2018 ANNUAL REPORT

WORKING TO STRENGTHEN EVERY COMMUNITY WE SERVE.

Central Bancshares, Inc.

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

In 2019, the Kentucky Chamber of Commerce and the Kentucky Society for Human Resource Management (KYSHRM) named Central Bank one of the Best Places to Work in Kentucky – for the 12th time. The competition encourages and motivates Kentucky-based companies to improve their workplace environments, resulting in improved profitability and employee satisfaction.

MISSION STATEMENT

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

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

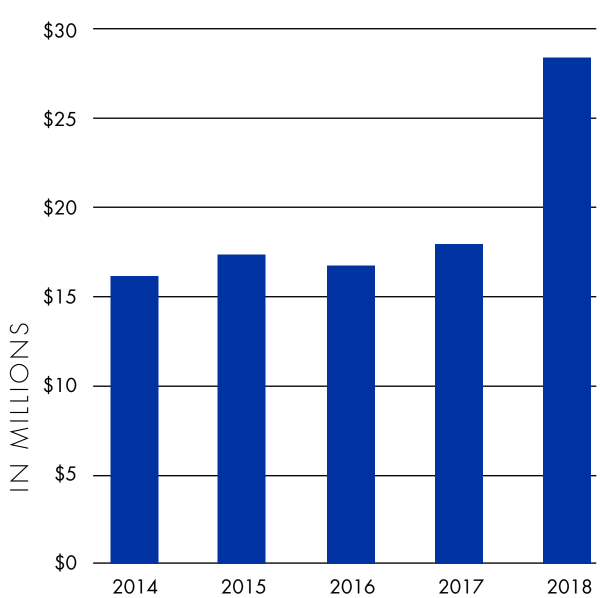
FINANCIAL HIGHLIGHTS

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

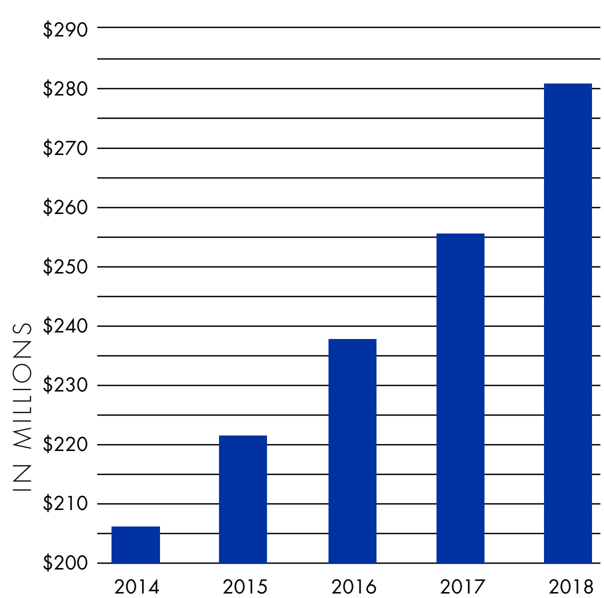
	2018	2017	2016	2015	2014
RESULTS OF OPERATIONS:					
Net income	$ 28,128	$ 17,410	$ 17,006	$ 17,138	$ 15,950
Net income per share[1]	0.81	0.50	0.49	0.49	0.46
Cash dividends per share[1]	0.05	0.04	0.03	0.02	0.01
Book value per share at year-end[1]	8.06	7.33	6.83	6.37	5.90
AT DECEMBER 31:					
Assets	$ 2,600,173	$ 2,408,725	$ 2,298,489	$ 2,192,412	$ 2,107,664
Earning assets	2,481,108	2,288,833	2,167,410	2,062,535	1,969,362
Loans, net	2,056,749	1,968,370	1,771,738	1,658,973	1,624,108
Deposits	2,107,493	1,991,028	1,915,781	1,834,873	1,765,510
Shareholders' equity	280,590	255,079	237,689	221,755	205,430
AVERAGES:					
Assets	$ 2,508,594	$ 2,328,930	$ 2,241,332	$ 2,144,248	$ 2,083,948
Earning assets	2,392,888	2,202,883	2,113,110	2,009,677	1,940,195
Loans, net	2,001,079	1,854,129	1,693,741	1,609,436	1,611,568
Deposits	2,046,598	1,930,081	1,861,980	1,798,520	1,749,203
Shareholders' equity	269,106	247,887	231,295	214,419	200,720
PERFORMANCE RATIOS:					
Return on average assets	1.12%	0.75%	0.76%	0.80%	0.77%
Return on average shareholders' equity	10.45%	7.02%	7.35%	7.99%	7.95%
Average shareholders' equity to average assets	10.73%	10.64%	10.32%	10.00%	9.63%
Dividend payout ratio	6.18%	7.99%	6.14%	4.06%	2.18%
Net interest margin (tax equivalent)	3.95%	3.94%	3.71%	3.66%	3.85%
CAPITAL RATIOS:					
Total capital to risk-weighted assets	13.7%	13.0%	13.4%	13.8%	13.5%
Tier I capital to risk-weighted assets	12.8%	12.1%	12.3%	12.6%	12.2%
Common equity Tier I to risk-weighted assets	12.1%	11.4%	11.6%	11.5%	N/A
Tier I capital to average assets	11.2%	10.9%	10.6%	10.7%	10.2%

[1]During October 2018, the Company issued 34,444,278 shares of non-voting, no par value common stock through a share dividend to holders of its voting common shares as of the record date. Except with respect to voting rights, shares of the non-voting common stock have the same preferences, limitations, and relative rights as, and shall be identical in all respects to, the voting common shares. All references in the financial statements and footnotes to the number of shares and per share amounts of the Company's common stock have been restated to give retroactive recognition to the additional shares that were issued.

Net Income



Shareholders' Equity



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

URBAN LEAGUE OF LEXINGTON-FAYETTE COUNTY

Central Bank has partnered with the Urban League of Lexington-Fayette County for more than 30 years, and we are excited to announce our support of the new Don Ball/Urban League Affordable Housing Fund. The Urban League of Lexington-Fayette County has a mission of empowering low- and moderate-income families to achieve economic self-sufficiency, through educational and housing opportunities. The new Affordable Housing Trust will promote a coordinated approach to downtown housing.

TRANSYLVANIA UNIVERSITY

Building upon a long-term partnership, the relationship between Central Bank and Transylvania University moved forward in a major way early in 2019. The Bank announced a 10-year commitment of $2 million for advancement of academic programs at the Lexington campus, including plans for a new student center. This commitment is of special significance for Central Bank Vice Chairman Joan Kincaid. Joan's mother, Nelle Kincaid, was a Transylvania graduate.

LEXINGTON PUBLIC LIBRARY

Central Bank supports the Lexington Public Library's literacy efforts to all segments of the population through six branch locations throughout the city. The Library is exploring new ways to connect with readers of all ages and expand its services in all locations.

BIG BROTHERS BIG SISTERS OF THE BLUEGRASS

The mission of Big Brothers Big Sisters of the Bluegrass is to provide children facing adversity with strong, enduring, professionally supported one-to-one relationships that change their lives for the better, forever. Central Bank's current support of BBBS's community education initiative at Breckinridge Elementary is based upon our shared dedication to the development of our community's children.

CARNEGIE CENTER FOR LITERACY AND LEARNING

Central Bank is the official sponsor of the Kentucky Writers Hall of Fame. This program was created to recognize Kentucky writers whose work reflects the character and culture of our commonwealth and to educate Kentuckians about our state's rich literary heritage.

WOMEN LEADING KENTUCKY

Central Bank supports and shares in Women Leading Kentucky's mission of creating business and leadership opportunities for women at all stages of their careers, enabling them to lead, learn, achieve and give back to their communities. The organization is now entering its 20th year of service.

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

I'm very pleased to announce that 2018 was a fantastic year for Central Bancshares, Inc. Central Bank achieved outstanding performance, experiencing a year of record earnings and strong customer growth across multiple service lines. We witnessed increased consumer and business confidence in the financial landscape as they were encouraged by a strong economy. Motivated by bourgeoning opportunities, our Investment, Insurance and Wealth Management groups were also able to achieve high-performing years.

Invigorated by this success, we continue to direct our energies toward the rapidly developing financial needs of our customers and markets, and we pledge to actively enhance our in-person and online service, where our customers increasingly go for many of their banking needs.

As the leading community bank in Central Kentucky, Central Bank pursues a mission to strengthen the communities where we reside. We understand that we have a responsibility to contribute to the economic growth and prosperity of these areas we call home. As residents of these same areas, we have a vested interest in success for all our citizens.

PERFORMANCE

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

- Net income rose to $28.1 million or $.81 per share. In 2017, earnings were $17.4 million or $.50 per share.
- Deposits grew 5.9%, ending the year at $2.1 billion.
- Net loans increased by 4.5%, ending the year at $2.1 billion.
- Shareholders' equity grew 10.0% to $281 million, reflecting outstanding performance that highlights our commitment to our Company's future.

Since customer service is our most powerful strategy for acquiring new customers, we use service shops to manage service performance in our 28 banking centers. The addition of digital shops has allowed us to survey our online and mobile banking platforms to ensure they are meeting the same high standards we expect of our in-person and phone service. Again, in 2018, excellent shop results demonstrated the service excellence that distinguishes Central Bank from our competitors.

PRODUCTS

Digital banking products continue their strong surge in usage and importance to a wide range of customers. As a result of the dedicated effort of our staff, two new features were added to our online and mobile banking platforms in 2018. The introduction of Central Wallet® and Credit Sense emphasized our commitment to providing our customers with added convenience and value within our existing mobile product suite. The Central Wallet app links with Central***MOBILE*** to provide the added benefits of debit card controls and activity tracking. Credit Sense updates credit scores monthly, to support consumer education about the factors that influence their credit bureau information. The redesign of centralbank.com contributed to our goal of providing a fast, seamless online and mobile experience for our customers.

Another exciting development was the introduction of the Central Community Money Market Account. This new product allows customers to direct a bank donation to a nonprofit organization. Customers have a wide range of nonprofit organizations to choose from and other nonprofit organizations are encouraged to apply for inclusion on the list. The Central Community Money Market Account gives us the opportunity not only to contribute to the community, but to allocate the money based on what our customers, fellow community members, are telling us matters most to them. The first round of annual donations was made in January 2019, and we look forward to developing this strong new community partnership. Central Bank has a reputation in Kentucky as a bank that serves its customers and communities, and this new account allows us to do both of those things.

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

LOOKING FORWARD

During October 2018, Central Bancshares issued 34,444,278 shares of non-voting, no par value common stock through a share dividend to its common shareholders. We expect this move will enhance the Company's market position for added growth in years to come.

Strengthened by the accomplishments of the last year, we approach 2019 with the energy needed to produce another outstanding year. With customer service that remains unmatched by any of our competitors, continued advances within online and mobile banking, renewed emphasis on our retail banking strategy and an unwavering focus on the communities we serve, we are poised to deliver another successful year.

Business banking continues to surge, with a strong focus on the lending, cash management and corporate services needed by today's increasingly sophisticated business owners. Plans are underway to offer these customers a new online and mobile banking product in 2019 to meet their developing needs. Commercial Online Banking will serve a wide range of needs, including a robust new mobile banking app for businesses.

We believe our commitment to growing communities is essential to expanding our market footprint and service commitment. While we know customers are increasingly choosing to transact online and in mobile banking, it is still our mission to provide our customers with access to trusted local experts, available at our brick and mortar locations.

The addition of new banking centers in Northern Kentucky and Louisville underscores this commitment to cultivating our communities by building local relationships. Our Union location opened on February 25, 2019, at 9021 U.S. Highway 42 in Union, Ky., and our Outer Loop location opened on March 1, 2019, at 3541 Outer Loop in Louisville. With the addition of these new banking centers, we have also expanded our Retail, Lending and Wealth Management staff in both markets. We are eager to see how these new locations are embraced by their market areas in the coming year.

RETIREES

In the last year, 10 long-term employees completed their service to reach well-earned retirements: Greg Bibb (Commercial Banking, 42 years); Ernie Dolihite (Small Business, 40 years); Debbie Hayes (Nicholasville Main, 39 years); Tina Christian (Funds Management, 36 years); Walter Sageser (Loan Processing, 23 years); Ed Workman (Mortgage, 17 years); Coos Ockers (Central Investment Center, 16 years); Mark Hanks (Nicholasville Mortage, 16 years); Jim DeMoss (Central Investment Center, 15 years); and Charles Daniels (Fort Mitchell, five years). They were dedicated Central Bankers who served our Bank and their customers with distinction. We honor their service and congratulate them on their achievements.

WITH APPRECIATION

The consistent leadership and support of our directors are vital to our success. Their collective experience and expertise serve as an exceptional resource, offering a powerful insight and connection to our local markets. We are grateful for their commitment to making Central Bank a success.

When citing our success, I can always point to the dedication of our knowledgeable and caring staff. Our Central Bankers are the foundation of this Company, and I am so grateful for their commitment to service and to our customers. Thanks to their support, we have been named a Best Place to Work in Kentucky for the 12th year.

Most important, none of our success would be possible without our loyal customers. I would like to thank them for entrusting Central Bank with their financial needs and for their dedication to our Company. I am eternally grateful for the kind words and recognition I hear from our customers. The opportunity to serve such dedicated employees and customers is an honor, and I look forward to continued success in the years to come.

Luther Deaton, Jr.
Chairman, President & CEO
March 14, 2019

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. (the "Bank"). At December 31, 2018, 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. Two additional full-service banking centers opened in the first quarter of 2019, one each in Boone and Jefferson counties.

RESULTS OF OPERATIONS

The Company reported net income of $28.1 million or $0.81 per common share for 2018 compared with $17.4 million or $0.50 per common share for 2017. Return on average assets and average equity was 1.12% and 10.45%, respectively, for 2018 compared with 0.75% and 7.02% a year earlier. The increase in net income for 2018 is the result of higher pre-tax income of $4.2 million or 14.7% combined with a reduction in income tax expense of $6.5 million or 58.3%. The increase in pre-tax income was driven by higher net interest income of $8.4 million or 9.8%, partially offset by an increase in non-interest expense of $3.1 million or 3.3% and a decrease in non-interest income of $1.3 million or 3.3%. Tax expense for 2018 is lower than the prior year due to a reduction in the top corporate federal income tax rate to 21% from 35%, combined with additional tax expense of $3.9 million recorded in the prior year related to the Tax Cuts and Jobs Act ("Tax Act") signed into law in December 2017.

NET INTEREST INCOME

Net interest income in 2018 was $94.4 million, an increase of $8.4 million or 9.8% compared to $86.0 million in 2017. The increase was primarily driven by overall loan growth and higher average rates earned on loans and interest bearing deposits in other financial institutions, partially offset by an increase in interest expense mainly as the cost of funds has repriced upward in an overall higher interest rate environment. Market interest rates generally increased during 2018 in response to the Federal Reserve actions to raise the short-term targeted federal funds rate by 100 basis points during the year.

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

The Company's net interest spread was 3.68% and 3.79% for 2018 and 2017, respectively. This represents a decrease of 11 basis points and was driven by the pace at which either new or existing funding sources repriced higher during the year compared with the yield on earning assets in a rising interest rate environment. The overall yield on earning assets improved 21 basis points in the comparison, but was offset by a 32 basis point increase in cost of interest bearing liabilities.

Net interest margin for 2018 was 3.95%, up one basis point from a year earlier. Margin was boosted 12 basis points during 2018 by the impact of non-interest bearing sources of funds, which typically have a greater benefit on margin in periods of rising interest rates. Net interest margin was negatively impacted by four basis points in the current year as a result of the Tax Act, which produced a smaller benefit from the tax-equivalent adjustment due to a reduction in tax rates that went into effect at the beginning of 2018.

Total interest income for 2018 was $106 million, an increase of $13.9 million or 15.1% compared to $92.1 million for 2017. The increase in interest income was driven primarily from higher interest on loans and interest bearing deposits in other financial institutions of $10.8 million or 12.5% and $2.1 million or 145%, respectively. The increase in interest income on loans was due to a combination of a $145 million or 7.8% higher average balance outstanding and a 16-basis-point increase in the average rate earned on the portfolio. For interest bearing deposits in other financial institutions, the increase in interest income was due to an increase in the average balance outstanding of $64.7 million or 69.9% and an increase in the average rate earned of 80 basis points.

Total interest expense for 2018 was $11.5 million, up $5.5 million or 90.4% from the prior year. Interest expense on deposits, the largest component of interest expense, was $9.9 million for 2018, an increase of $4.9 million or 99.2%. Interest expense increased among all major categories of the deposit portfolio, which correlates primarily to the increase in market rates and, to a lesser extent, local market competition.

Interest expense on time deposits grew $3.4 million or 121%, driven by an increase in the average rate paid to 1.48% from 0.84% and an increase in average balances outstanding of $84.2 million or 25.4%. As market interest rates have risen, many customers have opted to increase balances held in higher-paying time deposits. Interest expense on money market, savings and NOW accounts were up $914,000, $135,000, and $500,000, respectively. The increase in each of those categories was rate-driven, although average balances for money market and NOW accounts each decreased during 2018.

Interest expense on borrowed funds was $1.7 million for 2018, an increase of $561,000 or 50.8%. Interest on short-term borrowings, primarily repurchase agreements with commercial customers, was up $292,000 or 87.4%, driven by both an increase in the average rate to 0.48% from 0.33% and an increase in the average balance of $27.8 million or 27.4%.

Interest expense on long-term borrowings, consisting of Federal Home Loan Bank ("FHLB") advances and

NET INTEREST MARGIN ANALYSIS
(dollars in thousands)

	2018 Average Balance	2018 Interest	2018 Average Rate	2017 Average Balance	2017 Interest	2017 Average Rate
Interest earning assets						
Loans[1,2]	$ 2,020,794	$ 98,326	4.87%	$ 1,875,414	$ 88,240	4.71%
Interest bearing deposits	157,212	3,106	1.98%	92,558	1,095	1.18%
Federal Home Loan Bank stock	6,751	397	5.88%	6,751	337	4.99%
Securities[1]	227,846	5,052	2.22%	249,444	4,111	1.65%
Total interest earning assets (TE)	**$ 2,412,603**	**106,881**	**4.43%**	**$ 2,224,167**	**93,783**	**4.22%**
Interest bearing liabilities						
Deposits						
NOW accounts	$ 334,356	1,241	0.37%	$ 344,890	741	0.21%
Savings deposits	150,294	296	0.20%	140,530	161	0.11%
Money market deposits	459,123	2,179	0.47%	472,247	1,265	0.27%
Time deposits	416,307	6,152	1.48%	332,085	2,787	0.84%
Total interest bearing deposits	1,360,080	9,868	0.73%	1,289,752	4,954	0.38%
Short-term borrowings	129,241	626	0.48%	101,452	334	0.33%
Long-term borrowings	40,457	1,040	2.57%	26,832	771	2.87%
Total interest bearing liabilities	**$ 1,529,778**	**11,534**	**0.75%**	**$ 1,418,036**	**6,059**	**0.43%**
Net interest margin		**$ 95,347**	**3.95%**		**$ 87,724**	**3.94%**

[1]Income and yield stated at a tax equivalent basis using a marginal corporate federal tax rate of 21% (2018) and 35% (2017).
[2]Loan balances include principal balances on nonaccrual loans.

subordinated debentures, increased $269,000 or 34.9%. The increase was driven by a $13.6 million higher average balance of FHLB borrowings outstanding for the current year. The average rate paid on total long-term borrowings decreased 30 basis points to 2.57% due to an additional $25.0 million in FHLB fixed rate borrowings in July 2017 at a corresponding rate of 1.74%. These funds, which make up approximately 62% of the total average long-term borrowings for 2018, carry a much lower rate when compared to the average rate paid of 3.84% on the variable rate subordinated debentures.

The table above reflects information regarding the Company's average balances, interest income or expense, and average rates earned and paid by each major balance sheet category for the years ended December 31, 2018 and 2017.

The table below reflects the changes in net interest income in 2018 and 2017 due to changes in rates and volumes computed on a tax equivalent basis.

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS
(dollars in thousands)

	2018/2017 Net Change	2018/2017 Increase/Decrease Due To Rate	2018/2017 Increase/Decrease Due To Volume	2017/2016 Net Change	2017/2016 Increase/Decrease Due To Rate	2017/2016 Increase/Decrease Due To Volume
Interest income						
Loans	$ 10,086	$ 3,084	$ 7,002	$ 8,603	$ 1,167	$ 7,436
Interest bearing deposits	2,011	985	1,026	327	601	(274)
Federal Home Loan Bank stock	60	60	-	67	67	-
Securities	941	1,322	(381)	570	830	(260)
Total interest income	13,098	5,451	7,647	9,567	2,665	6,902
Interest expense						
Deposits						
NOW accounts	500	524	(24)	217	188	29
Savings deposits	135	123	12	75	63	12
Money market deposits	914	950	(36)	446	426	20
Time deposits	3,365	2,523	842	(21)	234	(255)
Short-term borrowings	292	185	107	222	229	(7)
Long-term borrowings	269	(88)	357	144	(230)	374
Total interest expense	5,475	4,217	1,258	1,083	910	173
Net interest income	$ 7,623	$ 1,234	$ 6,389	$ 8,484	$ 1,755	$ 6,729

The Company's average loans to average deposits ratio increased to 98.8% for 2018 from 97.2% in 2017. The increase was driven by growth of $147 million or 7.9% in the average balance of loans which outpaced an increase in average deposits of $117 million or 6.0%.

Overall liquidity levels continued to be strong in 2018. Liquidity position and related metrics are closely monitored as management seeks the appropriate balance between the relative safety of higher liquidity levels and corresponding lower yields, versus the interest rate risk inherent in obtaining higher yields over a longer term investment.

NON-INTEREST INCOME

Total non-interest income was $37.4 million in 2018, a decrease of $1.3 million or 3.3% from 2017. The most significant component of the decrease relates to repossessed property activity, which represents a $1.4 million negative variance in the comparison. During 2018, the Company had a net loss on the sale and write-downs of other real estate owned of $633,000 compared with a net gain of $782,000 a year earlier. Mortgage banking income decreased by $726,000 or 19.0% as certain residential mortgage markets slowed and refinancing activity declined from the upward movement in rates throughout the year. Loans originated for sale and subsequently sold were $160 million in 2018, down $25.4 million or 13.7% from 2017. Service charges on deposits were $7.3 million, down $464,000 or 6.0% as overdraft fees declined $287,000 or 5.9%.

Positive variances in the yearly comparison include higher fees from trust, insurance commissions, electronic banking, and credit card interchange. The Company recorded $7.9 million in revenue from its trust operations in 2018, which represents an increase of $685,000 or 9.5%. The increase in trust revenue was driven by growth in average assets under management of $90.9 million or 5.8%, although year-end balances declined $89.3 million to $1.6 billion compared to a year ago.

Insurance commissions for 2018 were $4.7 million, up $477,000 or 11.2% in the comparison driven by a higher volume of commercial policies. Electronic banking and credit card interchange fees were $5.5 million and $6.3 million, reflecting increases of $495,000 or 9.8% and $345,000 or 5.8%, respectively. These increases are due to additional efforts to increase volume activity, particularly as it relates to customer debit card transactions.

NON-INTEREST EXPENSE

Total non-interest expense for 2018 was $96.9 million, an increase of $3.1 million or 3.3% compared with 2017. Components of non-interest expense that increased include salaries and benefits, occupancy and equipment, advertising and business development, card and interchange expenses, franchise taxes, and other. Those were partially offset by declines in processing charges, professional services, FDIC insurance expense, and other real estate expenses.

Salaries and benefits, the largest component of non-interest expense, was $49.2 million for 2018. This represents an increase of $2.4 million or 5.1% compared with the prior year. The higher expense in 2018 is attributed primarily to a $1.4 million or 3.5% increase related to normal salary increases, incentive payments, and related payroll taxes. Benefit costs were up $970,000 or 14.9%, driven mainly by the effect of lower 2018 earnings from the assets held in the Company's defined benefit pension plan. The Company had 498 full-time equivalent employees at year-end 2018, up from 496 a year earlier.

Occupancy and equipment expense was $16.8 million, an increase of $506,000 or 3.1%, mainly due to higher maintenance costs associated with software and technology improvements and related initiatives. Advertising and business development expenses increased $123,000 or 2.0% due to a higher level of community sponsorships and charitable contributions of $663,000 or 26.0%, partially offset by lower advertising and media costs of $344,000 or

ANALYSIS OF NON-INTEREST INCOME

(dollars in thousands)

				2018/2017		2017/2016	
	2018	2017	2016	CHANGE	%	CHANGE	%
Service charges on deposit accounts	$ 7,261	$ 7,725	$ 7,849	$ (464)	(6.0)%	$ (124)	(1.6)%
Mortgage banking income	3,095	3,821	4,524	(726)	(19.0)%	(703)	(15.5)%
Card and interchange fees	6,250	5,905	6,247	345	5.8 %	(342)	(5.5)%
Trust fees	7,878	7,193	6,755	685	9.5 %	438	6.5 %
Electronic banking fees	5,532	5,037	5,276	495	9.8 %	(239)	(4.5)%
Net (loss) gain on sales and write-downs of OREO	(632)	782	118	(1,414)	(180.8)%	664	562.7 %
Other non-interest income	8,021	8,231	8,204	(210)	(2.6)%	27	0.3 %
Total non-interest income	**$ 37,405**	**$ 38,694**	**$ 38,973**	**$ (1,289)**	**(3.3)%**	**$ (279)**	**(0.7)%**

13.4% as the previous year included additional rebranding efforts the Company generally schedules every three years. Other promotional and business development expenses decreased $196,000 or 18.3%.

Card and interchange expenses were $5.4 million, up $612,000 or 12.8% driven by higher processing volumes and related expenses associated with increased customer reward activity. Bank franchise tax expense was $2.6 million, an increase of $176,000 or 7.4% due to higher earnings and capital growth over the last several years that has increased the taxable base amount. All other non-interest expenses were $7.6 million, an increase of $468,000 or 6.5% compared to a year ago. Increases in multiple line items were partially offset by lower amortization of partnership tax credits of $301,000 or 18.5% as certain of those investments in prior years have been fully amortized.

Processing charges for 2018 were $5.9 million, down $214,000 or 3.5% from 2017 as core data system conversion charges from the charter merger of Central Bank of Jefferson County (previously a separate subsidiary of the Company) were incurred during the prior year. Expenses associated with repossessed property were $123,000 for 2018, a decrease of $605,000 or 83.1%. Despite a $504,000 or 18.5% increase during 2018, the level of repossessed property has declined significantly in recent years; as such, related maintenance and operating expenses have trended downward despite the upward spike during 2017. Federal Deposit Insurance Fund ("FDIC") expense decreased $272,000 or 24.2%, led by improvements in the Bank's performance risk ratings which generated a reduction in the assessment rate.

INCOME TAXES

The Company recorded income tax expense of $4.7 million for 2018 compared with $11.2 million for 2017, a decrease of $6.5 million or 58.3%. The decrease was due to a reduction in the federal income tax rate to 21% from 35% that went into effect during 2018 as a result of the Tax Act. In addition, the Tax Act required the Company in 2017 to remeasure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The remeasurement of the Company's net deferred tax asset resulted in additional income tax expense of $3.9 million in 2017.

The Company's effective income tax rates were 14.2% and 39.1% for 2018 and 2017, respectively. The effective tax rate for 2017 was 25.3% when factoring out the additional tax expense related to the remeasurement of the net deferred tax asset.

The Company's tax planning strategy includes the participation in Industrial Revenue Bond lending for nonprofit organizations to increase tax-exempt income. The Company is also a limited partner in 16 low-income housing projects and four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation credits, and is an investor in a Community Development Entity for which it receives New Markets Tax Credits.

FINANCIAL CONDITION

Total assets of the Company at year-end 2018 were $2.6 billion, an increase of $191 million or 7.9% compared with year-end 2017. Balance sheet growth was fueled by higher deposits and customer repurchase agreements of $116 million or 5.8% and $43.7 million or 44.4%, respectively. Earning assets were $2.5 billion or 95.4% of total assets at December 31, 2018, compared with $2.3 billion or 95.0% of total assets a year earlier. Loans outstanding, net of the allowance for loan losses, increased $88.4 million or 4.5%. Cash and cash equivalents were up $80.5 million or 56.3% in the comparison and the securities portfolio increased $22.1 million or 10.2%.

ANALYSIS OF NON-INTEREST EXPENSE

(dollars in thousands)

	2018	2017	2016	2018/2017 CHANGE	2018/2017 %	2017/2016 CHANGE	2017/2016 %
Salaries and benefits	$ 49,233	$ 46,847	$ 45,394	$ 2,386	5.1 %	$ 1,453	3.2 %
Occupancy and equipment	16,752	16,246	17,950	506	3.1 %	(1,704)	(9.5)%
Processing charges	5,927	6,141	6,474	(214)	(3.5)%	(333)	(5.1)%
Advertising and business development	6,304	6,181	5,646	123	2.0 %	535	9.5 %
Card and interchange expenses	5,413	4,801	4,609	612	12.8 %	192	4.2 %
Professional services	2,073	2,173	2,283	(100)	(4.6)%	(110)	(4.8)%
Bank franchise tax	2,567	2,391	2,204	176	7.4 %	187	8.5 %
FDIC assessment	853	1,125	1,383	(272)	(24.2)%	(258)	(18.7)%
Other real estate owned, net	123	728	482	(605)	(83.1)%	246	51.0 %
Other	7,641	7,173	7,133	468	6.5 %	40	0.6 %
Total non-interest expense	$ 96,886	$ 93,806	$ 93,558	$ 3,080	3.3 %	$ 248	0.3 %

EARNING ASSETS

Gross loans outstanding were $2.1 billion at December 31, 2018, an increase of $88.1 million or 4.4% from the prior year-end as economic conditions continued to improve. Strong loan growth in the prior year continued throughout 2018, although at a slower pace. Loan balances increased in nearly all major segments, led by higher commercial real estate balances of $43.3 million or 4.0%. The Northern Kentucky and Louisville markets drove most of the loan growth.

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

On-balance sheet liquidity remained strong in 2018 despite a relatively high loans to deposits ratio. Internal liquidity ratios, which are monitored closely on a regular basis, are within longstanding parameters established by policy and regulatory guidance. Total deposits were $2.1 billion at year-end 2018, an increase of $116 million or 5.8%. Federal funds purchased and short-term customer repurchase agreements were $142 million, up $43.7 million or 44.4% as some commercial customers have opted to move balances from deposits to overnight sweep accounts. The increase in sweep account balances requires the Company to provide collateral for these funds. The Company typically purchases short-term government agency securities to provide such collateral, which is the primary driver for the $29.8 million or 21.6% increase in available for sale debt securities.

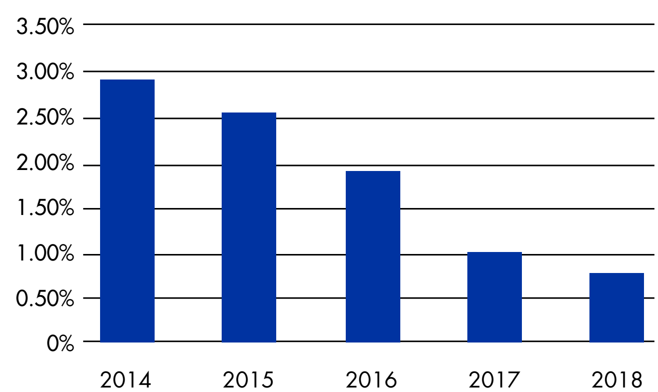
ALLOWANCE FOR LOAN LOSSES

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

The allowance for loan losses was $20.2 million and $20.5 million at December 31, 2018 and 2017, a decrease of $302,000 or 1.5%. As a percentage of total loans, the allowance was 0.97% at year-end 2018, down six basis points from 1.03% at year-end 2017. The provision for loan losses for 2018 was $2.1 million, a decrease of $190,000 or 8.2% in the annual comparison. Net loan charge-offs were relatively unchanged at $2.4 million as credit quality trends continued to improve despite an overall increase in loans outstanding. Net charge-offs as a percentage of average loans were 0.12% in 2018, an improvement of one basis point from 0.13% in 2017.

The marked improvement in the credit quality of the loan portfolio during 2017 carried into 2018. Nonperforming loans as a percentage of gross loans decreased to 0.56% at year-end 2018 compared with 0.68% for year-end 2017. Total delinquencies improved to 0.79% of the portfolio, down from 1.04% a year ago. Although loans past due 90 days or more increased $1.6 million or 27.3%, nonaccrual loans declined $1.7 million or 12.7%. While nonperforming and delinquent loans each declined in terms of dollars, the growth in the total loans outstanding also contributed to the credit metric improvements. As a percentage of nonperforming loans, the allowance for loan losses was 172.1% at year-end 2018 compared with 150.7% at year-end 2017.

Delinquency



Loans identified as special mention and substandard increased $4.0 million or 5.2% in the annual comparison, with the amount as a percentage of the portfolio edging up three basis points to 3.95%. Impaired loans, which are those where it is considered probable that all principal and interest amounts will not be collected in accordance with the original loan terms, were $46.8 million at year-end 2018. This represents a decrease of $14.5 million or 23.6% compared with year-end 2017. Specific reserves on impaired loans were $3.4 million or 7.2% of their outstanding balance at year-end 2018 compared with $2.9 million or 4.7% a year earlier.

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

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(dollars in thousands)

	2018	2017	2016	2015	2014
Allowance for loan losses					
Balance January 1	$ 20,485	$ 20,582	$ 21,840	$ 23,037	$ 23,913
Provision for loan losses	2,120	2,310	4,464	961	3,217
Less: Net charge-offs	(2,422)	(2,407)	(5,722)	(2,158)	(4,093)
Balance December 31	$ 20,183	$ 20,485	$ 20,582	$ 21,840	$ 23,037
Average loans, net of unearned income	$ 2,020,794	$ 1,875,414	$ 1,715,145	$ 1,631,982	$ 1,635,738
Loans, net of unearned income, at year-end	$ 2,076,932	$ 1,988,855	$ 1,792,320	$ 1,680,813	$ 1,647,145
Nonperforming loans at year-end	$ 11,730	$ 13,589	$ 26,245	$ 35,754	$ 37,895
Other real estate owned at year-end	$ 3,225	$ 2,721	$ 5,050	$ 5,806	$ 10,332
Ratios:					
Provision for loan losses to average loans	0.10%	0.12%	0.26%	0.06%	0.20%
Net charge-offs to average loans	0.12%	0.13%	0.33%	0.13%	0.25%
Allowance for loan losses to loans	0.97%	1.03%	1.15%	1.30%	1.40%
Allowance for loan losses to nonperforming loans	172.06%	150.75%	78.42%	61.08%	60.79%
Nonperforming loans to loans	0.56%	0.68%	1.46%	2.13%	2.30%
Nonperforming assets to total assets	0.58%	0.68%	1.36%	1.90%	2.29%
Nonperforming assets to shareholders' equity and allowance for loan losses	4.97%	5.92%	12.12%	17.06%	21.11%
Total delinquent loans at year-end	0.79%	1.04%	1.92%	2.53%	2.89%

at the balance sheet date. 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, 2018, future adjustments may be necessary if economic conditions worsen or if assumptions in the evaluation differ substantially from actual results.

DEPOSITS

Total deposits were $2.1 billion at year-end 2018, an increase of $116 million or 5.8% from December 31, 2017. Non-interest bearing deposits were up $59.3 million or 8.9% followed by an increase in interest bearing deposits of $57.2 million or 4.3%.

The increase in non-interest bearing deposits was driven by higher commercial account balances of $53.1 million or 8.9%. For interest bearing deposits, the increase was driven by higher time deposits of $140 million or 42.5%. The increase in time deposits is due to a combination of management's efforts to promote a variable rate certificate of deposit product and consumer preferences to move balances into certain other higher earning accounts that have repriced upwards in a rising interest rate environment.

Variable rate time deposits are up $207 million for 2018, partially offset by a decrease in fixed rate time deposits of $66.8 million or 22.4%. Other end of period declines include money market deposits of $47.9 million or 9.8%, interest bearing demand of $40.8 million or 11.2%, and savings of $5.7 million or 3.9%.

SHORT-TERM BORROWINGS

Short-term borrowing sources consist primarily of repurchase agreements and sweep accounts of commercial customers. The cash management services offered by the Company continue to be a valued service for our commercial deposit customers. The balance in commercial sweep accounts was $142 million at December 31, 2018, an increase of $43.7 million or 44.4% from December 31, 2017. 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 FHLB advances and subordinated debentures. At December 31, 2018, the Company had $25.4 million outstanding in advances from the FHLB, virtually unchanged from the prior year-end. FHLB borrowings of $25.0 million with a fixed interest rate of 1.74% mature in July 2020. Remaining principal amounts of $422,000 mature between January 2022 and December 2027 and have a weighted average rate of 2.44%. A prepayment penalty would be applicable if the Company paid off any of the advances prior to maturity.

The advances are borrowed under a blanket lien agreement, and are collateralized by FHLB stock and fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans.

In March 2005, Central Bancshares KY Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 15,000 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 the common security of the trust in the amount of $464,000 and the proceeds of the preferred securities sold by the trust of $15.0 million. The subordinated debentures mature on June 15, 2035, and have a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate ("LIBOR") and 1.75%. The interest rate in effect as of the last determination date for 2018 was 4.54%.

The subordinated debentures are redeemable in whole or in part, without penalty, at the Company's option. The subordinated debentures, net of the Company's investment in the trust, may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. At year-end 2018 and 2017, the Company's Tier 1 capital included $15.0 million, which represents the full amount of the subordinated debentures net of the investment in the trust.

CAPITAL

Capital adequacy guidelines of the regulatory agencies, and additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items. Federal banking agencies adopted rules during 2013 to bring U.S banking organizations into compliance with capital standards based on final rules issued by the Basel Committee on Banking Supervision. Such standards, commonly referred to as "Basel III," became effective January 1, 2015 with all the requirements being gradually implemented over a multi-year schedule and fully phased in by January 1, 2019. The Company's capital ratios strengthened during 2018 and continued to be well above the minimum requirements to be considered "well capitalized" under regulatory guidance, including on a fully phased-in basis.

The Bank is subject to capital-based regulatory requirements which place banks in one of five categories based upon their capital levels and other supervisory criteria. These five categories are: (1) well-capitalized, (2) adequately capitalized, (3) undercapitalized, (4) significantly undercapitalized, and (5) critically undercapitalized. To be well-capitalized, a bank must have a Common Equity Tier 1 Risk-based Capital ratio of at least 6.5%, a Tier 1 Risk-based Capital ratio of 8.0%, a Total Risk-based Capital ratio of at least 10.0%, and a Tier 1 Leverage ratio of at least 5.0%. As of December 31, 2018, the Company had the following capital ratios for regulatory purposes:

	Common Equity Tier 1 Risk-based Capital Ratio[1]	Tier 1 Risk-based Capital Ratio[1]	Total Risk-based Capital Ratio[1]	Tier 1 Leverage Capital Ratio[2]
Central Bancshares, Inc.	12.1%	12.8%	13.7%	11.2%
Central Bank & Trust Co.	12.6	12.6	13.5	11.1

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

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

INDEPENDENT AUDITOR'S REPORT

Crowe

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, 2018 and 2017, 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. 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also have audited in accordance with auditing standards generally accepted in the United States of America, Central Bancshares, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 14, 2019 expressed an unmodified opinion.

Crowe LLP

Crowe LLP
Louisville, Kentucky
March 14, 2019

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31 2018	December 31 2017
ASSETS		
Cash and due from financial institutions	$ 48,381	$ 50,851
Interest bearing deposits with other financial institutions	175,251	92,250
Total cash and cash equivalents	223,632	143,101
Available for sale debt securities	167,929	138,102
Held to maturity debt securities	70,224	77,952
Total debt securities	238,153	216,054
Loans held for sale	4,124	5,328
Loans, net of allowance of $20,183 (2018) and $20,485 (2017)	2,056,749	1,968,370
Premises and equipment, net	31,439	31,680
Other real estate owned	3,225	2,721
Interest receivable	6,760	5,945
Federal Home Loan Bank stock, at cost	6,751	6,751
Goodwill	14,313	14,313
Other assets	15,027	14,462
Total assets	$ 2,600,173	$ 2,408,725
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 723,841	$ 664,586
Interest bearing	1,383,652	1,326,442
Total deposits	2,107,493	1,991,028
Federal funds purchased and repurchase agreements	142,115	98,397
Federal Home Loan Bank advances	25,422	25,440
Subordinated debentures	15,464	15,464
Interest payable	614	339
Other liabilities	28,475	22,978
Total liabilities	2,319,583	2,153,646
SHAREHOLDERS' EQUITY		
Common stock (voting), $10 par value; 350,000 shares Authorized; 347,922 shares issued and outstanding	3,479	3,479
Common stock (non-voting), no par value; 34,650,000 shares authorized; 34,444,278 and zero shares issued and outstanding at December 31, 2018 and 2017, respectively	-	-
Additional paid-in capital	6,890	6,890
Retained earnings	276,974	250,586
Accumulated other comprehensive loss	(6,753)	(5,876)
Total shareholders' equity	280,590	255,079
Total liabilities and shareholders' equity	$ 2,600,173	$ 2,408,725

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Years Ended December 31 2018	2017
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 97,372	$ 86,523
Debt securities	5,052	4,108
Deposits with other financial institutions	3,503	1,432
	105,927	92,063
INTEREST EXPENSE		
Deposits	9,868	4,954
Federal funds purchased and repurchase agreements	626	334
Federal Home Loan Bank advances	446	323
Subordinated debentures	594	448
	11,534	6,059
Net interest income	94,393	86,004
Provision for loan losses	2,120	2,310
Net interest income after provision for loan losses	92,273	83,694
NON-INTEREST INCOME		
Service charges on deposit accounts	7,261	7,725
Mortgage banking income	3,095	3,821
Card and interchange fees	6,250	5,905
Trust fees	7,878	7,193
Electronic banking	5,532	5,037
Net (loss) gain on sales and write-downs of other real estate owned	(632)	782
Other fees and income	8,021	8,231
	37,405	38,694
NON-INTEREST EXPENSE		
Salaries and benefits	49,233	46,847
Occupancy and equipment	16,752	16,246
Processing charges	5,927	6,141
Advertising and business development	6,304	6,181
Card and interchange expenses	5,413	4,801
Professional services	2,073	2,173
Bank franchise tax	2,567	2,391
FDIC assessment	853	1,125
Other real estate owned, net	123	728
Other	7,641	7,173
	96,886	93,806
Income before income taxes	32,792	28,582
Income taxes	4,664	11,172
Net income	$ 28,128	$ 17,410
Basic earnings per share	$ .81	$ .50
Weighted average number of common shares outstanding	34,792,200	34,792,200

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31 2018	2017
Net income	$ 28,128	$ 17,410
Other comprehensive income (loss):		
Unrealized gains/losses on securities:		
Unrealized holding gain (loss) arising during the period	366	1,588
Tax effect	(76)	(556)
Net of tax	290	1,032
Defined benefit pension plans:		
Net (loss) gain arising during the period	(1,478)	577
Tax effect	311	(237)
Net of tax	(1,167)	340
Total other comprehensive income (loss)	(877)	1,372
Comprehensive income	$ 27,251	$ 18,782

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

Years Ended December 31, 2018 and 2017	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2017	$ 3,479	$ 6,890	$ 233,557	$ (6,237)	$ 237,689
Net income	-	-	17,410	-	17,410
Cash dividends declared ($0.04 per share)	-	-	(1,392)	-	(1,392)
Other comprehensive income	-	-	-	1,372	1,372
Reclassification of disproportionate tax effect	-	-	1,011	(1,011)	-
Balances, December 31, 2017	$ 3,479	$ 6,890	$ 250,586	$ (5,876)	$ 255,079
Net income	-	-	28,128	-	28,128
Cash dividends declared ($0.05 per share)	-	-	(1,740)	-	(1,740)
Other comprehensive loss	-	-	-	(877)	(877)
Balances, December 31, 2018	$ 3,479	$ 6,890	$ 276,974	$ (6,753)	$ 280,590

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 28,128	$ 17,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,120	2,310
Deferred income tax expense	882	6,897
Depreciation and amortization	5,872	6,670
Net loss (gain) on sales and write-downs of other real estate owned	632	(782)
Net gain on sale of loans	(2,960)	(3,637)
Net change in:		
Loans held for sale	4,164	3,704
Interest receivable	(815)	(523)
Other assets	(2,532)	214
Interest payable	275	120
Other liabilities	4,019	881
Net cash provided by operating activities	39,785	33,264

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS – (CONTINUED)
(in thousands)

	Years Ended December 31 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Available for sale securities:		
Purchases	(827,555)	-
Maturities, calls, and return of principal	797,973	32,933
Held to maturity securities:		
Maturities, calls, and return of principal	7,658	32,485
Net change in loans	(93,177)	(208,807)
Purchases of premises and equipment	(4,120)	(2,101)
Proceeds from sale of other real estate owned	1,542	12,976
Net cash used in investing activities	(117,679)	(132,514)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	116,465	75,247
Net change in federal funds purchased and repurchase agreements	43,718	(7,794)
Repayment of Federal Home Loan Bank advances	(18)	(124)
Issuance of Federal Home Loan Bank advances	-	25,000
Cash dividends paid	(1,740)	(1,392)
Net cash provided by financing activities	158,425	90,937
Net change in cash and cash equivalents	80,531	(8,313)
Cash and cash equivalents, beginning of year	143,101	151,414
Cash and cash equivalents, end of year	$ 223,632	$ 143,101
Supplemental cash flow information:		
Interest paid	$ 11,259	$ 5,939
Income taxes paid	3,360	4,010
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$ 2,690	$ 11,482
Sale and financing of other real estate owned	12	1,617

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(dollars 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") and its wholly-owned subsidiary, Central Bank & Trust Co. (the "Bank"), and Central Bank & Trust Co.'s wholly-owned subsidiaries, Central Investment Center, Inc., Central Insurance Services, Inc., and CBT Real Estate Holdings, LLC. As of June 1, 2017, Central Bank of Jefferson County, Inc., which was previously a subsidiary of Central Bancshares, Inc., was merged into the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 14, 2019, which is the date the financial statements were available to be issued.

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

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

Securities: Debt securities are classified 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 Bank has no trading securities. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Securities held to maturity are stated at amortized cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on 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.

Loan disclosures include presenting certain disaggregated information based on recorded investment. The recorded investment in a loan includes its principal amount outstanding adjusted for certain items that include net deferred loan costs or fees, charge-offs, and accrued interest. The Company had a total of $1,715 and $1,679 of net deferred loan fees at year-end 2018 and 2017, respectively, included in the carrying amount of loans on the consolidated balance sheets. The amount of net deferred loan fees is not material and is omitted from the computation of the recorded investment included in Note 3 that follows. Similarly, accrued interest receivable on loans was $5,730 and $5,107 at year-end 2018 and 2017, respectively, which has also been omitted from certain information presented in Note 3.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. At December 31, 2018, 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.

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Other intangible assets consisted of customer relationship intangibles arising from acquisitions and have been fully amortized.

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

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

Investment in Limited Partnerships: The Company is a limited equity partner in 16 low-income housing projects, four Community Reinvestment Act related funds with both low-income housing and Historic Rehabilitation credit generation, and one New Markets Tax Credit Fund. The investments are accounted for using the equity method and are included in other assets on the consolidated balance sheets. The investments had a balance of $3,102 and $3,239 at year-end 2018 and 2017, respectively. At year-end 2018, remaining funding commitments were $2,242.

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

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

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of shares outstanding during the period. The Company has no shares outstanding which are potentially dilutive. Earnings and dividends per share have been restated for all share dividends through the date of the issuance of the financial statements as further described under the heading "**Common Shares**" below.

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. Accumulated other comprehensive loss at December 31, 2018 of $(6,753) was comprised of $(8,072) related to the defined benefit and non-qualified pension plans and $1,319 related to unrealized gains and losses on available for sale securities. Accumulated other comprehensive income (loss) at December 31, 2017 of $(5,876) was comprised of $(6,904) related to the defined benefit and non-qualified pension plans and $1,028 related to unrealized gains and losses on available for sale securities.

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

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

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements. The average balance requirement was $48,544 and $47,791 at December 31, 2018 and 2017, respectively.

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

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

All references in the financial statements and footnotes to the number of shares and per share amounts of the Company's common stock have been restated to give retroactive recognition to the additional shares that were issued.

Adoption of New Accounting Standards: In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in this ASU remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting-Chapter 8: Notes to Financial Statements.* The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company early adopted this ASU in 2018 related to the removed or modified disclosures. The adoption of this ASU did not have a material effect on the Company's consolidated financial position, results of operations, or cash flows upon adoption.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* This ASU shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. The ASU does not change the accounting for securities held at a discount; the discount will continue to be amortized to maturity. This ASU is effective for the Company in annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020, with early adoption permitted. The Company early adopted this standard with no material impact on its consolidated financial position, results of operations, or cash flows.

NOTE 2 – SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2018				
U.S. government sponsored entities and agencies	$ 44,075	$ 12	$ (171)	$ 43,916
Agency mortgage-backed securities – residential	80,565	360	(47)	80,878
Agency mortgage-backed securities – commercial	26,011	-	(184)	25,827
Corporate debt securities	15,609	1,709	(10)	17,308
	$ 166,260	$ 2,081	$ (412)	$ 167,929
2017				
U.S. government sponsored entities and agencies	$ 26,175	$ 34	$ (102)	$ 26,107
Agency mortgage-backed securities – residential	68,076	419	(12)	68,483
Agency mortgage-backed securities – commercial	27,061	190	(108)	27,143
Corporate debt securities	15,487	904	(22)	16,369
	$ 136,799	$ 1,547	$ (244)	$ 138,102

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

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2018				
U.S. government sponsored entities and agencies	$ 45,500	$ -	$ (527)	$ 44,973
Agency mortgage-backed securities – residential	23,154	2	(654)	22,502
States and political subdivisions	1,570	-	(4)	1,566
	$ 70,224	$ 2	$ (1,185)	$ 69,041
2017				
U.S. government sponsored entities and agencies	$ 45,500	$ -	$ (460)	$ 45,040
Agency mortgage-backed securities – residential	29,102	13	(381)	28,734
States and political subdivisions	3,350	3	(1)	3,352
	$ 77,952	$ 16	$ (842)	$ 77,126

The amortized cost and fair value of debt securities at December 31, 2018 are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without penalties. Mortgage-backed securities not due at a single maturity date are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 5,128	$ 5,136	$ 25,570	$ 25,286
Due from one to five years	31,082	30,951	21,500	21,253
Due from five to ten years	12,866	12,818	-	-
Due after ten years	10,608	12,319	-	-
Agency mortgage-backed securities – residential	80,565	80,878	23,154	22,502
Agency mortgage-backed securities – commercial	26,011	25,827	-	-
Total	$ 166,260	$ 167,929	$ 70,224	$ 69,041

Securities with a carrying amount of $215,174 and $172,205 at December 31, 2018 and 2017, respectively, were pledged to secure public deposits and repurchase agreements.

At December 31, 2018 and 2017, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10.0% of shareholders' equity.

There were no sales of securities in 2018 or 2017.

Securities with unrealized losses at year-end 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below.

	Less than 12 Months		12 Months or More		Total	
Available for sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2018						
U.S. government sponsored entities and agencies	$ 9,761	$ (34)	$ 18,578	$ (137)	$ 28,339	$ (171)
Agency mortgage-backed securities – residential	36,758	(31)	6,549	(16)	43,307	(47)
Agency mortgage-backed securities – commercial	15,245	(121)	10,582	(63)	25,827	(184)
Corporate debt securities	-	-	4,990	(10)	4,990	(10)
Total available for sale	$ 61,764	$ (186)	$ 40,699	$ (226)	$ 102,463	$ (412)
2017						
U.S. government sponsored entities and agencies	$ -	$ -	$ 19,292	$ (102)	$ 19,292	$ (102)
Agency mortgage-backed securities – residential	-	-	8,079	(12)	8,079	(12)
Agency mortgage-backed securities – commercial	4,743	(15)	9,105	(93)	13,848	(108)
Corporate debt securities	-	-	4,977	(22)	4,977	(22)
Total available for sale	$ 4,743	$ (15)	$ 41,453	$ (229)	$ 46,196	$ (244)

	Less than 12 Months		12 Months or More		Total	
Held to maturity	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
2018						
U.S. government sponsored entities and agencies	$ -	$ -	$ 44,973	$ (527)	$ 44,973	$ (527)
Agency mortgage-backed securities – residential	-	-	22,145	(654)	22,145	(654)
States and political subdivisions	996	(4)	-	-	996	(4)
Total held to maturity	$ 996	$ (4)	$ 67,118	$ (1,181)	$ 68,114	$ (1,185)
2017						
U.S. government sponsored entities and agencies	$ 15,377	$ (123)	$ 29,663	$ (337)	$ 45,040	$ (460)
Agency mortgage-backed securities – residential	22,315	(249)	5,937	(132)	28,252	(381)
States and political subdivisions	1,849	(1)	-	-	1,849	(1)
Total held to maturity	$ 39,541	$ (373)	$ 35,600	$ (469)	$ 75,141	$ (842)

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

NOTE 3 – LOANS

Loans at December 31 were as follows:

	2018	2017
Commercial	$ 394,493	$ 385,239
Commercial real estate	1,129,355	1,086,023
Residential real estate	446,565	420,230
Installment	95,112	85,894
Credit card receivables	13,122	13,148
	2,078,647	1,990,534
Deferred loan fees, net	(1,715)	(1,679)
Allowance for loan losses	(20,183)	(20,485)
Loans, net	$ 2,056,749	$ 1,968,370

The following table presents the activity in the allowance for loan losses by segment of loans for the years ended December 31, 2018 and 2017:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2018							
Allowance for loan losses:							
Beginning balance	$ 5,203	$ 10,766	$ 1,895	$ 1,070	$ 264	$ 1,287	$ 20,485
Provision for loan losses	263	694	473	866	110	(286)	2,120
Loans charged off	(673)	(1,401)	(306)	(1,492)	(230)	-	(4,102)
Recoveries	314	399	121	748	98	-	1,680
Total ending allowance balance	$ 5,107	$ 10,458	$ 2,183	$ 1,192	$ 242	$ 1,001	$ 20,183
2017							
Allowance for loan losses:							
Beginning balance	$ 5,074	$ 11,495	$ 1,909	$ 1,050	$ 321	$ 733	$ 20,582
Provision for loan losses	332	352	57	808	207	554	2,310
Loans charged off	(318)	(1,303)	(222)	(1,326)	(362)	-	(3,531)
Recoveries	115	222	151	538	98	-	1,124
Total ending allowance balance	$ 5,203	$ 10,766	$ 1,895	$ 1,070	$ 264	$ 1,287	$ 20,485

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, 2018 and 2017:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
2018							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 1,949	$ 1,269	$ 148	$ -	$ 15	$ -	$ 3,381
Collectively evaluated for impairment	3,158	9,189	2,035	1,192	227	1,001	16,802
Total ending allowance balance	$ 5,107	$ 10,458	$ 2,183	$ 1,192	$ 242	$ 1,001	$ 20,183
Loans:							
Individually evaluated for impairment	$ 10,711	$ 33,204	$ 2,808	$ 38	$ 15	$ -	$ 46,776
Collectively evaluated for impairment	383,782	1,096,151	443,757	95,074	13,107	-	2,031,871
Total ending loans balance	$ 394,493	$ 1,129,355	$ 446,565	$ 95,112	$ 13,122	$ -	$ 2,078,647
2017							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 1,718	$ 1,082	$ 53	$ -	$ -	$ -	$ 2,853
Collectively evaluated for impairment	3,485	9,684	1,842	1,070	264	1,287	17,632
Total ending allowance balance	$ 5,203	$ 10,766	$ 1,895	$ 1,070	$ 264	$ 1,287	$ 20,485
Loans:							
Individually evaluated for impairment	$ 12,686	$ 44,066	$ 4,491	$ -	$ -	$ -	$ 61,243
Collectively evaluated for impairment	372,553	1,041,957	415,739	85,894	13,148	-	1,929,291
Total ending loans balance	$ 385,239	$ 1,086,023	$ 420,230	$ 85,894	$ 13,148	$ -	$ 1,990,534

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2018:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2018						
With no related allowance recorded:						
Commercial	$ 5,999	$ 5,975	$ -	$ 7,767	$ 191	$ 191
Commercial real estate	7,870	7,174	-	14,210	280	280
Residential real estate	1,733	1,434	-	2,340	57	57
Installment	38	38	-	19	2	2
Credit card receivables	-	-	-	-	-	-
Subtotal	15,640	14,621	-	24,336	530	530
With an allowance recorded:						
Commercial	$ 5,001	$ 4,736	$ 1,949	$ 3,909	$ 72	$ 72
Commercial real estate	26,125	26,030	1,269	24,382	1,099	1,099
Residential real estate	1,545	1,374	148	1,283	63	63
Installment	-	-	-	-	-	-
Credit card receivables	15	15	15	8	-	-
Subtotal	32,686	32,155	3,381	29,582	1,234	1,234
Total	$ 48,326	$ 46,776	$ 3,381	$ 53,918	$ 1,764	$ 1,764

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2017:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2017						
With no related allowance recorded:						
Commercial	$ 9,121	$ 9,067	$ -	$ 10,128	$ 357	$ 357
Commercial real estate	21,932	21,564	-	24,580	864	864
Residential real estate	2,107	2,037	-	2,222	3	3
Installment	-	-	-	16	-	-
Credit card receivables	-	-	-	1	-	-
Subtotal	33,160	32,668	-	36,947	1,224	1,224
With an allowance recorded:						
Commercial	$ 3,870	$ 3,619	$ 1,718	$ 2,768	$ 62	$ 62
Commercial real estate	23,009	22,502	1,082	25,444	918	918
Residential real estate	2,767	2,454	53	3,093	84	84
Installment	-	-	-	-	-	–
Credit card receivables	-	-	-	-	-	-
Subtotal	29,646	28,575	2,853	31,305	1,064	1,064
Total	$ 62,806	$ 61,243	$ 2,853	$ 68,252	$ 2,288	$ 2,288

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, 2018 and 2017:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2018	2017	2018	2017
Commercial	$ 3,608	$ 3,666	$ -	$ -
Commercial real estate	4,584	5,481	-	-
Residential real estate	3,083	3,838	24	247
Installment	306	299	67	1
Credit card receivables	40	28	18	29
Total	$ 11,621	$ 13,312	$ 109	$ 277

The following table presents the aging of the recorded investment in past due loans as of December 31, 2018 and 2017 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, 2018					
Commercial	$ 214	$ 2,978	$ 3,192	$ 391,301	$ 394,493
Commercial real estate	2,483	3,232	5,715	1,123,640	1,129,355
Residential real estate	1,553	964	2,517	444,048	446,565
Installment	1,334	203	1,537	93,575	95,112
Credit card receivables	98	50	148	12,974	13,122
Total	$ 5,682	$ 7,427	$ 13,109	$ 2,065,538	$ 2,078,647
December 31, 2017					
Commercial	$ 769	$ 2,273	$ 3,042	$ 382,197	$ 385,239
Commercial real estate	5,080	1,819	6,899	1,079,124	1,086,023
Residential real estate	2,089	1,597	3,686	416,544	420,230
Installment	1,630	102	1,732	84,162	85,894
Credit card receivables	60	43	103	13,045	13,148
Total	$ 9,628	$ 5,834	$ 15,462	$ 1,975,072	$ 1,990,534

Related Party Loans: The Company has entered into loan transactions with its directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties was $693 and $856 at December 31, 2018 and 2017, respectively.

Troubled Debt Restructurings: The Company has troubled debt restructurings of $27,986 and $42,640 as of December 31, 2018 and 2017, respectively, and has allocated $2,219 and $2,258 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2018 and 2017. The Company has committed to lend additional amounts totaling up to $162 and $161 as of December 31, 2018 and 2017, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2018 and 2017, 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, 2018 and 2017:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2018:			
Troubled debt restructurings:			
Commercial	5	$ 528	$ 528
Commercial real estate	13	7,752	7,752
Residential real estate	1	87	87
Total	19	$ 8,367	$ 8,367
December 31, 2017:			
Troubled debt restructurings:			
Commercial	8	$ 3,918	$ 3,918
Commercial real estate	22	16,210	16,210
Residential real estate	7	1,011	1,011
Total	37	$ 21,139	$ 21,139

The troubled debt restructurings described above increased the allowance for loan losses by $382 and resulted in $125 of charge-offs during the year ended December 31, 2018. The troubled debt restructurings described above increased the allowance for loan losses by $473 and resulted in no charge-offs during the year ended December 31, 2017.

There was one residential real estate loan with a recorded investment of $87 and two commercial real estate loans with a recorded investment of $868 for which there was a payment default within 12 months following the modification during the year ended December 31, 2018. There was one commercial loan with a recorded investment of $1,877 for which there was a payment default within 12 months following the modification during the year ended December 31, 2017. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructuring that subsequently defaulted described above did not result in an increase in the allowance for loan losses or charge-offs during the year ended December 31, 2018. The troubled debt restructuring that subsequently defaulted described above resulted in an increase in the allowance for loan losses of $1,008 and resulted in no charge-offs during the year ended December 31, 2017.

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

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

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

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

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

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

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

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2018						
Commercial	$ 375,956	$ 1,178	$ 17,359	$ -	$ -	$ 394,493
Commercial real estate	1,071,020	6,261	52,074	-	-	1,129,355
Residential real estate	310,154	1,302	3,746	-	131,363	446,565
Installment	-	15	55	-	95,042	95,112
Credit card receivables	-	17	90	-	13,015	13,122
	$ 1,757,130	$ 8,773	$ 73,324	$ -	$ 239,420	$ 2,078,647
December 31, 2017						
Commercial	$ 370,352	$ 1,207	$ 13,680	$ -	$ -	$ 385,239
Commercial real estate	1,029,808	9,820	46,395	-	-	1,086,023
Residential real estate	287,985	1,415	5,466	-	125,364	420,230
Installment	-	-	-	2	85,892	85,894
Credit card receivables	-	13	53	-	13,082	13,148
	$ 1,688,145	$ 12,455	$ 65,594	$ 2	$ 224,338	$ 1,990,534

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled $160,095 and $185,473 during 2018 and 2017, respectively. The Company had commitments to originate $12,088 in loans at December 31, 2018, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $47,131 and $45,247 at December 31, 2018 and 2017, respectively.

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

	2018	2017
Beginning of year	$ 208	$ 201
Originated	55	67
Amortized to expense	(59)	(60)
End of year	$ 204	$ 208

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $353 and $339 at year-end 2018 and 2017.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2018	2017
Other real estate owned, beginning of year	$ 2,721	$ 5,050
Acquisition and improvement	2,690	11,482
Proceeds from sales	(1,554)	(14,593)
Write-downs to estimated fair value	(630)	(416)
Net gain (loss) on sales	(2)	1,198
Other real estate owned, end of year	$ 3,225	$ 2,721

Expenses related to other real estate owned include:

	2018	2017
Net loss (gain) on sales	$ 2	$ (1,198)
Write-downs to estimated fair value	630	416
Operating expenses, net	123	728
	$ 755	$ (54)

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2018	2017
Land	$ 2,991	$ 2,991
Buildings and improvements	19,009	21,593
Leasehold improvements	32,721	30,203
Furniture, fixtures and equipment	41,382	40,615
Construction in progress	2,922	1,193
	99,025	96,595
Accumulated depreciation	(67,586)	(64,915)
Total	$ 31,439	$ 31,680

Depreciation and amortization expense amounted to $4,361 and $4,387 in 2018 and 2017, respectively.

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 three tenants. Rent expense for the Company was $5,530 and $5,499 in 2018 and 2017, respectively. Rent commitments under noncancelable operating leases, before considering renewal options that generally are present, were as follows:

2019	$ 6,321
2020	6,380
2021	6,119
2022	5,655
2023	2,875
Thereafter	3,030
Total[1]	$ 30,380

[1]Payments have not been reduced by minimum sublease rentals of $2,487 due in the future under noncancelable subleases.

NOTE 7 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2018 and 2017 were $175,242 and $104,421, respectively.

Scheduled maturities of time deposits at year-end 2018 are as follows:

2019	$	379,129
2020		40,151
2021		22,597
2022		17,193
2023		10,984
Thereafter		-
Total	$	470,054

Deposits from directors and executive officers and companies in which they have beneficial ownership were $9,604 and $11,067 at December 31, 2018 and 2017, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

	2018	2017
Maturity of July 2020 at a rate of 1.74% at year-end 2018 and 2017.	**$ 25,000**	$ 25,000
Maturities January 2022 through December 2027, fixed rates ranging from 2.00% to 5.50%, averaging 2.44% at year-end 2018 and 2017.	**422**	440
Total	**$ 25,422**	$ 25,440

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The advances are borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans with an aggregate unpaid principal balance of $383,529 and $357,480 at December 31, 2018 and 2017, respectively. Based on this collateral and the holding of Federal Home Loan Bank stock, the Company is eligible to borrow up to a total of $167,638 at year-end 2018. In addition, the Federal Home Loan Bank issues letters of credit on behalf of the Bank as security for certain deposit relationships, as the need arises. Outstanding letters of credit at December 31, 2018 and 2017 were $78,884 and $79,438, respectively.

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

The subordinated debentures mature on June 15, 2035. The subordinated debentures are redeemable, in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The interest rate in effect as of the last determination date for 2018 was 4.54%. The Company's investment in the common stock of the trust was $464 and is included in other assets. The subordinated debentures, net of the Company's investment in the trust, may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 9 – FAIR VALUE

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

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

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

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

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

Investment Securities: The fair values for 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). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

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

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

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

Assets Measured on a Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2018):			
Available for sale securities:			
U.S. government sponsored entities and agencies	$ -	$ 43,916	$ -
Agency mortgage-backed securities – residential	-	80,878	-
Agency mortgage-backed securities – commercial	-	25,827	-
Corporate debt securities	-	4,989	12,319
Assets (2017):			
Available for sale securities:			
U.S. government sponsored entities and agencies	$ -	$ 26,107	$ -
Agency mortgage-backed securities – residential	-	68,483	-
Agency mortgage-backed securities – commercial	-	27,143	-
Corporate debt securities	-	4,978	11,391

There were no transfers between Level 2 and Level 3 during 2018 or 2017. During the period from January 1, 2018 to December 31, 2018, there was $807 of total gain recognized in other comprehensive income (loss) and $121 of net accretion recognized on investment securities classified as Level 3. During the period from January 1, 2017 to December 31, 2017, there was $1,242 of total gain recognized in other comprehensive income (loss) and $131 of net accretion recognized on investment securities classified as Level 3. The key unobservable input in determining the fair value of the investment securities was a discount rate of 3.15% and 3.48% at December 31, 2018 and 2017, respectively.

Assets Measured on a Non-Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2018):			
Impaired loans:			
Commercial	$ -	$ -	$ 934
Commercial real estate	-	-	1,318
Residential real estate	-	-	218
Other real estate owned:			
Commercial real estate	-	-	36
Assets (2017):			
Impaired loans:			
Commercial	$ -	$ -	$ 849
Commercial real estate	-	-	2,376
Residential real estate	-	-	85
Other real estate owned:			
Commercial real estate	-	-	1,470
Residential real estate	-	-	96

Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $5,479, with a valuation allowance of $3,009 at December 31, 2018, resulting in $663 of additional provision for loan losses for the year ended December 31, 2018. Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $6,035, with a valuation allowance of $2,725 at December 31, 2017, resulting in $866 of additional provision for loan losses for the year ended December 31, 2017.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $36 which includes direct write-downs of $7 for 2018. Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $1,566, which is made up of the outstanding balance of $2,457, net of a valuation allowance of $891 at December 31, 2017, resulting in an additional provision of $416 for the year ended December 31, 2017.

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, 2018 and 2017:

	Valuation Techniques	Fair Value	Asset Category	Unobservable Input(s)	Range (Weighted Average)
2018	Sales approach	$ 1,354	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	10%–100% (59%)
	Income approach	$ 1,152	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	10%–10% (10%)
2017	Sales approach	$ 2,203	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	3%–4% (4%)
	Income approach	$ 2,673	Other real estate owned, all classes of impaired loans	Adjustments for aging and specific borrower information	4%–4% (4%)

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following:

	2018	2017
Current	$ 3,782	$ 4,275
Deferred	882	6,897
	$ 4,664	$ 11,172

The tax provision is less than that obtained by using the statutory federal income tax rates due to tax credits generated by the Company's limited partnership interest in 16 low-income housing projects, four Community Reinvestment Funds, one New Markets Tax Credit project, ownership of Qualified Zone Academy Bonds, one Historic Rehabilitation project, and tax exempt interest income totaling $3,967 and $3,194 for 2018 and 2017.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. Among other things, the Tax Act reduced the Company's corporate federal income tax rate from 35% to 21% effective January 1, 2018. As a result, the Company was required to remeasure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The remeasurement of the net deferred tax asset resulted in additional income tax expense of $3,934 in 2017.

At December 31, 2017, the Company early adopted ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, and reclassified $1,011 from accumulated other comprehensive income (loss) to retained earnings. The reclassification represents the amount of income tax expense related to remeasuring deferred income taxes on available for sale securities and defined benefit pension plans at the new lower tax rate included in the Tax Act.

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, nonaccrual loans, FHLB stock dividends, fair value adjustments, losses on other real estate owned, partnership investments, and net operating loss carryforwards. The amount of the net operating loss carryforwards, which were fully utilized in 2018, 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:

	2018	2017
Deferred tax assets	$ 10,369	$ 11,629
Deferred tax liabilities	(3,803)	(4,414)
	$ 6,566	$ 7,215

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. In assessing realizability, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences at December 31, 2018; therefore, no valuation allowance for the realization of deferred tax assets is considered necessary.

The Company has no unrecognized tax benefits as of December 31, 2018 and 2017. 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, 2018 and 2017. The Company and its subsidiary file a consolidated U.S. Corporation federal income tax return and the Company and its non-bank subsidiaries file Kentucky Corporation income tax returns. The federal return is subject to examination by taxing authorities for all years after 2014 and the Kentucky returns are subject to examination by taxing authorities for all years after 2013. The Company has certain returns that are subject to examination for the 2004 tax year.

NOTE 11 – 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 contributions to the plan are 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.

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

	December 31, 2018	December 31, 2017
Benefit obligation	$ (28,777)	$ (34,107)
Fair value of plan assets	22,087	30,409
Funded status	$ (6,690)	$ (3,698)

	2018	2017
Employer contributions	$ -	$ -
Benefits paid	3,467	1,247
Annuity purchased	4,027	-

The following benefit payments are expected in the periods indicated:

2019	$ 1,981
2020	687
2021	817
2022	921
2023	1,027
2024–2028	7,384

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2018 and 2017 were $(9,149) and $(7,765), respectively, and resulted from a net actuarial loss in the plan. The accumulated benefit obligation was $28,777 and $34,107 at year-end 2018 and 2017.

Components of the Company's net periodic pension cost and other amounts recognized in other comprehensive income (loss) for 2018 and 2017 for its defined benefit pension plan included the following:

	2018	2017
Interest cost on projected benefit obligation	$ 1,422	$ 1,330
Expected return on plan assets	(1,265)	(1,178)
Amortization of net loss	1,452	581
Net periodic pension cost	1,609	733
Net loss (gain)	2,836	(37)
Amortization of net (gain) loss	(1,452)	(581)
Total recognized in other comprehensive income (loss)	1,384	(618)
Total recognized in net periodic pension cost and other comprehensive income (loss)	$ 2,993	$ 115

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 $2,090 and $484 as of December 31, 2018 and 2017.

The weighted-average assumptions used to determine net periodic pension cost were a discount rate and expected return on plan assets of 4.25% for 2018 and 2017. The weighted-average assumptions used to determine pension benefit obligations were a discount rate and expected return on plan assets of 4.25% for year-end 2018 and 2017.

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 2018 are to maintain an asset mix of approximately 30% equities and 70% fixed income investments. Equity securities primarily include investments in mutual funds and blue chip stocks. Fixed income securities include taxable municipal securities, corporate debt, and fixed income mutual funds.

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 2018 and 2017, and expected long-term rate of return by asset category are as follows:

Asset Class	Percentage of Plan Assets at Year-End 2018	Percentage of Plan Assets at Year-End 2017	Weighted-Average Expected Long-Term Rate of Return
Equities:			
Common stock	16.6%	17.3%	5.0%–7.0%
Common stock mutual funds	10.4	9.7	5.0%–7.0%
Real estate investment trust	0.9	0.6	5.0%–7.0%
Fixed income:			
Cash and cash equivalents	8.7	5.5	0.0%
Fixed income mutual funds	21.1	15.0	2.0%–4.0%
Debt securities:			
Corporate debt	6.8	-	2.0%–4.0%
Obligations of states and political subdivisions	35.5	51.9	2.0%–4.0%
	100.0%	100.0%	

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

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

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

The fair value of plan assets at December 31, 2018 and 2017, by asset category, is as follows:

	Carrying Value	Fair Value Measurements at December 31 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018				
Plan assets:				
Cash and cash equivalents	$ 1,915	$ 1,915	$ -	$ -
Equities:				
Common stock	3,659	3,659	-	-
Common stock mutual funds	2,306	2,306	-	-
Real estate investment trust	207	207	-	-
Fixed income:				
Fixed income mutual funds	4,656	4,656	-	-
Corporate debt	1,504	-	1,504	-
Obligations of states and political subdivisions	7,840	-	7,840	-
Total plan assets	$ 22,087	$ 12,743	$ 9,344	$ -
2017				
Plan assets:				
Cash and cash equivalents	$ 1,683	$ 1,683	$ -	$ -
Equities:				
Common stock	5,248	5,248	-	-
Common stock mutual funds	2,938	2,938	-	-
Real estate investment trust	197	197	-	-
Fixed income:				
Fixed income mutual funds	4,556	4,556	-	-
Obligations of states and political subdivisions	15,787	-	15,787	-
Total plan assets	$ 30,409	$ 14,622	$ 15,787	$ -

There were no transfers between Level 1 and Level 2 during 2018 or 2017.

The Company 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 $5,635 and $5,092 at December 31, 2018 and 2017, respectively. Amounts recognized in accumulated other comprehensive income (loss) related to this plan at December 31, 2018 and 2017 were $(1,068) and $(974), respectively, 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 2019. During 2018, the Company entered into an agreement with an insurance company to purchase a group annuity contract in the amount of $4,027 to transfer a portion of its defined benefit pension liability and related administrative responsibilities to the insurance company. Such liability consisted of actuary-determined obligations and includes only existing retirees receiving benefits from the plan.

Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $71 and $280 in 2018 and 2017, respectively. The accrued liability associated with these plans of $1,499 and $1,443 at December 31, 2018 and 2017 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 15.0% of the total compensation of all participants. ESOP expense was $986 and $974 in 2018 and 2017, respectively. As of December 31, 2018 and 2017, a total of 37,281 and 37,329 voting common shares with a fair value of $368 and $32,514, respectively, were allocated to active participants. In addition, at year-end 2018 and 2017 there were a total of 3,690,819 and zero non-voting common shares with a fair value of $36,391 and zero allocated to active participants, as well as $188 and $149 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, 2018 is the fair value of all ESOP shares distributed in 2018 and shares to be distributed in 2019 to participants who had terminated as of year-end 2018. 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 $1,700 and $1,658 in 2018 and 2017, respectively.

NOTE 12 – REGULATORY MATTERS

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

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

In August 2018, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act, the Federal Reserve issued an interim final rule expanding the applicability of its small bank holding company policy statement. The interim final rule raised the policy statement's consolidated total assets for bank holding companies to $3.0 billion from $1.0 billion, subject to other requirements. Management believes the Company meets the requirements to be considered a small bank holding company under the policy statement and, as such, is excluded from consolidated capital requirements at December 31, 2018; however, the Bank remains subject to regulatory capital requirements administered by the federal banking agencies. Although no longer required, the Company continues to report its consolidated capital ratios for comparison purposes.

Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at a rate of 0.625% per year from 0.0% in 2015 to 2.50% by 2019. The capital conservation buffer for 2018 and 2017 was 1.875% and 1.25%, respectively. Accumulated other comprehensive income (loss) is not included in computing regulatory capital. Management believes that as of December 31, 2018, the Company and Bank each meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as are asset growth and expansion, and capital restoration plans are required. At year-end 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be well capitalized, the Bank must maintain minimum Common Equity Tier 1 Risk-based, Tier 1 Risk-based, Total Risk-based, and Tier 1 Leverage ratios as set forth in the tables below. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Total Risk-based Capital[1]:						
Company	$ 307,389	13.7%	$ 180,091	8.0%	N/A	N/A
Bank	304,541	13.5	180,054	8.0	$ 225,068	10.0%
Tier 1 Risk-based Capital[1]:						
Company	$ 287,206	12.8%	$ 135,068	6.0%	N/A	N/A
Bank	284,358	12.6	135,041	6.0	$ 180,054	8.0%
Common Equity Tier 1 Risk-based Capital[1]:						
Company	$ 272,206	12.1%	$ 101,301	4.5%	N/A	N/A
Bank	284,358	12.6	101,280	4.5	$ 146,294	6.5%
Tier 1 Leverage Capital[2]:						
Company	$ 287,206	11.2%	$ 102,797	4.0%	N/A	N/A
Bank	284,358	11.1	102,794	4.0	$ 128,492	5.0%

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Total Risk-based Capital[1]:						
Company	$ 280,064	13.0%	$ 172,330	8.0%	N/A	N/A
Bank	277,905	12.9	172,330	8.0	$ 215,413	10.0%
Tier 1 Risk-based Capital[1]:						
Company	$ 259,579	12.1%	$ 129,248	6.0%	N/A	N/A
Bank	257,420	12.0	129,248	6.0	$ 172,330	8.0%
Common Equity Tier 1 Risk-based Capital[1]:						
Company	$ 244,579	11.4%	$ 96,936	4.5%	N/A	N/A
Bank	257,420	12.0	96,936	4.5	$ 140,018	6.5%
Tier 1 Leverage Capital[2]:						
Company	$ 259,579	10.9%	$ 95,097	4.0%	N/A	N/A
Bank	257,420	10.8	95,098	4.0	$ 118,873	5.0%

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

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

Under the dividend limitations described above, the Bank could pay dividends in 2019 of $41,481 plus any 2019 earnings retained through the date of the dividend declaration.

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

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

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

	2018	2017
Standby letters of credit	**$ 36,524**	$ 40,421
Commitments to extend credit	**$ 277,316**	$ 294,420
Unused lines of credit	**$ 465,364**	$ 427,555

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

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