ANNUAL REPORT 2023

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 2024, 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 17th 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.

CONTENT

Financial Highlights 1
Community 2
Letter to our Shareholders, Customers and Communities 4
Management's Discussion and Analysis of Financial Condition and Results of Operations 6
Independent Auditor's Report 14
Consolidated Balance Sheets 16
Consolidated Statements of Income 17
Consolidated Statements of Comprehensive Income (Loss) 18
Consolidated Statements of Changes in Shareholders' Equity 18
Consolidated Statements of Cash Flows 19
Notes to Consolidated Financial Statements 20
Boards of Directors 44
Officers 46

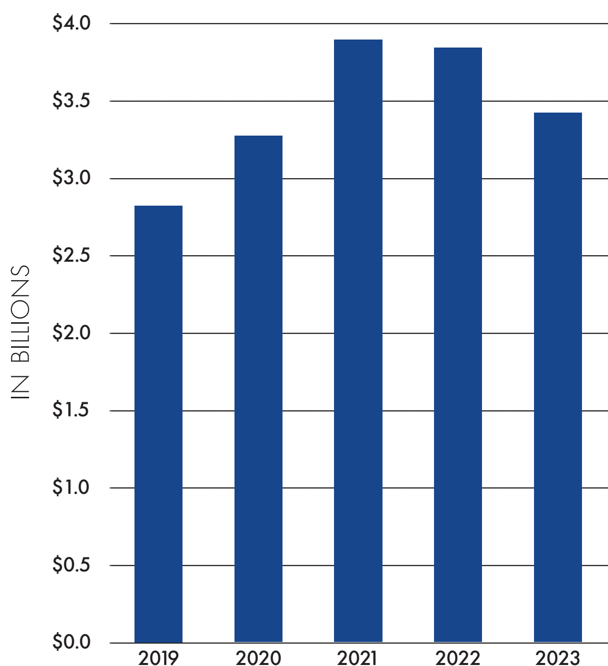
Refer to Marketing for copies: Central Bank & Trust Co., 300 West Vine Street, Lexington, KY 40507

FINANCIAL HIGHLIGHTS

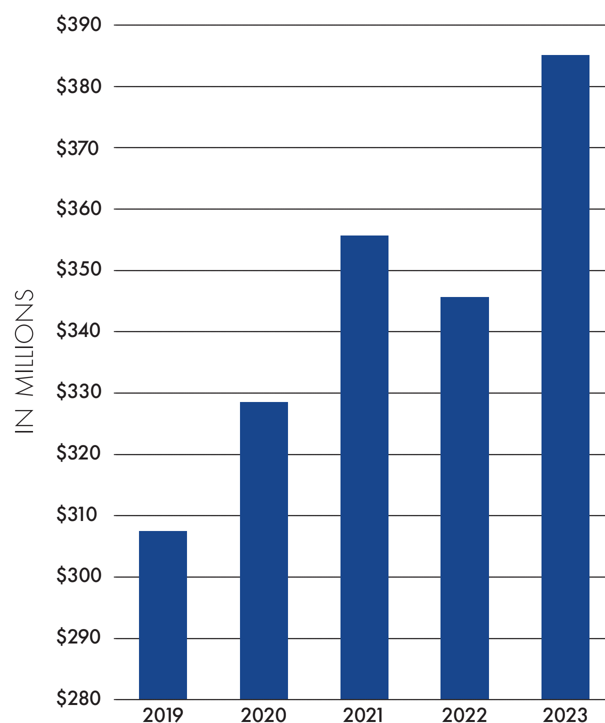
As of and for the twelve months ended December 31

(dollars in thousands, except share data)	2023	2022	2021	2020	2019
RESULTS OF OPERATIONS:					
Net income	$ 33,400	$ 21,006	$ 31,150	$ 15,151	$ 31,445
Basic net income per share	0.96	0.61	0.90	0.44	0.90
Cash dividends per share	0.05	0.05	0.05	0.05	0.05
Book value per share at year end	11.07	9.97	10.24	9.48	8.86
AT DECEMBER 31:					
Assets	$ 3,441,462	$ 3,822,109	$ 3,892,368	$ 3,270,413	$ 2,763,519
Earning assets	3,233,750	3,597,416	3,775,756	3,134,086	2,634,272
Loans, net	2,656,871	2,327,853	2,048,484	2,297,391	2,025,800
Deposits	2,728,045	2,985,850	3,230,568	2,674,055	2,215,844
Shareholders' equity	385,012	346,782	356,147	329,657	308,344
AVERAGES:					
Assets	$ 3,570,276	$ 3,844,649	$ 3,532,637	$ 3,033,257	$ 2,640,451
Earning assets	3,357,087	3,627,290	3,406,562	2,912,431	2,526,382
Loans, net	2,474,206	2,123,899	2,273,501	2,253,730	2,075,030
Deposits	2,764,225	3,104,021	2,909,638	2,450,501	2,110,887
Shareholders' equity	363,377	343,967	344,646	317,719	295,790
PERFORMANCE RATIOS:					
Return on average assets	0.94%	0.55%	0.88%	0.50%	1.19%
Return on average equity	9.19	6.11	9.04	4.77	10.63
Average equity to average assets	10.18	8.95	9.76	10.47	11.20
Dividend payout ratio	5.21	8.26	5.58	11.44	5.53
Net interest margin (tax equivalent)	3.69	2.87	3.01	3.48	3.99
CAPITAL RATIOS:					
Total capital to risk-weighted assets	14.5%	14.5%	17.5%	16.4%	15.4%
Tier I capital to risk-weighted assets	13.5	13.5	16.4	15.3	14.5
Common equity Tier I to risk-weighted assets	13.0	13.0	15.7	14.6	13.9
Tier I capital to average assets	11.5	9.9	9.6	10.4	11.7

End of Period Total Assets



Shareholders' Equity



OPEN SINCE
1946

NUMEROUS SPONSORSHIPS & DONATIONS IN THE AREAS WE CALL HOME

28 BANKING CENTERS IN **8** KENTUCKY COUNTIES

5,500+ EMPLOYEE SERVICE HOURS IN 2023

ORGANIZATIONS SUPPORTED: **500+**

NAMED A BEST PLACE TO WORK IN KENTUCKY FOR **17th** YEAR

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.

COMMUNITY

BANKING

LENDING*

INSURANCE SERVICES**

WEALTH MANAGEMENT**

“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 and happy to report that 2023 was another strong year for Central Bancshares, Inc. (the "Company"). Across our numerous service lines, we exceeded expectations while remaining focused on our ongoing commitment to the communities we serve. Their successes were ours – and vice versa. As the economy has slowly continued to exhibit some signs of improvement, our business communities have played an important role in our many achievements over the past year. We are reporting strong capital levels, good asset quality, continued loan growth and strong earnings.

As we look back on the year, I am once again monumentally proud of the superior level of service offered by our team of Central Bankers and their continued dedication to serving as a trusted financial resource to our clients and communities. It's this commitment that makes us more than a community bank – it makes us THE community bank throughout the Commonwealth of Kentucky. As we continue to build relationships and share in the success of the people we do business with, we will strive to reinforce the notion of "We start with You."

PERFORMANCE

These financial highlights for the Company include Central Bank & Trust Co. (the "Bank") 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 $33.4 million or $0.96 per share for 2023. In 2022, net income was $21.0 million or $0.61 per share.
- Total loans increased $333 million or 14.1%, ending the year at $2.7 billion.
- Historically high liquidity levels have declined, but risk trends remain low.
- Tangible shareholders' equity grew $38.3 million or 11.5%.

KEY INITIATIVES

In 2023, the company strengthened its longstanding commitment to the communities we call home and the customers we so proudly serve.

As part of a consortium of local financial institutions, the Bank is playing an integral role in bringing low- to moderate-income housing to central Kentucky through the purchase of land from Transylvania University. Over 12.5 acres, formerly home to the University's Marquard Field Complex, will become the new site for an affordable housing development with a combination of housing types.

The consortium has established a $3 million revolving capital fund to support this initiative. As this project gets underway, developers repay the fund interest free, allowing for reinvestment in future affordable housing projects. We believe this project not only addresses a real need in our community but may also serve as a model that can and should be replicated by communities throughout the country.

With the help and vision of these fellow institutions and Transylvania University, we're actively improving the lives of people within our community by enabling them to achieve the dream of stability and home ownership.

In addition, the Bank has completed a credit card system conversion designed to make banking for all our customers easier, more efficient and highly flexible. The direct benefits of this conversion include:

- Integration into our Central***MOBILE*** app, allowing consumer customers to do everything within a single app, eliminating the need to log in separately for credit cards. All card functions will be accessible under the "Cards" tab.
- More self-service for our customers through the app.
- Faster service in our own branches through upgraded software.
- Better, more timely alerts for our customers.
- Increased efficiency by combining both debit and credit card rewards into one user-friendly system.

LOOKING FORWARD

We once again anticipate the coming year will present challenges given the economic uncertainties. Still, we remain optimistic about our future. While these economic conditions will likely result in relatively high interest rates for a longer period and slower loan growth, we are committed to continuing our emphasis on exceptional customer service. We will remain focused on our philosophy of relationship banking to better understand our customers' specific needs and financial goals.

In addition, we will continue to empower our employees to 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.

RETIREES

At Central Bank & Trust Co., our people make us who we are. As a leader, I am extremely thankful and proud to have worked with so many associates who have tirelessly strived for the success of the Bank and the communities we serve. To that end, I would like to express my personal thanks to each of the 10 long-term colleagues who completed their service with us to begin new chapters in their lives – well-earned retirements:

LeeAnn Layne (Loan Review, 16 years); Sheila Carmack (Retail Banking, 17 years); Keith Preston (Consumer Lending, 19 years); Peggy Colburn (Image Processing, 23 years); Charlie Rush (Trust Services, 22 years); Joan Patterson (Corporate Services, 7 years); Tom Breathitt (Central Bank Mortgage, 16 years); Gayle Stokes (Client Services, 26 years); Debbie Banks (North Maple, 44 years); and Cathy Moberly (Richmond, 16 years). Each of these individuals served the Bank, their customers and their communities honorably. We congratulate them on their achievements and wish them all the very best.

WITH APPRECIATION

Our success would not be possible without the valuable insight offered by our directors. They connect us with our local markets, provide constant leadership and serve as an invaluable source of support.

As I stated before, our Central Bankers work hard, care for our customers and fellow employees, and are remarkably knowledgeable about our service lines and our mission. It's no wonder why Central Bank & Trust Co. is consistently named a Best Place to Work in Kentucky. To all our employees, I am sincerely grateful for your efforts.

Of course, I want to thank the people who choose to work with us every day – our customers. With more options than ever, they still recognize the difference a real banking *partner* can make. Their dedication to this company and recognition of our service should make us proud to have helped them achieve their financial goals this year – and motivated to do the same in the years to come.

Luther Deaton, Jr.

Chairman,
President & CEO
March 15, 2024

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 $33.4 million or $0.96 per common share for 2023 compared with $21.0 million or $0.61 per common share for 2022. This represents an increase of $12.4 million or 59.0% and $0.35 on a per share basis. Return on average assets and average equity was 0.94% and 9.19%, respectively, for 2023 compared with 0.55% and 6.11% a year earlier. The increase in net income for 2023 is primarily the result of higher net interest income of $20.0 million or 19.2%, partially offset by an increase in the provision for credit losses and total non-interest expenses of $1.2 million or 22.1% and $2.8 million or 2.4%, respectively. The Company also realized a net loss on the sale of available for sale debt securities of $915 thousand during 2023. There were no sales of debt securities during the prior year.

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 74.3% of total revenue for 2023, up 338 basis points from 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 non-interest bearing sources of funds that are available to fund earning assets. Such sources of funds primarily include demand deposits and shareholders' equity.

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 the first quarter of 2022, in an effort to slow rising inflation, the Federal Reserve Board (the "Fed") began aggressively increasing its short term targeted federal funds rate from the historically low, near-zero level it had set in the early part of 2020. The Fed incrementally increased the targeted rate an unprecedented total of 425 basis points during 2022, with additional increases of 100 basis points mainly in the first half of 2023. The final rate change by the Fed was to increase the targeted rate by 50 basis points in July 2023, where it remained between 5.25% and 5.50% through the end of the year. Market sources generally indicate that the Fed will begin to decrease the targeted rate during 2024, but will not do so until it gains greater confidence that inflation is moving sustainably toward its desired 2% target.

Net interest income was $124 million in 2023, an increase of $20.0 million or 19.2% compared to a year earlier. The increase in net interest income is attributed to the rapid Fed interest rate hikes discussed above combined with a higher level of loan volume. The average rate on new loans along with the repricing of existing variable rate loans increased in 2023 as overall market interest rates climbed. The cost of borrowed funds began to rise steadily throughout the year as deposit balances declined from the historically high levels of 2022.

The Company's net interest spread was 3.01% and 2.69% for 2023 and 2022, respectively. This represents an increase of 32 basis points resulting from an increase in the average rate earned on earning assets of 151 basis points, partially offset by an increase in the average rate paid on interest bearing liabilities of 119 basis points.

Net interest margin for 2023 was 3.69%, up 82 basis points from a year earlier. The impact of non-interest bearing sources of funds added 68 basis points to net interest margin for 2023, an increase of 50 basis points in the comparison. The benefit of non-interest bearing sources of funds to net interest margin generally increases as the cost of funds increase.

Total interest income for 2023 was $155 million, an increase of $42.6 million or 37.7% compared to $113 million for 2022. Interest income on loans and debt securities increased $35.8 million or 38.0% and $7.7 million or 53.1%, respectively, which more than offset a $937 thousand or 21.7% decrease in interest income from interest bearing deposit balances. The increase in interest income on loans for 2023 is attributed nearly equally to both a higher rate earned and volume increases.

Total interest expense for 2023 was $31.3 million, an increase of $22.5 million or 256% from the prior year. Interest expense on deposits, by far the largest component of interest expense, was $24.4 million for 2023, an increase of $17.1 million or 235%. Despite a decline in volume for nearly all major deposit categories, interest expense increased due to the higher interest rate environment and competitive rate setting activity. Interest on time deposits increased $9.9 million or 184%, primarily due to an increase in the average rate of 217 basis points. Average balances were up $67.6 million or 19.9%. Total average deposits declined $340 million or 10.9% in the yearly comparison, which reflects that many depositors are increasingly spending down cash levels to meet personal needs or are seeking higher returns in alternative investments or savings vehicles. On average, the Company's non-interest bearing deposits represent 41.8% of total deposits, down from 42.5% a year earlier.

Interest expense on total borrowed funds was $6.9 million for 2023, an increase of $5.4 million. Interest on short-term borrowings, consisting of Federal Home Loan Bank ("FHLB") advances, federal funds purchased, and repurchase agreements with commercial customers, increased $4.9 million due to a higher average rate paid of 160 basis points to 1.73%. Overall average balances were up $55.5 million or 21.8%.

Interest expense on long-term borrowings, consisting of FHLB advances and subordinated debentures at the parent company, increased $392 thousand or 33.8%. The increase is due primarily to a higher average rate paid on subordinated debt at the parent company of 355 basis points to 7.1%, resulting in higher interest expense of $550 thousand or 100.0%. The interest rate on this debt is variable, tied to the 3-month CME Term Secured Overnight Financing Rate ("SOFR"), which resets on a quarterly basis. The rate in effect at year-end 2023 was 7.42%, up from 6.52% a year ago and driven by the overall increase in market interest rates during the year.

The ratio of the Company's 2023 average loans to average deposits increased to 90.5% from 69.2% in 2022. The increase was driven by average loan growth of $355 million or 16.5% combined with a reduction in average total deposits of $340 million or 10.9%.

Historically high liquidity levels experienced in recent years began to taper off during 2023, both for the Company and throughout the industry. Managing the Company's liquidity during significant structural changes to the balance sheet and an expected ratio of loans to deposits to equal or exceed 100% for the near term, the Company completed several

actions during 2023 to maximize liquidity sources. Those additional sources include being approved to participate in the Federal Reserve Bank Term Funding Program ("BTFP"), increasing borrowing capacity with the Federal Home Loan Bank by the inclusion of eligible commercial real estate as collateral, and additional federal funds borrowing capacity. 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. Overall, liquidity risk trends for the Company remain low and are expected to remain stable over the near term.

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, 2023 and 2022.

NON-INTEREST INCOME

Total non-interest income was $42.9 million for 2023, an increase of $259 thousand or 0.6% from 2022. The increase in non-interest income was primarily related to card and interchange fees, trust fees, and electronic banking fees partially offset by lower mortgage banking income and service charges on deposit accounts. Non-interest income was 25.7% of total revenue, down from 29.1% a year earlier. Total revenue is defined as non-interest income plus net interest income. Net interest income made up a larger share of total revenue in 2023 due mainly to a higher interest rate environment and loan growth.

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 2023 boosted fees by $970 thousand or 12.2%. Customer preferences for electronic payment forms over traditional paper check payments continued to drive increased volume activity.

Wealth management income includes trust administration, retirement and estate planning, insurance commissions, and investment brokerage fees. Such fees totaled $18.6 million for 2023, up $1.6 million or 9.1% in the comparison. Trust fees increased $570 thousand or 5.9% due primarily to higher stock market valuations combined with an increase in average assets under management of 8.9% to $2.2 billion. Insurance commissions were $6.1 million, an increase of $982 thousand or 19.3% primarily related to additional commercial policy volume, which offset declines in title and retail lines of $191 thousand or 30.5% and $166 thousand or 57.7%, respectively. Title insurance fees continue to be hampered by the overall decline in rate-sensitive mortgage loan origination and refinancing activity.

Electronic banking income primarily represents amounts received from debit card transactions and are based on the value of the underlying transaction. Electronic banking income was $8.2 million for 2023, an increase of $359 thousand or 4.6% due mainly to higher processing volumes.

Mortgage banking income was $891 thousand for 2023, a decline of $1.0 million or 53.4%. Mortgage banking income primarily includes gains on the sale of long-term, fixed-rate consumer 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 sharp increase in interest rates that began during 2022 continued into 2023, which furthered a downward trend in the volume of consumer mortgage loan originations and refinancing activity. As a result, loans originated for sale into the secondary market decreased $15.5 million or 17.5%.

As part of its overall asset/liability management strategy to lock in gains, increase net interest income, restructure expected future cash flows, or to enhance its capital position, the Company may periodically sell certain of its available for sale investment securities. During 2023, the Company sold $219 million of U.S. Treasury securities for a pre-tax net loss of $915 thousand. Proceeds from the sales were used primarily to pay off short-term higher cost borrowings and, to a lesser extent, to fund higher yielding loans. Each of the securities were sold within 90 days of their maturity dates and the transactions were accretive to income over the time period to maturity. There were no sales of investment securities during 2022.

NET INTEREST MARGIN ANALYSIS

(dollars in thousands)

	2023			2022		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets						
Loans[1,2]	$ 2,502,078	$ 130,688	5.22%	$ 2,147,332	$ 94,759	4.41%
Interest bearing deposits	57,761	2,812	4.87	408,909	4,055	0.99
Federal Home Loan Bank stock	8,141	568	6.96	6,431	262	4.07
Securities[1]	816,979	22,320	2.73	1,088,051	14,581	1.34
Total interest earning assets	**$ 3,384,959**	**$ 156,388**	**4.62%**	**$ 3,650,723**	**$ 113,657**	**3.11%**
Interest bearing liabilities						
Deposits						
NOW accounts	$ 444,881	$ 3,560	0.80%	$ 531,067	$ 1,078	0.20%
Savings deposits	249,252	679	0.27	265,071	132	0.05
Money market deposits	505,999	4,895	0.97	650,166	715	0.11
Time deposits	407,587	15,277	3.75	340,002	5,371	1.58
Total interest bearing deposits	1,607,719	24,411	1.52	1,786,306	7,296	0.41
Short-term borrowings	309,307	5,355	1.73	253,843	335	0.13
Long-term borrowings	33,958	1,552	4.57	40,534	1,160	2.86
Total interest bearing liabilities	**$ 1,950,984**	**$ 31,318**	**1.61%**	**$ 2,080,683**	**$ 8,791**	**0.42%**
Net interest margin		**$ 125,070**	**3.69%**		**$ 104,866**	**2.87%**

[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 2023 and 2022 due to changes in rates and volumes computed on a tax equivalent basis.

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS

(dollars in thousands)

	2023/2022			2022/2021		
		Increase/(Decrease) Due to			Increase/(Decrease) Due to	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ 35,929	$ 18,913	$ 17,016	$ (8,604)	$ (1,950)	$ (6,654)
Interest bearing deposits	(1,243)	4,691	(5,934)	3,005	3,680	(675)
Federal Home Loan Bank stock	306	223	83	127	133	(6)
Securities	7,739	12,102	(4,363)	11,758	3,528	8,230
Total interest income	42,731	35,929	6,802	6,286	5,391	895
Interest expense						
Deposits						
NOW accounts	2,482	2,684	(202)	515	422	93
Savings deposits	547	555	(8)	13	-	13
Money market deposits	4,180	4,373	(193)	94	70	24
Time deposits	9,906	8,653	1,253	3,537	3,683	(146)
Short-term borrowings	5,020	4,931	89	228	205	23
Long-term borrowings	392	604	(212)	244	250	(6)
Total interest expense	22,527	21,800	727	4,631	4,630	1
Net interest income	**$ 20,204**	**$ 14,129**	**$ 6,075**	**$ 1,655**	**$ 761**	**$ 894**

Service charges on deposit accounts were $5.9 million for 2023, a decrease of $220 thousand or 3.6% compared to a year ago. The decrease is primarily related to lower fees on commercial demand deposit accounts. As market interest rates have risen, the Company has increased its earnings credit rate for business customer accounts on analysis which has resulted in lower net fee income. NSF and overdraft charges were $3.4 million, up $75 thousand or 2.3% as a result of volume increases.

NON-INTEREST EXPENSE

Total non-interest expense for 2023 was $120 million, an increase of $2.8 million or 2.4% compared with 2022. Increases occurred in most non-interest expense categories, with employee salaries and benefits making up the largest dollar increase.

Employee salaries and benefits were 47% of total non-interest expenses for 2023, unchanged from 2022. Total salary expense, which includes salaries, commissions, and incentives, was $45.0 million for 2023, an increase of $2.5 million or 6.0%. The increase in salary expense is mainly attributed to upward wage adjustments to certain pools of employees during 2023 to be more competitive in the labor market as well as normal annual merit increases. Those certain wage adjustments primarily include recently hired employees or entry-level, customer-facing positions. Incentive compensation increased $1.2 million or 27.1% and reflects the level of achievement attained in the Company's predetermined annual incentive plans. The number of full-time equivalent ("FTE") employees was 489 at year-end 2023, down from 499 at the prior year-end. On average, FTEs were 495 in 2023, down from 502 a year earlier.

Employee benefit costs consist of personnel-related expenses not included in compensation such as employee retirement plan contributions, health insurance, and payroll taxes. Total employee benefits decreased $1.5 million or 11.7% in the comparison. Contributions to the Company's employee stock ownership plan ("ESOP") were $3.3 million in 2023, a decrease of $1.9 million or 36.1% 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 for purchase decreased during the current year commensurate with a decline in the pool of new retirees from a year earlier. All other employee benefit expenses were up $321 thousand or 4.0% in the aggregate, with payroll taxes and healthcare insurance up $196 thousand or 7.0% and $152 thousand or 6.6%, respectively.

Processing charges were $9.6 million for 2023, an increase of $594 thousand or 6.6%. 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 ATM volumes and the absence of vendor-related billing credits applied during 2022.

Card and interchange expense increased $355 thousand or 4.3% in the annual comparison primarily driven by increased interchange fees of $645 thousand or 13.7%, partially offset by a decrease in debit and credit card reward expense in the amount of $394 thousand or 18.0%. Interchange and network assessment fees increased due to related volume trends. The decrease in reward expenses is driven by lower debit card rewards of $464 thousand or 28.5% due to changes made to the program during 2023 that have resulted in lower estimated redemption levels.

Occupancy and equipment expense primarily include 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 were $20.9 million for 2023, relatively unchanged compared with 2022. Software maintenance contracts increased $838 thousand or 24.4%, due mainly to overlapping expense related to upgrading mortgage lending systems. This was partially offset by lower depreciation expense of $354 thousand or 7.5%, lower building maintenance of $302 thousand or 23.4%, and lower property tax expense of $229 thousand or 11.4%.

ANALYSIS OF NON-INTEREST INCOME

(dollars in thousands)

	2023	2022	2021	2023/2022 CHANGE	%	2022/2021 CHANGE	%
Service charges on deposit accounts	$ 5,911	$ 6,131	$ 5,621	$ (220)	(3.59)%	$ 510	9.07%
Mortgage banking income	891	1,913	7,099	(1,022)	(53.42)	(5,186)	(73.05)
Card and interchange fees	8,946	7,976	6,880	970	12.16	1,096	15.93
Trust fees	10,261	9,691	10,084	570	5.88	(393)	(3.90)
Electronic banking	8,152	7,793	7,613	359	4.61	180	2.36
Net gain on sales and write-downs of other real estate owned	4	312	51	(308)	(98.72)	261	511.76
Net loss on sales of available for sale investment securities	(915)	-	-	(915)	-	-	-
Other fees and income	9,650	8,825	9,764	825	9.35	(939)	(9.62)
Total non-interest income	**$ 42,900**	**$ 42,641**	**$ 47,112**	**$ 259**	**0.61%**	**$ (4,471)**	**(9.49)%**

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 $9.8 million for 2023. This represents an increase of $491 thousand or 5.3% compared to the prior year. Included in that total, contributions and other community support was $5.9 million, up 0.8% from a year ago while advertising and other business development expenses increased $444 thousand or 11.4%. 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 t ypically include accounting, legal, technology support, or other operational consulting arrangements. Professional services fees increased $196 thousand or 7.6% in 2023, primarily due to legal fees incurred to research and draft internally proposed revisions to compliance documentation and procedures.

FDIC insurance assessment expense for 2023 was $1.6 million, an increase of $377 thousand or 30.9% compared to the prior year. The increase is due primarily to the FDIC raising its uniform base assessment rate schedule that went into effect beginning in the first quarterly assessment period of 2023 applicable to all insured depository institutions.

INCOME TAXES

The Company recorded income tax expense of $7.3 million for 2023 compared with $3.4 million for 2022, an increase of $3.9 million. The increase is attributed to higher pre-tax income of $16.3 million or 66.8%. The effective income tax rates were 17.9% and 13.9% for the current and preceding year, respectively. The effective income tax rates are less than the statutory tax rates primarily as a result of tax credits related to investments in low-income tax partnerships and tax-exempt interest income. The effective tax rate increased in 2023 due to a greater portion of total income being from taxable sources.

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 nine 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 2023 were $3.4 billion, a decrease of $381 million or 10.0% compared with year-end 2022. Deposit levels decreased during 2023 as customer balances continued a trend downward toward pre-Covid levels. The temporary liquidity that built up during 2020 throughout most of 2022 began to shrink steadily in the third quarter of 2022 and into 2023. The excess liquidity, primarily held in short-term investment securities and balances held at the Fed, were used to fund loan demand and deposit declines during 2023.

ANALYSIS OF NON-INTEREST EXPENSE

(dollars in thousands)

	2023	2022	2021	2023/2022 CHANGE	%	2022/2021 CHANGE	%
Salaries and benefits	$ 56,575	$ 55,582	$ 54,260	$ 993	1.79%	$ 1,322	2.44%
Occupancy and equipment	20,941	20,879	19,713	62	0.30	1,166	5.91
Processing charges	9,583	8,989	7,910	594	6.61	1,079	13.64
Advertising and business development	9,834	9,343	8,534	491	5.26	809	9.48
Card and interchange expenses	8,620	8,265	6,537	355	4.30	1,728	26.43
Professional services	2,779	2,583	2,929	196	7.59	(346)	(11.81)
FDIC assessment	1,596	1,219	1,139	377	30.93	80	7.02
Other real estate owned, net	1	17	46	(16)	(94.12)	(29)	(63.04)
Other	9,991	10,208	9,715	(217)	(2.12)	493	5.07
Total non-interest income	**$ 119,920**	**$ 117,085**	**$ 110,783**	**$ 2,835**	**2.42%**	**$ 6,302**	**5.69%**

The Company also had $300 million in other assets at year-end 2022 that consisted of matured U.S. Treasury securities. Payment for these securities were received on the first day of 2023.

Shareholders' equity was $385 million at December 31, 2023, an increase of $38.2 million or 11.0% compared with the prior year-end. The increase in equity was primarily driven by net income during 2023 of $33.4 million, partially offset by dividends paid of $1.7 million and the after-tax impact of adopting ASC Topic 326 in the amount of $2.9 million. The net after-tax unrealized loss on available for sale debt securities was $22.9 million, an improvement of $9.9 million or 31.5%. The improvement is attributed to changes in the interest rate environment, particularly in the two to 5-year Treasury rates, as well as reductions in the overall outstanding balance of the securities portfolio during 2023. Capital ratios continue to significantly exceed the levels required to be considered well-capitalized under regulatory guidance. Liquidity measures, which have contracted, continue to be in excess of historical norms for the Company.

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 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 $2.7 billion at December 31, 2023, an increase of $333 million or 14.1% from the prior year-end. Commercial real estate loans remain the largest component of the portfolio at $1.5 billion. This represents an increase of $236 million or 18.3% from a year earlier. Part of the volume increase for 2023 is attributed to the funding of loan commitments entered into during prior periods at rates that are more favorable to the borrower. Loan pipelines remain encouraging, but significant economic uncertainties remain.

The sharp increase in interest rates that occurred in 2022 and 2023 combined with a decline in demand for office space related to work-at-home initiatives have led to concerns nationally with regard to credit quality and collateral values of the commercial real estate sector in general and office buildings in particular. Office building loans for the Company represent less than 5% of its commercial real estate portfolio at year-end 2023, with a balanced mix of both owner and non-owner occupied properties. Such properties are located in the Company's primary markets. None of the related loans are classified as substandard and the most recent collateral values result in strong loan-to-value ratios.

Loans secured by residential real estate were $610 million, an increase of $55.5 million or 10.0%. The increase is due in part to higher outstanding balances of 1-4 family adjustable rate mortgages of $23.5 million or 47.6% and home equity lines of credit in the amount of $14.7 million or 13.7%.

Installment loans decreased $20.1 million or 19.2% in the annual comparison. Installment loans are primarily secured by consumer asset purchases such as personal vehicles. Installment loans peaked during 2021 while interest rates were at historically low levels and consumers generally had higher deposit balances. The Company experienced elevated delinquencies and charge-offs in the installment portfolio beginning in early 2022 and continuing through 2023. 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 has declined in each of the last two years.

Commercial loan balances increased $61.4 million or 15.6% at year-end 2023 compared with the prior year. Loan demand was strong throughout the year, and the Company's liquidity position has allowed it to be competitive in each of its markets.

The Company remains committed to generating high quality loans while limiting its exposure to credit risk. This is accomplished through diversifying the loan portfolio by loan type, 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.

The investment securities portfolio is primarily used as an additional source for interest income while also serving as a tool for liquidity management. In managing the composition of its balance sheet, the Company seeks a balance between earnings sources, credit quality, and liquidity considerations. Total debt securities were $533 million at year-end 2023, a decrease of $416 million or 43.8% from a year earlier. The decrease provided cash flows from both principal paydowns and sales, which were used primarily to fund the increase in higher-earning loans and for net deposit outflows and debt repayments.

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 other commercial banks in the form of federal funds purchases. Although deposit balances decreased and loans outstanding increased in the annual comparison, on-balance sheet liquidity continued to be above the Company's historical norms. The primary sources of liquidity are cash, cash equivalents, and unencumbered available for sale debt securities. At December 31, 2023 cash and cash equivalents were $88.0 million, an increase of $13.7 million or 18.5% compared to a year-earlier.

Unencumbered available for sale debt securities were $106 million at year-end 2023, a decrease of $685 million from a year earlier. Loans increased $333 million or 14.1% led by additional commercial real estate lending. Total deposits were down $258 million or 8.6%. The cash needed to fulfill deposit declines, reductions in other borrowings, and increased loan demand was funded primarily from the maturity and sales from the investment securities portfolio. 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 CREDIT LOSSES ON LOANS

The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Management estimates the allowance balance with a model using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The model estimates an allowance over the life of the loan where historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, changes in environmental conditions, and other relevant factors. Loans that do not share risk characteristics are evaluated on an individual basis.

Determining the appropriate level of allowance for credit losses is highly subjective. 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. See Footnote 1 to the Company's 2023 audited consolidated financial statements titled "*Summary of Significant Accounting Policies*" for additional information related to the Allowance for Credit Losses methodology on loans.

ANALYSIS OF ALLOWANCE FOR CREDIT LOSSES

(dollars in thousands)

	2023	2022	2021	2020	2019
Allowance for credit losses					
Balance January 1	$ 26,266	$ 23,994	$ 25,185	$ 19,106	$ 20,183
Impact of adopting ASC Topic 326	599	-	-	-	-
Provision for credit losses	7,063	5,290	1,017	7,812	2,672
Less: net charge-offs	(3,876)	(3,018)	(2,208)	(1,733)	(3,749)
Balance December 31	$ 30,012	$ 26,266	$ 23,994	$ 25,185	$ 19,106
Average loans, net of unearned income	$ 2,502,742	$ 2,147,945	$ 2,298,270	$ 2,274,331	$ 2,094,164
Loans, net of unearned income, at year-end	2,686,883	2,354,119	2,072,478	2,322,576	2,044,906
Nonperforming loans at year-end	6,786	9,696	15,479	22,744	7,474
Other real estate owned at year-end	-	-	385	1,385	1,888
Ratios:					
Provision for credit losses to average loans	0.28%	0.25%	0.04%	0.34%	0.13%
Net charge-offs to average loans	0.15	0.14	0.10	0.08	0.18
Allowance for credit losses to loans	1.12	1.12	1.16	1.08	0.93
Allowance for credit losses to nonperforming loans	442.26	270.90	155.01	110.73	255.63
Nonperforming loans to loans	0.25	0.41	0.75	0.98	0.37
Nonperforming assets to total assets	0.20	0.25	0.41	0.74	0.34
Nonperforming assets to total shareholders' equity and allowance for credit losses	1.64	2.60	4.17	6.80	2.86
Total delinquent loans to loans at year-end	0.43	0.66	1.10	1.17	0.53

The allowance for credit losses on loans was $30.0 million and $26.3 million at December 31, 2023 and 2022, an increase of $3.7 million or 14.3% in the comparison. The Company adopted ASC Topic 326 on January 1, 2023 and recorded an increase in the allowance of $559 thousand and a decrease to retained earnings, net of deferred income tax expense of $139 thousand. The provision for credit losses on loans was $7.1 million for 2023, primarily driven by loan growth and net charge-offs of $3.9 million. Consumer installment loans made up 69.7% of net charge-offs in 2023, led by loans made for the purchase of automobiles. As a percentage of average loans, net charge-offs were 0.15% and 0.14% for 2023 and 2022, respectively.

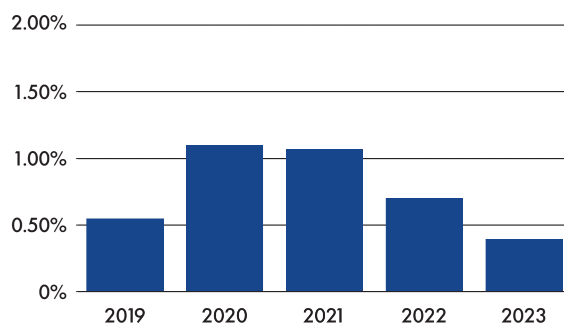
In connection with the adoption of ASC Topic 326, on January 1, 2023 the Company recorded an allowance for credit losses on off-balance sheet credit exposures in other liabilities on the consolidated balance sheet. The amount recorded at adoption was $3.3 million with a corresponding decrease to retained earnings, net of deferred income tax expense of $819 thousand. The provision for credit loss expense for off-balance sheet credit exposures, recorded in non-interest expense on the consolidated income statement, represents adjustments to the allowance subsequent to the initial adoption of ASC Topic 326. The amount of related provision for 2023 was a credit of $605 thousand, which reduced the liability to $2.7 million at year-end. The reduction in the liability was primarily due to a decline in the outstanding balance of loan commitments. The decline in commitments is primarily attributed to those that have either expired or have been funded and recorded on the balance sheet as loans.

The overall credit quality metrics of the loan portfolio continued to improve as of year-end 2023 compared to a year earlier and, in some instances, are either at or near the best measurements in many decades. Despite the overall improvement, installment loan delinquencies and net charge-offs remain elevated. Installment loans primarily represent 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 to individuals. 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 and have remained inflated at 4.9% at year-end 2023. While the Company has reduced its purchasing volume with automobile dealers that has led to a reduction in its amount of past due loans, the percentage of delinquencies has remained relatively stable.

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 $2.9 million or 30.0% to $6.8 million at year-end 2023. The decrease was driven primarily by payoff activity. As a percentage of year-end loans, nonperforming loans were 0.25%, a decrease from 0.41%. The percentage decrease was also helped by the $333 million or 14.1% increase in loans outstanding in the comparison. The allowance for credit losses as a percentage of nonperforming loans was 442% at year-end 2023 compared with 271% at year-end 2022.

Loans identified as special mention and substandard were $38.8 million at year-end 2023, an overall decrease of $743 thousand or 1.9%. Substandard graded credits decreased $20.5 million or 55.8% driven primarily by the payoff of a group of credits secured by commercial real estate in the amount of $12.1 million and an upgrade in the risk classification of one credit in the amount of $5.2 million secured by commercial real estate. Special mention credits increased $19.8 million primarily due to the addition of one credit relationship in the amount of $12.2 million secured mostly by commercial real estate. As a percentage of the loan portfolio, special mention and substandard credits decreased 24 basis points to 1.44%.

Delinquency



DEPOSITS

Total deposits were $2.7 billion at year-end 2023, a decrease of $258 million or 8.6% from year-end 2022. Interest bearing deposits decreased $43.8 million or 2.6%. Non-interest bearing deposits decreased $214 million or 16.6%. The Company attributes the decrease in its deposits to lower customer liquidity levels as many have spent down their excess liquidity that built up primarily from economic stimulus funds beginning in 2020. The rapid increase in interest rates and inflation that began in 2022 has also led many customers to seek higher returns on their deposit balances, which include transferring transaction and savings accounts to higher-yielding time deposits or outside of the banking system altogether.

The mix of deposit balances during 2023 continued to shift more heavily to time deposits. In the yearly comparison, time deposits increased $166 million or 47.1%. Time deposits of $250 thousand and above increased $95.2 million or 55.6%, while those under $250 thousand were up $71.0 million or 39.1%. Time deposits under $250 thousand include $50.0 million of brokered deposits that were added to the portfolio in August of 2023. Such deposits have a weighted average cost of 5.35% with two equal amounts of $25.0 million that mature in May and August of 2024.

Savings deposit balances decreased $28.3 million or 10.9%. Demand deposits, interest checking, and money market accounts declined $214 million or 16.6%, $97.4 million or 18.9%, and $84.2 million or 14.8%, respectively.

SHORT-TERM BORROWINGS

Short-term borrowings consist primarily of sweep accounts of commercial customers and FHLB Cash Management Advances ("CMA"). 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 offer repayment terms between one day up to one year and are secured similar to that of long-term borrowing from the FHLB.

The balance in commercial sweep accounts was $213 million at December 31, 2023, a decrease of $58.7 million or 21.7% 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. There was no outstanding balance from CMAs at year-end 2023 compared with $80.0 million a year earlier.

LONG-TERM BORROWINGS

Long-term borrowings consist of FHLB advances and subordinated debentures with original maturities greater than one year. At December 31, 2023, the Company had no outstanding long-term fixed-rate borrowings from the FHLB, a decrease of $25 million compared to a year earlier. The amount outstanding as of the prior year-end matured and was repaid during the third quarter of 2023. The Company is authorized to, and may again in the future, borrow from the FHLB on a long-term basis. FHLB advances are borrowed under a blanket lien agreement and are collateralized by FHLB stock and fully disbursed, otherwise unencumbered, 1-4 family residential first mortgage and certain commercial real estate mortgage loans. The Company would be subject to a prepayment penalty if it were to borrow from the FHLB and repay any of those advances prior to maturity.

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 SOFR and 1.75%. The interest rate in effect as of the last determination date for 2023 was 7.42%, up from 6.52% a year ago due the overall increase in short-term market rates over the last year. During 2023, the reference rate on the subordinated debt was converted from the three-month London Interbank Offered Rate ("LIBOR") to the three-month SOFR. For additional information regarding the transition from LIBOR to SOFR, see the discussion under the heading "LIBOR Reference Rate" below.

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 2023 and 2022, 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 U.S. law. The LIBOR Act established a uniform benchmark replacement process for financial contracts maturing after the cessation of LIBOR that do not contain clearly defined or practicable fallback provisions.

The Company's subordinate debentures referred to above contained a LIBOR-based reference rate. The trust documents did 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 SOFR plus a spread adjustment of 0.26161% became 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's trust documents were not amended and, therefore, the SOFR rate became the replacement rate after June 30, 2023.

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, 2023 and 2022 continued to significantly exceed the levels required to be considered well-capitalized under regulatory guidance.

The Tier 1 Leverage Capital Ratio for the Company increased at year-end 2023 due to an increase in Tier 1 Capital of $28.8 million or 7.6%, primarily driven by net income for the year, combined with a reduction in total assets (as defined) of $295 million or 7.7%. Each of the risk-based

Capital Ratios were unchanged from a year ago. Although risk-weighted assets grew as a result of higher loans outstanding, the increase in regulatory capital offset the related dilutive impact.

STOCK REPURCHASE

In January 2024, the Company's Board of Directors authorized the repurchase of up to 6,197 voting common shares and 614,163 nonvoting common shares through February 15, 2024 at a fixed price of $10.25 per share. The repurchase authorization includes only shares that were previously issued under the Company's employee stock ownership plan ("ESOP") to those participants that elected to receive their ESOP benefit in Company common shares rather than cash. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. The maximum amount authorized under the plan is $6,359.

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 Captial Ratio[1]	Total Risk-based Capital Ratio[1]	Tier 1 Leverage Capital Ratio[2]
December 31, 2023				
Company	13.0%	13.5%	14.5%	11.5%
Bank	13.2	13.2	14.3	11.3
December 31, 2022				
Company	13.0%	13.5%	14.5%	9.9%
Bank	13.3	13.3	14.2	9.7

[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.

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, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), 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, 2023 and 2022, 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, 2023, 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 15, 2024 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Central Bancshares, Inc. changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The standard was adopted using the modified retrospective method such that the prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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 15, 2024

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31	
	2023	2022
ASSETS		
Cash and due from financial institutions	$ 52,787	$ 62,177
Interest bearing deposits with other financial institutions	35,200	12,100
Total cash and cash equivalents	87,987	74,277
Available for sale debt securities, at fair value (amortized cost $556,159 (2023) and $983,811 (2022), net of allowance of $0 in 2023 and 2022)	527,340	941,759
Held to maturity debt securities, at amortized cost (fair value of $5,199 in 2023 and $6,269 in 2022)	5,618	6,761
Total debt securities	532,958	948,520
Loans held for sale	864	999
Loans, net of allowance of $30,012 (2023) and $26,266 (2022)	2,656,871	2,327,853
Premises and equipment, net	90,416	96,007
Interest receivable	11,150	12,196
Federal Home Loan Bank stock, at cost	7,777	7,864
Goodwill	14,313	14,313
Matured U.S. Treasury securities	-	300,000
Other assets	39,126	40,080
Total assets	$ 3,441,462	$ 3,822,109
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 1,072,175	$ 1,286,178
Interest bearing	1,655,870	1,699,672
Total deposits	2,728,045	2,985,850
Federal funds purchased and repurchase agreements	212,597	271,337
Federal Home Loan Bank advances	-	105,000
Subordinated debentures	15,464	15,464
Interest payable	2,239	702
Other liabilities	98,105	96,974
Total liabilities	3,056,450	3,475,327
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	397,559	368,781
Accumulated other comprehensive loss	(22,916)	(32,368)
Total shareholders' equity	385,012	346,782
Total liabilities and shareholders' equity	$ 3,441,462	$ 3,822,109

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Years Ended December 31	
	2023	2022
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 129,781	$ 94,015
Debt securities	22,320	14,581
Deposits with other financial institutions	3,380	4,317
	155,481	112,913
INTEREST EXPENSE		
Deposits	24,411	7,296
Federal funds purchased and repurchase agreements	2,068	141
Federal Home Loan Bank advances	3,740	805
Subordinated debentures	1,099	549
	31,318	8,791
Net interest income	124,163	104,122
Provision for credit losses	6,458	5,290
Net interest income after provision for credit losses	117,705	98,832
NON-INTEREST INCOME		
Service charges on deposit accounts	5,911	6,131
Mortgage banking income	891	1,913
Card and interchange fees	8,946	7,976
Trust fees	10,261	9,691
Electronic banking	8,152	7,793
Net gain on sales of other real estate owned	4	312
Net loss on sales of available for sale investment securities	(915)	-
Other fees and income	9,650	8,825
	42,900	42,641
NON-INTEREST EXPENSE		
Salaries and benefits	56,575	55,582
Occupancy and equipment	20,941	20,879
Processing charges	9,583	8,989
Advertising and business development	9,834	9,343
Card and interchange expenses	8,620	8,265
Professional services	2,779	2,583
FDIC assessment	1,596	1,219
Other real estate owned, net	1	17
Other	9,991	10,208
	119,920	117,085
Income before income taxes	40,685	24,388
Income taxes	7,285	3,382
Net income	$ 33,400	$ 21,006
Basic earnings per share	$ 0.96	$ 0.61
Weighted average number of common shares outstanding	34,792,200	34,698,685

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Years Ended December 31 2023	2022
Net income	$ 33,400	$ 21,006
Other comprehensive income:		
Unrealized gains/losses on available for sale debt securities:		
Unrealized holding gain (loss) arising during the period	12,318	(39,365)
Less: reclassification adjustment for losses included in net income	915	-
Tax effect	(3,302)	9,822
Net of tax	9,931	(29,543)
Defined benefit pension plans:		
Net (loss) gain arising during the period	(661)	614
Reclassification adjustment for amortization of net loss realized in net income	23	600
Tax effect	159	(303)
Net of tax	(479)	911
Total other comprehensive income (loss)	9,452	(28,632)
Comprehensive income (loss)	$ 42,852	$ (7,626)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

Years Ended December 31, 2023 and 2022	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP Shares	Total
Balances, January 1, 2022	**$ 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**
Adoption of ASC Topic 326	-	-	(2,883)	-	-	(2,883)
Balance at January 1, 2023 (as adjusted for adoption of ASC Topic 326)	$ 3,479	$ 6,890	$ 365,898	$ (32,368)	$ -	$ 343,899
Net income	-	-	33,400	-	-	33,400
Cash dividends declared ($0.05 per share)	-	-	(1,739)	-	-	(1,739)
Other comprehensive income	-	-	-	9,452	-	9,452
Balances, December 31, 2023	**$ 3,479**	**$ 6,890**	**$ 397,559**	**$ (22,916)**	**$ -**	**$ 385,012**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 33,400	$ 21,006
Adjustments to reconcile new income to net cash provided by operating activities:		
Provision for credit losses	6,458	5,290
Deferred income tax benefit	(2,143)	(62)
Depreciation and amortization	6,520	7,815
Net gain on sales of other real estate owned	(4)	(312)
Net loss on sales of available for sale investment securities	915	-
Noncash operating lease expense	3,852	4,905
Repayment of operating lease liabilities	(3,394)	(4,384)
Pension plan expense	439	839
Net gain on sale of loans	(852)	(1,843)
Net change in:		
Loans held for sale	987	7,442
Interest receivable	1,046	(6,257)
Matured U.S. Treasury securities	300,000	-
Other assets	6	1,190
Interest payable	1,537	506
Other liabilities	889	1,191
Net cash provided by operating activities	349,656	37,326
CASH FLOWS FROM INVESTING ACTIVITIES		
Available for sale debt securities:		
Purchases	(11,721)	(847,329)
Sales	219,168	-
Maturities, calls, and return of principal	219,291	59,091
Held to maturity debt securities:		
Maturities, calls, and return of principal	1,141	2,371
Investment in low income tax housing	(1,225)	(310)
Net change in loans	(336,640)	(284,659)
Purchases of premises and equipment	(2,767)	(1,944)
Proceeds from sale of other real estate owned	4	697
Purchase of Federal Home Loan Bank stock	(9,283)	(2,059)
Redemption of Federal Home Loan Bank stock	9,370	946
Net cash provided by (used in) investing activities	87,338	(1,073,196)
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Net change in deposits	(257,805)	(244,718)
Net change in federal funds purchased and repurchase agreements	(58,740)	30,485
Repayment of Federal Home Loan Bank advances	(1,118,000)	(18,293)
Issuance of Federal Home Loan Bank advances	1,013,000	98,000
Cash dividends paid	(1,739)	(1,739)
Net cash used in financing activities	(423,284)	(136,265)
Net change in cash and cash equivalents	13,710	(1,172,135)
Cash and cash equivalents, beginning of year	74,277	1,246,412
Cash and cash equivalents, end of year	$ 87,987	$ 74,277
Supplemental cash flow information:		
Interest paid	$ 29,781	$ 8,285
Income taxes paid	10,910	2,550
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	118	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 15, 2024, 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.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. There was no reversal of accrued interest against interest income for either of the years ended December 31, 2023 or 2022.

Equity Securities: Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Allowance for Credit Losses – Held to Maturity Securities: Management measures expected credit losses on held to maturity debt securities on a collective basis by major security type. The estimate for credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Accrued interest receivable on held to maturity securities is excluded from the estimate of credit losses.

Agency mortgage-backed securities are the only type of securities the Company has classified as held to maturity. All held to maturity securities are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government and have a long history of no credit losses. As a result, no allowance for credit losses was recorded on held to maturity securities at December 31, 2023.

Allowance for Credit Losses – Available For Sale Securities: For available for sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an

allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available for sale debt securities is excluded from the estimate of credit losses.

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 credit 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.

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 $3,325 and $2,835 of net deferred loan fees at year-end 2023 and 2022, respectively, included in the carrying amount of loans on the consolidated balance sheets. The amount of net deferred loan fees is not material and is omitted from the computation of the recorded investment included in Note 3 that follows. Similarly, accrued interest receivable on loans was $8,500 and $6,561 at year-end 2023 and 2022, respectively, which has also been omitted from certain information presented in Note 3.

Allowance for Credit Losses – Loans: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

Management estimates the allowance balance with a model using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The model estimates an allowance over the life of the loan where historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, changes in environmental conditions, and other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The model utilizes a closed pool methodology for each pool with an economic forecast over a twelve month reasonable and supportable period with immediate reversion to historical losses.The portfolio segments identified by the Company are listed below.

- 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.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. Regardless of an initial measurement method, once it is determined that foreclosure is probable, the allowance for credit losses is measured based on the fair value of the collateral as of the measurement date. As a practical expedient, the fair value of the collateral may be used for a loan

when determining the allowance for credit losses for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. The fair value is adjusted for estimated selling costs when foreclosure is probable. For collateral-dependent financial assets, the credit loss expected may be zero if the fair value less costs to sell exceed the amortized cost of the loan.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan modification to a borrower experiencing financial difficulty will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancelable by the Company.

Allowance for Loan Losses: Prior to its adoption of Accounting Standards Codification ("ASC") Topic 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. Under this methodology, recognition of a valuation allowance was delayed until it was probable that a loss had occurred based on the information available at the time. For additional information, see the information presented later in this Note 1 under the caption "Adoption of New Accounting Standards."

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: 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 Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur. The allowance for unfunded commitments was $2,676 and zero at year-end 2023 and 2022, respectively, and is included in other liabilities on the Company's consolidated balance sheets.

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

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

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

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

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

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain branch locations, back-office operations, and its insurance and investment brokerage offices. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record short term leases with an initial lease term of one year or less on the consolidated balance sheets.

At lease inception, the Company determines the lease term by considering the noncancelable 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 lease expense. Leasehold improvements are amortized over the shorter of the useful life and the estimated lease term. The Company's leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company 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 expense, and any impairment of the right-of-use asset. Lease expense is 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.

The Company has elected to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

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. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. 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 nine 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 $14,454 and $15,360 at year-end 2023 and 2022, respectively. At year-end 2023, remaining funding commitments were $1,208.

The Company recognized amortization expense related to its limited partnerships of $2,130 and $2,148 for 2023 and 2022, respectively, which is included in other non-interest expense on the consolidated statements of income. Tax credits recognized were $2,426 and $2,365. 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 expenses are 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, 2023 of $22,916 was comprised of $1,287 related to the non-qualified pension plan and $21,629 related to an unrealized net loss on available for sale debt securities. 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.

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. That required average balance was reduced to zero effective as of March 26, 2020 in response to the COVID-19 pandemic. The reserve requirement remained at zero as of December 31, 2023.

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 Standards: On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") No. 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. In addition, ASC Topic 326 made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC Topic 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after the date of adoption are presented under ASC Topic 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards. The Company recorded a decrease to retained earnings of $2,883 as of the adoption date for the cumulative effect of adopting ASC Topic 326, net of the applicable deferred tax asset of $958. The transition adjustment included an increase to the allowance for credit loss on loans of $559 and the establishment of a reserve for unfunded loan commitments of $3,282, which is recorded within other liabilities.

The Company adopted ASC Topic 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to the adoption date. As of December 31, 2022, the Company did not have any other-than-temporary impaired investment securities. Therefore, upon adoption of ASC Topic 326, the Company had no allowance for credit losses on available for sale debt securities.

The following table summarizes the impact of ASC Topic 326.

	January 1, 2023		
	As Reported Under ASC Topic 326	Pre-ASC Topic 326	Impact of ASC Topic 326 Adoption
ASSETS			
Allowance for credit losses on loans:			
Commercial	$ 5,033	$ 4,339	$ 694
Commercial real estate	12,320	14,132	(1,812)
Residential real estate	5,905	4,026	1,879
Installment	2,789	2,735	54
Credit card receivables	778	290	488
Unallocated	-	744	(744)
Total allowance for credit losses on loans	$ 26,825	$ 26,266	$ 559
LIABILITIES			
Allowance for credit losses on off-balance sheet credit exposures	$ 3,282	$ -	$ 3,282

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

In March 2022, the Financial Accounting Standards Board issued ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures", to eliminate Troubled Debt Restructuring ("TDR") recognition and measurement guidance and, instead, require that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance existing disclosures and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For the Company, the amendments in this update are effective for fiscal years beginning after December 15, 2022. The Company adopted the provision in ASU 2022-02 related to the recognition and measurement of TDRs on a prospective basis on January 1, 2023, which did not have a material impact on the consolidated financial statements.

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
2023				
U.S. Treasury securities	$ 125,137	$ -	$ (4,900)	$ 120,237
U.S. government sponsored entities and agencies	168,184	10	(7,912)	160,282
Agency mortgage-backed securities – residential	151,483	10	(13,303)	138,190
Agency mortgage-backed securities – commercial	23,087	11	(792)	22,306
States and political subdivisions	8,544	-	(100)	8,444
Corporate debt securities	79,724	913	(2,756)	77,881
	$ 556,159	$ 944	$ (29,763)	$ 527,340
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

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
2023				
Agency mortgage-backed securities – residential	$ 5,618	$ -	$ (419)	$ 5,199
	$ 5,618	$ -	$ (419)	$ 5,199
2022				
Agency mortgage-backed securities – residential	$ 6,761	$ -	$ (492)	$ 6,269
	$ 6,761	$ -	$ (492)	$ 6,269

The amortized cost and fair value of debt securities at December 31, 2023 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	$ 120,329	$ 118,458	$ -	$ -
Due from one to five years	237,403	225,856	-	-
Due from five to ten years	12,500	10,267	-	-
Due after ten years	11,357	12,263	-	-
Agency mortgage-backed securities – residential	151,483	138,190	5,618	5,199
Agency mortgage-backed securities – commercial	23,087	22,306	-	-
Total	$ 556,159	$ 527,340	$ 5,618	$ 5,199

Debt securities with a carrying amount of $391,600 and $405,622 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits and repurchase agreements.

At December 31, 2023 and 2022, 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.

Gross realized gains and losses on the sale of available for sale investment securities were as follows for the year indicated.

	2023	2022
Gross realized gains	$ -	$ -
Gross realized losses	(915)	-
Net realized loss	$ (915)	$ -
Income tax benefit related to net realized loss	$ 228	$ -

The following table summarizes debt securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2023						
Available for sale						
U.S. Treasury securities	$ -	$ -	$ 120,237	$ (4,900)	$ 120,237	$ (4,900)
U.S. government sponsored entities and agencies	299	(1)	157,213	(7,911)	157,512	(7,912)
Agency mortgage-backed securities – residential	12,280	(81)	124,528	(13,222)	136,808	(13,303)
Agency mortgage-backed securities – commercial	9,737	(67)	10,481	(725)	20,218	(792)
States and political subdivisions	2,867	(16)	5,577	(84)	8,444	(100)
Corporate debt securities	9,972	(28)	45,639	(2,728)	55,611	(2,756)
Total available for sale	$ 35,155	$ (193)	$ 463,675	$ (29,570)	$ 498,830	$ (29,763)
Held to maturity						
Agency mortgage-backed securities – residential	-	-	5,199	(419)	5,199	(419)
Total held to maturity	$ -	$ -	$ 5,199	$ (419)	$ 5,199	$ (419)

Unrealized losses in the table above have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. As of December 31, 2023, significantly all of the unrealized losses relate to debt securities that consist of both explicit and implicit U.S. government guarantees. The issuers continue to make timely principal and interest payments, and the fair value is expected to recover as the investments approach maturity.

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2022, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	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)

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.

The Company had no provision or allowance for credit losses for held to maturity debt securities during or as of year-end 2023 and 2022. There were no debt securities classified as past due 90 days or more or on nonaccrual status.

NOTE 3 – LOANS

Loans at December 31 were as follows:

	2023	2022
Commercial	$ 455,840	$ 394,489
Commercial real estate	1,526,406	1,290,618
Residential real estate	609,878	554,334
Installment	84,481	104,552
Credit card receivables	13,603	12,961
	2,690,208	2,356,954
Deferred loan fees, net	(3,325)	(2,835)
Allowance for credit losses	(30,012)	(26,266)
Loans, net	$ 2,656,871	$ 2,327,853

The following table presents the activity in the allowance for credit losses by segment of loans for the years ended December 31, 2023 and 2022:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2023							
Allowance for credit losses:							
Beginning balance prior to adoption of ASC Topic 326	$ 4,339	$ 14,132	$ 4,026	$ 2,735	$ 290	$ 744	$ 26,266
Impact of adopting ASC Topic 326	694	(1,812)	1,879	54	488	(744)	559
Provision for credit losses	2,073	2,100	195	2,307	388	-	7,063
Loans charged off	(823)	-	(383)	(4,886)	(327)	-	(6,419)
Recoveries	218	28	65	2,184	48	-	2,543
Total ending allowance balance	$ 6,501	$ 14,448	$ 5,782	$ 2,394	$ 887	$ -	$ 30,012
2022							
Allowance for credit losses:							
Beginning balance	$ 4,476	$ 11,626	$ 3,543	$ 3,080	$ 337	$ 932	$ 23,994
Provision for credit 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

The following table presents the balance in the allowance for credit losses and the recorded investment in loans by segment of loans and based on impairment method as of December 31, 2022:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2022							
Allowance for credit 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 loans 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

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 Credit 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	29,366	-	27,122	1,543	1,528
Residential real estate	1,817	1,535	-	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 the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still on accrual by class of loans as of December 31, 2023:

	Nonaccrual Loans With No Recorded Allowance	Total Nonaccrual	Past Due Over 90 Days and Still Accruing
Commercial	$ 421	$ 548	$ -
Commercial real estate	2,038	2,038	-
Residential real estate	1,891	2,081	1,214
Installment	801	801	40
Credit card receivables	52	52	12
Total	$ 5,203	$ 5,520	$ 1,266

The amount of accrued interest income previously recorded as revenue and subsequently reversed due to the change in accrual status was not material for 2023. No interest income was recognized on nonaccrual loans for 2023.

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:

	Nonaccrual	Loans Past Due Over 90 Days and Still Accruing
Commercial	$ 694	$ 516
Commercial real estate	3,538	-
Residential real estate	2,209	1,471
Installment	1,214	-
Credit card receivables	44	10
Total	$ 7,699	$ 1,997

The Company designates individually evaluated loans as collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral. As allowed by ASC Topic 326, the fair value of the collateral may also be used on loans which are not collateral dependent as a practical expedient. Individually evaluated loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for estimated costs to sell and other discounts as applicable, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table presents the amortized cost basis of collateral dependent loans by class of loans as of December 31, 2023:

	Commercial Property	Owner Occupied	Residential First Liens	Residential Junior Liens
Commercial	$ 200	$ -	$ -	$ -
Commercial real estate	-	14,294	-	-
Residential real estate	-	-	503	373
Total	$ 200	$ 14,294	$ 503	$ 373

The following table presents the aging of the recorded investment in past due loans as of December 31, 2023 and 2022 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, 2023					
Commercial	$ 81	$ 133	$ 214	$ 455,626	$ 455,840
Commercial real estate	570	286	856	1,525,550	1,526,406
Residential real estate	516	2,546	3,062	606,816	609,878
Installment	3,663	487	4,150	80,331	84,481
Credit card receivables	162	61	223	13,380	13,603
Total	$ 4,992	$ 3,513	$ 8,505	$ 2,681,703	$ 2,690,208

December 31, 2022	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial	$ 76	$ 668	$ 744	$ 393,745	$ 394,489
Commercial real estate	800	789	1,589	1,298,029	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

Modifications: Occasionally, the Company modifies loans to borrowers in financial distress by providing a term extension, interest rate reduction, principal forgiveness, or an other-than-insignificant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company may provide multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period.

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

	Term Extension	Combination Term Extension and Payment Delay	Total Class of Financing Receivable
Commercial real estate	$ -	$ 595	0.04%
Residential real estate	174	-	0.03%

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023:

	Term Extension	Combination Term Extension and Payment Delay	Weighted Average Term Extension (months)
Commercial real estate	$ -	$ 595	53
Residential real estate	174	-	23

The Company had no further commitments to lend to any of the borrowers included in the tables above. The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. None of the loans modified in the prior 12 months had a payment default during 2023 or were past due at year-end 2023.

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 hat 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, 2023						
Commercial	$ 436,664	$ 16,757	$ 2,419	$ -	$ -	$ 455,840
Commercial real estate	1,510,491	3,983	11,932	-	-	1,526,406
Residential real estate	483,559	1,840	1,811	-	122,668	609,878
Installment	-	-	-	-	84,481	84,481
Credit card receivables	-	-	69	-	13,534	13,603
	$ 2,430,714	$ 22,580	$ 16,231	$ -	$ 220,683	$ 2,690,208
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

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 $17,558 and $14,707 at December 31, 2023 and 2022, respectively.

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled $73,081 and $88,531 during 2023 and 2022, respectively. Proceeds from the sale of loans were $74,068 in 2023 and $95,973 in 2022. Mortgage loans held for sale were $864 and $999 at year-end 2023 and 2022. The Company had commitments to originate $1,553 in loans at December 31, 2023, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $38,231 and $40,220 at December 31, 2023 and 2022, respectively.

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

	2023	2022
Beginning of year	$ 220	$ 266
Originated	14	21
Amortized to expense	(63)	(67)
End of year	$ 171	$ 220

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $287 and $302 at year-end 2023 and 2022.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2023	2022
Other real estate owned, beginning of year	$ -	$ 385
Proceeds from sales	(4)	(697)
Net gain on sales	4	312
Other real estate owned, end of year	$ -	$ -

Expenses related to other real estate owned include:

	2023	2022
Net gain on sales	$ (4)	$ (312)
Operating expenses, net	1	17
	$ (3)	$ (295)

At December 31, 2023 and 2022, the recorded investment in mortgage loans secured by residential real estate that were in the process of foreclosure was $699 and $1,121, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2023	2022
Land	$ 2,991	$ 2,991
Buildings and improvements	18,221	18,205
Leasehold improvements	36,106	35,936
Furniture, fixtures and equipment	51,440	50,101
Construction in progress	1,831	572
	110,589	107,805
Accumulated deprecation	(87,992)	(83,587)
Operating lease – right-of-use asset	67,819	71,789
Total	$ 90,416	$ 96,007

Depreciation and amortization expense amounted to $4,388 and $4,742 in 2023 and 2022, respectively.

Leases: The Company enters into leases in the normal course of its 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 15 years and some of which include options to terminate the lease within 10 years. In addition, the Company had one sublease at December 31, 2023 for space in a vacated branch location with a remaining lease term of less than one year.

Right-of-use assets and lease liabilities by lease type and the associated balance sheet classifications are as follows at December 31:

Lease Type	Balance Sheet Classification	2023	2022
Operating lease – right-of-use asset	Premises and equipment, net	$ 67,819	$ 71,789
Operating lease liability	Other liabilities	68,933	72,313

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

	2023	2022
Operating lease cost	$ 6,821	$ 7,112
Variable lease cost	547	480
Less: Sublease income	321	495
Total lease cost, net	$ 7,047	$ 7,097

Future undiscounted lease payments for lease liabilities with initial terms of one year or more as of December 31, 2023 are as follows:

	Operating Leases
2024	$ 5,920
2025	5,157
2026	5,799
2027	5,621
2028	5,335
Thereafter	82,320
Total undiscounted lease payments	$ 110,152
Less: imputed interest	41,219
Net lease liability	$ 68,933

Supplemental Lease Information	December 31, 2023	December 31, 2022
Operating lease weighted average remaining lease term (years)	18.99	19.28
Operating lease weighted average discount rate	4.63 %	4.42 %
Operating cash flows from operating leases	$ 9,626	$ 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 2023 and 2022 were $266,415 and $171,201, respectively.

Scheduled maturities of time deposits at year-end 2023 were as follows:

2024	$ 489,955
2025	15,565
2026	5,906
2027	4,752
2028	2,735
Thereafter	-
Total	$ 518,913

Deposits from directors and executive officers and companies in which they have beneficial ownership were $16,021 and $13,377 at December 31, 2023 and 2022, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At December 31, advances from the Federal Home Loan Bank ("FHLB") were as follows:

	2023	2022
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	-	25,000
Total	$ -	$ 105,000

The Company's FHLB borrowings outstanding at year-end 2023 were zero as a result of scheduled maturities. FHLB advances are payable at their maturity date, with a prepayment penalty for those fixed rate advances that are paid off earlier than maturity. Each of the advances are borrowed under a blanket lien agreement. The advances are collateralized by FHLB stock and fully disbursed, otherwise unencumbered, 1-4 family residential first mortgage and certain commercial real estate mortgage loans with an aggregate unpaid principal balance of $1,079,167 and $525,779 at December 31, 2023 and 2022, respectively. Based on this collateral and the holding of FHLB stock, the Company is eligible to borrow up to a total of $592,978 at year-end 2023. In addition, the FHLB 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, 2023 and 2022 were $101,500 and $151,000 respectively.

Federal Funds Purchased and Repurchase Agreements: Federal funds purchased represent unsecured overnight loans from other financial institutions generally at the current federal funds rate. The outstanding balance of such purchased funds mainly reflects excess liquidity held by downstream correspondent banking customers of the Bank. Repurchase agreements represent a funding source primarily used by large commercial customers in connection with cash management accounts that requires the Company to provide a direct pledge from its investment securities portfolio, primarily in the form of U.S. government and agency securities. Both federal funds purchased and repurchase agreements generally mature in one business day.

Federal funds purchased and repurchase agreements were $212,597 and $271,337 at December 31, 2023 and 2022, respectively. The average rate paid for 2023 and 2022 was 0.83% and 0.06%, respectively. Substantially all of the activity and balances are made up of repurchase agreements.

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 CME Term Secured Overnight Financing Rate ("SOFR") and 1.75%. The interest rate in effect as of the last determination date for 2023 was 7.42%. 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).

Individually Evaluated Loans: Loans that do not share similar risk characteristics of their pool are evaluated on an individual basis. At the time a loan is individually evaluated, it is valued at the lower of cost or fair value. Individually evaluated loans carried at fair value generally receive specific allocations of the allowance for credit 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. Individually evaluated loans are reviewed 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 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 (2023):			
Available for sale debt securities:			
U.S. Treasury securities	$ -	$ 120,237	$ -
U.S. government sponsored entities and agencies	-	160,282	-
Agency mortgage-backed securities – residential	-	138,190	-
Agency mortgage-backed securities – commercial	-	22,306	-
States and political subdivisions	-	8,444	-
Corporate debt securities	-	57,418	20,463
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

There were no transfers into or out of Level 3 during 2023 or 2022. 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 $8,201 and $8,930 at year-end 2023 and 2022, respectively. During 2023, there was a net loss of $964 recognized in other comprehensive income and $122 of net accretion recognized on debt securities classified as Level 3. During 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.

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, 2023 and 2022:

Valuation Techniques	Fair Value	Asset Category	Unobservable Inputs	Range (Weighted Average)
2023				
Indicative quote	$ 20,463	Corporate debt securites	Liquidity discount	1.0%-0.6% (0.85%)
2022				
Indicative quote	$ 21,305	Corporate debt securites	Liquidity discount	5.6%-0.2% (3.4%)

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 (2023):			
Individually evaluated loans:			
Mortgage	$ -	$ -	$ 165
ASSETS (2022):			
Individually evaluated loans:			
Mortgage	$ -	$ -	$ 163

Individually evaluated loans that are measured for impairment using the fair value of the collateral had a principal balance of $190, with a valuation allowance of $25 at December 31, 2023, resulting in $25 of additional provision for credit losses for the year ended December 31, 2023. Individually evaluated 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 credit losses for the year ended December 31, 2022.

Other real estate owned is measured at fair value less estimated costs to sell. At December 31, 2023 and 2022, other real estate owned was zero. There were no write-downs of other real estate owned during 2023 or 2022.

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, 2023 and 2022:

Valuation Techniques	Fair Value	Asset Category	Unobservable Inputs	Range (Weighted Average)
2023				
Sales approach	$ 165	All classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	25%-25% (25%)
2022				
Sales approach	$ 163	All classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	34%-44% (38%)

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following:

	2023	2022
Current income tax expense:		
Federal	$ 6,902	$ 2,979
State	2,526	465
Total current income tax expense	9,428	3,444
Deferred income tax (benefit) expense:		
Federal	$ (1,634)	$ (809)
State	(509)	747
Total deferred income tax benefit	(2,143)	(62)
Total income tax expense	$ 7,285	$ 3,382

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 nine 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 $3,141 and $2,313 for 2023 and 2022.

Deferred tax assets and liabilities relate principally to unrealized losses on debt securities available for sale, adjustment for retirement plan obligations, premises and equipment, the allowance for credit losses, nonaccrual loans, certain unearned income, and partnership investments.

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

	2023	2022
Deferred tax assets	$ 20,954	$ 21,552
Deferred tax liabilities	(2,113)	(2,670)
	$ 18,841	$ 18,882

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, 2023; 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, 2023 and 2022. 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, 2023 and 2022.

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 2020 and the Kentucky returns are subject to examination by taxing authorities for all years after 2019.

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 $9,390 and $8,313 at December 31, 2023 and 2022, respectively. Net periodic pension costs for the plan were $439 and $839 for 2023 and 2022, 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, 2023 and 2022 were $1,493 and $855, 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 $153 in 2023 and ($47) in 2022. The accrued liability associated with these plans of $2,097 and $1,944 at December 31, 2023 and 2022 is included in other liabilities. The amount recognized in other comprehensive income was $0 at year-end 2023 and 2022.

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 $3,289 and $5,149 in 2023 and 2022, respectively. As of December 31, 2023 and 2022, a total of 34,947 and 35,066 voting common shares with a fair value of $360 and $359, respectively, were allocated to active participants. In addition, at year-end 2023 and 2022 there were a total of 3,458,767 and 3,470,689 non-voting common shares with a fair value of $35,279 and $35,193 allocated to active participants, as well as $483 and $320 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, 2023 is the fair value of all ESOP shares distributed in 2023 and shares to be distributed in 2024 to participants who had terminated as of year-end 2023. 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 $1,994 and $1,974 in 2023 and 2022, respectively. There were no additional matching contributions during 2023 or 2022.

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 2023 and 2022, 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, 2023						
Total Risk-based Capital[1]						
Company	$ 441,304	14.5%	$ 243,024	8.0%	N/A	N/A
Bank	433,966	14.3	243,043	8.0	$ 303,804	10.0%
Tier 1 Risk-based Capital[1]						
Company	$ 408,615	13.5%	$ 182,268	6.0%	N/A	N/A
Bank	401,277	13.2	182,282	6.0	$ 243,043	8.0%
Common Equity Tier 1 Risk-based Capital[1]						
Company	$ 393,615	13.0%	$ 136,701	4.5%	N/A	N/A
Bank	401,277	13.2	136,712	4.5	$ 197,473	6.5%
Tier 1 Leverage Capital[2]						
Company	$ 408,615	11.5%	$ 141,919	4.0%	N/A	N/A
Bank	401,277	11.3	141,967	4.0	$ 177,458	5.0%
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%

[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, 2023, $50,043 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:

		2023		2022
Standby letters of credit	$	17,340	$	29,445
Commitments to extend credit	$	527,226	$	648,150
Unused lines of credit	$	539,762	$	515,991

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.

At December 31, 2023 the Company had accrued $2,676 in other liabilities for its estimate of credit losses for unfunded loan commitments. In accordance with the adoption of ASC Topic 326 on January 1, 2023, the Company established the reserve at $3,282 with an offset to retained earnings on a tax-effected basis with no impact to net income.

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			
		2023		2022
Non-interest income				
Service charges on deposit accounts	$	5,911	$	6,131
Mortgage banking income[1]		891		1,913
Card and interchange fees		8,946		7,976
Trust fees		10,261		9,691
Electronic banking		8,152		7,793
Net gain on sales and write-downs of other real estate owned		4		312
Net loss on sales of available for sale investment securities[1]		(915)		-
Other fees and income:				
Insurance commissions and fees		6,079		5,097
Brokerage commissions and fees		2,304		2,294
Commercial loan fees[1]		415		503
Other		852		931
Total non-interest income	$	42,900	$	42,641

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

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

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

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

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

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

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

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

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

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

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