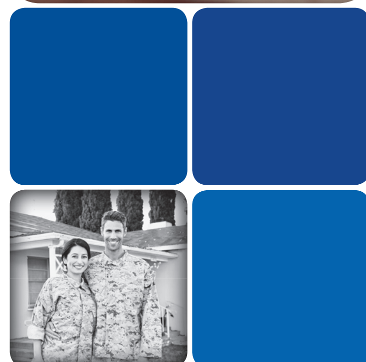
2014 ANNUAL REPORT

PEOPLE HELPING PEOPLE CREATES A BANK THAT HELPS COMMUNITIES.

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



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

For the second year in a row, Central Bank was recognized by *American Banker* magazine as one of the "Best Banks to Work For" in 2014. Only 40 banks in the country were awarded this honor. Banks were evaluated on workplace policies, practices, demographics and employee surveys to assess the experiences and attitudes of individual employees, according to *American Banker*.

MISSION STATEMENT

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

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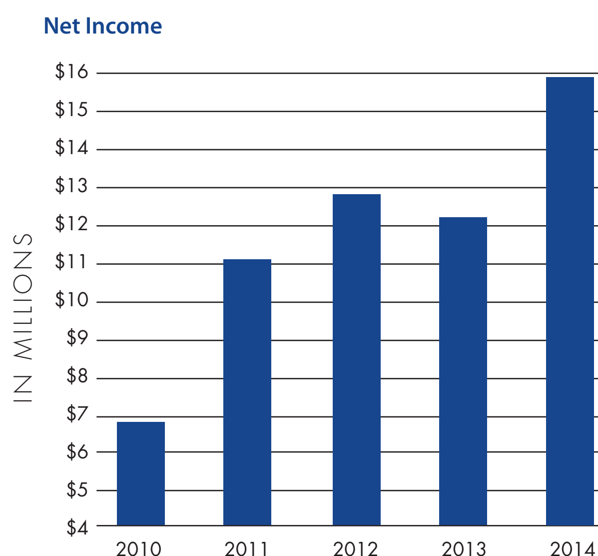
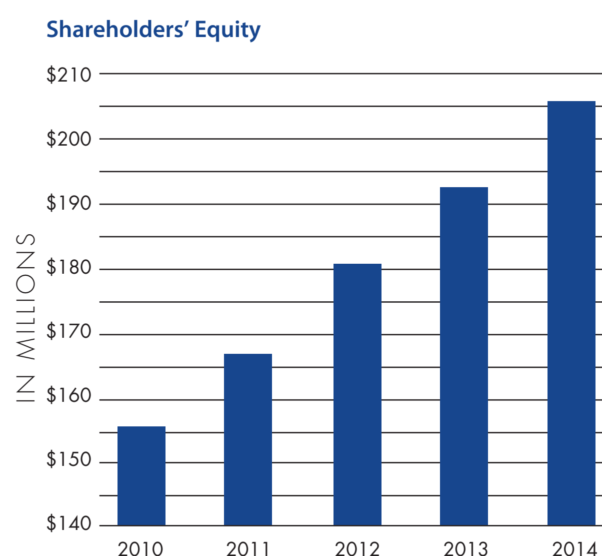
Refer to Marketing for copies: Central Bank, 300 West Vine Street, Lexington, KY 40507

FINANCIAL HIGHLIGHTS

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

	2014	2013	2012	2011	2010
RESULTS OF OPERATIONS:					
Net income	$ 15,950	$ 12,151	$ 12,881	$ 11,017	$ 6,908
Net income per share	45.84	34.92	37.02	31.67	19.85
Cash dividends per share	1.00	0.00	0.00	0.00	0.00
Book value per share at year end	590.45	554.11	518.24	479.72	449.08
AT DECEMBER 31:					
Assets	$ 2,107,664	$ 2,092,494	$ 2,175,447	$ 2,145,012	$ 2,192,013
Earning assets	1,969,362	1,946,193	2,000,062	1,956,857	2,019,276
Loans, net	1,624,108	1,599,404	1,645,063	1,644,350	1,747,181
Deposits	1,765,510	1,754,833	1,876,715	1,858,077	1,903,789
Shareholders' equity	205,430	192,788	180,308	166,906	156,244
AVERAGES:					
Assets	$ 2,083,948	$ 2,108,671	$ 2,142,606	$ 2,131,380	$ 2,145,488
Earning assets	1,940,195	1,955,785	1,970,267	1,954,373	1,963,138
Loans, net	1,611,568	1,565,460	1,626,098	1,683,941	1,732,508
Deposits	1,749,203	1,781,992	1,852,678	1,847,550	1,812,589
Shareholders' equity	200,720	186,890	174,441	162,532	155,349
PERFORMANCE RATIOS:					
Return on average assets	0.77%	0.58%	0.60%	0.52%	0.32%
Return on average shareholders' equity	7.95%	6.50%	7.38%	6.78%	4.45%
Average shareholders' equity to average assets	9.63%	8.86%	8.14%	7.63%	7.24%
Dividend payout ratio	2.18%	0.00%	0.00%	0.00%	0.00%
Net interest margin (tax equivalent)	3.85%	3.64%	3.74%	3.97%	3.85%
CAPITAL RATIOS:					
Total capital to risk-weighted assets	13.4%	13.4%	12.4%	11.8%	10.9%
Tier I capital to risk-weighted assets	12.2%	12.1%	11.2%	10.6%	9.7%
Tier I capital to average assets	10.2%	10.0%	9.3%	8.8%	8.3%





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

CELEBRATE KENTUCKY WALL

Patients and visitors from all over the Commonwealth come to the University of Kentucky Albert B. Chandler Hospital. To help reduce their stress and anxiety, it was important to give them a small picture of home.

Vice Chairman Joan Kincaid and Central Bank helped fund the "Celebrate Kentucky" wall, an exhibit that is part of UK's Arts in Healthcare program that helps promote a healing environment with art. The combined commitment was for $1 million.

According to Jackie Hamilton, director of the Arts in Healthcare program, "We wanted to include all the regions of Kentucky in the images so that anybody who came from any county or any little town would see something that they recognize and that makes them feel like they're part of their community."

Scan the QR code to see a video highlighting the wall.

UNIVERSITY OF KENTUCKY-UNIVERSITY OF LOUISVILLE EMBA PROGRAM

The Commonwealth's two preeminent public universities, the University of Kentucky and the University of Louisville, forged a partnership to enhance the knowledge and practices of area business executives. The Executive MBA is a unique program that draws upon the experience and expertise of outstanding faculties from both schools.

Central Bank partnered with the two universities by making a $20,000 commitment that is used to sponsor events in both Lexington and Louisville throughout the year.

GATTON COLLEGE OF BUSINESS AND ECONOMICS AUDITORIUM

Joan D. Kincaid, vice chairman of the Central Bank Board of Directors, and Central Bank partnered to make a $6 million gift to fund a new auditorium in the Gatton College of Business and Economics at the University of Kentucky. The new auditorium will help provide business education for future generations of Kentucky students and entrepreneurs.

THE CATALYTIC FUND

Central Bank is an investor in the Catalytic Fund, which is a private sector, not-for-profit organization dedicated to improving our Northern Kentucky communities. Its mission is to accelerate the region's urban renaissance with targeted investments in real estate and redevelopment projects throughout urban neighborhoods.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC. (FAHE)

Central Bank has been a long supporter of FAHE, a network organization that creates life-changing opportunities for people throughout Appalachia. In 2014, Central Bank assisted with a program that helped low-income families and individuals purchase homes that have been foreclosed and abandoned.

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

During the past year, Central Bank leveraged improving economic conditions and growing consumer confidence to assist the financial needs of thousands of customers. At the same time, our communities were pursuing opportunities that led to higher employment and business activity to benefit their citizens. As the leading community bank in Central Kentucky, we experienced renewed interest in core deposits and multiple forms of borrowing by consumers and businesses. In addition, these traditional products created expanded relationship opportunities that helped our Investment, Insurance and Wealth Management groups accomplish record revenues.

With the economy showing promising signs of improvement, Central and Northern Kentucky are experiencing strong growth. Our Jefferson County market has been buoyed by multiple construction and development projects. As the third-largest community banking institution in our markets, we believe it is our responsibility to support the economic vitality of these areas we serve. And as residents of those same areas, we have a vested interest in seeing our efforts succeed for all our citizens.

We have been hard at work both in the community and in the digital space where our customers increasingly transact their business. Whether in branch or online, Central Bankers will interact with their customers and will always go above and beyond expectations to ensure they receive the best service available.

PERFORMANCE

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

- Net income rose sharply, by 31.26 percent to $15,950,000 or $45.84 per share. In 2013 earnings were $12,151,000 or $34.92 per share.
- Return on average assets climbed to 0.77 percent, compared to 0.58 percent in 2013.
- Deposits saw a modest increase of one percent, ending the year with $1.76 billion.
- Loans increased by one percent, ending the year at $1.62 billion.
- Shareholders' equity grew by seven percent this year to $205 million, which underscores our commitment to a robust future for our Company.

PRODUCTS

Our dedicated Operations and Technology Services teams have been working to upgrade our eBanking systems to provide our customers with access to the most secure services available. New online banking and mobile banking products enabled Central Bank customers to have the benefit of unparalleled customer service, along with technology that rivals that of the largest banks in the country. I applaud the efforts of our dedicated eBanking team that worked on this project for more than a year. Customers have moved swiftly to adopt the new features, especially with the debut of mobile deposit. Point and click technology is transforming how consumer and small business customers deposit checks into their accounts at the Bank. The volume has far exceeded our expectations.

Encouraged by that success, plans are underway to offer mobile banking for our largest corporate customers to utilize our cash management services. And 2015 will bring new credit card features – including a new online Card Manager tool for consumers – and expanded rewards for consumer and business customers. We have been encouraged by the rapid adoption of the Financial Management feature in Central***NET***. Presenting a simple, unified view of a customer's entire financial picture, even those accounts at other financial institutions, Financial Management allows users to see everything at a single glance, create budgets and track spending.

Upgrades are in store for Central***NET*** later this year. Customers are expressing a preference for all the features it provides but want it presented on the screen in a simplified manner. Some call the new presentation the "tablet approach."

Efforts to serve more of our customers' growing needs have been led by our Wealth Management, Insurance and Investment staff, and we are very encouraged by their success. Growing use of technology – including financial planning tools – and Central Bank's famous outstanding personal service are creating multiple growth opportunities. This has allowed us to expand the scope of our brand beyond banking to include these very important services.

LOOKING FORWARD TO 2015

Central Bank is in a strategically enviable position to continue growing in 2015. With a renewed sense of purpose and community, we are with our customers every step of the way. Central Bank has always been proud to be such an active member of our communities. We have helped our customers, business and personal, during the financial crisis, and we can now proudly walk with them into a brighter future. We feel that Central Bankers and customers alike deserve the best we can offer, so we do the best we can to offer expert advice and take a vested interest in those around us.

Our focus remains firmly set on the best customer service offered by any bank, community or otherwise. Not only will we offer unparalleled customer service, as we always have, we will compete with even the largest banks in terms of innovation and mobile availability. We realize the average person's lifestyle is changing rapidly, and we promise to be available to our customers, both in person and in whichever digital platform they prefer.

RETIREES/HONOREES

During 2014 four long-term employees completed their employment to reach well-earned retirements. David Turner (Wealth Management, 20 years), Patricia White (Retail Banking, 12 years), Terry Fink (Operations, 10 years) and Danny Abner (Loan Review, nine years) were dedicated Central Bankers who served our Bank and their customers with distinction. We congratulate them on their achievements.

We are honoring the past service of Northern Kentucky Market President Merwin Grayson. He has been with us since we opened that market and will celebrate his 10-year anniversary with the Bank this summer. Mer has asked to step into a new role, Chairman of the Board of the Northern Kentucky Advisory Board, where his leadership and wisdom will be critical to our success. A new Market President, Jim Uebel, has just joined Central Bank, bringing a wealth of commercial lending and community banking experience in that market to our organization. We welcome Jim and are excited about his commitment to us.

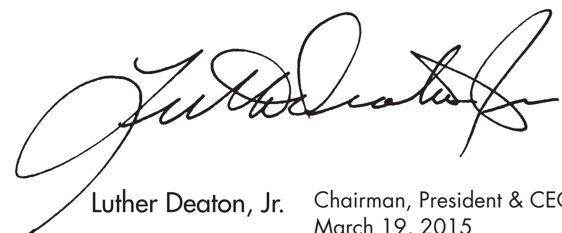
The Jefferson County market is also transitioning to new leadership. James Clay Smith, the President of Central Bank of Jefferson County, has relocated to North Carolina to be near family. We appreciate his service that led us to the success we enjoy today. Ernie Dolihite has served as Interim President during the first quarter of 2015. The Board has selected Mark Wheeler to join our organization as the new President in April. Mark brings 33 years of commercial banking experience to our Company, and we are excited about the leadership and growth opportunties he will be providing.

WITH APPRECIATION

As with every year, the support and guidance of our directors are essential to our success. Their collective experience and expertise are invaluable, and we could not be successful without them.

As the economic recovery continues, we can rest assured that our Bank is in the hands of a competent and caring staff. We call them Central Bankers, and they are the backbone of this Company. I am so grateful to them for the dedicated service they provide to one another and to our customers. We are honored to be recognized as a Best Bank to Work For in 2014 by the *American Banker* magazine.

Most importantly, I would like to thank our customers. Their unwavering loyalty makes Central Bank the trusted community bank that is recognized statewide. They consistently recognize our tireless efforts to serve them, and for that we are eternally grateful. I am looking forward to even better years to come for our Bank, and I'm proud to have such an outstanding group of employees and wonderful customers as associates and friends.



Luther Deaton, Jr.

Chairman, President & CEO
March 19, 2015

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

Central Bancshares, Inc. (the "Company"), a bank holding company located in Lexington, Ky., is the parent company of Central Bank & Trust Co. and Central Bank of Jefferson County, Inc. At December 31, 2014, the Company had 26 full-service banking centers located in Boone, Clark, Fayette, Jefferson, Jessamine, Kenton, Madison and Scott counties, a full-service brokerage business and a full-service insurance agency. Effective January 1, 2013, the Company sold Salt Lick Deposit Bank, a bank subsidiary whose financial performance is included in historical periods shown for this report prior to that date.

RESULTS OF OPERATIONS

The Company reported net income of $15.95 million for 2014, or $45.84 per share compared to $12.15 million for 2013, or $34.92 per share. Return on average equity was 7.95 percent and return on average assets was 0.77 percent for 2014, compared with 6.50 percent and 0.58 percent for 2013. During 2014, net interest income increased by $3.2 million, provision for loan losses decreased by $5.6 million and non-interest expense decreased by $442,000, which more than offset a decrease in non-interest income of $4.2 million.

Net interest income improved primarily as a result of lower volume and rates paid on deposits and the reduction of $13.2 million in subordinated debentures in March 2014 as the Company used existing cash to pay off this higher rate debt. Provision for loan losses declined mainly due to the decline in delinquent loans, the decline in classified loans and lower net charge-offs during 2014. Nonperforming asset levels also improved in 2014, primarily as a result of the decline in other real estate owned from $13.2 million at December 31, 2013 to $10.3 million at December 31, 2014. During 2014, the Company added $7.7 million to other real estate owned; however, the Company also reduced other real estate owned through sales of $6.5 million and net losses on sales or write-downs of other real estate owned of $4.0 million.

NET INTEREST INCOME

Net interest income in 2014 was $73.4 million compared to $70.2 million in 2013, an increase of 4.58 percent, mainly due to lower interest expense. Net interest margin, which represents tax equivalent net interest income divided by average interest-earning assets, increased by 21 basis points from 3.64 percent in 2013 to 3.85 percent in 2014. For computational purposes, non-accrual loans are included in interest-earning assets.

During 2014, the tax equivalent rate on interest-earning assets increased by four basis points from 4.20 percent for 2013 to 4.24 percent for 2014 as average interest-earning assets declined by $18.5 million. Average loans increased $43.2 million and average securities increased $6.5 million, while average federal funds sold decreased by $68.0 million. Thus, assets earning lower rates – such as federal funds sold – declined, while assets earning higher rates – such as loans and securities – increased, which resulted in net interest income remaining relatively flat year over year. Gross loans outstanding averaged $1.63 billion for 2014, an increase of 2.71 percent from $1.59 billion for 2013, while the average rate on loans declined from 5.05 percent in 2013 to 4.91 percent in 2014. Competition for loans and the continuing low level in market rates continued to be a challenge in 2014.

The securities portfolio averaged $247.2 million for 2014 and had an average tax equivalent rate of 1.01 percent. This compares to an average of $240.6 million for 2013, and an average tax equivalent rate of 0.94 percent. The yield curve continued to be relatively flat for 2014 but did exhibit some vitality at points during the year. Overall liquidity levels remained strong in 2014, and management continued to seek out the appropriate balance between the safety of higher liquidity levels, and its corresponding lower rate, versus the interest rate risk inherent in obtaining a higher rate for a longer-term investment.

While the average rate on interest-earning assets increased four basis points from 2013 to 2014, the cost of interest-bearing liabilities declined 20 basis points over the same period. Lackluster overall loan demand in conjunction with industrywide increases in the availability of deposits continued to ease competitive pressure to acquire funding. The Company was able to lower its cost on interest-bearing deposit accounts from an average of 0.61 percent in 2013 to 0.45 percent in 2014. This was accomplished primarily in the certificate of deposit products as customers migrated away from this traditionally term-based deposit into the higher liquid interest-bearing transaction and non-interest bearing products. The short-term borrowing volume remained relatively flat, and the average rate on short-term borrowings remained at 0.10 percent for 2014 and 2013.

In addition, the average balance and rate of long-term borrowings, consisting of Federal Home Loan Bank advances and subordinated debentures, declined from $40.6 million in 2013 to $30.5 million in 2014. As of December 31, 2014, the Company had $25.5 million of subordinated debentures compared to $38.7 million at December 31, 2013, of which $10.1 million were issued in 2009 with a fixed interest rate of 10.0 percent. The Company redeemed $13.2 million of the high-rate debt on March 31, 2014, and plans to retire an additional portion of this debt during 2015. The Company also has $15.5 million in subordinated debt outstanding which has a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) and 1.75 percent, which was 2.00 percent at year-end 2014. The average

NET INTEREST MARGIN ANALYSIS
(in thousands)

	2014			2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets						
Loans (TE)	$ 1,634,480	$ 80,187	4.91%	$ 1,591,325	$ 80,377	5.05%
Federal funds sold	74,655	188	0.25%	142,641	391	0.27%
Federal Home Loan Bank stock	6,796	275	4.05%	7,051	295	4.18%
Securities (TE)	247,176	2,501	1.01%	240,634	2,255	0.94%
Total interest-earning assets (TE)	$ 1,963,107	83,151	4.24%	$ 1,981,651	83,318	4.20%
Interest-bearing liabilities						
Deposits						
NOW accounts	$ 274,219	391	0.14%	$ 265,241	413	0.16%
Savings deposits	97,522	68	0.07%	85,961	71	0.08%
Money market deposits	409,129	726	0.18%	427,594	912	0.21%
Time deposits	494,073	4,503	0.91%	585,758	6,884	1.18%
Total deposits	1,274,943	5,688	0.45%	1,364,554	8,280	0.61%
Short-term borrowings	88,417	89	0.10%	87,163	89	0.10%
Long-term borrowings	30,476	1,726	5.66%	40,580	2,743	6.76%
Total interest-bearing liabilities	$ 1,393,836	7,503	0.54%	$ 1,492,297	11,112	0.74%
NET INTEREST MARGIN (TE)		$ 75,648	3.85%		$ 72,206	3.64%

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

rate on long-term borrowings declined from 6.76 percent to 5.66 percent from 2014 to 2013, largely in response to the repayment of the higher rate subordinated debt.

The Company's average loan-to-deposit ratio increased from 89.30 percent in 2013 to 93.44 percent in 2014 which reflects management's overall strategy to manage the balance sheet and liquidity position, while also maintaining strong capital levels and maximizing earnings.

The table above reflects information regarding the Company's average balances, interest income or expense, and average rates by each major balance sheet category for the years ended December 31, 2014 and 2013.

The table below reflects the changes in net interest income in 2014 and 2013 due to changes in rates and volumes computed on a tax-equivalent basis.

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS
(in thousands)

	2014/2013			2013/2012		
		Increase/Decrease Due To			Increase/Decrease Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ (190)	$ (2,309)	$ 2,119	$ (7,631)	$ (4,408)	$ (3,223)
Federal funds sold	(203)	(33)	(170)	(54)	43	(97)
Federal Home Loan Bank stock	(20)	(10)	(10)	(59)	(21)	(38)
Securities	246	180	66	872	93	779
Total interest income	(167)	(2,172)	2,005	(6,872)	(4,293)	(2,579)
Interest expense						
Deposits						
NOW accounts	(22)	(35)	13	(123)	(156)	33
Savings deposits	(3)	(11)	8	(4)	(12)	8
Money market deposits	(186)	(153)	(33)	(451)	(469)	18
Time deposits	(2,381)	(1,547)	(834)	(3,179)	51	(3,230)
Short-term borrowings	0	0	0	38	0	38
Long-term borrowings	(1,017)	(445)	(572)	(360)	(863)	503
Total interest expense	(3,609)	(2,191)	(1,418)	(4,079)	(1,449)	(2,630)
Net interest income	$ 3,442	$ 19	$ 3,423	$ (2,793)	$ (2,844)	$ 51

NON-INTEREST INCOME

Total non-interest income was $31.5 million in 2014, a decrease of $4.2 million from 2013. Mortgage banking income and fee income were challenged in 2014 as secondary mortgage activity declined industrywide and service charges on deposits continued to adjust to recent consumer protection legislation. In addition, net losses on sales and write-downs of other real estate properties were higher in 2014 as properties were sold and fair values on certain properties declined.

The Company generated $5.8 million in fees from its trust services during 2014, an increase of $439,000 from 2013, or 8.19 percent. At year-end 2014, total assets under management in the Trust Department stood at $1.3 billion, an increase of $117.8 million from $1.2 billion at year-end 2013.

Insurance commissions earned through Central Insurance Services, Inc., reached record levels during 2014 at $3.8 million versus the 2013 level of $3.3 million, representing a 12.72 percent increase. In 2014 Central Investment Center, Inc., generated revenue of $2.3 million, a decrease of 6.19 percent from $2.5 million in 2013.

Service charges on deposit accounts remained relatively flat from 2013 to 2014, decreasing 1.83 percent, or $164,000 from $8.9 million in 2013 to $8.8 million in 2014. New consumer protection legislation continues to drive down the volume of overdraft fee income.

Loans originated for sale during 2014 were $143.1 million, a decline of $86.2 million from $229.3 million in 2014. Although interest rates remained historically low, refinancing activity slowed during 2014, causing a decline in volume. Home purchase activity has begun to show signs of increased activity, but not at levels to offset the declines in refinancings. As a result, mortgage banking income also declined from $4.6 million in 2013 to $3.0 million in 2014.

One residual impact of the recent economic difficulties is the higher level of foreclosed real estate. Other real estate owned is property that has been foreclosed upon, or has been returned to the Bank in lieu of payment of customer debt. On December 31, 2014, the Company held $10.3 million in other real estate, which is a decline of $2.9 million from year-end 2013. Other real estate owned is recorded at fair value less estimated costs to sell the properties. During 2014, the Company realized net losses on the disposal of other real estate or in establishing valuation reserves on other real estate in the amount of $4.0 million, which is an increase of $1.8 million from the $2.2 million amount recorded in 2013. Management is focused on reducing the level of other real estate owned, which helps to reduce expenses on properties held, and is comfortable that the other real estate portfolio is properly recorded at its estimated fair value less costs to sell as of December 31, 2014.

NON-INTEREST EXPENSE

Non-interest expense for 2014 totaled $83.7 million, a decrease of $442,000 or 0.53 percent from 2013. The Company actively controls and manages total operating expenses. While occupancy and equipment expense, processing charges, advertising and business development, and card and interchange expense increased, declines in other real estate owned expenses, salaries and benefits, and other non-interest expenses more than offset those increases.

Salaries and benefits are the largest component of non-interest expense, totaling $40.0 million, a decrease of $446,000, or 1.10 percent from 2013. The higher 2013 expense was largely attributed to higher incentive payouts and higher benefit costs which returned to more normalized historical levels in 2014. On December 31, 2014, the Company employed 474 full-time equivalent employees compared to 472 full-time equivalent employees at the same date in 2013.

Expenses related to loan collection efforts – including legal fees – and costs related to holding other real estate owned

ANALYSIS OF NON-INTEREST INCOME

(in thousands)

	2014	2013	2012	2014/2013 CHANGE	2014/2013 %	2013/2012 CHANGE	2013/2012 %
Trust fees	$ 5,802	$ 5,363	$ 4,838	$ 439	8.19 %	$ 525	10.85 %
Service charges on deposit accounts	8,785	8,949	9,630	(164)	(1.83)%	(681)	(7.07)%
Mortgage banking income	2,971	4,627	6,061	(1,656)	(35.79)%	(1,434)	(23.66)%
Card and interchange fees	5,298	4,834	4,628	464	9.60 %	206	4.45 %
Electronic banking fees	4,587	4,447	4,517	140	3.15 %	(70)	(1.55)%
Net loss and write-downs of OREO	(4,013)	(2,180)	(2,853)	(1,833)	84.08 %	673	(23.59)%
Other non-interest income	8,029	9,601	9,342	(1,572)	(16.37)%	259	2.77 %
Total non-interest income	**$ 31,459**	**$ 35,641**	**$ 36,163**	**$ (4,182)**	**(11.73)%**	**$ (522)**	**(1.44)%**

have been elevated for the past several years, but declined substantially in 2014. Management believes the declining number of properties held, coupled with gradually improving economic conditions, will result in further declines in collection effort and other real estate owned expenses in 2015.

INCOME TAXES

The Company recorded income tax expense of $2.0 million in 2014 compared to $745,000 in 2013, representing effective tax rates of 11.03 percent for 2014 and 5.78 percent for 2013. The Company's tax-planning strategy includes the holding of municipal securities to increase tax exempt income, as well as participation in Industrial Revenue Bond lending for nonprofit organizations. The Company is also a limited partner in 16 low-income housing projects and a historic renovation project for which it receives tax credits, and is an investor in a Community Development Entity for which it receives New Market Tax Credits. It is the culmination of these various tax exempt income investing activities which lowers the overall effective tax rate to the levels experienced in 2014 and 2013.

FINANCIAL CONDITION

At December 31, 2014, total assets of the Company were $2.11 billion, an increase of $15.2 million, or 0.72 percent, compared to total assets at December 31, 2013. During 2014, management continued a strategy of controlled growth in order to strengthen the Company's capital ratios and to utilize on-balance sheet liquidity for asset deployment. Earning assets totaled $1.99 billion on December 31, 2014, or 94.5 percent of total assets. The Company's net loans increased $24.7 million, or 1.54 percent, and federal funds sold increased by $58.3 million, or 91.52 percent, while the securities portfolio decreased by $63.4 million, or 23.21 percent.

EARNING ASSETS

Gross loans outstanding totaled $1.65 billion at December 31, 2014, an increase of $23.8 million, or 1.45 percent. Loan demand in all areas remained mixed during 2014. While the Company did experience an increase in commercial loans and residential real estate loans, the commercial real estate and installment loan portfolios declined. Commercial real estate projects slowed during 2014, but the Company generated and held more residential mortgage loans, in part, due to tightened standards on the secondary mortgage loan market.

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

Management has always viewed the investment portfolio as a means by which interest rate risk and liquidity are managed. The Company was able to deploy some of its on-balance sheet liquidity from the investment portfolio into loans and highly liquid overnight funds in anticipation of a gradual increase in loan demand. A significant portion of the Company's liquidity is placed with the Federal Reserve as an overnight investment. On December 31, 2014, the Company was selling $122.0 million to the Federal Reserve as an overnight investment. On average, however, this balance was $74.7 million in 2014 compared to $142.6 million in 2013. Thus, the overnight funds spiked at year-end, but the Company was able to deploy more of these funds into earning assets on average during 2014 as compared to 2013. For the most part, management invests in short-term – or variable-rate – government agency securities.

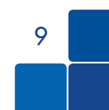
ALLOWANCE FOR LOAN LOSSES

At December 31, 2014, the allowance for loan losses was $23.0 million, or 1.40 percent of gross loans outstanding,

ANALYSIS OF NON-INTEREST EXPENSE

(in thousands)

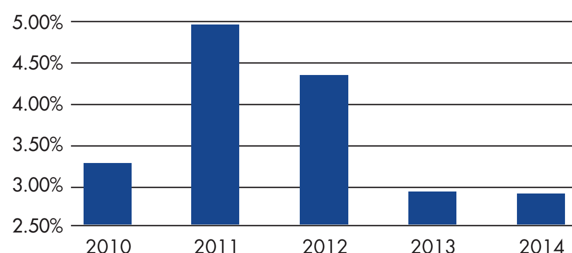
				2014/2013		2013/2012	
	2014	2013	2012	CHANGE	%	CHANGE	%
Salaries and benefits	$ 39,968	$ 40,414	$ 38,185	$ (446)	(1.10)%	$ 2,229	5.84 %
Occupancy and equipment	17,190	16,837	17,209	353	2.10 %	(372)	(2.16)%
Processing charges	5,428	5,096	4,907	332	6.51 %	189	3.85 %
Advertising and business development	4,544	3,621	4,114	923	25.49 %	(493)	(11.98)%
Professional services	2,360	2,593	2,524	(233)	(8.99)%	69	2.73 %
FDIC assessment	1,810	1,898	1,890	(88)	(4.64)%	8	0.42 %
Other non-interest expense	12,441	13,724	14,803	(1,283)	(9.35)%	(1,079)	(7.29)%
Total non-interest expense	$ 83,741	$ 84,183	$ 83,632	$ (442)	(0.53)%	$ 551	0.66 %



compared with $23.9 million, or 1.47 percent at December 31, 2013. The provision for loan losses during 2014 was $3.2 million compared to $8.8 million during 2013. Lower levels of net charge-offs, delinquent loans, classified loans and impaired loans all contributed to the lower level of provision and allowance for loan losses in 2014 as compared to the prior year.

The performance of the loan portfolio during 2014 demonstrated a marked improvement. Net charge-offs in 2014 were $4.1 million, compared to $11.7 million in 2013, a decline of $7.6 million. Net charge-offs as a percentage of average loans were 0.25 percent in 2014 compared to 0.73 percent in 2013. Loans delinquent 90 days or more declined from $25.2 million at December 31, 2013, to $15.5 million at December 31, 2014. Loans in non-accrual status remained relatively flat and totaled $37.7 million at December 31, 2014, compared to $37.5 million on the same date in 2013. Loans past due 90 days or more and still accruing interest declined from $886,000 at December 31, 2013, to $189,000 at December 31, 2014. The following table depicts past due loan levels over the past five years.

Delinquency



In addition, there was improvement in the level of adversely classified loans and the level of impaired loans during 2014. A loan is considered to be impaired when it is probable that all principal and interest amounts will not be collected in accordance with the original loan terms. Loans deemed to be impaired declined from $94.0 million at December 31, 2013, to $80.0 million at December 31, 2014, a decrease of $14.0 million. The provision and allowance for loan losses is based on management's ongoing review of the loan portfolio and other qualitative factors on a monthly basis and is subject to review by the Board of Directors and the periodic evaluation by various regulatory authorities. While management uses the best information available at the time of the evaluation and is comfortable with the overall adequacy of the allowance for loan losses at December 31, 2014, future adjustments may be necessary if economic conditions worsen or if assumptions in the evaluation differ substantially from expectations.

DEPOSITS

Total deposits were $1.77 billion at year end 2014, an increase of $10.7 million, or 0.61 percent from December 31, 2013. The mix of deposits shifted during 2014 with non-interest bearing deposits increasing by $63.3 million, or 14.27 percent to $506.9 million at December 31, 2014, and interest-bearing deposits declining by $52.6 million or 4.01 percent to $1.26 billion at December 31, 2014.

Due to lower levels of loan demand, management concentrated its efforts on maintaining current customer relationships, while reducing the cost of funding particularly in certificates of deposit. As a result the Company continued to experience significant growth in demand deposit, NOW and savings balances while experiencing a marked decline in certificates of deposit. The Company offers fixed rate certificates of deposit with maturities ranging from seven days to five years; however, with the continuing low levels of market rates, demand for these products has diminished significantly.

SHORT-TERM BORROWINGS

Short-term borrowing sources consist primarily of repurchase agreements and sweep accounts of commercial customers. The cash management services offered by the Company continue to be a valued service for our commercial deposit customers. The balance in short-term borrowings totaled $90.9 million at December 31, 2014, which was relatively unchanged from $90.4 million at December 31, 2013. These accounts are overnight repurchase agreements requiring a direct pledge from the Company's investment portfolio.

LONG-TERM BORROWINGS

The Company's long-term borrowings consist of advances from the Federal Home Loan Bank and subordinated debentures. At December 31, 2014 and 2013, the Company had $2.8 million outstanding in advances from the Federal Home Loan Bank with maturities ranging from October 2015 through December 2027. Each advance is payable at its maturity, with a prepayment penalty. The advances are borrowed under a blanket lien agreement and are collateralized by Federal Home Loan Bank stock and first mortgage loans.

In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $15.5 million of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The subordinated debentures mature on June 15, 2035, and have a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) and 1.75 percent, which was 2.00 percent on December 31, 2014.

In March 2009, Central Bancshares KY Statutory Trust III, a trust formed by the Company, closed a private offering of 22,600 trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $23.3 million

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(in thousands)

	2014	2013	2012	2011	2010
Allowance for loan losses					
Balance January 1	$ 23,913	$ 27,480	$ 28,783	$ 22,803	$ 20,747
Provision for loan losses	3,217	8,775	12,179	16,301	18,327
Allowance sold with sale of subsidiary	-	(640)	-	-	-
Less: Net charge-offs	(4,093)	(11,702)	(13,482)	(10,321)	(16,271)
Balance December 31	$ 23,037	$ 23,913	$ 27,480	$ 28,783	$ 22,803
Average loans, net of unearned income	$ 1,635,738	$ 1,592,481	$ 1,656,284	$ 1,709,584	$ 1,754,495
Loans, net of unearned income, at year-end	$ 1,647,145	$ 1,623,317	$ 1,672,543	$ 1,673,133	$ 1,769,984
Nonperforming loans at year-end	$ 37,895	$ 38,389	$ 56,041	$ 52,502	$ 31,300
Other real estate owned at year-end	$ 10,332	$ 13,151	$ 20,958	$ 25,624	$ 24,084
Ratios:					
Provision for loan losses to average loans	0.20%	0.55%	0.74%	0.95%	1.04%
Net charge-offs to average loans	0.25%	0.73%	0.81%	0.60%	0.93%
Allowance for loan losses to loans	1.40%	1.47%	1.64%	1.72%	1.29%
Allowance for loan losses to nonperforming loans	60.79%	62.29%	49.04%	54.82%	72.85%
Nonperforming loans to loans	2.30%	2.36%	3.35%	3.14%	1.77%
Nonperforming assets to total assets	2.29%	2.46%	3.54%	3.64%	2.53%
Nonperforming assets to shareholders' equity and allowance for loan losses	21.11%	23.78%	37.06%	39.92%	30.93%
Total delinquent loans to loans	2.89%	2.93%	4.37%	4.97%	3.21%

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 trust preferred securities and subordinated debentures mature on March 31, 2039, and have a 10.00 percent fixed rate of interest.

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 Company may redeem the subordinated debentures in whole or in part, in a principal amount, with integral multiples of $1,000 beginning five years after the date of issuance at 100 percent of the principal amount, plus accrued and unpaid interest. As such, on March 31, 2014, the Company redeemed $13.2 million of the subordinated debentures and management expects to redeem an additional portion of the subordinated debentures during 2015.

The trust preferred securities are included in Tier I 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-weighted assets ratio of 10.0 percent, a Tier I capital to risk-weighted assets ratio of 6.0 percent, and a Tier I capital to average assets ratio of 5.0 percent. On December 31, 2014, the Company had a Total capital to risk-weighted assets ratio of 13.5 percent, a Tier I capital to risk-weighted assets ratio of 12.2 percent, and a Tier I capital to average assets ratio of 10.2 percent. Regulatory capital rules were recently revised and apply to the Company beginning in 2015. Management believes the Company will continue to be considered "well capitalized" under the new rules.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Central Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

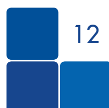
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Bancshares, Inc., as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP
Louisville, Kentucky
March 19, 2015



CONSOLIDATED FINANCIAL STATEMENT FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

	December 31			
		2014		2013
ASSETS				
Cash and due from financial institutions	$	40,681	$	40,134
Federal funds sold		122,000		63,700
Total cash and cash equivalents		162,681		103,834
Available for sale securities		119,801		166,558
Held to maturity securities		90,016		106,661
Total securities		209,817		273,219
Loans held for sale		6,606		2,739
Loans, net of allowance of $23,037 and $23,913		1,624,108		1,599,404
Premises and equipment, net		37,123		37,871
Other real estate owned		10,332		13,151
Interest receivable		5,196		5,238
Federal Home Loan Bank stock, at cost		6,751		7,051
Goodwill		14,313		14,313
Other intangible assets		320		623
Other assets		30,417		35,051
Total assets	$	2,107,664	$	2,092,494
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Non-interest bearing	$	506,890	$	443,598
Interest bearing		1,258,620		1,311,235
Total deposits		1,765,510		1,754,833
Federal funds purchased and repurchase agreements		90,889		90,433
Federal Home Loan Bank advances		2,789		2,819
Subordinated debentures		25,542		38,742
Interest payable		300		342
Other liabilities		17,204		12,537
Total liabilities		1,902,234		1,899,706
SHAREHOLDERS' EQUITY				
Common stock, $10 par value, 350,000 shares authorized, 347,922 shares issued		3,479		3,479
Additional paid-in capital		6,890		6,890
Retained earnings		201,153		185,551
Accumulated other comprehensive income (loss)		(6,092)		(3,132)
Total shareholders' equity		205,430		192,788
Total liabilities and shareholders' equity	$	2,107,664	$	2,092,494

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except share data)

	Years Ended December 31 2014	2013
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 77,964	$ 78,384
Securities:		
Taxable	2,480	2,199
Tax-exempt	23	56
Federal funds sold and other	463	686
	80,930	81,325
INTEREST EXPENSE		
Deposits	5,688	8,280
Subordinated debentures	1,589	2,611
Other borrowings	226	221
	7,503	11,112
Net interest income	73,427	70,213
Provision for loan losses	3,217	8,775
Net interest income after provision for loan losses	70,210	61,438
NON-INTEREST INCOME		
Service charges on deposit accounts	8,785	8,949
Mortgage banking income	2,971	4,627
Card and interchange fees	5,298	4,834
Trust fees	5,802	5,363
Electronic banking	4,587	4,447
Net loss on sales and write-downs of other real estate owned	(4,013)	(2,180)
Other fees and income	8,029	9,601
	31,459	35,641
NON-INTEREST EXPENSE		
Salaries and benefits	39,968	40,414
Occupancy and equipment	17,190	16,837
Processing charges	5,428	5,096
Advertising and business development	4,544	3,621
Card and interchange expenses	3,925	3,489
Professional services	2,360	2,593
Other real estate owned, net	1,417	2,014
FDIC assessment	1,810	1,898
Other	7,099	8,221
	83,741	84,183
Income before income taxes	17,928	12,896
Income taxes	1,978	745
Net income	$ 15,950	$ 12,151
Basic earnings per share	$ 45.84	$ 34.92
Weighted average number of common shares outstanding	347,922	347,922

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands except share data)

	Years Ended December 31	
	2014	2013
OPERATING ACTIVITIES		
Net income	$ 15,950	$ 12,151
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	3,217	8,775
Depreciation and amortization	8,221	7,026
Net loss on sales and write-downs of other real estate owned	4,013	2,180
Gain on sale of Salt Lick Deposit Bank	-	(674)
Net gain on sale of loans	(2,872)	(4,477)
Net change in:		
Loans held for sale	(995)	13,644
Interest receivable	42	366
Other assets	1,840	6,763
Interest payable	(42)	(208)
Other liabilities	1,541	(22)
Net cash from operating activities	30,915	45,524
INVESTING ACTIVITIES		
Available for sale securities:		
Purchases	(5,000)	(58,309)
Maturities, calls and return of principal	51,279	59,090
Held to maturity securities:		
Purchases	-	(108,198)
Maturities, calls and return of principal	16,385	4,054
Net change in loans	(35,619)	(34,056)
Purchases of premises and equipment	(3,472)	(4,762)
Proceeds from sale of other real estate owned	6,504	11,830
Redemption of FHLB stock	300	-
Net cash paid in sale of Salt Lick Deposit Bank	-	(1,913)
Net cash from investing activities	30,377	(132,264)
FINANCING ACTIVITIES		
Net change in deposits	10,677	(60,152)
Net change in federal funds purchased and repurchase agreements	456	30,131
Repayment of Federal Home Loan Bank advances	(30)	(403)
Redemption of subordinated debentures	(13,200)	-
Cash dividends paid	(348)	-
Net cash from financing activities	(2,445)	(30,424)
Net change in cash and cash equivalents	58,847	(117,164)
Cash and cash equivalents, beginning of year	103,834	220,998
Cash and cash equivalents, end of year	$ 162,681	$ 103,834
Supplemental cash flow information:		
Interest paid	$ 7,545	$ 11,319
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$ 7,698	$ 7,049

See accompanying notes.

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

Years Ended December 31, 2014 and 2013

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2013	$ 3,479	$ 6,890	$ 173,400	$ (3,461)	$ 180,308
Net income	-	-	12,151	-	12,151
Other comprehensive income (loss)	-	-	-	329	329
Balances, December 31, 2013	3,479	6,890	185,551	(3,132)	192,788
Net income	-	-	15,950	-	15,950
Cash dividends declared ($1 per share)	-	-	(348)	-	(348)
Other comprehensive income (loss)				(2,960)	(2,960)
Balances, December 31, 2014	$ 3,479	$ 6,890	$ 201,153	$ (6,092)	$ 205,430

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

	Years Ended December 31 2014	2013
Net income	$ 15,950	$ 12,151
Other comprehensive income (loss):		
Unrealized gains/losses on securities:		
Unrealized holding gain (loss) arising during the period	581	(982)
Tax effect	(203)	343
Net of tax	378	(639)
Defined benefit pension plans:		
Net gain (loss) arising during the period	(5,135)	1,490
Tax effect	1,797	(522)
Net of tax	(3,338)	968
Total other comprehensive income (loss)	(2,960)	329
Comprehensive income	$ 12,990	$ 12,480

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(in thousands except share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Nature of Operations: The consolidated financial statements include the accounts of Central Bancshares, Inc. (the "Company"), its wholly-owned Subsidiaries, Central Bank & Trust Co. and Central Bank of Jefferson County, Inc. (the "Banks"), and Central Bank & Trust Co.'s wholly-owned Subsidiaries, Central Investment Center, Inc., Central Insurance Services, Inc., CB Investment Managers, LLC, Central Bank Title Agency, LLC, and CBT Real Estate Holdings, LLC. On January 1, 2013, the Company closed the sale of a previously consolidated subsidiary bank, Salt Lick Deposit Bank, to a non-related third party financial institution. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 19, 2015, which is the date the financial statements were available to be issued.

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

Cash Flows: Cash and cash equivalents include cash on hand, amounts due from financial institutions, securities purchased under resell agreements, and federal funds sold with maturities under 90 days. Net cash flows are reported for customer loan and deposit transactions, and federal funds purchased and repurchase agreements.

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

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

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

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

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

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

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

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

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

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

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment

shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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

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

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

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

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

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

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

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

The Company primarily sells loans servicing released. A small amount of loans are sold servicing retained; servicing rights are recognized as assets for the allocated value of retained servicing rights on loans sold. Servicing rights are initially recorded at fair value based on market prices for comparable mortgage servicing contracts. Servicing rights are expensed in proportion to, and over

the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates. Any impairment of a grouping is reported as a valuation allowance.

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

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

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

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

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

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

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

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

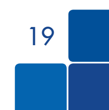
Other intangible assets consist of customer relationship intangibles arising from acquisitions. They are initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives, which is between 8 and 10 years..

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 16 low-income housing projects and one historic renovation project. The investments are accounted for using the equity method and are included in other assets.

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

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



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

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

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

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

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

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

Restrictions on Cash: Included in cash and due from financial institutions are certain deposits held at the Federal Reserve Bank or maintained in vault cash in accordance with average balance requirements specified by the Federal Reserve. The average balance requirement was $31,786 and $30,684 at December 31, 2014 and 2013. These funds earn interest at an interest rate determined by the Federal Reserve.

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

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 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2014				
U.S. government agency securities	$ 44,219	$ 77	$ (155)	$ 44,141
Agency mortgage-backed securities: residential	70,392	629	(362)	70,659
Corporate bond	5,000	1	-	5,001
	$ 119,611	$ 707	$ (517)	$ 119,801
2013				
U.S. government agency securities	$ 74,362	$ 38	$ (276)	$ 74,124
Agency mortgage-backed securities: residential	87,587	384	(405)	87,566
Corporate bond	5,000	-	(132)	4,868
	$ 166,949	$ 422	$ (813)	$ 166,558

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
2014				
U.S. government agency securities	$ 32,456	$ 16	$ (573)	$ 31,899
Obligations of states and political subdivisions	13,374	121	(2)	13,493
Agency mortgage-backed securities: residential	44,186	158	(145)	44,199
	$ 90,016	$ 295	$ (720)	$ 89,591
2013				
U.S. government agency securities	$ 42,444	$ -	$ (1,641)	$ 40,803
Obligations of states and political subdivisions	13,375	35	(109)	13,301
Agency mortgage-backed securities: residential	50,842	21	(1,173)	49,690
	$ 106,661	$ 56	$ (2,923)	$ 103,794

The amortized cost and fair value of debt securities at December 31, 2014 are shown below by contractual maturity. Mortgage-backed securities are shown separately because they are not due at a single maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,225	$ 2,228	$ -	$ -
Due from one to five years	27,105	27,001	12,348	12,361
Due from five to ten years	16,500	16,163	6,582	6,593
Due after ten years	-	-	30,289	30,188
Agency mortgage-backed securities: residential	44,186	44,199	70,392	70,659
Total	$ 90,016	$ 89,591	$ 119,611	$ 119,801

Securities with a carrying amount of $130,719 and $138,125 at December 31, 2014 and 2013, were pledged to secure public deposits, repurchase agreements, trust deposits, and for other purposes as required or permitted by law.

At December 31, 2014 and 2013, 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.

Securities with unrealized losses at year-end 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below.

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2014						
Available for sale:						
U.S. government agency securities	$ 97	$ -	$ 24,819	$ (155)	$ 24,916	$ (155)
Agency mortgage-backed securities: residential	11,168	(125)	12,250	(237)	23,418	(362)
Total available for sale	$ 11,265	$ (125)	$ 37,069	$ (392)	$ 48,334	$ (517)
2013						
Available for sale:						
U.S. government agency securities	$ 35,819	$ (260)	$ 7,352	$ (16)	$ 43,171	$ (276)
Agency mortgage-backed securities: residential	50,674	(405)	-	-	50,674	(405)
Corporate bond	-	-	4,868	(132)	4,868	(132)
Total available for sale	$ 86,493	$ (665)	$ 12,220	$ (148)	$ 98,713	$ (813)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrecognized Loss	12 Months or More Fair Value	12 Months or More Unrecognized Loss	Total Fair Value	Total Unrecognized Loss
2014						
Held to maturity:						
U.S. government agency securities	$ -	$ -	$ 29,927	$ (573)	$ 29,927	$ (573)
Obligations of states and political subdivisions	498	(2)	-	-	498	(2)
Agency mortgage-backed securities: residential	2,363	(61)	13,401	(84)	15,764	(145)
Total held to maturity	$ 2,861	$ (63)	$ 43,328	$ (657)	$ 46,189	$ (720)
2013						
Held to maturity:						
U.S. government agency securities	$ 30,803	$ (1,641)	$ -	$ -	$ 30,803	$ (1,641)
Obligations of states and political subdivisions	7,240	(109)	-	-	7,240	(109)
Agency mortgage-backed securities: residential	48,484	(1,173)	-	-	48,484	(1,173)
Total held to maturity	$ 86,527	$ (2,923)	$ -	$ -	$ 86,527	$ (2,923)

Unrealized losses on debt securities have not been recognized into income because the issued bonds are of high credit quality (rated AA or higher) as of December 31, 2014 and at acquisition date, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

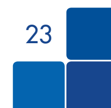
NOTE 3 – LOANS

Loans at December 31 were as follows:

	2014	2013
Commercial	$ 399,527	$ 345,383
Commercial real estate	713,714	763,233
Residential real estate	462,117	438,303
Installment	65,221	69,521
Credit card receivables	7,594	7,892
	1,648,173	1,624,332
Deferred loan fees, net	(1,028)	(1,015)
Allowance for loan losses	(23,037)	(23,913)
Loans, net	$ 1,624,108	$ 1,599,404

The following table presents the activity in the allowance for loan losses by segment of loans for the years ended December 31, 2014 and 2013:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2014							
Allowance for loan losses:							
Beginning balance	$ 5,224	$ 10,164	$ 6,716	$ 1,280	$ 282	$ 247	$ 23,913
Provision for loan losses	3,141	1,280	(1,422)	300	67	(149)	3,217
Loans charged off	(2,451)	(1,106)	(995)	(1,418)	(171)	-	(6,141)
Recoveries	130	718	314	823	63	-	2,048
Total ending allowance balance	$ 6,044	$ 11,056	$ 4,613	$ 985	$ 241	$ 98	$ 23,037
2013							
Allowance for loan losses:							
Beginning balance	$ 6,957	$ 13,680	$ 4,095	$ 1,605	$ 503	$ -	$ 26,840
Provision for loan losses	477	4,006	3,511	607	(73)	247	8,775
Loans charged off	(2,486)	(8,057)	(1,129)	(2,007)	(234)	-	(13,913)
Recoveries	276	535	239	1,075	86	-	2,211
Total ending allowance balance	$ 5,224	$ 10,164	$ 6,716	$ 1,280	$ 282	$ 247	$ 23,913



The following table presents the balance in the allowance for loan losses and the recorded investment in loans by segment of loans and based on impairment method as of December 31, 2014 and 2013:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2014							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 866	$ 2,671	$ 2,239	$ 103	$ -	$ -	$ 5,879
Collectively evaluated for impairment	5,178	8,385	2,374	882	241	98	17,158
Total ending allowance balance	$ 6,044	$ 11,056	$ 4,613	$ 985	$ 241	$ 98	$ 23,037
Loans:							
Individually evaluated for impairment	$ 14,869	$ 47,613	$ 17,179	$ 342	$ 7	$ -	$ 80,010
Collectively evaluated for impairment	384,658	666,101	444,938	64,879	7,587	-	1,568,163
Total ending loans balance	$ 399,527	$ 713,714	$ 462,117	$ 65,221	$ 7,594	$ -	$ 1,648,173
2013							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 705	$ 2,226	$ 3,629	$ 65	$ 1	$ -	$ 6,626
Collectively evaluated for impairment	4,519	7,938	3,087	1,215	281	247	17,287
Total ending allowance balance	$ 5,224	$ 10,164	$ 6,716	$ 1,280	$ 282	$ 247	$ 23,913
Loans:							
Individually evaluated for impairment	$ 14,720	$ 54,860	$ 24,082	$ 288	$ 8	$ -	$ 93,958
Collectively evaluated for impairment	330,663	708,373	414,221	69,233	7,884	-	1,530,374
Total ending loans balance	$ 345,383	$ 763,233	$ 438,303	$ 69,521	$ 7,892	$ -	$ 1,624,332

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2014:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2014						
With no related allowance recorded:						
Commercial	$ 13,820	$ 13,337	$ -	$ 13,942	$ 484	$ 484
Commercial real estate	43,542	41,318	-	41,668	1,999	1,999
Residential real estate	9,766	8,702	-	11,361	337	337
Installment	211	156	-	194	3	3
Credit card receivables	7	7	-	7	1	1
Subtotal	67,346	63,520	-	67,172	2,824	2,824
With an allowance recorded:						
Commercial	1,533	1,532	866	1,007	14	14
Commercial real estate	6,433	6,295	2,671	5,648	141	141
Residential real estate	8,478	8,477	2,239	8,199	173	173
Installment	189	186	103	70	7	7
Credit card receivables	-	-	-	-	-	-
Subtotal	16,633	16,490	5,879	14,924	335	335
Total	$ 83,979	$ 80,010	$ 5,879	$ 82,096	$ 3,159	$ 3,159

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

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2013:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2013						
With no related allowance recorded:						
Commercial	$ 15,193	$ 13,138	$ -	$ 13,183	$ 295	$ 295
Commercial real estate	55,565	47,956	-	57,356	1,649	1,649
Residential real estate	12,697	11,756	-	12,651	158	158
Installment	320	223	-	282	4	4
Credit card receivables	33	7	-	16	1	1
Subtotal	83,808	73,080	-	83,488	2,107	2,107
With an allowance recorded:						
Commercial	1,583	1,582	705	1,387	30	30
Commercial real estate	6,904	6,904	2,226	6,747	151	151
Residential real estate	12,327	12,326	3,629	12,959	444	444
Installment	65	65	65	5	-	-
Credit card receivables	1	1	1	-	-	-
Subtotal	20,880	20,878	6,626	21,098	625	625
Total	$ 104,688	$ 93,958	$ 6,626	$ 104,586	$ 2,732	$ 2,732

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

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

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2014 and 2013:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2014	2013	2014	2013
Commercial	$ 4,626	$ 2,416	$ 48	$ 699
Commercial real estate	23,430	22,348	-	147
Residential real estate	9,103	12,260	113	16
Installment	535	458	1	18
Credit card receivables	12	21	27	6
Total	$ 37,706	$ 37,503	$ 189	$ 886

The following table presents the aging of the recorded investment in past due loans as of December 31, 2014 and 2013 by class of loans:

	30–89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2014					
Commercial	$ 1,879	$ 3,249	$ 5,128	$ 394,399	$ 399,527
Commercial real estate	4,254	6,068	10,322	703,392	713,714
Residential real estate	3,590	6,028	9,618	452,499	462,117
Installment	1,061	154	1,215	64,006	65,221
Credit card receivables	186	13	199	7,395	7,594
Total	$ 10,970	$ 15,512	$ 26,482	$ 1,621,691	$ 1,648,173
December 31, 2013					
Commercial	$ 1,091	$ 2,287	$ 3,378	$ 342,005	$ 345,383
Commercial real estate	3,549	16,013	19,562	743,671	763,233
Residential real estate	4,189	6,607	10,796	427,507	438,303
Installment	1,964	246	2,210	67,311	69,521
Credit card receivables	90	12	102	7,790	7,892
Total	$ 10,883	$ 25,165	$ 36,048	$ 1,588,284	$ 1,624,332

Related Party Loans: The Banks have entered into loan transactions with their directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties was $2,502 and $2,436 at December 31, 2014 and 2013.

Troubled Debt Restructurings: The Company has allocated $3,070 and $2,862 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2014 and 2013. The Company has committed to lend additional amounts totaling up to $239 and $346 as of December 31, 2014 and 2013 to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2014 and 2013, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a restructuring of the loan terms to reduce the payment and require only interest for a period of time.

The following table presents loans by segment modified as troubled debt restructurings that occurred during the years ended December 31, 2014 and 2013:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2014:			
Troubled debt restructurings:			
Commercial	14	$ 4,096	$ 4,100
Commercial real estate	21	14,128	14,129
Residential real estate	29	7,825	7,826
Installment	2	305	305
Total	66	$ 26,354	$ 26,360
December 31, 2013:			
Troubled debt restructurings:			
Commercial	11	$ 3,654	$ 3,654
Commercial real estate	25	21,245	21,276
Residential real estate	21	7,137	7,142
Installment	1	67	67
Total	58	$ 32,103	$ 32,139

The troubled debt restructurings described above increased the allowance for loan losses by $82 and resulted in charge-offs of $79 during the year ended December 31, 2014. The troubled debt restructurings described above increased the allowance for loan losses by $464 and resulted in charge-offs of $2,647 during the year ended December 31, 2013.

There were four residential real estate loans with a recorded investment of $1,978 for which there was a payment default within 12 months following the modification during the year ended December 31, 2014. There was one residential real estate loan with a recorded investment of $121 for which there was a payment default within 12 months following the modification during the year ended December 31, 2013. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above resulted in a decrease in the allowance for loan losses of $15 and resulted in charge-offs of $55 during the year ended December 31, 2014. The troubled debt restructuring that subsequently defaulted described above resulted in an increase in the allowance for loan losses of $6 and resulted in no charge-offs during the year ended December 31, 2013.

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

Credit Quality Indicators: The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $25 and non-homogeneous loans, such as commercial, commercial real estate and residential real estate loans, and homogeneous loans that are part of a borrowing relationship. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

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

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

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

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

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

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2014						
Commercial	$ 381,705	$ 657	$ 17,165	$ -	$ -	$ 399,527
Commercial real estate	647,870	17,162	48,682	-	-	713,714
Residential real estate	336,167	2,903	16,705	128	106,214	462,117
Installment	-	4	186	-	65,031	65,221
Credit card receivables	-	1	11	-	7,582	7,594
	$ 1,365,742	$ 20,727	$ 82,749	$ 128	$ 178,827	$ 1,648,173
December 31, 2013						
Commercial	$ 324,673	$ 2,496	$ 18,100	$ 114	$ -	$ 345,383
Commercial real estate	688,549	19,529	55,155	-	-	763,233
Residential real estate	310,905	2,951	23,384	33	101,030	438,303
Installment	-	1	276	-	69,244	69,521
Credit card receivables	-	-	8	-	7,884	7,892
	$ 1,324,127	$ 24,977	$ 96,923	$ 147	$ 178,158	$ 1,624,332

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled approximately $143,079 and $229,343 during 2014 and 2013. The Company had commitments to originate $14,269 in loans at December 31, 2014, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $48,072 and $50,446 at December 31, 2014 and 2013.

Activity for mortgage servicing rights included in other assets during 2014 and 2013 was as follows:

	2014	2013
Beginning of year	$ 227	$ 246
Originated	27	47
Amortized to expense	(66)	(66)
End of year	$ 188	$ 227

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $361 and $237 at year-end 2014 and 2013.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2014	2013
Other real estate owned, beginning of year	$ 13,151	$ 20,112
Acquisition and improvement	7,698	7,049
Proceeds from sales	(6,504)	(11,830)
Provision for valuation allowance	(3,953)	(1,211)
Net loss on sales	(60)	(969)
Other real estate owned, end of year	$ 10,332	$ 13,151

Activity in the valuation allowance was as follows:

	2014	2013
Beginning of year	$ 7,856	$ 8,628
Additions charged to expense	3,953	1,211
Reductions from sales	(6,813)	(1,983)
End of year	$ 4,996	$ 7,856

Expenses related to other real estate owned include:

	2014	2013
Net loss (gain) on sales	$ 60	$ 969
Provision for valuation allowance	3,953	1,211
Operating expenses, net	1,417	2,014
	$ 5,430	$ 4,194

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 are as follows:

	2014	2013
Land	$ 2,991	$ 2,991
Buildings and improvements	21,133	21,133
Leasehold improvements	29,310	27,261
Furniture, fixtures and equipment	34,650	40,226
Construction in progress	1,012	2,022
	89,096	93,633
Accumulated depreciation	(51,973)	(55,762)
Total	$ 37,123	$ 37,871

Depreciation and amortization expense amounted to $4,220 and $4,374 in 2014 and 2013.

Operating Leases: The Company leases its main office, 12 banking center locations and its mortgage and insurance center in addition to its land leases for three banking centers. The Company currently subleases a portion of its space to six tenants. Rent expense for the Company was $5,076 and $5,197 in 2014 and 2013. Rent commitments under noncancelable operating leases, and certain renewal provisions, net of subleases, are as follows:

2015	$ 5,288
2016	5,467
2017	5,645
2018	5,649
2019	5,467
Thereafter	41,543
	$ 69,059

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $14,313 at December 31, 2014 and 2013.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2014, the Company's reporting unit had positive equity and the Company performed a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment. Management also quantitatively determined the fair value of the reporting unit and compared it to its carrying amount. The result of this assessment supported the qualitative analysis.

Acquired intangible assets were as follows as of December 31:

	2014		2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationship intangibles	$ 4,924	$ 4,604	$ 4,924	$ 4,301

Aggregate amortization expense was $303 for 2014 and $400 for 2013.

Estimated amortization expense is $240 for 2015 and $80 for 2016 which will fully amortize the remaining intangible assets.

NOTE 8 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2014 and 2013 were $139,685 and $149,306.

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

2015	$ 318,108
2016	92,343
2017	29,883
2018	12,611
2019	11,300
	$ 464,245

Deposits of directors and executive officers of the Banks and companies in which they have beneficial ownership were $22,065 and $36,797 at December 31, 2014 and 2013.

NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

	2014	2013
Maturities October 2015 through December 2027, fixed rates ranging from 1.88% to 5.50%, averaging 2.06% and 3.32% at year-end 2014 and 2013.	$ 2,789	$ 2,819

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The advances are borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and first mortgage loans with an aggregate unpaid principal balance of $283,564 and $267,110 at December 31, 2014 and 2013. Based on this collateral and the holding of Federal Home Loan Bank stock, the Banks are eligible to borrow up to a total of $116,797 at year-end 2014. In addition, the Federal Home Loan Bank issues letters of credit on behalf of a subsidiary bank of the Company as security for certain deposit relationships, as the need arises. Outstanding letters of credit at December 31, 2014 and 2013 were $68,981 and $7,963.

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

2015	$ 1,890
2016	-
2017	-
2018	-
2019	-
Thereafter	899
	$ 2,789

Subordinated Debentures: In March 2009, Central Bancshares KY Statutory Trust III, a trust formed by the Company, closed a private placement offering of 22,600 trust preferred securities with a liquidation amount of $1 per security. The Company issued $23,278 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount, with integral multiples of $1, on or after March 31, 2014 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures 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. On March 31, 2014, the Company exercised its right to redeem 13,200 of the trust preferred securities for $13,200 in cash. Thus, the subordinated debentures were $9,400 and $22,600 at December 31, 2014 and 2013 and have a fixed rate of interest of 10.00%. The Company's investment in the common stock of the trust was $678 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 per security. The Company issued $15,464 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $1, on or after June 15, 2010 at 100% of the principal amount, plus accrued and unpaid interest.

The subordinated debentures mature on June 15, 2035. The subordinated debentures are 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 subordinated debentures have a variable rate of interest which was 2.00% at year-end 2014, equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The Company's investment in the common stock of the trust was $464 and is included in other assets.

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

The Company has an outstanding line of credit for $10,000 from a commercial bank for the purpose of securing additional funds for capital infusion to its Subsidiaries or for debt service needs. As of December 31, 2014, the Company had not drawn upon this line. Terms of the line of credit include a variable interest rate equal to the sum of prime as published in *The Wall Street Journal* and 0.50% (3.75% as of December 31, 2014) with a floor of 4.75%, and monthly payments of interest only with the balance due at maturity on September 30, 2015. The line of credit is secured by 100% of the stock of Central Bank & Trust Co.

NOTE 10 – FAIR VALUE

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

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

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

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

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

Investment Securities: The fair values of investment securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

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

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

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once an appraisal is received, a member of the Loan Review Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that discounts ranging from approximately 10% to 40% should be applied to all appraisal values, depending on the age of the appraisal and any known deterioration in value since the date of the appraisal.

Assets Measured on a Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2014):			
Available for sale securities:			
U.S. government agency securities	$ -	$ 44,141	$ -
Agency mortgage-backed securities: Residential	-	70,659	-
Corporate bond	-	5,001	-
Assets (2013):			
Available for sale securities:			
U.S. government agency securities	$ -	$ 74,124	$ -
Agency mortgage-backed securities: Residential	-	87,566	-
Corporate bond	-	4,868	-

There were no transfers between Level 1 and Level 2 during 2014 or 2013.

Assets Measured on a Non-Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2014):			
Impaired loans:			
Commercial	$ -	$ -	$ 666
Commercial real estate	-	-	3,624
Residential real estate	-	-	6,238
Installment	-	-	83
Other real estate owned:			
Commercial real estate	-	-	7,482
Residential real estate	-	-	2,282
Assets (2013):			
Impaired loans:			
Commercial	$ -	$ -	$ 877
Commercial real estate	-	-	4,678
Residential real estate	-	-	8,697
Other real estate owned:			
Commercial real estate	-	-	6,794
Residential real estate	-	-	6,357

Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $16,490, with a valuation allowance of $5,879 at December 31, 2014, resulting in $2,377 of additional provision for loan losses for the year ended December 31, 2014. Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $20,878, with a valuation allowance of $6,626 at December 31, 2013, resulting in $2,488 of additional provision for loan losses for the year ended December 31, 2013.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $9,764 which is made up of the outstanding balance of $14,760 net of a valuation allowance of $4,996 at December 31, 2014, resulting in an additional provision of $3,953 for the year ended December 31, 2014. Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $13,151, which is made up of the outstanding balance of $21,007, net of a valuation allowance of $7,856 at December 31, 2013, resulting in an additional provision of $1,211 for the year ended December 31, 2013.

The following table presents qualitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014 and 2013:

	Valuation Techniques	Fair Value	Asset Category	Unobservable Input(s)	Range (Weighted Average)
2014	Sales approach	$ 14,053	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	4%–50% (29%)
	Income approach	$ 6,322	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	4%–6% (5%)
2013	Sales approach	$ 17,435	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	10%–30% (16%)
	Income approach	$ 9,968	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	10%–27% (18%)

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

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 162,681	$ 162,681	$ 103,834	$ 103,834
Available for sale securities	119,801	119,801	166,558	166,558
Held to maturity securities	90,016	89,591	106,661	103,794
Loans held for sale	6,606	6,606	2,739	2,740
Loans, net	1,624,108	1,620,595	1,599,404	1,598,561
Federal Home Loan Bank stock	6,751	N/A	7,051	N/A
Interest receivable	5,196	5,196	5,238	5,238
Financial liabilities:				
Deposits	$ 1,765,510	$ 1,765,872	$ 1,754,833	$ 1,757,332
Federal funds purchased and repurchase agreements	90,889	90,889	90,433	90,433
Federal Home Loan Bank advances	2,789	2,778	2,819	2,924
Subordinated debentures	25,542	19,335	38,742	32,268
Interest payable	300	300	342	342

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

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

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

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

NOTE 11 – INCOME TAXES

The provision for income taxes consists of the following:

	2014	2013
Current	$ 1,114	$ 731
Deferred	864	14
	$ 1,978	$ 745

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 16 low-income housing projects, one New Market Tax Credit project, ownership of Qualified Zone Academy Bonds, and tax exempt interest income totaling $4,338 and $3,926 for 2014 and 2013.

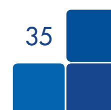
Deferred tax assets and liabilities relate principally to unrealized losses on securities available for sale, adjustment for pension obligations, premises and equipment, mortgage servicing rights, the allowance for loan losses, Federal Home Loan Bank stock dividends, fair value adjustments, prepaid pension benefits, other real estate owned losses, partnership investments, and net operating loss carryforwards generated by Central Bank of Jefferson County prior to the Company's acquisition. At December 31, 2014, the Company had net operating loss carryforwards of $1,941 which expire in 2025. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. The utilization of the net operating loss carryforwards is limited annually under Internal Revenue Code Section 382.

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

	2014	2013
Deferred tax assets	$ 24,018	$ 23,475
Deferred tax liabilities	(7,405)	(7,592)
	$ 16,613	$ 15,883

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, 2014 and 2013. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income tax expense accounts; no such accruals existed as of December 31, 2014 and 2013. 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 2010 and the Kentucky returns are subject to examination by taxing authorities for all years after 2009. The Company has certain returns that are subject to examination for the 2004 tax year.



NOTE 12 – RETIREMENT PLANS

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

The Company also maintains a non-qualified supplemental pension plan covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. The benefit obligation related to this unfunded plan was $3,789 and $2,591 at December 31, 2014 and 2013. Amounts recognized in accumulated other comprehensive income (loss) related to this plan at December 31, 2014 and 2013 were $(1,004) and $0 and were the result of a net actuarial loss in the plan.

During 2009, the Company curtailed these defined benefit plans, fully vesting and freezing benefits for all employees. The Company expects to make no contributions to the plans in 2015.

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

	December 31,	
	2014	2013
Benefit obligation	$ (31,587)	$ (26,952)
Fair value of plan assets	29,297	29,043
Funded status	$ (2,290)	$ 2,091

	2014	2013
Employer contributions	$ -	$ -
Benefits paid	1,587	1,149

The following benefit payments are expected:

2015	$ 304
2016	683
2017	894
2018	1,026
2019	1,087
2020–2024	7,740

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2014 and 2013 were $(8,558) and $(4,427) and were the result of a net actuarial loss in the plan.

The accumulated benefit obligation was $31,587 and $26,952 at year-end 2014 and 2013.

Components of net periodic pension cost and other amounts recognized in other comprehensive income (loss) for 2014 and 2013 for the Company's defined benefit pension plans included the following:

	2014	2013
Interest cost on projected benefit obligation	$ 1,261	$ 1,260
Expected return on plan assets	(1,304)	(1,301)
Amortization of net gain (loss)	293	314
Net periodic pension cost	250	273
Net gain (loss)	4,424	(1,175)
Amortization of net gain (loss)	(293)	(315)
Total recognized in other comprehensive income (loss)	4,131	(1,490)
Total recognized in net periodic pension cost and other comprehensive income	$ 4,381	$ (1,217)

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income (loss) into net periodic pension cost over the next fiscal year was $600 and $152 as of December 31, 2014 and 2013.

The weighted-average assumptions used to determine net periodic pension cost were a discount rate and expected return on plan assets of 4.50% for 2014 and 4.75% for 2013. The weighted-average assumptions used to determine pension benefit obligations were a discount rate and expected return on plan assets of 4.25% and 4.75% for year-end 2014 and 2013.

Plan Assets: The Company's overall investment strategy is to achieve a mix of long-term growth and fixed income investments. The target allocations for plan assets for 2015 are to maintain an asset mix of approximately 40% equities and 60% fixed income debt securities. Equity securities primarily include investments in mutual funds and blue chip stocks. Fixed income debt securities include agency securities and municipal securities.

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

The Company's pension plan asset allocation at year-end 2014 and 2013, and expected long-term rate of return by asset category are as follows:

Asset Class	Percentage of Plan Assets at Year End 2014	2013	Weighted-Average Expected Long-Term Rate of Return
Equities:			
Common stock	29.90%	28.88%	6.00%–8.00%
Mutual funds	11.83	10.50	6.00%–8.00%
Real estate investment trust	1.88	1.67	6.00%–8.00%
Fixed income:			
Cash and cash equivalents	2.32	1.17	0.00%
Debt securities:			
U.S. government agency securities	0.00	0.01	4.00%
Obligations of states and political subdivisions	54.07	57.77	4.00%
	100.00%	100.00%	

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

Equities: The fair values for equity securities, including common stock, mutual funds, and the real estate investment trust, are determined by quoted market prices (Level1).

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

The fair value of the plan assets at December 31, 2014 and 2013, by asset category, is as follows:

		Fair Value Measurements at December 31 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2014				
Plan assets:				
Cash and cash equivalents	$ 681	$ 681	$ -	$ -
Equities				
Common stock	8,760	8,760	-	-
Mutual funds	3,465	3,465	-	-
Real estate investment trust	551	551	-	-
Fixed income debt securities:				
U.S. government agency securities	1	-	1	-
Obligations of states and political subdivisions	15,839	-	15,839	-
Total plan assets	$ 29,297	$ 13,457	$ 15,840	$ -
2013				
Plan assets:				
Cash and cash equivalents	$ 341	$ 341	$ -	$ -
Equities				
Common stock	8,388	8,388	-	-
Mutual funds	3,048	3,048	-	-
Real estate investment trust	486	486	-	-
Fixed income debt securities:				
U.S. government agency securities	1	-	1	-
Obligations of states and political subdivisions	16,779	-	16,779	-
Total plan assets	$ 29,043	$ 12,263	$ 16,780	$ -

There were no transfers between Level 1 and Level 2 during 2014 or 2013.

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $309 and $123 in 2014 and 2013. The accrued liability associated with these plans of $976 and $733 at December 31, 2014 and 2013 is included in other liabilities.

Employee Stock Ownership Plan: The Company maintains an employee stock ownership plan (the "ESOP"). Contributions are determined annually by the Board of Directors in amounts not to exceed 15 percent of the total compensation of all participants. ESOP expense was $1,134 and $2,036 in 2014 and 2013. As of December 31, 2014 and 2013, a total of 37,715 and 37,474 shares with a fair value of $20,366 and $18,100 were allocated to active participants as well as $39 and $2 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, 2014 is the fair value of all ESOP shares distributed in 2014 and shares to be distributed in 2015 to participants who had terminated as of year-end 2014. 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 $1,363 and $1,378 in 2014 and 2013.

NOTE 13 – REGULATORY MATTERS

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

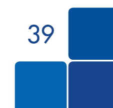
The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct 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.

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 233,724	13.4%	$ 139,391	8.0%	N/A	N/A
Central Bank & Trust Co.	209,526	13.1	127,808	8.0	$ 159,760	10.0%
Central Bank of Jefferson County, Inc.	18,573	12.8	11,583	8.0	14,479	10.0
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$ 211,944	12.2%	$ 69,696	4.0%	N/A	N/A
Central Bank & Trust Co.	189,536	11.9	63,904	4.0	$ 95,856	6.0%
Central Bank of Jefferson County, Inc.	17,340	12.0	5,792	4.0	8,688	6.0
Tier I Capital (to Average Assets):						
Consolidated	$ 211,944	10.2%	$ 83,249	4.0%	N/A	N/A
Central Bank & Trust Co.	189,536	9.9	76,731	4.0	$ 95,914	5.0%
Central Bank of Jefferson County, Inc.	17,340	9.6	7,240	4.0	9,051	5.0
December 31, 2013						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 230,651	13.4%	$ 138,135	8.0%	N/A	N/A
Central Bank & Trust Co.	197,158	12.4	126,804	8.0	$ 158,504	10.0%
Central Bank of Jefferson County, Inc.	18,280	12.5	11,710	8.0	14,637	10.0
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$ 209,038	12.1%	$ 69,068	4.0%	N/A	N/A
Central Bank & Trust Co.	177,315	11.2	63,402	4.0	$ 95,103	6.0%
Central Bank of Jefferson County, Inc.	16,602	11.3	5,855	4.0	8,782	6.0
Tier I Capital (to Average Assets):						
Consolidated	$ 209,038	10.0%	$ 83,370	4.0%	N/A	N/A
Central Bank & Trust Co.	177,315	9.2	76,914	4.0	$ 96,142	5.0%
Central Bank of Jefferson County, Inc.	16,602	8.6	7,748	4.0	9,685	5.0



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

Under the most restrictive dividend limitations described, the Banks could pay dividends in 2015 of $21,588 plus any 2015 earnings retained through the date of the dividend declaration.

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

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

At December 31, 2014 and 2013, the Banks had the following financial instruments:

	2014	2013
Standby letters of credit	$ 32,637	$ 32,911
Commitments to extend credit	$ 172,548	$ 172,256
Unused lines of credit	$ 248,800	$ 261,829

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

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

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

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