2010 | ANNUAL REPORT

Solutions for today's business world. And today's business leaders.

Central Bank & Trust Co.
Central Bank of Jefferson County
Central Insurance Services
Central Investment Center, Inc.
Salt Lick Deposit Bank

The mission of Central Bancshares is to be a high-performance financial services company that delivers superior service and value to each customer we serve. We will emphasize employee and customer satisfaction – always mindful that quality people will make the Central difference.

2010 Annual Report

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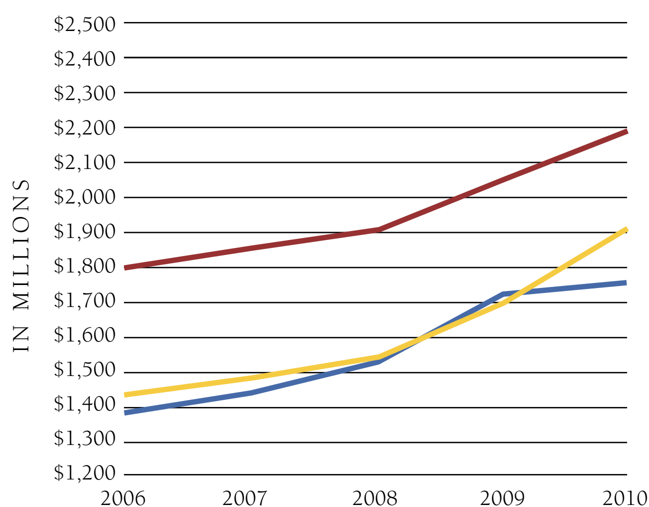
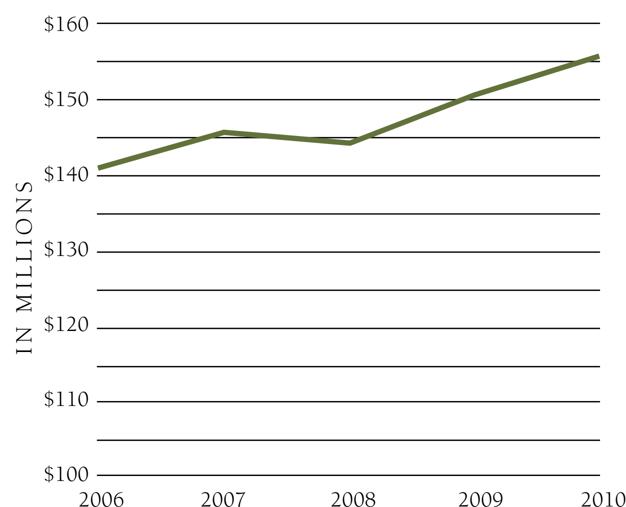
MEMBER FDIC

EQUAL HOUSING LENDER

For twelve months ended December 31

	2010	2009	2008	2007	2006
Results of Operations:					
Net income	$ 6,907,543	$ 1,768,610	$ 9,200,145	$ 8,151,328	$ 16,063,352
Net income per share	19.85	5.08	26.44	23.43	46.17
Cash dividends per share	0.00	5.00	9.00	9.00	9.00
Book value per share at year end	449.08	433.94	416.03	417.16	407.73
At December 31					
Assets	$ 2,192,013,038	$ 2,053,106,110	$ 1,910,399,779	$ 1,851,915,041	$ 1,804,413,259
Earning assets	2,019,276,028	1,863,911,997	1,729,851,957	1,658,532,467	1,639,930,759
Net loans and leases	1,747,181,237	1,717,017,748	1,536,559,682	1,441,870,886	1,377,500,218
Deposits	1,903,788,824	1,705,582,952	1,540,141,181	1,473,773,109	1,424,481,899
Shareholders' equity	156,243,656	150,978,513	144,747,709	145,138,553	141,859,711
Averages					
Assets	$ 2,145,488,233	$ 1,964,115,041	$ 1,818,243,648	$ 1,790,845,781	$ 1,668,816,042
Earning assets	1,961,897,722	1,793,440,419	1,649,263,780	1,625,576,611	1,524,723,591
Net loans and leases	1,732,507,700	1,602,265,904	1,467,592,067	1,417,178,948	1,291,490,393
Deposits	1,812,588,595	1,623,195,705	1,456,101,126	1,474,930,795	1,354,798,792
Shareholders' equity	155,348,975	146,626,780	149,598,387	146,812,223	135,599,957
Performance Ratios:					
Return on average assets	0.32%	0.09%	0.51%	0.46%	0.96%
Return on average shareholders' equity	4.45%	1.21%	6.15%	5.55%	11.85%
Average shareholders' equity to average assets	7.24%	7.47%	8.23%	8.20%	8.13%
Dividend payout ratio	0.00%	98.36%	34.04%	38.41%	19.49%
Net charge-offs to average loans and leases	0.94%	0.66%	0.44%	0.40%	0.17%
Allowance for credit losses as a percentage of year end loans and leases	1.29%	1.19%	1.40%	1.38%	1.23%
Net interest margin (tax equivalent)	3.85%	3.58%	3.75%	3.76%	3.86%





The uncertainties created by the post recession economy made 2010 an extremely challenging year for financial services companies. We began the year confident of positive results, because the economy appeared to be settling into recovery. At the same time, we had concerns about consumer confidence and loan demand. As the year progressed, soft real estate markets continued to undermine property values, which led to cautious behavior from owners and buyers. While we were prepared to lend the funds that would assist in the hoped-for recovery, loan demand was less than planned. These challenges motivated our customers, both old and new, to seek new answers to issues they had never faced before. I am pleased to report they increasingly turned to us as a trusted advisor and the financial source they know and value.

For 65 years, our Company has dedicated itself to community banking, founded on a goal of outstanding service to customers and communities and a commitment to providing a broad selection of services. Today, we are building on that tradition to explore a new generation of products that allow customers to bank when, where and how they choose. Details about those advancements will be covered later in this report.

We are encouraged that our improving financial results will serve as the basis for solid performance in 2011.

Financial Highlights

These financial highlights for the Company include Central Bank & Trust Co. and its subsidiaries, Central Investment Center, Inc. and Central Insurance Services; Central Bank, FSB (which was merged into Central Bank & Trust Co. on January 18, 2011); Central Bank of Jefferson County; and Salt Lick Deposit Bank. We provide a detailed discussion of our financial results in the Management's Discussion & Analysis beginning on page 5.

- Led by improvements in net interest margin, the Company's net income rebounded to $6,907,543 or $19.85 per share, a return on assets of 0.32 percent. This compared favorably to $1,768,610 or $5.08 per share and 0.09 percent in 2009.
- Deposits surged ahead by $189 million on average, ending the year at $1.813 billion. Our customers exhibited a preference for the security offered by Kentucky's leading community bank, which led to average deposit growth of 12 percent.
- Amid a challenging economy, average net loans rose to $1.733 billion, a growth of eight percent.
- Average shareholders' equity grew to $155 million, up $9 million. This allowed for a leverage capital ratio at 8.15 percent at December 31.
- Despite the scrutiny imposed by the economy and regulatory environment, the Bank's service quality rose to its highest level ever based on service shop scores. Customer loyalty also measured at the 96th percentile among our peer banks.
- Central Bank, FSB was merged into Central Bank & Trust Co., effective January 18, 2011, after 12 years of operation as a wholly-owned subsidiary.

Strategies for Growth

Amid the turmoil of the recession and challenges created by increased regulations, our brand was a solid resource and our trusted, experienced staff was our greatest strength. Banks were often under attack from media and consumer groups, despite the fact that community banks like us were not to blame for the excesses that caused the financial meltdown. Fortunately, due to the brand equity we have established through 65 years of service to our customers and communities, our franchise value has never been higher. As a result, we used a number of growth strategies to attract and retain deposits. Businesses and individuals turned to trusted brands for advice and for a secure return on their funds. Our money market accounts and certificates of deposit featured attractive interest rates that produced substantial growth. The Bank's exclusive corporate partnership as the "Official Bank of UK Athletics" provided market-leading awareness as a community leader, and endorsement agreements with football, baseball and basketball head coaches created numerous opportunities for customer events for Wildcat fans.

Early in 2010 we announced we would relocate the Eastland banking center to a more visible site at 649 East New Circle Road. The move, completed in May, has created new customer opportunities in the growing eastern suburbs of Fayette County. Likewise, in the fall, our Pimlico banking center moved to a new site at the Tates Creek Centre shopping plaza. In mid-November the remodeled banking center opened at 4090 Tates Creek Centre Drive and has been steadily growing.

Late in the year, our mortgage and insurance office

relocated to a newly remodeled site at 2400 Harrodsburg Road that will provide space for future growth. The new center for Central Bank Mortgage and Central Insurance Services allowed us to receive the benefits from consolidating the insurance staff into a single Lexington location and teaming them with our mortgage providers who make home ownership possible for so many people in our communities. We expect customers will respond enthusiastically to these steps.

Despite published reports that "banks were not lending," we pursued opportunities to support our customers and promote economic development throughout the year. We were fortunate to acquire a number of new lending relationships based on previous long-term relationships and referrals from existing customers. Our lenders worked tirelessly to assist customers across a broad range of industries and business segments. Likewise, we quickly moved to serve more of those customers' needs with other products such as corporate cash management, Internet banking, credit card merchant services, investments, insurance and wealth management services. The local mortgage market has yet to rebound for sales of new homes, but consumers chose to refinance existing mortgage loans and to consolidate loan relationships using our Gold Equity Line product. Throughout our existence, our Company has been a driving force for economic development, and those efforts continued in 2010. We are very proud to be providing the lending needed to support growth by individuals and businesses across the state.

Significant numbers of opportunities were generated by our financial service professionals who provide private banking, wealth management, insurance and investment services. We have become known for being one of the state's leading community banks due to our ability to create highly specialized relationships for specific companies and business groups. By leveraging our local expertise and resources, we have been able to provide a single source of service to people who previously believed that only large regional banks had the talent and resources they needed.

Central Bank, FSB Merged with Central Bank & Trust Co.

After operating independently for 12 years, Central Bank, FSB gave up its federal thrift charter and merged into Central Bank & Trust Co. on January 18, 2011. The merger, which was done to achieve greater operating efficiencies, was possible because recent changes in federal banking regulations now allow state chartered banks to have comparable branching flexibility to the federal thrift charter.

The merger immediately will allow Central Bank & Trust Co. to exceed a leverage capital-to-assets ratio of 8.00 percent, which is recommended by regulators. No customer impact is anticipated because the two banks already have common products, procedures, forms, disclosures and signage. Both Nicholasville and Georgetown will operate as independent markets, much as Winchester, Madison County and Northern Kentucky have.

Community Sponsorships

Dedicated community service is a vital element for community banks, and it's a basis on which we have built our franchise. Our sponsorships and charitable giving supported almost 300 organizations, including American Cancer Society Relay for Life, American Heart Association HeartWalk, Big Brothers/Big Sisters, Bluegrass Tomorrow, Children's Charities of the Bluegrass, Commerce Lexington, Downtown Lexington Corporation, Greater Louisville Inc., God's Pantry, Habitat for Humanity, Headley-Whitney Museum, Hospice, Kincaid Foundation, LexArts, Project REACH, Transylvania University, University of Kentucky, Kentucky Children's Hospital, United Way, Urban League, YMCA Black Achievers and other charitable and civic organizations that are too numerous to mention. Beyond financial investments, our officers and employees are providing leadership and service through their participation on community, charitable and civic boards. Each year the Company recognizes staff members in all markets for community service leadership as a means to express its appreciation for their tireless efforts. In order to attract and retain the talent needed to provide Kentucky's best banking service, we support our employees with comprehensive training, development and benefits. We are pleased to have been recognized as one of the Best Places to Work in Kentucky for six consecutive years.

New Technologies for 2011

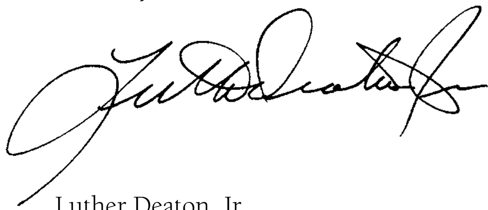
Serving customers when, where and how they prefer is a key strategy in our goal to deliver unmatched service for a wide range of customers. Later this year we plan to upgrade our Central***NET*** consumer online banking and bill payment service that currently is used by 50 percent of the

eligible customers. New features will include a more user-friendly design and enhanced bill pay functions that speed payments to vendors across the country. Mobile banking, using a wide variety of cell phones and mobile devices, will extend our ability to reach customers wherever they are with all the service they would expect from their desktop PC. A key feature will be the alerts that provide critical financial information for people on the go. Finally, late in 2011 we will be testing a wonderful new ability to open deposit accounts online, in as little as 10 minutes. This exciting extension of our traditional footprint will reach throughout the Commonwealth and beyond, adding a broad new definition to the term "community" bank.

For the last 65 years, we have survived and benefitted from all types of economic cycles. The current economy has been the most challenging we have faced, and I take great pride in the efforts of our team of dedicated Central Bankers to lead us through it. Their energy and enthusiasm is matched by their experience and expertise. I commend their dedication and applaud their commitment to becoming the leading community bank in Kentucky. While we continue to face many challenges, I believe in a bright future for Central Bancshares, its employees, shareholders and customers.

I also want to thank all our customers and shareholders for their support. If you have any questions about the operation of Central Bank or any part of our Company, please call me personally at 859-253-6184 or 800-637-6884.

Sincerely,



Luther Deaton, Jr.
Chairman, President & CEO
March 11, 2011

"We are building on a foundation of service to explore the newest technologies of the twenty-first century."

Central Bancshares, Inc. (the "Company"), a bank holding company located in Lexington, Kentucky, is the parent company of Central Bank & Trust Co.; Central Bank, FSB; Central Bank of Jefferson County, Inc.; and Salt Lick Deposit Bank. At December 31, 2010, the Company had 28 full-service banking centers located in Bath, Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full-service brokerage business and a full-service insurance agency. On January 18, 2011, the Company merged Central Bank, FSB into Central Bank & Trust Co., and surrendered its Federal Savings Bank Charter. The merger did not result in any change in the product mix offered by the Company or change the geographic area served, but did generate some operational efficiencies for the Company.

Results of Operations

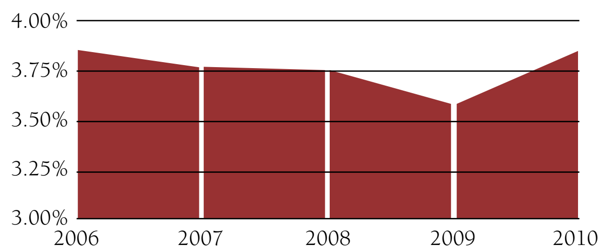
The Company reported net income of $6,907,543 for 2010, or $19.85 per share. This compares to $1,768,610, or $5.08 per share for 2009, and $9,200,145, or $26.44 per share for 2008. During 2010 the national economy began to show some potential signs of recovery, indicating that stronger economic times may be coming. In Central Kentucky we also began to see signs of possible improvement. However, that recovery was modest at best. The Company continued to work with customers who are experiencing declining sales and cash flow concerns. Businesses dependent upon construction or real estate sales have been particularly hard hit in the last couple of years. The Company is working with clients impacted by the slower economy, but still saw $16.3 million of additions to foreclosed real estate, and experienced net charge-offs on outstanding loans of $16.3 million.

The strongest area of improvement in the Company's financial performance was in the net interest margin. In recent years, as on-balance-sheet liquidity became a focus of most financial institutions, the competition for in-market deposits was fierce. During 2010, most banks found gathering deposits easier, and were able to price their deposit products at more reasonable rates. For 2009, the net interest margin as a percentage averaged 3.58 percent. For 2010 this percentage averaged 3.85 percent. This is significant improvement in the net interest margin given that nonperforming assets, defined as other real estate owned, nonaccrual loans and loans past due 90 days and still accruing interest, represented 3.13 percent of gross loans on December 31, 2010, a 27 basis point increase over December 31, 2009. This improved net interest margin had a significant impact upon net income for 2010. Return on average equity was 4.45 percent and return on average assets was 0.32 percent for 2010, compared with 1.21 percent and 0.09 percent, and 6.15 percent and 0.51 percent, respectively, for 2009 and 2008.

Net Interest Income

Net interest income in 2010 was $73.7 million compared to $63.2 million in 2009, an increase in 2010 of 16.68 percent, despite growth of 9.39 percent in average earning assets. The net interest rate spread is the difference between the tax equivalent average rate of interest earned on average earning assets and the average rate of interest expense on average interest bearing liabilities. The net interest margin is the tax equivalent net interest income divided by average earning assets. For computational purposes, nonaccrual loans are included in earning assets. On average the net interest spread increased 36 basis points during 2010, to 3.61 percent. On average the net interest margin increased 27 basis points to 3.85 percent for 2010. Every basis point that the net interest margin declines costs the Company approximately $198,000 per year. Management recognizes that a key to improving the profit performance of the Company over the next several years is to concentrate on at least maintaining if not improving the net interest margin.

Net Interest Margin



During 2009, the tax equivalent yield on earning assets averaged 5.35 percent; the yield on earning assets averaged 5.18 percent in 2010. Despite the weak economy, the Company was successful in opening new credit relationships with lending customers with strong credit credentials. Pricing on lower risk credits is lower than the rates charged on higher risk loans. The emphasis in the Company's loan growth was to attract high-quality, low-risk credits. While the Company was able to grow its loan portfolio by 8.02 percent on average, the average yield on the loan portfolio for 2010 was 5.72 percent, a decline of five basis points from 2009. The decrease in the yield on this portfolio was due to a combination of pricing decisions and an increase in nonperforming loans.

The yield in the investment portfolio, on the other hand, was not as stable as the yield on the loan portfolio. The investment portfolio averaged $191.2 million for 2009, and had an average yield of 1.81 percent. The investment portfolio averaged $229.4 million for 2010, and had an average yield of 1.04 percent. The yield curve was very flat for most of 2010, and the Company held a much larger percentage of its assets in very liquid overnight investments compared to 2009. Management is seeking to find the appropriate balance between the safety of the increased liquidity, and the interest rate risk required to earn a higher yield on the investment portfolio.

While the average yield on earning assets declined 17 basis points from 2009 to 2010, the cost of paying liabilities declined 53 basis points over the same period. The Company began to see some improvement in the net interest margin during the fourth quarter of 2009. Competitive pressures on the pricing of certificates of deposit began to subside, and that trend continued through most of 2010. Management is watching the Company's liquidity needs, and competitive pricing on deposits, with a commitment to impose discipline in the deposit pricing process in order to at least maintain if not improve the net interest margin. Short-term improvement in the net interest margin will come through controlling the cost of our funding liabilities. Long-term work needs to be done on managing the yields on earning assets, as well as controlling interest costs, but immediate improvement has and will come through the pricing on deposit liabilities.

Gross loans outstanding averaged $1.75 billion for 2010, increasing $130.3 million, or 8.02 percent on average over 2009. Despite the poor economy, the Company was able to increase average deposits by $189.4 million, or 11.67 percent during 2010. Deposits averaged $1.81 billion during 2010.

The Company averaged a loan to deposit ratio of 96.79 percent during 2010, a decrease of 327 basis points from the 2009 percentage of 100.06 percent. Management considers the rate of growth in both loans and deposits to have been very strong for 2010. Liquidity was a primary concern of many financial institutions during 2010, and an emphasis with regulatory agencies. This reduction in the loan to deposit ratio is a positive reflection of management's attention to liquidity management.

In March 2009, the Company issued $22.6 million in Trust Preferred Securities with a fixed rate of interest of 10 percent. The Company still has $15 million in Trust Preferred Securities outstanding from a previous issue, which have a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) and 1.75 percent, which was 2.05 percent at year end 2010. Interest expense associated with these two debt issues totaled $2.6 million for 2010, an average rate of 6.94 percent.

The table below reflects the changes in net interest income in 2010 and 2009 due to changes in rates and volumes computed on a tax equivalent basis for all interest sensitive categories.

Non-Interest Income

Generation of non-interest income has traditionally been a strength of the Company's financial performance, as it was in 2010. Fee income totaled $30.0 million for 2010, an increase of $3.2 million, or 12.16 percent over fee income generated in 2009. However, recent regulatory reforms are putting several of the sources of the Company's fee income at risk. Consumer protection legislation impacting the banking industry's ability to generate fees from insufficient funds items will have a dramatic impact on income collected in 2011. Other legislation limiting interchange fees on electronic debit card transactions also poses a potential risk to a traditional source of revenue for commercial banks.

The Company generated $3.7 million in fees from its trust services during 2010, an increase of $456,000 from 2009, or 14.18 percent. At year end 2010, total assets under management in the Trust Department stood at $871 million, an increase of $111.0 million over December 31, 2009. Between September 2008 and February 2009 market values of assets invested in the stock market declined approximately 60 percent. During the last two years assets under management have increased $199.2 million. New business development efforts have generated approximately $123.4 million, with the rest of the increase attributed to appreciation of asset values in the market. Fees generated during 2010 came within $204,000 of fees generated in 2008.

Service charges on deposit accounts increased a modest 1.38 percent, or $157,000 during 2010 compared to 2009. The Company's Courtesy Coverage product permits a personal transaction account which is maintained in good standing to be overdrawn up to $800 for the normal insufficient funds check charge. Net revenue of $9.1 million was generated during 2010 from this product, a slight decrease of $196,000 or 2.10 percent from 2009. On August 15, 2010, Regulation E was amended to require customers to request for banks to allow them to overdraw their checking accounts with debit card transactions. As with most

RATE/VOLUME ANALYSIS
(In Thousands)

	2010/2009			2009/2008		
		Increase/Decrease Due To			Increase/Decrease Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Commercial loans	$ 6,892	$ (496)	$ 7,388	$ (436)	$ (8,157)	$ 7,721
Mortgage loans	(83)	(816)	733	(1,306)	(2,719)	1,413
Consumer loans	(1,160)	(167)	(993)	(710)	(1,597)	887
Investments						
Taxable	(824)	(270)	(554)	(2,880)	(3,775)	895
Tax exempt	(273)	96	(369)	(261)	150	(411)
Federal funds sold	169	(30)	199	17	(1,650)	1,667
Total interest income	4,721	(1,683)	6,404	(5,576)	(17,748)	12,172
Interest expense						
Deposits						
NOW accounts	(260)	(447)	187	89	(445)	534
Savings deposits	3	(13)	16	(35)	(48)	13
Money market deposits	(106)	(884)	778	(2,239)	(2,495)	256
Time deposits	(5,678)	(7,159)	1,481	(3,763)	(7,216)	3,453
Borrowed funds	223	518	(295)	(761)	(221)	(540)
Total interest expense	(5,818)	(7,985)	2,167	(6,709)	(10,425)	3,716
Net interest income	**$ 10,539**	**$ 6,302**	**$ 4,237**	**$ 1,133**	**$ (7,323)**	**$ 8,456**

banks in the industry, the Company undertook a massive marketing effort to educate the customer regarding their options on overdraft protections, to allow them to make an informed decision on how they wanted to manage their accounts. Since the implementation of changes to Regulation E, the Company has experienced a decline in revenue generated from insufficient funds items of approximately 25 percent.

The FDIC has recently issued guidance on how banks are to manage their automated overdraft protection programs. This guidance includes specific instructions on the posting order of items, required counseling with customers who are frequent users of the service, and other specific steps a bank must take to ensure that it is not maximizing fees generated from this product. Management is currently designing its response to this new legislation. At this time, this guidance has been adopted and issued by the FDIC, but has not been adopted by other primary regulators of financial institutions. While the exact impact of this new legislation on the fee income the Company generates has not been determined, management believes that it will be significant, and could be as much as a 25 to 30 percent reduction of the income generated in 2010 on an annual basis. In response management is looking at the full array of checking products it offers its customers, and evaluating the value of the services provided to the customer to determine a fair price for the services being offered.

Loans originated for sale during 2010 totaled $227 million. At the end of 2010, the Company serviced $65 million in loans for Fannie Mae and Freddie Mac. Approximately 2.74 percent of the loans originated for sale during 2010 were sold service retained. Of the $65 million in the serviced loan portfolio, $49 million was sold to Freddie Mac.

During 2010 the Company sold $221 million in mortgage loans, service released. The interest rate on all loans originated for sale is locked with the buyer and the investor, thus the Company has no interest rate risk associated with these transactions. During 2010 the Company generated $4.1 million in income from loans sold in the secondary market, a slight decrease of $71,000 from 2009, or 1.69 percent. While activity in the housing market is extremely depressed, lower interest rates have provided an opportunity for homeowners to refinance. Management believes that without significant improvement in the housing industry, fees generated from the sale of loans in the secondary market will decline in 2011. While there may still be some refinancing activity, the majority of these transactions have already taken place, and the rate of new home purchases continues to be depressed.

The impact of the sluggish real estate market was felt by our loan customers, particularly those in the real estate development industry. During 2010 the Company experienced higher than typical past due rates in the loan portfolio, a higher level of loan losses than typical, and a higher than normal level of other real estate held. Other real estate is property that has been foreclosed upon, or has been taken back in lieu of payment of customer debt. On December 31, 2010, the Company held $24.1 million in other real estate. This other real estate consists of 39 single unit homes valued at less than $1 million each, six pieces of property for residential building lots, 15 condominium or multifamily developments including apartment buildings, and two commercial buildings.

Other real estate is recorded at estimated fair market value, less estimated costs to sell the properties. During 2010, the Company realized net losses on the disposal of pieces of other real estate or recorded unrealized losses on properties for a total expense of $4.9 million. While this is a decline of $752,000, or 13.36 percent from the expense recorded in 2009, it is not necessarily an indication of improvement in the real estate market or a predictor of future losses. In 2010, the Company experienced smaller per occurence losses over a larger number of properties. Management is comfortable that the other real estate portfolio is properly recorded at its estimated fair value as of December 31, 2010, but is also aware that in the current economic conditions it is probable that some of these values may continue to decline. The Company is aggressively marketing these properties.

During 2008, the Company recorded a large non-recurring non-interest income item related to its membership in VISA. As a result of the initial public offering of VISA stock, the Company received proceeds totaling $956,491 from the sale of a portion of its interest. Per VISA's settlement agreement with other credit card companies, the Company still holds a significant interest in VISA which will be held in escrow until the later of the settlement of all claims or three years. At that time the Company should receive additional shares of VISA. A determination will be made at that time on the disposition of those shares.

Another piece of legislation which is pending in 2011 deals with the interchange rate on debit card transactions paid by merchants who accept debit cards. As passed, this legislation seeks to cap the amount a financial institution can charge for processing a debit card transaction. In its current form, this legislation will impact banks with $10 billion or more in assets. Discussion with the banking industry indicates that there is a good chance this legislation will be

ANALYSIS OF NON-INTEREST INCOME

				2010/2009		2009/2008	
	2010	2009	2008	CHANGE	%	CHANGE	%
Trust income	$ 3,671,734	$ 3,215,789	$ 3,876,040	$ 455,945	14.18%	$ (660,251)	(17.03)%
Service charges on deposit accounts	11,501,419	11,344,331	9,954,873	157,088	1.38%	1,389,458	13.96%
Fees on mortgage loan sales and servicing	4,102,469	4,173,141	2,202,266	(70,672)	(1.69)%	1,970,875	89.49%
Service charges on revolving credit	3,641,707	3,239,503	2,910,783	402,204	12.42%	328,720	11.29%
Electronic banking fees	4,152,733	3,599,617	3,285,825	553,116	15.37%	313,792	9.55%
Loss or valuation allowances for ORE	(4,874,879)	(5,626,820)	(161,927)	751,941	(13.36)%	(5,464,893)	3374.91%
Other income	7,769,324	6,771,107	11,136,126	998,217	14.74%	(4,365,019)	(39.20)%
Total non-interest income	**$29,964,507**	**$26,716,668**	**$33,203,986**	**$ 3,247,839**	**12.16%**	**$(6,487,318)**	**(19.54)%**

modified to include all financial institutions, regardless of size. At this point it is impossible to predict the outcome or potential impact of this legislation on the Company. However, management is paying close attention to the discussion and preparing contingency plans in case the Company is impacted by the implementation of this legislation.

Non-interest Expense

Non-interest expense for 2010 totaled $81.6 million, a slight decrease of $148,000, or 0.18 percent from 2009. During 2009 the Company began to formulate and implement some strategies designed to lower operating expenses in subsequent periods. While the reduction in operating expenses is modest for 2010, some of the success of these strategies is masked by expenses related to loan workout situations.

Salaries and benefits are the largest component of non-interest expense, totaling $36.2 million, a decline of $1.6 million, or 4.32 percent from 2009. On December 31, 2010, the Company employed 474 full-time equivalent employees compared to 505 full-time equivalent employees at the same date in 2009. The Company offered a voluntary early retirement program in 2010, and 17 employees elected to retire. Some of these positions had to be replaced; however, there was a net reduction in workforce of 11 people due to this program. Actual salary expense increased in 2010 as compared to 2009 by $886,000, or 3.06 percent.

The net decrease in salaries and benefits came in the area of benefits. In 2009 the Company froze the defined benefit retirement program, and changed the retirement benefits offered to employees to emphasize utilization of the Company's 401k. As a result, the net periodic pension expense related to the defined benefit plan declined from $3.2 million in 2009 to $483,000 in 2010. The increased emphasis on the 401k resulted in the Company contributing $896,000 more to this plan than it did in 2009. The contribution the Company makes to the Employee Stock Ownership Plan (ESOP) varies from year to year, depending upon the cash needs of the plan. The contribution to the ESOP was $720,000 less in 2010 than it was in 2009. The net reduction in expense due to the changes in the defined benefit retirement plan and the 401k plan is anticipated to be a continuing benefit to the Company's operating results.

Occupancy and furniture and equipment expense decreased less than one percent, or $148,000 during 2010. During the past five years management has emphasized renovation of our banking centers, and building a strong technological infrastructure. In 2010 the Company relocated two banking centers and its insurance and secondary mortgage operations. Other than these relocations, the Company did not make any other significant additions to plant and equipment. There are no plans for additions to facilities during 2011. Part of the cost control strategies management is implementing is a tighter control over capital spending. New standards are in place for the desired return on investment in capital spending which will help ensure that any capital spending produces an immediate positive impact upon earnings.

As with all federally insured financial institutions, part of the cost of the current economic situation is the condition that FDIC insurance premiums are higher than our recent historical experience. In 2010 we had a slight reduction in FDIC insurance expense of $179,000, or 4.88 percent. However, this is still an increase of roughly three times the expense in 2008. Management is expecting a slight reduction in expense in 2011, based upon lower rates which have recently been announced by the FDIC and a plan to control growth of deposits on the balance sheet. The assessment rate of a particular institution is dependent upon risk factors such as nonperforming assets, past due loans, capital to assets ratio, etc. While management does not anticipate further deterioration in the loan portfolio, if that should occur it could result in higher assessment rates in the future.

In May 2007 the Company converted its data processing to Fiserv, Inc. The original contract was for a seven-year term, and was to expire in May 2013. Management has renegotiated this contract to extend the term until June 30, 2017. In return for the contract extension, Fiserv has granted discounts on core processing and discounted fees on new products the Company wishes to implement. While management is not expecting to see a reduction in overall cost of data processing, we do anticipate that we will be able to offer more services to our customers for close to the same annual cost. Management is planning to complete a conversion to the Fiserv consumer Internet banking product and bill pay product and to introduce mobile banking during 2011.

In addition to the risk of property values deteriorating on other real estate held by the Company, these properties require maintenance and upkeep during the holding period. In 2010 expenses associated with holding these properties totaled $1.7 million. This is an increase over 2009 expenses of $818,000, or

ANALYSIS OF NON-INTEREST EXPENSE

				2010/2009		2009/2008	
	2010	2009	2008	CHANGE	%	CHANGE	%
Salaries and benefits	$ 36,184,885	$ 37,818,446	$ 36,941,417	$ (1,633,561)	(4.32)%	$ 877,029	2.37%
Occupancy	11,110,995	10,078,969	10,016,737	1,032,026	10.24%	62,232	0.62%
Furniture and equipment expense	5,928,123	7,108,488	6,900,312	(1,180,365)	(16.61)%	208,176	3.02%
Advertising and business development	4,086,753	2,330,661	3,779,876	1,756,092	75.35%	(1,449,215)	(38.34)%
Professional services	3,454,486	4,939,094	2,584,567	(1,484,608)	(30.06)%	2,354,527	91.10%
FDIC insurance expense	3,491,092	3,670,277	1,266,188	(179,185)	(4.88)%	2,404,089	189.87%
Other non-interest expense	17,380,693	15,838,896	16,551,649	1,541,797	9.73%	(712,753)	(4.31)%
Total non-interest expense	**$ 81,637,027**	**$ 81,784,831**	**$ 78,040,746**	**$ (147,804)**	**(0.18)%**	**$ 3,744,085**	**4.80%**

92.40 percent. The Company has recently acquired a couple of pieces of other real estate which will require extensive repair. While it is difficult to predict with accuracy the level of spending required on these properties in any one year, it is probable that these expenses will exceed $1 million again in 2011.

Federal Income Tax

The Company had a negative provision for federal income tax of $3.2 million during 2010. The Company's tax planning strategy includes the purchase of additional municipal securities to increase tax exempt income, and participation in Industrial Revenue Bond lending for non-profit organizations. The Company is also a limited partner in 15 low-income housing projects and two historic renovation projects for which it receives tax credits, and is an investor in a Community Development Entity for which it receives New Market Tax Credits. It is the culmination of these various tax exempt income investing activities which generated tax savings and credits in excess of the liability from taxable income.

Management is closely monitoring the Company's income tax position to ensure that it will be able to take advantage of all of its deferred tax assets. The possibility of repositioning the Company's long-term tax planning strategy is under current review. At this time management feels that the deferred tax assets recorded on the Company's books are not impaired.

Financial Condition

On December 31, 2010, total assets of the Company were at a record $2.19 billion. Despite difficult economic times, the Company's assets grew $138.9 million, or 6.77 percent, over assets at December 31, 2009. Earning assets totaled $2.02 billion on December 31, 2010, or 92.11 percent of total assets. The Company's investment portfolio, including federal funds sold and money market investments, increased $124.6 million, while its net loans and leases, including loans held for sale, increased $30.2 million during 2010.

Earning Assets

Gross loans outstanding on December 31, 2010 increased $32.2 million, or 1.85 percent, over December 31, 2009. On average, gross loans and leases increased 8.02 percent, nearly all of which was in the commercial loan portfolio which increased $131.1 million or 11.26 percent. This is strong growth in any economic times, but is particularly strong growth given a weak economy. Management recognized that with the slow economy this was a particularly precarious time to be actively lending. However, liquidity concerns of other institutions provided the Company the opportunity to engage in new lending relationships which management feels will provide positive returns not just now, but for years to come. Each of these new relationships was reviewed with heightened awareness of the impact the economy could have upon the borrower, and they were deemed credit worthy for the long run. It is interesting to note, however, that most of the growth the Company achieved in this portfolio occurred in the first two quarters of the year. During the last half of 2010 loan demand was much weaker than the Company has experienced in recent history. This weak loan demand has continued through the beginning of 2011, and management anticipates this trend to continue for most of 2011.

The Company is mindful of the importance of managing exposure to credit risk. This is accomplished through diversification of the loan portfolio, not only by loan type, but by industry and customer. While the Company's loan growth during 2010 was primarily in commercial lending, diversification by industry and geographic region helped to maintain acceptable credit risk exposure. Concentrations of credit are monitored on a monthly basis for compliance with internal and external policies. As a result, there is no undue concentration in any single sector.

Management has always viewed the investment portfolio as a means by which interest rate risk and liquidity are managed. Management noted that bank examinations and regulatory comments have an increased emphasis regarding on-balance-sheet liquidity. That emphasis, coupled with a very flat yield curve and some asset liability pressure to match immediately repricing deposit liabilities, prompted management to leave a larger than normal percentage of available cash in overnight deposits with the Federal Reserve. On December 31, 2010, the Company was selling $131.4 million to the Federal Reserve as overnight investment. On average, however, this balance was $118.6 million for 2010. Management continues to look for opportunities to invest in very short-term securities that would yield more than the 25 basis points we earn on the overnight funds.

For the most part, management is looking for short-term government securities with a maturity of two years or less, and variable rate securities to purchase. Any of these purchased will be classified as available for sale.

Allowance for Credit Losses

At December 31, 2010, the allowance for credit losses was $22.8 million, or 1.29 percent of gross loans outstanding, compared with $20.7 million, or 1.20 percent, at December 31, 2009. Net credit losses for 2010 totaled $16.3 million, or 0.94 percent of average outstanding loans and leases. The provision for credit losses during 2010 was $18.3 million.

Losses in the loan portfolio exceeded the Company's recent history, and the expectations of management. The Company saw deterioration in past due percentages in all categories of loans during 2010. Loans secured by real estate, including residential properties as well as development loans, are the areas causing the most concern in the Company's loan portfolio. As with most banks, determining the value of the underlying collateral in these difficult economic times is a challenge.

Loans delinquent 90 days or more as of December 31, 2010 totaled $26.5 million, as compared to $23.1 million on the same date in 2009. Loans in nonaccrual status totaled $30.1 million on December 31, 2010, as compared to $25.1 million on the same date in 2009. There were $1.2 million in loans past due 90 days and still accruing interest on December 31, 2010, compared to $3.0 million on December 31, 2009.

The performance of the loan portfolio during 2010 mirrored the weakening of the economy. Total loans delinquent more than 30 days as a percentage of outstanding loans and leases were 3.21 percent on December 31, 2010. This is a 24 basis point increase from December 31, 2009. Management has carefully considered the

ANALYSIS OF ALLOWANCE FOR CREDIT LOSSES

	2010	2009	2008	2007	2006
Allowance for Credit Losses					
Balance January 1	$ 20,746,522	$ 21,753,237	$20,214,651	$17,114,452	$17,441,082
Provision for credit losses	18,327,054	9,792,367	8,089,824	8,793,461	1,946,315
Less: Net charge-offs	(16,270,601)	(10,799,082)	(6,551,238)	(5,693,262)	(2,272,945)
Balance December 31	$ 22,802,975	$ 20,746,522	$21,753,237	$20,214,651	$17,114,452
Average loans and leases, net of unearned income (000's)	$ 1,754,495	$ 1,624,235	$ 1,487,745	$ 1,434,177	$ 1,309,009
Loans and leases outstanding at year end, net of unearned income (000's)	$ 1,769,984	$ 1,737,764	$ 1,558,313	$ 1,462,086	$ 1,394,615
Nonperforming loans and leases at year end (000's)	$ 31,300	$ 28,147	$ 15,165	$ 10,860	$ 8,428
Other real estate owned at year end (000's)	$ 24,084	$ 21,805	$ 18,856	$ 9,235	$ 6,343
Ratios:					
Provision for credit losses to average loans and leases	1.04%	0.60%	0.54%	0.61%	0.15%
Net charge-offs to average loans and leases	0.93%	0.66%	0.44%	0.40%	0.17%
Allowance for credit losses to average loans and leases	1.30%	1.28%	1.46%	1.41%	1.31%
Allowance for credit losses to year end loans and leases	1.29%	1.19%	1.40%	1.38%	1.23%
Allowance for credit losses to nonperforming loans and leases	72.85%	73.71%	143.44%	186.14%	203.07%
Nonperforming loans and leases to average loans and leases	1.78%	1.73%	1.02%	0.76%	0.64%
Nonperforming assets to total assets	2.53%	2.43%	1.78%	1.09%	0.82%
Nonperforming assets to equity capital and reserves	30.93%	29.09%	20.43%	12.15%	9.29%
Total delinquency at year end	3.21%	2.97%	2.61%	1.28%	1.00%

delinquency in the portfolio as it evaluated the level of allowance for credit losses needed. While no one can say with certainty that the allowance is adequate, management is comfortable that it is adequate.

A loan is considered to be impaired when it is probable that all principal and interest amounts will not be collected in accordance with the original loan terms. Loans with a carrying value of $88,247,566 or 5.01 percent of gross loans and leases, were identified as impaired at December 31, 2010.

Deposits

Total deposits were $1.90 billion at year end 2010, an increase of $198.2 million over December 31, 2009. On average, total deposits increased at a rate of 11.67 percent during 2010. This is outstanding growth, given that the Company had growth in average deposits of 11.48 percent during 2009. Management is very pleased to have maintained average growth rates in excess of 11 percent two years in a row in a struggling economy.

Continuing a pattern which began in 2007, customer demand showed a stronger preference for fixed rate certificates of deposit. The Company offers fixed rate certificates of deposit with maturities ranging from seven days to five years. Most of the certificates of deposit purchased by customers have a maturity ranging from six months to 24 months.

Non interest bearing deposits on December 31, 2010 totaled $352.1 million, which was an increase of $24.3 million, or 7.42 percent over the $327.8 million on December 31, 2009.

Short-Term Borrowings

Short-term borrowing sources consist of federal funds purchased from downstream correspondents, repurchase agreements, sweep accounts of commercial customers, and overnight borrowings from Federal Home Loan Bank. The cash management services offered by the Company continue to be a valued service for our commercial deposit customers. The balance in Commercial Sweep Accounts totaled $66.3 million on December 31, 2010. These accounts are overnight repurchase agreements requiring a direct pledge from our investment portfolio.

Strong deposit growth, coupled with loan demand which slowed throughout the year, resulted in the Company accumulating large amounts of on-balance-sheet liquidity. As a result, the Company was not utilizing any of its short-term borrowing capacity with Federal Home Loan Bank at December 31, 2010. The Company temporarily suspended its long-term practice of purchasing overnight funds from downstream correspondents. Management will review the Company's liquidity position and consider when or if the Company will begin purchasing funds again.

Long-Term Borrowing

The Company's long-term borrowing consists of advances from Federal Home Loan Bank. On December 31, 2010, the Company had $17.2 million outstanding in advances from Federal Home Loan Bank with maturities ranging from February 2011 through December 2027. Each advance is payable at its maturity, with a prepayment penalty. The advances are borrowed under a blanket

AVERAGE EARNING ASSETS & AVERAGE FUNDS AVAILABLE
(in thousands)

	2010	2009	2008	2010/2009 Change	2010/2009 %	2009/2008 Change	2009/2008 %
Commercial loans	$ 1,295,100	$1,164,011	$1,039,311	$131,089	11.26%	$ 124,700	12.00%
Mortgage loans	310,025	298,356	275,157	11,669	3.91%	23,199	8.43%
Consumer loans	149,370	161,868	173,277	(12,498)	(7.72)%	(11,409)	(6.58)%
Less: Allowance for credit losses	(21,987)	(21,969)	(20,153)	(18)	0.08%	(1,816)	9.01%
Total net loans	1,732,508	1,602,266	1,467,592	130,242	8.13%	134,674	9.18%
Investment securities	110,788	146,232	179,038	(35,444)	(24.24)%	(32,806)	(18.32)%
Money market investments	118,602	44,943	2,634	73,659	163.89%	42,309	1606.26%
Total investments	229,390	191,175	181,672	38,215	19.99%	9,503	5.23%
Total earning assets	**$1,961,898**	**$1,793,441**	**$1,649,264**	**$168,457**	**9.39%**	**$ 144,177**	**8.74%**
Demand deposits	$ 329,509	$ 289,988	$ 266,500	$ 39,521	13.63%	$ 23,488	8.81%
Immediately repricing deposits	726,424	575,334	528,209	151,090	26.26%	47,125	8.92%
Fixed-rate deposits	756,656	757,873	661,392	(1,217)	(0.16)%	96,481	14.59%
Total deposits	1,812,589	1,623,195	1,456,101	189,394	11.67%	167,094	11.48%
Borrowed funds	166,393	180,059	203,699	(13,666)	(7.59)%	(23,640)	(11.61)%
Total funds available	**$1,978,982**	**$1,803,254**	**$1,659,800**	**$175,728**	**9.75%**	**$ 143,454**	**8.64%**

lien agreement, and are collateralized by Federal Home Loan Bank stock and first mortgage loans.

In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $15,464,000 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 $1,000, on or after June 15, 2010, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on June 15, 2035. The subordinated debentures are also 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 trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) and 1.75%, which was 2.05% at year end 2010. The Company's investment in the common stock of the trust was $464,000.

In March 2009, Central Bancshares KY Statutory Trust III, a trust formed by the Company, closed a private offering of 22,600 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $23,278,000 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 $1,000, on or after March 31, 2014 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 31, 2039. The subordinated debentures are also 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 trust preferred securities and subordinated debentures have a 10.00 percent fixed rate of interest. The Company's investment in the common stock of the trust was $678,000.

The $37.6 million in trust preferred securities may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

Capital

Capital adequacy guidelines of the regulatory agencies make regulatory capital requirements more sensitive to the risk profiles of individual banks, take off-balance-sheet exposure into account in assessing capital adequacy, and minimize disincentives for holding liquid, low-risk assets.

In order for a bank holding company to be considered "well capitalized" under prompt corrective action provisions, a company must maintain a Total capital to risk-adjusted assets ratio of 10.0 percent, a Tier I capital to risk-adjusted assets ratio of 6.0 percent, and a Tier I capital to average assets ratio of 5.0 percent. On December 31, 2010, the Company had a Total capital to risk-adjusted assets ratio of 10.9 percent, a Tier I capital to risk-adjusted assets ratio of 9.7 percent, and a Tier I capital to average assets ratio of 8.3 percent.

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

We have audited the accompanying consolidated balance sheets of Central Bancshares, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Bancshares, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP
Lexington, Kentucky
March 11, 2011

CONSOLIDATED BALANCE SHEETS

	December 31	
	2010	2009
ASSETS		
Cash and due from financial institutions	**$ 35,432,023**	$ 49,527,018
Federal funds sold	**131,475,000**	100,000
Total cash and cash equivalents	**166,907,023**	49,627,018
Securities available for sale	**113,344,372**	111,059,738
Securities held to maturity	**18,075,663**	27,125,211
Total securities	**131,420,035**	138,184,949
Loans held for sale	**8,667,811**	7,383,118
Loans	**1,761,316,401**	1,730,381,152
Allowance for credit losses	**(22,802,975)**	(20,746,522)
Loans, net	**1,747,181,237**	1,717,017,748
Premises and equipment, net	**47,363,835**	48,725,140
Other real estate owned	**24,083,659**	21,805,408
Interest receivable	**7,040,863**	6,901,590
Federal Home Loan Bank stock, at cost	**7,959,300**	7,959,300
Goodwill	**15,004,524**	15,004,524
Other intangible assets	**2,012,148**	2,506,736
Other assets	**43,040,414**	45,373,697
Total assets	**$ 2,192,013,038**	$2,053,106,110
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	**$ 352,122,264**	$ 327,792,704
Interest bearing	**1,551,666,560**	1,377,790,248
Total deposits	**1,903,788,824**	1,705,582,952
Federal funds purchased and repurchase agreements	**66,305,562**	90,114,080
Federal Home Loan Bank advances	**17,190,034**	59,526,744
Subordinated debentures	**38,742,000**	38,742,000
Interest payable	**1,094,944**	1,326,099
Other liabilities	**8,648,018**	6,835,722
Total liabilities	**2,035,769,382**	1,902,127,597
SHAREHOLDERS' EQUITY		
Common stock, $10 par value, 350,000 shares authorized, 347,922 shares issued	**3,479,220**	3,479,220
Additional paid-in capital	**6,890,468**	6,890,468
Retained earnings	**149,502,411**	142,594,868
Accumulated other comprehensive income (loss)	**(3,628,443)**	(1,986,043)
Total shareholders' equity	**156,243,656**	150,978,513
Total liabilities and shareholders' equity	**$ 2,192,013,038**	$2,053,106,110

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2010	2009
INTEREST AND DIVIDEND INCOME		
Loans, including fees	**$ 97,494,800**	$ 91,846,260
Securities:		
U.S. Treasury and government agencies	**540,022**	756,782
Obligations of states and political subdivisions	**383,352**	656,071
Mortgage-backed securities	**629,783**	1,217,742
Federal funds sold	**291,390**	121,799
Federal Home Loan Bank stock	**347,953**	368,020
	99,687,300	94,966,674
INTEREST EXPENSE		
Deposits	**21,841,175**	27,882,819
Federal funds purchased and repurchase agreements	**196,896**	215,933
Federal Home Loan Bank advances	**1,300,916**	1,483,276
Subordinated debentures and note payable	**2,608,338**	2,184,087
	25,947,325	31,766,115
Net interest income	**73,739,975**	63,200,559
Provision for credit losses	**18,327,054**	9,792,367
Net interest income after provision for credit losses	**55,412,921**	53,408,192
OTHER INCOME		
Service charges on deposit accounts	**11,501,419**	11,344,331
Mortgage loan sales and servicing, net	**4,102,469**	4,173,141
Credit card related fees	**3,641,707**	3,239,503
Trust fees	**3,671,734**	3,215,789
Net loss on sales and write-downs of other real estate	**(4,874,879)**	(5,626,820)
Other fees and income	**11,922,057**	10,370,724
	29,964,507	26,716,668
OTHER EXPENSES		
Salaries	**29,845,377**	28,959,840
Pension and employee benefits	**6,339,508**	8,858,606
Occupancy expense	**17,039,118**	17,187,457
Other expenses	**28,413,024**	26,778,928
	81,637,027	81,784,831
Income (loss) before income tax benefit	**3,740,401**	(1,659,971)
Income tax benefit	**(3,167,142)**	(3,428,581)
NET INCOME	**$ 6,907,543**	$ 1,768,610
Basic earnings per share	**$ 19.85**	$ 5.08
Weighted average number of common shares outstanding	**347,922**	347,922

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2010	2009
OPERATING ACTIVITIES		
Interest received	**$ 99,481,249**	$ 94,751,280
Fees, commissions and other income received	**29,819,399**	30,760,920
Interest paid	**(26,178,480)**	(32,294,926)
Proceeds from loans held for sale	**231,014,470**	276,509,909
Originations of loans held for sale	**(228,355,568)**	(274,310,129)
Cash paid to suppliers and employees	**(66,516,451)**	(85,933,947)
Income tax (paid) refunded	**(365,550)**	981,651
Net cash from operating activities	38,899,069	10,464,758
INVESTING ACTIVITIES		
Securities available for sale:		
Purchases	**(566,702,072)**	(732,387,983)
Maturities, calls and return of principal	**564,455,435**	749,260,230
Securities held to maturity:		
Purchases	**(327,323)**	(1,288,109)
Maturities, calls and return of principal	**9,405,652**	25,402,868
Investment in low-income housing and historic renovation limited partnerships	**(2,240,072)**	(4,348,138)
Net change in loans	**(62,293,310)**	(199,725,486)
Expenditures for bank premises and equipment	**(3,912,349)**	(1,526,481)
Purchase of Federal Home Loan Bank stock	**-**	(2,333)
Proceeds from sale of other real estate owned	**7,934,330**	2,642,162
Net cash from investing activities	(53,679,709)	(161,973,270)
FINANCING ACTIVITIES		
Net change in deposits	**198,205,872**	165,441,771
Net change in federal funds purchased and repurchase agreements	**(23,808,518)**	(38,042,572)
Proceeds from Federal Home Loan Bank advances	**18,897,662**	175,000,000
Repayment of Federal Home Loan Bank advances	**(61,234,371)**	(182,698,417)
Repayment of note payable	**-**	(2,050,000)
Proceeds from subordinated debentures issued	**-**	23,278,000
Dividends paid	**-**	(1,739,610)
Net cash from financing activities	132,060,645	139,189,172
Net change in cash and cash equivalents	117,280,005	(12,319,340)
Cash and cash equivalents, beginning of year	49,627,018	61,946,358
Cash and cash equivalents, end of year	$ 166,907,023	$ 49,627,018
RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Net income	**$ 6,907,543**	$ 1,768,610
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	**18,327,054**	9,792,367
Depreciation and amortization	**7,575,861**	7,410,560
Net loss on sales and write-downs of other real estate	**4,874,879**	5,626,820
Net gain on sale of loans	**(3,878,668)**	(3,943,595)
Net change in:		
Loans held for sale	**2,593,975**	2,199,780
Interest receivable	**(139,273)**	416,667
Prepaid expenses	**4,383,812**	(9,569,263)
Interest payable	**(231,155)**	(528,811)
Income taxes payable	**(3,532,692)**	(2,446,930)
Other liabilities	**1,809,432**	(3,924,444)
Other, net	**208,301**	3,662,997
Total adjustments	**31,991,526**	8,696,148
Net cash from operating activities	**$ 38,899,069**	$ 10,464,758
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	**$ 16,343,268**	$ 11,218,868
Write-downs of other real estate owned	**2,285,524**	3,333,000

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2010 and 2009

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2009	**$ 3,479,220**	**$ 6,890,468**	**$ 142,565,868**	**$(8,187,847)**	**$ 144,747,709**
Comprehensive income:					
Net income	-	-	1,768,610	-	1,768,610
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	-	-	-	(128,094)	(128,094)
Change in funded status of defined benefit pension plan	-	-	-	6,329,898	6,329,898
Total comprehensive income					7,970,414
Dividends ($5.00 per share)	-	-	(1,739,610)	-	(1,739,610)
Balances, December 31, 2009	**3,479,220**	**6,890,468**	**142,594,868**	**(1,986,043)**	**150,978,513**
Comprehensive income:					
Net income	-	-	6,907,543	-	6,907,543
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	-	-	-	748	748
Change in funded status of defined benefit pension plan	-	-	-	(1,643,148)	(1,643,148)
Total comprehensive income					5,265,143
Balances, December 31, 2010	**$ 3,479,220**	**$ 6,890,468**	**$ 149,502,411**	**$(3,628,443)**	**$ 156,243,656**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 11, 2011, which is the date the financial statements were available to be issued. See Note 16 for description of subsequent event.

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. The allowance for credit losses, fair values of financial instruments, impairment of securities, mortgage servicing rights and contingent liabilities are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash on hand, amounts due from financial institutions, securities purchased under resell agreements, money market investments and federal funds sold with maturities under 90 days. Generally, federal funds are sold for one-day periods. Net cash flows are reported for loans, deposits, and short-term borrowing transactions.

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

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

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

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

Loans and Allowance for Credit Losses: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, reduced by deferred loan fees and an allowance for credit losses. Loan origination fees along with certain direct loan origination costs are deferred and the net amount amortized as a yield adjustment over the life of the related loans.

Interest income is recognized on the accrual basis except for those loans on a nonaccrual income status. Accrual of interest is discontinued on loans when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

All interest accrued for the current period but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged off against the allowance for credit losses when management believes the collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes is adequate to absorb probable credit losses incurred on existing loans, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, loss experience, trends in portfolio credit quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other

relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The allowance for credit losses on impaired loans is determined using the present value of estimated future cash flows of the loan, discounted at the loan's effective interest rate, or the fair value of the underlying collateral. A loan is considered to be impaired when it is probable that all principal and interest amounts will not be collected according to the loan contract. Commercial and real estate loans are individually evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer installment loans and credit card receivables, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and are classified as impaired if appropriate.

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

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 market value. To deliver closed loans to the secondary market and to control its interest rate risk prior to sale, the Company enters "best-efforts" forward sales derivative contracts. Substantially all of the gain on sale generated from mortgage banking activities is recorded when closed loans are delivered into the sales contracts.

As the Company sells loans servicing released and 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 loan sales and servicing, net.

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

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

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

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

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

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less selling costs, when acquired, establishing a new cost basis. If fair value declines subsequent to acquisition, a valuation allowance is recorded through expense. Costs incurred after acquisition are expensed.

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Other intangible assets consist of customer relationship intangibles arising from acquisitions. They are initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives, which is between 8 and 10 years.

Long-term Assets: Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

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

Investment in Limited Partnerships: Central Bank & Trust Co. is a limited equity partner in 15 low-income housing projects and two historic renovation projects. The investments are accounted for using the equity method and are included in other assets.

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

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

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby 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.

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

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

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of related income tax, and changes in the funded status of the defined benefit pension plan, net of related income tax. Accumulated other comprehensive income (loss) is recognized as a separate component of equity.

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

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

Restrictions on Cash: Included in cash and due from financial institutions are certain deposits that are held at the Federal Reserve or maintained in vault cash in accordance with average balance requirements specified by the Federal Reserve Board of Governors. The average balance requirement was $22,234,000 and $21,548,000 at December 31, 2010 and 2009. These funds earn interest at an interest rate determined by the Federal Reserve.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current year presentation.

Adoption of New Accounting Standards: In April 2009, the FASB amended existing guidance for determining whether impairment is other-than-temporary for debt securities. The guidance requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company elected to early-adopt this guidance as of January 1, 2009.

ASC Topic 810, "Consolidation." New authoritative accounting guidance under *ASC Topic 810, "Consolidation,"* amended prior guidance to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Under ASC Topic 810, a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, ASC Topic 810 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. The new authoritative accounting guidance under ASC Topic 810 became effective for the Company on January 1, 2009, and did not have a significant impact on the Company's financial statements. Further new authoritative accounting guidance under ASC Topic 810 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity's financial statements. The Company adopted the provisions of the new authoritative accounting guidance under ASC Topic 810 on January 1, 2010. Adoption of the new guidance did not have a significant impact on the Company's financial statements.

ASC Topic 860, "Transfers and Servicing." New authoritative accounting guidance under ASC Topic 860, "Transfers and Servicing," amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvement with transferred financial assets including information about gains and losses resulting from transfers during the period. The Company adopted the provisions of the new authoritative accounting guidance under ASC Topic 860 on January 1, 2010. Adoption of the new guidance did not have a significant impact on the Company's financial statements.

ASC Topic 310, "Receivables." New authoritative accounting guidance under ASC Topic 310, "Receivables," amended prior guidance to provide a greater level of disaggregated information about the credit quality of loans and leases and the allowance for loan and lease losses (the "allowance"). The new authoritative guidance also requires additional disclosures related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. The new authoritative guidance amends only the disclosure requirements for loans and leases and the allowance. The Company adopted the period end disclosure provisions of the new authoritative guidance under ASC Topic 310 in the reporting period ended December 31, 2010. Adoption of the new guidance did not have an impact on the Company's statements of income and financial condition. The disclosures about activity that occurs will be effective for reporting periods after January 1, 2011, and will have no impact on the Company's statements of income and financial condition.

FASB ASC 310 Receivables, Subtopic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ("Subtopic 310-30") was amended to clarify that modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within ASC 310 Subtopic 310-40 Troubled Debt Restructurings by Creditors. The new authoritative accounting guidance under Subtopic 310-30 became effective in the third quarter of 2010 and did not have an impact on the Company's financial statements.

NOTE 2. SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2010				
U.S. Treasury securities	**$ 20,999,093**	**$ 4,226**	**$ (289)**	**$ 21,003,030**
U.S. government agency securities	**57,604,047**	**57,264**	**(6,629)**	**57,654,682**
Obligations of states and political subdivisions	**1,355,702**	**30,213**	**-**	**1,385,915**
Agency mortgage-backed securities: Residential	**27,942,381**	**358,364**	**-**	**28,300,745**
Corporate bond	**5,000,000**	**-**	**-**	**5,000,000**
Total	**$112,901,223**	**$ 450,067**	**$ (6,918)**	**$113,344,372**
2009				
U.S. Treasury securities	$ 21,994,597	$ -	$ (4,322)	$ 21,990,275
U.S. government agency securities	81,421,029	102,090	(95,243)	81,427,876
Obligations of states and political subdivisions	1,413,065	62,055	-	1,475,120
Agency mortgage-backed securities: Residential	5,788,990	377,607	(130)	6,166,467
Total	$110,617,681	$ 541,752	$ (99,695)	$111,059,738

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

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2010				
U.S. Treasury securities	**$ 327,178**	**$ -**	**$ (4,178)**	**$ 323,000**
U.S. government agency securities	**6,493,344**	**38,656**	**-**	**6,532,000**
Obligations of states and political subdivisions	**4,545,441**	**196,559**	**-**	**4,742,000**
Agency mortgage-backed securities: Residential	**6,209,700**	**158,300**	**-**	**6,368,000**
Other	**500,000**	**-**	**-**	**500,000**
Total	**$ 18,075,663**	**$ 393,515**	**$ (4,178)**	**$ 18,465,000**
2009				
U.S. government agency securities	$ 6,918,728	$ 301,272	$ -	$ 7,220,000
Obligations of states and political subdivisions	7,247,624	350,605	(229)	7,598,000
Agency mortgage-backed securities: Residential	12,458,859	370,141	-	12,829,000
Other	500,000	-	-	500,000
Total	$ 27,125,211	$ 1,022,018	$ (229)	$ 28,147,000

The fair value of securities and carrying amount, if different, at December 31, 2010, by contractual maturity, are shown below. Mortgage-backed securities are shown separately because they are not due at a single maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for sale	
	Carrying Amount	Fair Value	Fair Value	Amortized Cost
Due in one year or less	$ 5,608,284	$ 5,628,000	$ 59,078,161	$ 59,031,441
Due from one to five years	2,601,479	2,660,000	11,619,522	11,610,377
Due from five to ten years	2,421,530	2,506,000	5,684,185	5,674,597
Due after ten years	1,234,670	1,303,000	8,661,759	8,642,427
Agency mortgage-backed securities: Residential	6,209,700	6,368,000	28,300,745	27,942,381
Total	$ 18,075,663	$ 18,465,000	$113,344,372	$112,901,223

Securities with a carrying amount of approximately $104,278,000 and $104,492,000 at December 31, 2010 and 2009, were pledged to secure public deposits, repurchase agreements, trust deposits and for other purposes as required or permitted by law.

At December 31, 2010 and 2009, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of shareholders' equity.

No securities were sold in 20010 and 2009.

Securities with unrealized losses at year end 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or more Fair Value	12 Months or more Unrealized Loss	Total Fair Value	Total Unrealized Loss
2010						
Available for Sale						
U.S. Treasury securities	**$ 9,999,600**	**$ (289)**	**$ -**	**$ -**	**$ 9,999,600**	**$ (289)**
U.S. government agency securities	**21,090,809**	**(4,833)**	**342,208**	**(1,796)**	**21,433,017**	**(6,629)**
Total available for sale	**$ 31,090,409**	**$ (5,122)**	**$ 342,208**	**$ (1,796)**	**$ 31,432,617**	**$ (6,918)**
Held to Maturity						
Obligations of states and political subdivisions	**$ 323,000**	**$ (4,178)**	**$ -**	**$ -**	**$ 323,000**	**$ (4,178)**
2009						
Available for Sale						
U.S. Treasury securities	$ 6,990,260	$ (4,322)	$ -	$ -	$ 6,990,260	$ (4,322)
U.S. government agency securities	8,575,004	(92,002)	229,181	(3,241)	8,804,185	(95,243)
Agency mortgage-backed securities: Residential	-	-	30,266	(130)	30,266	(130)
Total available for sale	$ 15,565,264	$ (96,324)	$ 259,447	$ (3,371)	$ 15,824,711	$ (99,695)
Held to Maturity						
Obligations of states and political subdivisions	$ 286,465	$ (229)	$ -	$ -	$ 286,465	$ (229)

NOTE 3. LOANS

Loans at December 31 were as follows:

	2010	2009
Commercial	**$ 1,321,001,552**	$ 1,271,833,443
Real estate	**296,939,152**	304,328,036
Installment	**132,889,772**	143,693,748
Credit card receivables	**11,864,663**	11,878,192
Loans held for sale	**8,667,811**	7,383,118
	1,771,362,950	1,739,116,537
Unearned income	**(1,378,738)**	(1,352,267)
Allowance for credit losses	**(22,802,975)**	(20,746,522)
Loans, net	**$ 1,747,181,237**	$ 1,717,017,748

Activity in the allowance for credit losses was as follows:	**2010**	2009
Balance, beginning of year	**$ 20,746,522**	$ 21,753,237
Loans charged off	**(17,391,296)**	(11,598,130)
Recoveries	**1,120,695**	799,048
Provision for credit losses	**18,327,054**	9,792,367
Balance, end of year	**$ 22,802,975**	$ 20,746,522

Loans having carrying values of $88,247,566 and $63,620,715 have been recognized as impaired at December 31, 2010 and 2009. The average recorded investment in such impaired loans during 2010 and 2009 was $70,781,296 and $48,737,289. All impaired loans have an allowance for credit losses allocated and the total allocated to those loans was $8,399,045 and $7,738,700 at December 31, 2010 and 2009. Cash payments of interest totaling $3,455,407 and $1,855,270 were received on impaired loans in 2010 and 2009, representing the amount of interest income recorded during impairment.

Nonperforming loans are loans past due over 90 days and nonaccrual loans. Loans past due over 90 days and still on accrual were $1,245,234 and $3,030,649 at December 31, 2010 and 2009. Nonaccrual loans were $30,054,391 and $25,116,242 at December 31, 2010 and 2009.

The Company has allocated $2,630,866 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2010. The Company has committed to lend additional amounts totaling up to $994,855 to customers with outstanding loans that are classified as troubled debt restructurings.

The Banks have entered into loan transactions with their directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties was approximately $10,631,000 and $7,568,000 at December 31, 2010 and 2009.

NOTE 4. MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled approximately $227,071,000 and $276,510,000 during 2010 and 2009. The Company had commitments to originate $12,224,000 in loans at December 31, 2010, which it intends to sell after the loans are closed. The Company had approximately $8,668,000 and $7,383,000 in loans held for sale at December 31, 2010 and 2009.

Loans serviced for others, which are not reported as assets, totaled approximately $64,951,000 and $73,075,000 at December 31, 2010 and 2009.

Activity for capitalized mortgage servicing rights included in other assets during 2010 and 2009 was as follows:

	2010	2009
Servicing rights		
Beginning of year	**$ 229,018**	$ 218,491
Originated	**62,239**	108,444
Amortized to expense	**(62,258)**	(97,917)
End of year	**$ 228,999**	$ 229,018

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be approximately $263,000 at year end 2010 and 2009.

At December 31, 2010, the Company entered into a settlement with a mortgage investor which had been demanding repayment on 14 mortgage loans that the Company had sold to the investor. Compliance with loan origination guidelines and appraisal requirements was at issue. This dispute had been active for several years, and the Company made a $700,000 payment to the investor in return for release from any further buy back demands or potential penalties on all loans sold by the Company to the investor before 2009. The payment resulted in additional expense of approximately $200,000 in 2010, which is included in other expenses. The Company knows of no further material buy back requests from any other investors.

NOTE 5. OTHER REAL ESTATE OWNED

Activity in the valuation allowance was as follows:

	2010	2009
Beginning of year	**$ 3,333,000**	$ -
Additions charged to expense	**4,382,691**	5,626,820
Direct write-downs	**(2,097,167)**	(2,293,820)
End of year	**$ 5,618,524**	$ 3,333,000

Expenses related to foreclosed assets include:

	2010	2009
Net loss (gain) on sales and direct write-downs	**$ 492,188**	$ 2,293,820
Provision for valuation allowance	**4,382,691**	3,333,000
Operating expenses, net of rental income	**1,702,529**	884,886
	$ 6,577,408	$ 6,511,706

NOTE 6. PREMISES AND EQUIPMENT

Premises and equipment at December 31 are as follows:

	2010	2009
Land	$ **3,814,361**	$ 3,814,361
Buildings and improvements	**25,100,146**	25,092,951
Leasehold improvements	**24,735,051**	24,253,804
Furniture, fixtures and equipment	**34,454,602**	33,755,736
Construction in progress	**3,522,827**	925,276
Accumulated depreciation	**(44,263,152)**	(39,116,988)
	$ 47,363,835	$ 48,725,140

Depreciation and amortization expense amounted to $5,273,555 and $6,306,223 in 2010 and 2009.

Operating Leases: The Company leases its main office, 12 banking center locations and its mortgage and insurance center in addition to its land leases for four banking centers. The Company currently subleases a portion of its space to six tenants. Rent expense was approximately $4,830,000 and $4,644,000 in 2010 and 2009. Rent commitments under noncancelable operating leases, and certain renewal provisions, net of subleases, are as follows:

2011	$ 4,703,329
2012	4,857,338
2013	5,239,003
2014	5,322,968
2015	5,310,318
Thereafter	44,420,384
	$ 69,853,340

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

Goodwill was $15,004,524 at December 31, 2010 and 2009.

Impairment exists when a reporting unit's carrying amount of goodwill exceeds its fair value, which is determined through a two-step impairment test. Step 1 includes the determination of the carrying amount of the Company's single reporting unit, including the existing goodwill and other intangible assets, and estimating the fair value of the reporting unit. Management determined the fair value of the reporting unit and compared it to its carrying amount. If the carrying amount of the reporting unit had exceeded its fair value, management would have been required to perform a second step to the impairment test. Step 2 was not necessary in 2010.

Acquired intangible assets were as follows as of December 31:

	2010		2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationship intangibles	$ **4,923,564**	$ **2,911,416**	$ 4,923,564	$ 2,416,828

Aggregate amortization expense was $494,588 for 2010 and $518,230 for 2009.

Estimated amortization expense for each of the next five years is as follows:

2011	$ 494,588
2012	494,588
2013	413,968
2014	263,348
2015	263,348

NOTE 8. DEPOSITS

Time deposits of $100,000 or more were $522,142,119 and $432,301,328 at December 31, 2010 and 2009.

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

2011	$ 589,499,649
2012	108,552,805
2013	123,457,423
2014	16,016,835
2015	32,762,977
Thereafter	46,495
	$ 870,336,184

Deposits of directors and executive officers of the Banks and companies in which they have beneficial ownership were approximately $51,404,000 and $42,808,000 at December 31, 2010 and 2009.

NOTE 9. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

	2010	2009
Advance under Repo Based Advance program expiring January 2010, variable rate, 0.08% at December 31, 2009	**$ -**	$ 20,000,000
Maturities February 2010 through December 2027, fixed rates ranging from 1.74% to 8.05%, averaging 2.78% in 2010 and 3.16% in 2009	**17,190,034**	39,526,744
Total	**$ 17,190,034**	$ 59,526,744

Each advance is payable at its maturity date, with a prepayment penalty, except that the Repo Based Advance as of December 31, 2009 had no prepayment penalty. The advances were borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and first mortgage loans with an aggregate unpaid principal balance of approximately $225,002,000 and $236,066,000 at December 31, 2010 and 2009. Based on this collateral and the holding of Federal Home Loan Bank stock, the Banks are eligible to borrow up to a total of $147,544,016 at year end 2010.

Payment Information: Scheduled principal repayments associated with the advances over the next five years are as follows:

	FHLB Advances
2011	$ 583,073
2012	10,568,277
2013	664,725
2014	461,463
2015	2,333,946
Thereafter	2,578,550
	$ 17,190,034

Subordinated Debentures: In March 2009, Central Bancshares KY Statutory Trust III, a trust formed by the Company, closed a private placement offering of 22,600 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $23,278,000 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 $1,000, on or after March 31, 2014 at 100 percent of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 31, 2039. The subordinated debentures are also 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 $22,600,000 in trust preferred securities may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The trust preferred securities and subordinated debentures have a fixed rate of interest of 10.00%. The Company's investment in the common stock of the trust was $678,000 and is included in other assets.

In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $15,464,000 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 $1,000, on or after June 15, 2010 at 100 percent of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on June 15, 2035. The subordinated debentures are also 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 $15,000,000 in trust preferred securities may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%, which was 2.00% at year end 2010. The Company's investment in the common stock of the trust was $464,000 and is included in other assets.

The Company has an outstanding line of credit for $10,000,000 from a related party for the purpose of securing additional funds for capital infusion to its Subsidiaries or for debt service needs. As of December 31, 2010, the Company had not drawn upon this line. Terms of the line of credit include an interest rate of prime plus one half percent (3.75% at December 31, 2010) and monthly payments of interest only with the balance due at maturity on October 27, 2011. The line of credit is secured by 100 percent of the stock of Central Bank, FSB.

NOTE 10. FAIR VALUE

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

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

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

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

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

Investment Securities: The fair values of securities available for sale 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).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally 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 appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Non-recurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities 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 (2010):			
Available for sale securities:			
U.S. Treasury securities	$ -	$ 21,003,030	$ -
U.S. government agency securities	-	57,654,682	-
Obligations of states and political subdivisions	-	1,385,915	-
Agency mortgage-backed securities: Residential	-	28,300,745	-
Corporate bond	-	5,000,000	-
Assets (2009):			
Available for sale securities:			
U.S. Treasury securities	$ -	$ 21,990,275	$ -
U.S. government agency securities	-	81,427,876	-
Obligations of states and political subdivisions	-	1,475,120	-
Agency mortgage-backed securities: Residential	-	6,166,467	-

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities 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 (2010):			
Impaired loans			
Commercial	$ -	$ -	$ **70,637,143**
Residential mortgage	-	-	**8,894,364**
Installment	-	-	**315,560**
Credit cards	-	-	**1,454**
Other real estate owned	-	-	**24,083,659**
Assets (2009):			
Impaired loans			
Commercial	$ -	$ -	$ 44,968,163
Residential mortgage	-	-	10,891,038
Installment	-	-	22,814
Credit cards	-	-	-
Other real estate owned	-	-	21,805,408

The following represents impairment charges recognized during the period:

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $88,247,566, with a valuation allowance of $8,399,045 at December 31, 2010, resulting in $5,340,926 of additional provision for loan losses for the year ended December 31, 2010. At December 31, 2009, impaired loans had a principal balance of $63,620,715 with a valuation allowance of $7,738,700, resulting in an additional provision for loan losses of $2,222,950 for the year ended December 31, 2009.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $24,083,659, which is made up of the outstanding balance of $29,702,183, net of a valuation allowance of $5,618,524 at December 31, 2010, resulting in an additional provision of $4,382,691 for the year ended December 31, 2010. At December 31, 2009, other real estate owned had a net carrying amount of $21,805,408, made up of the outstanding balance of $25,138,408, net of a valuation allowance of $3,333,000, resulting in a write-down of 5,626,820 for the year ended December 31, 2009.

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

	2010		2009	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ **166,907,023**	$ **166,907,023**	$ 49,627,018	$ 49,627,018
Securities available for sale	**113,344,372**	**113,344,372**	111,059,738	111,059,738
Securities held to maturity	**18,075,663**	**18,465,000**	27,125,211	28,147,000
Loans, net	**1,738,513,426**	**1,750,062,000**	1,709,634,630	1,713,924,000
Loans held for sale	**8,667,811**	**8,725,000**	7,383,118	7,457,000
Federal Home Loan Bank stock	**7,959,300**	**not applicable**	7,959,300	not applicable
Interest receivable	**7,040,863**	**7,040,863**	6,901,590	6,901,590
Financial liabilities				
Deposits	$ **1,903,788,824**	$ **1,907,835,000**	$ 1,705,582,952	$ 1,711,394,000
Federal funds purchased and repurchase agreements	**66,305,562**	**66,305,562**	90,114,080	90,114,080
Federal Home Loan Bank advances	**17,190,034**	**17,766,000**	59,526,744	60,490,000
Subordinated debentures	**38,742,000**	**33,882,000**	38,742,000	33,882,000
Interest payable	**1,094,944**	**1,094,944**	1,326,099	1,326,099

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

Cash and cash equivalents and interest receivable and payable are presented at their carrying value, which is a reasonable estimate of their fair value. Fair value for held-to-maturity securities is based on quoted market prices and prices obtained from independent pricing services. The fair value of loans is estimated by discounting the future cash flows using market rates currently offered for loans of similar remaining maturities. It is not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability.

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

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

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2010 and 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 11. INCOME TAXES

The provision for income taxes consists of the following:

	2010	2009
Current	$ **400,000**	$ 392,032
Deferred	**(3,567,142)**	(3,820,613)
	$ **(3,167,142)**	$ (3,428,581)

The tax provision is less than that obtained by using the statutory federal income tax rates due to tax credits generated by Central Bank & Trust Co.'s limited partnership interest in 15 low-income housing projects, two historic renovation projects, a New Market Tax Credit project, ownership of Qualified Zone Academy Bonds, and tax exempt interest income totaling approximately $5,568,000 and $4,073,000 for 2010 and 2009.

Deferred tax assets and liabilities relate principally to unrealized losses on securities available for sale, adjustment for pension obligations, premises and equipment, mortgage servicing rights, the allowance for credit losses, Federal Home Loan Bank stock dividends, fair value adjustments, prepaid pension benefits and net operating loss carryforwards generated by Central Bank of Jefferson County prior to the Company's acquisition. At December 31, 2010, the Company had net operating loss carryforwards of $4,246,798 which expire in 2025. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. The utilization of the net operating loss carryforwards is limited annually under Internal Revenue Code Section 382. The Company's deferred tax assets and deferred tax liabilities at December 31 are as follows:

	2010	2009
Deferred tax assets	**$ 20,397,658**	$ 17,230,516
Deferred tax liabilities	**(7,802,474)**	(7,802,474)
	$ 12,595,184	$ 9,428,042

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

The Company has no unrecognized tax benefits as of December 31, 2010 and 2009. The Company does not expect the total amount of unrecognized tax benefits to significantly increase 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, 2010 and 2009. The Company and its subsidiaries file a consolidated U.S. Corporation federal income tax return and the Company and its non-bank subsidiaries file Kentucky Corporation income tax returns. The federal return is subject to examination by taxing authorities for all years after 2006 and the Kentucky returns are subject to examination by taxing authorities for all years after 2005.

NOTE 12. RETIREMENT PLANS

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

The Company also maintains a non-qualified supplemental pension plan covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. The benefit obligation related to this unfunded plan was $2,099,759 and $2,078,969 at December 31, 2010 and 2009.

During 2009, the Company curtailed these defined benefit plans, fully vesting and freezing benefits for all employees. The Company expects to make no contributions to the plans in 2011.

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

	December 31 2010	2009
Benefit obligation	**$ (24,719,611)**	$ (21,884,186)
Fair value of plan assets	**26,103,868**	26,276,676
Funded status	**$ 1,384,257**	$ 4,392,490

	2010	2009
Employer contributions	**$ -**	$ 1,000,000
Benefits paid	**2,575,199**	882,307

The following benefit payments are expected:

2011	$ 205,000
2012	406,000
2013	531,000
2014	628,000
2015	846,000
2016-2020	8,908,0000

Net periodic pension cost for 2010 and 2009 for the Company's defined benefit pension plans included the following components:

	2010	2009
Service cost – benefits earned during the period	**$ -**	$ 2,020,402
Interest cost on projected benefit obligation	**1,298,185**	1,775,450
Expected return on plan assets	**(2,444,316)**	(3,948,207)
Net amortization and deferral of prior service costs	**1,628,757**	3,318,855
Curtailment loss	**-**	10,144
Net periodic pension cost	**$ 482,626**	$ 3,176,644

The weighted average assumptions used to determine net periodic pension cost were a discount rate of 5 percent for 2010 and 6 percent for 2009 and an expected return on plan assets of 5 percent for 2010 and 7 percent for 2009.

Plan Assets: The Company's overall investment strategy is to achieve a mix of long-term growth and fixed income investments. The target allocations for plan assets are shown in the table below. Equity securities primarily include investments in mutual funds and blue chip stocks. Debt securities include corporate notes, agency securities, and municipal securities.

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

The Company's pension plan asset allocation at year end 2010 and 2009, target allocation for 2011, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 2011	Percentage of Plan Assets at Year End 2010	2009	Weighted-Average Expected Long-Term Rate of Return
Equity securities	**50-70%**	**62.2%**	71.3%	4.91%
Debt securities	**25-40**	**37.8**	28.7	5.15
Total		**100.0%**	100.0%	5.00%

Fair Value of Plan Assets: Fair value is the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Equity and Debt Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). 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). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

The fair value of the plan assets at December 31, 2010 and 2009, by asset category, is as follows

(Dollars in thousands):	Carrying Value	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)
2010				
Plan assets				
Equity securities	$ 16,313	$ 16,313	$ -	$ -
Debt securities	9,867	2,018	7,849	-
Total plan assets	$ 26,180	$ 18,331	$ 7,849	$ -
2009				
Plan assets				
Equity securities	$ 21,013	$ 21,013	$ -	$ -
Debt securities	8,458	3,129	5,329	-
Total plan assets	$ 29,471	$ 24,142	$ 5,329	$ -

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $24,107 and $(44,328) in 2010 and 2009. The accrued liability associated with these plans of $472,089 and $447,982 at December 31, 2010 and 2009 is included in other liabilities.

Employee Stock Ownership Plan: The Company maintains an employee stock ownership plan (the "ESOP"). Contributions are determined annually by the Board of Directors in amounts not to exceed 15 percent of the total compensation of all participants. ESOP expense was $414,275 and $1,134,178 in 2010 and 2009. As of December 31, 2010 and 2009, a total of 35,032 and 34,417 shares with a fair value of approximately $13,347,000 and $13,767,000 were allocated to active participants as well as $260 and $81,765 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, 2010, is the fair value of all ESOP shares distributed in 2010 and shares to be distributed in 2011 to participants who had terminated as of year end 2010. The Company has a right of first refusal with respect to distributed ESOP shares, which requires former participants to offer to sell their shares to the Company before selling them to another purchaser.

401(k) Retirement Plan: The Company has a 401(k) retirement plan. The Company determines annually the rate at which employee contributions will be matched and the maximum amount of employee contributions which will be matched. The Company made matching contributions totaling $1,395,271 and $499,502 in 2010 and 2009.

NOTE 13. REGULATORY MATTERS

The Company is a bank holding company and is subject to regulation by the Federal Reserve. Central Bank & Trust Co., Salt Lick Deposit Bank, and Central Bank of Jefferson County, Inc. operate under state bank charters and are subject to regulation by the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation. Central Bank, FSB operates as a federally chartered savings bank and is subject to regulation by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of the Company's and the Banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Banks' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. As of December 31, 2010, Central Bank of Jefferson County, Inc., is required under a regulatory agreement to maintain a Tier I capital to average assets ratio of 8.00 percent. The Bank was in compliance as of that date.

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.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2010 and 2009, that the Company and the Banks meet all capital adequacy requirements to which they are subject. Notification from the Federal Deposit Insurance Corporation as of December 31, 2010, categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institutions' category.

Actual and required capital amounts and ratios 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, 2010:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	**$199,733,102**	**10.9%**	**$146,591,721**	**8.0%**	**$ 183,239,652**	**10.0%**
Central Bank & Trust Co.	**153,530,236**	**10.5**	**117,468,128**	**8.0**	**146,835,160**	**10.0**
Central Bank, FSB	**19,417,676**	**13.0**	**11,982,580**	**8.0**	**14,978,225**	**10.0**
Central Bank of Jefferson County, Inc.	**19,050,152**	**10.9**	**12,549,332**	**8.0**	**15,686,665**	**10.0**
Salt Lick Deposit Bank	**7,602,805**	**12.9**	**4,710,489**	**8.0**	**5,888,111**	**10.0**
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	**$176,930,127**	**9.7%**	**$ 73,295,861**	**4.0%**	**$ 109,943,791**	**6.0%**
Central Bank & Trust Co.	**136,535,363**	**9.3**	**58,734,064**	**4.0**	**88,101,096**	**6.0**
Central Bank, FSB	**17,527,764**	**11.7**	**5,991,290**	**4.0**	**8,986,935**	**6.0**
Central Bank of Jefferson County, Inc.	**15,296,862**	**9.8**	**6,274,666**	**4.0**	**9,411,999**	**6.0**
Salt Lick Deposit Bank	**6,866,566**	**11.7**	**2,355,244**	**4.0**	**3,532,867**	**6.0**
Tier I Capital (to Average Assets):						
Consolidated	**$176,930,127**	**8.3%**	**$ 85,041,890**	**4.0%**	**$ 106,302,363**	**5.0%**
Central Bank & Trust Co.	**136,535,363**	**7.9**	**68,913,360**	**4.0**	**86,141,700**	**5.0**
Central Bank, FSB	**17,527,764**	**9.8**	**7,163,858**	**4.0**	**8,954,823**	**5.0**
* Central Bank of Jefferson County, Inc.	**15,296,862**	**8.3**	**7,404,769**	**4.0**	**9,255,961**	**5.0**
Salt Lick Deposit Bank	**6,866,566**	**8.4**	**3,283,036**	**4.0**	**4,103,795**	**5.0**

*At December 31, 2010, Central Bank of Jefferson County, Inc., is required to maintain a Tier I capital to average assets ratio of 8.0%.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2009:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 192,110,618	10.7%	$ 143,449,938	8.0%	$ 179,312,423	10.0%
Central Bank & Trust Co.	145,556,455	10.0	116,195,017	8.0	145,243,771	10.0
Central Bank, FSB	19,054,362	12.9	11,809,091	8.0	14,761,364	10.0
Central Bank of Jefferson County, Inc.	17,436,504	11.7	11,947,148	8.0	14,933,935	10.0
Salt Lick Deposit Bank	7,269,236	14.8	3,936,889	8.0	4,921,111	10.0
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$ 171,364,096	9.6%	$ 71,724,969	4.0%	$ 107,587,454	6.0%
Central Bank & Trust Co.	129,952,500	9.0	58,097,508	4.0	87,146,263	6.0
Central Bank, FSB	17,205,303	11.7	5,904,546	4.0	8,856,819	6.0
Central Bank of Jefferson County, Inc.	15,567,942	10.4	5,973,574	4.0	8,960,361	6.0
Salt Lick Deposit Bank	6,649,737	13.5	1,968,444	4.0	2,952,667	6.0
Tier I Capital (to Average Assets):						
Consolidated	$ 171,364,096	8.8%	$ 77,838,820	4.0%	$ 97,298,524	5.0%
Central Bank & Trust Co.	129,952,500	8.4	62,081,374	4.0	77,601,717	5.0
Central Bank, FSB	17,205,303	9.9	6,947,771	4.0	8,684,714	5.0
* Central Bank of Jefferson County, Inc.	15,567,942	8.7	7,166,470	4.0	8,958,088	5.0
* Salt Lick Deposit Bank	6,649,737	8.0	3,345,280	4.0	4,181,601	5.0

*At December 31, 2009, Central Bank of Jefferson County, Inc. and Salt Lick Deposit Bank are required to maintain a Tier I capital to average assets ratio of 8.0%.

As state-chartered banks, Central Bank & Trust Co., Salt Lick Deposit Bank, and Central Bank of Jefferson County, Inc. are subject to the dividend restrictions set forth by Kentucky Revised Statutes. Under such restrictions, state-chartered banks may not pay dividends in excess of year-to-date net income combined with the preceding two years' undistributed net income or loss unless approval from the Kentucky Commissioner of Banking is obtained. Central Bank of Jefferson County, Inc., is restricted from declaring dividends without permission of the regulatory authorities.

Office of Thrift Supervision ("OTS") regulations limit capital distributions by savings institutions. The least restriction is placed on "tier 1" institutions, defined as well capitalized and with favorable qualitative OTS examination ratings, which can make distributions in a year up to one-half the capital in excess of the most stringent capital requirement at the beginning of the year plus net income to date. Other institutions

have more stringent requirements, the most restrictive being prior OTS approval of any capital distribution. Central Bank, FSB is a tier 1 institution.

Under the most restrictive dividend limitations described, the Banks could pay dividends in 2011 of approximately $13,334,000 plus any 2011 earnings retained through the date of the dividend declaration.

The Qualified Thrift Lender test requires at least 65 percent of assets be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, Federal Home Loan Bank advances and dividends, or Central Bank, FSB must convert to a commercial bank charter. Management believes that this test is met.

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

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

At December 31, 2010 and 2009, the Banks have the following financial instruments:

	2010	2009
Standby letters of credit	**$ 36,441,000**	$ 22,341,000
Commitments to extend credit	**$ 155,239,000**	$ 228,022,000
Unused lines of credit	**$ 238,230,000**	$ 237,134,000

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

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

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

NOTE 15. OTHER COMPREHENSIVE INCOME

Other comprehensive income (loss) components and related tax effects were as follows:

	2010	2009
Unrealized holding gains and losses on securities available for sale	**$ 1,150**	$ (197,068)
Tax effect	**(402)**	68,974
Net of tax amount	**748**	(128,094)
Net gain (loss) and prior service cost arising during the year on employee pension plan, and impact of curtailment	**(2,527,921)**	9,738,305
Tax effect	**884,773**	(3,408,407)
Net of tax amount	**(1,643,148)**	(6,329,898)
Other comprehensive income (loss)	**$ (1,642,400)**	$ 6,201,804

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	Balance at December 31, 2009	**Current Period Change**	**Balance at December 31, 2010**
Unrealized gains (losses) on securities available for sale	$ 287,339	$ 748	$ 288,087
Unrealized loss on pension benefits	(2,273,382)	(1,643,148)	(3,916,530)
Total	$ (1,986,043)	$ (1,642,400)	$ (3,628,443)

NOTE 16 – SUBSEQUENT EVENT

The Company merged the operations of Central Bank, FSB, into Central Bank & Trust Co. on January 18, 2011. The merger will allow for some operational efficiencies, but will have no impact upon the service area of the Company.

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