms of 12 months or less.

Right-of-use assets and lease liabilities by lease type and the associated balance sheet classifications, are as follows:

Lease Type	Balance Sheet Classification	December 31, 2022
Operating lease – right-of-use asset	Premises and equipment, net	$ 71,789
Operating lease liability	Other liabilities	72,313

The components of total lease cost were as follows for the year ending:

	December 31, 2022
Operating lease cost	$ 7,112
Variable lease cost	480
Less: Sublease income	495
Total lease cost, net	$ 7,097

Future undiscounted lease payments for lease liabilities with initial terms of one year or more as of December 31, 2022 are as follows:

	Operating Leases
2023	$ 6,275
2024	5,954
2025	5,908
2026	5,810
2027	5,620
Thereafter	84,550
Total undiscounted lease payments	$ 114,117
Less: imputed interest	41,804
Net lease liability	$ 72,313

Supplemental Lease Information

	December 31, 2022
Operating lease weighted average remaining lease term (years)	19.28
Operating lease weighted average discount rate	4.42%
Operating cash flows from operating leases	$ 10,972
Right-of-use assets obtained in exchange for new operating lease liabilities	89,732

NOTE 7 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2022 and 2021 were $171,201 and $126,533, respectively.

Scheduled maturities of time deposits at year-end 2022 are as follows:

2023	$	301,999
2024		28,294
2025		11,425
2026		6,130
2027		4,879
Thereafter		-
Total	$	352,727

Deposits from directors and executive officers and companies in which they have beneficial ownership were $13,377 and $25,157 at December 31, 2022 and 2021, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

		2022		2021
Cash Management Advance due January 2023 at a variable rate of 4.38% at year-end 2022.	$	80,000	$	-
Maturity of September 2023 at a fixed rate of 2.44% at year-end 2022 and 2021.		25,000		25,000
Maturities January 2025 through December 2027, at a fixed rate of 5.50%, averaging 5.50% and 2.44% at year-end 2022 and 2021.		-		293
Total	$	105,000	$	25,293

Each advance is payable at its maturity date, with a prepayment penalty for those that are paid off earlier than maturity. Each of 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 $525,779 and $481,807 at December 31, 2022 and 2021, 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 $124,639 at year-end 2022. 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, 2022 and 2021 were $151,000 and $121,500, 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 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 2022 was 6.52%. 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 (2022):			
Available for sale debt securities:			
U.S. Treasury securities	$ -	$ 421,284	$ -
U.S. government sponsored entities and agencies	-	240,767	-
Agency mortgage-backed securities – residential	-	178,977	-
Agency mortgage-backed securities – commercial	-	9,843	-
States and political subdivisions	-	12,855	-
Corporate debt securities	-	56,728	21,305
Assets (2021):			
Available for sale debt securities:			
U.S. Treasury securities	$ -	$ 135,851	$ -
U.S. government sponsored entities and agencies	-	155,409	-
Agency mortgage-backed securities – residential	-	169,274	-
Agency mortgage-backed securities – commercial	-	12,476	-
States and political subdivisions	-	505	-
Corporate debt securities	-	9,121	11,166

There were no transfers between level 2 and level 3 during 2022 or 2021. Included in Level 3 measurements is the purchase of corporate debt securities during 2022 in the amount of $10,000 with a related fair value of $8,930 at year-end 2022. During the period from January 1, 2022 to December 31, 2022, there was a net loss of $24 recognized in other comprehensive income and $164 of net accretion recognized on debt securities classified as level 3. During the period from January 1, 2021 to December 31, 2021, there was $2 of total gain recognized in other comprehensive income and $164 of net accretion recognized on debt securities classified as level 3.

The following table presents qualitative information about Level 3 fair value measurements for financial instruments measured at fair value on a recurring basis at December 31, 2022 and 2021:

Valuation Techniques	Fair Value	Asset Category	Unobservable Inputs	Range (Weighted Average)
2022				
Indicative quote	$ 21,305	Corporate debt securities	Liquidity discount	5.6%–0.2% (3.4%)
2021				
Market comparable companies	$ 11,166	Corporate debt securities	Credit spreads	3.8%–3.8% (3.8%)

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 (2022):			
Impaired loans:			
Residential real estate	$ -	$ -	$ 163
Assets (2021):			
Impaired loans:			
Commercial	$ -	$ -	$ 354
Commercial real estate	-	-	11,693
Residential real estate	-	-	528

Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $469, with a valuation allowance of $306 at December 31, 2022, resulting in $80 of additional provision for loan losses for the year ended December 31, 2022. Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $13,433, with a valuation allowance of $858 at December 31, 2021, resulting in $731 of additional provision for loan losses for the year ended December 31, 2021.

Other real estate owned is measured at fair value less estimated costs to sell. At December 31, 2022, other real estate owned was zero. There were no write-downs of other real estate owned during 2022 or 2021.

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, 2022 and 2021:

Valuation Techniques	Fair Value	Asset Category	Unobservable Inputs	Range (Weighted Average)
2022				
Sales approach	$ 163	All classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	34%–44% (38%)
2021				
Sales approach	$ 12,575	All classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	10%–90% (39%)

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following:

	2022	2021
Current income tax expense:		
Federal	$ 2,979	$ 5,313
State	465	1,811
Total current income tax expense	3,444	7,124
Deferred income tax (benefit) expense:		
Federal	(809)	(249)
State	747	(311)
Total deferred income tax benefit	(62)	(560)
Total income tax expense	$ 3,382	$ 6,564

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 11 low-income housing projects, five Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation tax credit generation, and tax-exempt interest income totaling $2,313 and $2,476 for 2022 and 2021.

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, write-downs on other real estate owned, and partnership investments.

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

	2022	2021
Deferred tax assets	$ 21,552	$ 12,416
Deferred tax liabilities	(2,670)	(3,115)
	$ 18,882	$ 9,301

As a financial institution doing business in Kentucky, the Bank was subject to a capital-based Kentucky bank franchise tax and exempt from Kentucky corporate income tax prior to 2021. Kentucky enacted HB354 in March 2019, which transitioned 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%.

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 filed a combined Kentucky income tax return beginning with the tax year of 2021, which allows the Bank income to be offset by parent company losses subject to any limitations in the statute.

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, 2022; 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, 2022 and 2021. 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, 2022 and 2021.

The Company and its subsidiary file a consolidated U.S. Corporation federal income tax return and a Kentucky Corporation income tax return. The federal return is subject to examination by taxing authorities for all years after 2019 and the Kentucky returns are subject to examination by taxing authorities for all years after 2018.

NOTE 11 – RETIREMENT PLANS

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 Company curtailed the Supplemental Plan during 2009, fully vesting and freezing participant benefits.

The benefit obligation related to Supplemental Plan, which is unfunded, was $8,313 and $8,688 at December 31, 2022 and 2021, respectively. Net periodic pension costs for the plan were $839 and $808 for 2022 and 2021, respectively, and are included in other non-interest expense in the consolidated statements of income. Amounts recognized in accumulated other comprehensive loss related to this plan at December 31, 2022 and 2021 were $855 and $2,070, respectively, and were the result of a net actuarial loss in the plan.

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $(47) in 2022 and $4 in 2021. The accrued liability associated with these plans of $1,944 and $1,991 at December 31, 2022 and 2021 is included in other liabilities. The amount recognized in other comprehensive income was $0 at year-end 2022 and 2021.

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% of the total compensation of all participants. ESOP expense was $5,149 and $2,527 in 2022 and 2021, respectively. As of December 31, 2022 and 2021, a total of 35,066 and 35,145 voting common shares with a fair value of $359 and $342, respectively, were allocated to active participants. In addition, at year-end 2022 and 2021 there were a total of 3,470,689 and 3,478,839 non-voting common shares with a fair value of $35,193 and $33,501 allocated to active participants, as well as $320 and $164 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, 2022 is the fair value of all ESOP shares distributed in 2022 and shares to be distributed in 2023 to participants who had terminated as of year-end 2022. 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 matches a participant's voluntary tax deferred contributions dollar for dollar up to a maximum of 6% of the participant's annual compensation. Additional matching contributions to the plan may be made by the Company at its discretion. The Company made matching contributions totaling $1,974 and $2,013 in 2022 and 2021, respectively. There were no additional matching contributions during 2022 or 2021.

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. The net unrealized gain or loss on available for sale debt securities is not included in computing regulatory capital.

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 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be well capitalized, the Bank must maintain minimum Common Equity Tier 1 Risk-based, Tier 1 Risk-based, Total Risk-based, and Tier 1 Leverage ratios as set forth in the tables below. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio		Amount	Ratio		Amount	Ratio
December 31, 2022									
Total Risk-based Capital[1]:									
Company	$	406,103	14.5%	$	224,745	8.0%		N/A	N/A
Bank		399,007	14.2		224,678	8.0	$	280,848	10.0%
Tier 1 Risk-based Capital[1]:									
Company	$	379,837	13.5%	$	168,559	6.0%		N/A	N/A
Bank		372,741	13.3		168,509	6.0	$	224,678	8.0%
Common Equity Tier 1 Risk-based Capital[1]:									
Company	$	364,837	13.0%	$	126,419	4.5%		N/A	N/A
Bank		372,741	13.3		126,381	4.5	$	182,551	6.5%
Tier 1 Leverage Capital[2]:									
Company	$	379,837	9.9%	$	153,736	4.0%		N/A	N/A
Bank		372,741	9.7		153,751	4.0	$	192,188	5.0%
December 31, 2021									
Total Risk-based Capital[1]:									
Company	$	384,563	17.5%	$	175,535	8.0%		N/A	N/A
Bank		378,110	17.2		175,422	8.0	$	219,278	10.0%
Tier 1 Risk-based Capital[1]:									
Company	$	360,569	16.4%	$	131,652	6.0%		N/A	N/A
Bank		354,116	16.1		131,567	6.0	$	175,422	8.0%
Common Equity Tier 1 Risk-based Capital[1]:									
Company	$	345,569	15.7%	$	98,739	4.5%		N/A	N/A
Bank		354,116	16.1		98,675	4.5	$	142,531	6.5%
Tier 1 Leverage Capital[2]:									
Company	$	360,569	9.6%	$	149,624	4.0%		N/A	N/A
Bank		354,116	9.5		149,613	4.0	$	187,017	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 is obtained from the Kentucky Commissioner of Banking.

As of December 31, 2022, $47,195 of Bank retained earnings is available to pay dividends to the Company subject to ongoing capital and other regulatory requirements.

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:

	2022	2021
Standby letters of credit	$ 29,445	$ 31,783
Commitments to extend credit	$ 648,150	$ 422,516
Unused lines of credit	$ 515,991	$ 494,755

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.

	Years Ended December 31	
	2022	2021
Non-interest income:		
Service charges on deposit accounts	$ 6,131	$ 5,621
Mortgage banking income[1]	1,913	7,099
Card and interchange fees	7,976	6,880
Trust fees	9,691	10,084
Electronic banking	7,793	7,613
Net gain/loss on sales and write-downs of other real estate owned	312	51
Other fees and income:		
Insurance commissions and fees	5,097	5,451
Brokerage commissions and fees	2,294	2,373
Commercial loan fees[1]	503	616
Other	931	1,324
Total non-interest income	$ 42,641	$ 47,112

[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 on Sales 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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