2017 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 2018, 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 11th 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.

CONTENTS

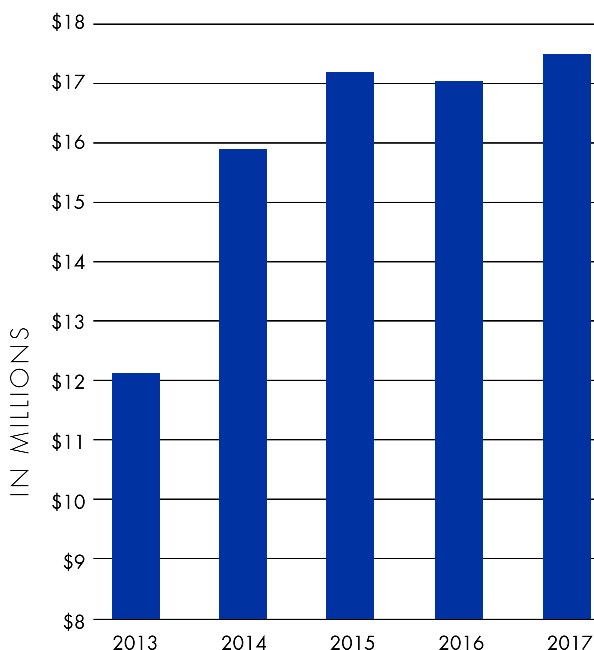
Financial Highlights 1
Community 2
Letter to our Shareholders, Customers and Communities 4
Management's Discussion and Analysis 6
Independent Auditor's Report 12
Consolidated Balance Sheets 13
Consolidated Statements of Income 14
Consolidated Statements of Cash Flows 15
Consolidated Statements of Changes in Shareholders' Equity 16
Consolidated Statements of Comprehensive Income 16
Notes to Consolidated Financial Statements 16
Boards of Directors 41
Officers 43

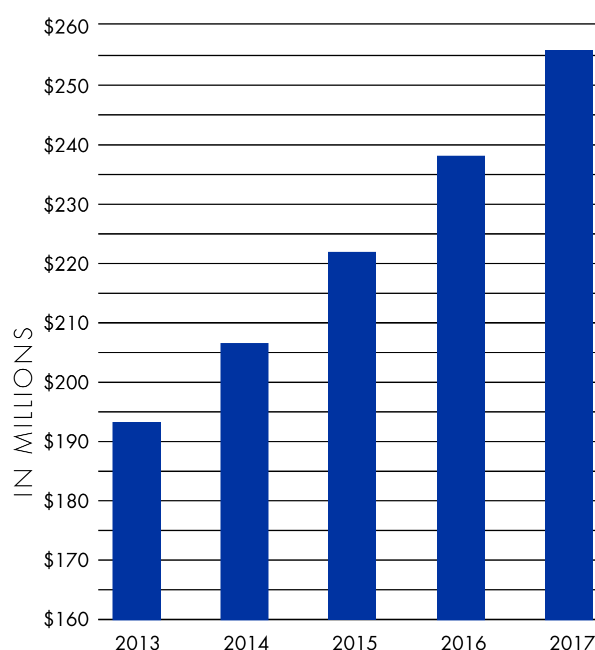
Refer to Marketing for copies: Central Bank & Trust Co., 300 West Vine Street, Lexington, KY 40507

FINANCIAL HIGHLIGHTS

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

	2017	2016	2015	2014	2013
RESULTS OF OPERATIONS:					
Net income	$ 17,410	$ 17,006	$ 17,138	$ 15,950	$ 12,151
Net income per share	50.04	48.88	49.26	45.84	34.92
Cash dividends per share	4.00	3.00	2.00	1.00	0.00
Book value per share at year-end	733.15	683.17	637.37	590.45	554.11
AT DECEMBER 31:					
Assets	$ 2,408,725	$ 2,298,489	$ 2,192,412	$ 2,107,664	$ 2,092,494
Earning assets	2,288,833	2,167,410	2,062,535	1,969,362	1,946,193
Loans, net	1,968,370	1,771,738	1,658,973	1,624,108	1,602,143
Deposits	1,991,028	1,915,781	1,834,873	1,765,510	1,754,833
Shareholders' equity	255,079	237,689	221,755	205,430	192,788
AVERAGES:					
Assets	$ 2,328,930	$ 2,241,332	$ 2,144,248	$ 2,083,948	$ 2,108,671
Earning assets	2,202,883	2,113,110	2,009,677	1,940,195	1,955,785
Loans, net	1,854,129	1,693,741	1,609,436	1,611,568	1,565,460
Deposits	1,930,081	1,861,980	1,798,520	1,749,203	1,781,992
Shareholders' equity	247,887	231,295	214,419	200,720	186,890
PERFORMANCE RATIOS:					
Return on average assets	0.75%	0.76%	0.80%	0.77%	0.58%
Return on average shareholders' equity	7.02%	7.35%	7.99%	7.95%	6.50%
Average shareholders' equity to average assets	10.64%	10.32%	10.00%	9.63%	8.86%
Dividend payout ratio	7.99%	6.14%	4.06%	2.18%	0.00%
Net interest margin (tax equivalent)	3.94%	3.71%	3.66%	3.85%	3.64%
CAPITAL RATIOS:					
Total capital to risk-weighted assets	13.0%	13.4%	13.8%	13.5%	13.4%
Tier I capital to risk-weighted assets	12.1%	12.3%	12.6%	12.2%	12.1%
Common equity Tier I to risk-weighted assets	11.4%	11.6%	11.5%	N/A	N/A
Tier I capital to average assets	10.9%	10.6%	10.7%	10.2%	10.0%





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

HABITAT FOR HUMANITY LOVE YOUR NEIGHBORHOOD PROGRAM

Central Bank is a longstanding sponsor of Habitat for Humanity, and we're excited to support the new Love Your Neighborhood program. Lexington Habitat for Humanity volunteers work alongside low-income Fayette County homeowners who cannot afford to make critical repairs to their homes. The homeowners must provide sweat equity on these projects and pay back a small percentage of the out-of-pocket repair costs.

BROADWAY LIVE

Ticket revenues do not cover the full cost of programming and administration of the Broadway Live series, so sponsorships make it possible to bring performances of the highest quality to the Lexington community. Central Bank is a longtime supporter of Broadway Live and the Lexington Opera House.

KINCAID SCHOLARSHIP PROGRAM

Central Bank's founder, Garvice Kincaid, established the Kincaid Scholarship Program in 1989. His daughter, Joan Kincaid, now continues it. These scholarships provide assistance to Fayette County Public Schools graduates who plan on attending college.

YMCA BLACK ACHIEVERS

The YMCA Black Achievers and Central Bank have long collaborated to recruit students for the workplace, encourage volunteer activities and provide community scholarships. This partnership allows our bank to maximize support of youth in the Central Kentucky area.

KET – KENTUCKY EDUCATIONAL TELEVISION

KET provides outstanding local and national programming to communities across the Commonwealth. Central Bank has been a strong supporter of programming and events for one of the nation's top providers of educational content to children and adults.

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITIES

Energized by the improving economy, businesses and consumers responded with strong demand across a broad range of financial services in 2017. At the same time, they indicated a strong preference for banking at their local community banks. Central Bank is a leading example of this philosophy and is uniquely prepared to serve the banking, insurance, investment and wealth management needs of Kentuckians. The bank has been distinguished by its focus on exceptional service to both our customers and communities. Our dedicated Central Bankers have produced new consumer and business relationships, as demonstrated by strong performance across all lines of business in 2017.

As the leading community bank in Central Kentucky, Central Bank has achieved success because we recognize our responsibility to support economic development and community prosperity for all our citizens. Motivated by this responsibility, we continued to invest in our staff, training, technology and products to expand our reach, growing business and consumer markets – especially in Northern Kentucky and Louisville.

As part of our long-term plan, the decision was made to legally join Central Bank of Jefferson County (CBJC) with Central Bank & Trust Co. While our ownership of CBJC dated back more than 12 years, the legal and operational merger will allow us to expand our presence in Louisville and achieve considerable operating efficiencies. Expanded commercial lending services and a new banking center planned for summer 2018 in Lone Oak Commons are prime examples of the immediate benefits.

Likewise, our Northern Kentucky market plans to add a new banking center in late summer at the Kroger Marketplace in Union, Ky. We believe our commitment to growing communities is essential to expanding our market footprint and service commitment. Business banking is also surging, with a strong focus on lending, cash management and corporate services needed by today's increasingly sophisticated business owners.

We continue, as always, to direct our energies toward the rapidly developing financial needs of our customers. We pledge to take an active role in enhancing our service both in person and online, where our customers increasingly go for their banking needs. We are dedicated to their success and will continue to deliver outstanding service as we consistently outperform their expectations.

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 $17.41 million or $50.04 per share. In 2016, earnings were $17.01 million, or $48.88 per share.
- Deposits grew 3.93 percent, ending the year at $1.99 billion.
- Net loans increased by 11.10 percent, ending the year at $1.97 billion.
- Shareholders' equity grew to $255.08 million, a strong performance that highlights our commitment to a solid future for our Company.

Service shops have been a long-term method to manage our service performance in the banking centers. In 2017 those results continued to exhibit the bank's dedication to service excellence. These results leave us poised for another successful year, where we will continue to strive for even better performance as our customers engage in opportunities presented by an improved economy.

PRODUCTS

Digital banking products are essential for a majority of our customers, and our dedicated staff has worked diligently to keep pace with continuously evolving online and mobile banking features for consumers and businesses. Through their efforts, we provide the latest technology, security and convenience to our customers. We are also pleased to state that we are one of few banks providing business and personal customers with rewards for both debit and credit cards. We believe their loyalty and dedication to Central Bank should be rewarded, and now that is the case for each purchase they make with any of our Visa® cards.

As demand for digital products grows, we continue to recognize the importance of maintaining the highest level of security for our customers and their information. Our commitment to security continues to be evidenced by our work to add layers of protection via technology for our debit and credit cards. In the last year, we continued to expand our abilities to protect and communicate with our customers with the addition of Fraud Text Alerts for debit cards.

The expansion of the Bank's social media presence was an exciting new development in 2017. We understand social media will increasingly be a means for our customers to obtain information and interact with us. Whether customers

choose to follow Central Bank in-branch, by phone or online, we will expand opportunities for service and communication at the times and places best suited to their needs.

Another exciting development was the introduction of the University of Kentucky Alumni Visa® Card. This was the Bank's first co-branded product partnership, linking our name to a product endorsed by the state's largest university. The card was marketed to UK Alumni throughout the country, using a combination of direct mail, emails and digital marketing, and plans are underway to feature the card in some of the Bank's UK Athletics advertising in 2018.

Additional efforts to serve more of our customers' growing needs continue to be led by our Mortgage, Wealth Management, Insurance and Investment staff. Their success has served not only to strengthen our reputation as a leader in the banking industry, but also to solidify our position as a full-service financial institution. Through exceptional and consistent customer service, along with the latest technology and financial tools, we continue to surpass expectations across all our service lines.

LOOKING FORWARD

Yet again, Central Bank is in a strategically enviable position to continue growing in 2018. With customer service that remains unmatched by any of our competitors, continued advances within online and mobile banking, expanding lending capacity and an unwavering focus on the communities we serve, we are positioned to deliver another successful year.

With the retirement of David Moore, Greg Shewmaker now leads Retail Administration, in addition to Private Banking and Retail Banking services. David's leadership was exceptional for the 24 years he served as Group Head. Greg brings outstanding sales and service experience to this new position and is an outstanding banker. He is already working to raise the Bank's personal service commitment to new levels across our network of banking centers.

RETIREES

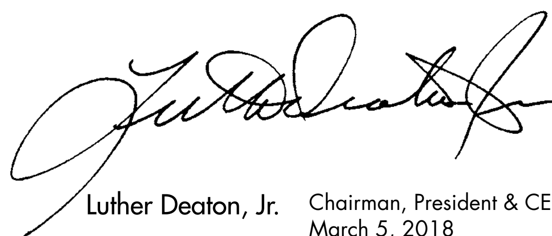
In the last year, 11 long-term employees completed their service to reach well-earned retirements. David Moore (Retail Administration, 43 years); Angela Wilson (Auditing, 27 years); Beverly Hicks (Central Insurance Services, 25 years); Eloise Penn (Wealth Management, 21 years); Linda Scott (Financial Planning, 21 years); Steve Hewlett (Facilities, 20 years); Barbara Ingold (Wealth Management, 20 years); Sherry Fugate (Special Assets, 15 years); Wanda Deatherage (Client Services, 12 years); Greg Wilson (Tates Creek Road, 12 years); and Helen Parks (Loan Services, eight years) 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 continued leadership and support of our directors has been essential to our success. Their collective experience and expertise serve as an exceptional resource, offering a powerful insight and connection to our local markets. Without the leadership of our directors, we would not be successful.

As always, I believe our Bank has the most competent 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 commitment, we are honored to be recognized once again as a Best Place to Work in Kentucky.

Most important, I would like to thank our customers. Their loyalty and dedication make Central Bank the trusted community bank that is celebrated statewide. They never cease to recognize our tireless efforts to serve them, and for that we are eternally grateful. I am honored to serve an exceptional team of employees and loyal customers and look forward to the promising years to come.



Luther Deaton, Jr.
Chairman, President & CEO
March 5, 2018

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. At December 31, 2017, 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. As of June 1, 2017, Central Bank of Jefferson Co., Inc., which was previously a subsidiary of the Company, was merged into Central Bank & Trust Co.

RESULTS OF OPERATIONS

The Company reported net income of $17.41 million for 2017, or $50.04 per share compared to $17.01 million for 2016, or $48.88 per share. Return on average equity was 7.02 percent and return on average assets was 0.75 percent for 2017, compared with 7.35 percent and 0.76 percent for 2016. During 2017, net interest income increased by $8.28 million, provision for loan losses decreased by $2.15 million, non-interest expense increased by $2.45 million, and non-interest income decreased by $279,000. Income tax expense increased by $7.30 million from $3.87 million to $11.17 million, due in part to increased pre-tax earnings, but mainly due to a one-time charge of $3.93 million whereby the Company was required to re-measure its net deferred tax asset using the new 21.00 percent corporate federal tax rate enacted on December 22, 2017, when the Tax Cuts and Jobs Act was signed into law.

Net interest income increased primarily as a result of higher loan volume as well as higher rates on loans, securities and federal funds sold. Provision for loan loss decreased mainly as a result of improved credit quality during 2017. Delinquent loans as a percentage of loans declined from 1.92 percent at year-end 2016 to 1.04 percent at year-end 2017 while net charge-offs fell from $5.72 million in 2016 to $2.41 million in 2017. Nonperforming asset levels also improved in 2017 due to a decline of loans in nonaccrual status of $12.29 million to $13.31 million at December 31, 2017, and a decline in other real estate owned of $2.33 million to $2.72 million at December 31, 2017.

NET INTEREST INCOME

Net interest income in 2017 was $86.00 million compared to $77.72 million in 2016, an increase of 10.66 percent, which was comprised of an increase in interest income of $9.37 million, partially offset by an increase in interest expense of $1.08 million. Net interest margin, which represents tax equivalent net interest income divided by average interest-earning assets, increased by 23 basis points from 3.71 percent in 2016 to 3.94 percent in 2017. For computational purposes, nonaccrual loans are included in interest-earning assets.

During 2017, the tax equivalent rate on interest-earning assets increased by 27 basis points from 3.95 percent for 2016 to 4.22 percent for 2017. Overall, average interest-earning assets increased by $89.65 million. Loan volume was the largest driver of the improvement in net interest income as average loans increased by $160.27 million or 9.34 percent to $1.88 billion for 2017, and the average rate increased by 7 basis points to 4.71 percent during 2017.

The average balance of federal funds sold and securities decreased as the Company was able to employ more of its cash and short-term investments into earning assets with higher rates. The rate on federal funds sold increased from 0.54 percent to 1.18 percent as the average balance declined by $50.74 million to $92.56 million during 2017. The average rate on securities increased by 34 basis points from 1.31 percent to 1.65 percent, as the average balance of securities declined by $19.87 million to $249.44 million during 2017.

Overall liquidity levels remained strong in 2017 and management continued to seek out the appropriate balance between the safety of higher liquidity levels, and its corresponding lower rate, versus the interest rate risk inherent in obtaining a higher rate for a longer-term investment.

While the average rate on interest-earning assets increased by 27 basis points from 2016 to 2017, the cost of interest-bearing liabilities also increased, but to a lesser degree with interest rates on interest-bearing liabilities increasing only 8 basis points over the same period. The average rate on interest-bearing deposit accounts increased from 0.33 percent in 2016 to 0.38 percent in 2017, with all deposit types increasing modestly year over year. The short-term borrowing volume decreased by $7.05 million or 6.50 percent, while the average rate on short-term borrowings increased by 23 basis points to 0.33 percent for 2017.

The average balance of long-term borrowings, consisting of Federal Home Loan Bank advances and subordinated debentures, increased from $16.82 million in 2016 to $26.83 million in 2017. The increase was related to an increase in the average balance of Federal Home Loan Bank advances partially offset by a decline in the average balance of subordinated debentures. The average balance of subordinated debentures declined due to the redemption of $5.28 million of subordinated debt on March 31, 2016 which represented the final redemption of the Company's higher rate subordinated debt that was fixed at a rate of 10.00 percent. As of December 31, 2017 and 2016, the Company had $15.46 million of subordinated debentures with a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) and 1.75 percent, which was

NET INTEREST MARGIN ANALYSIS
(in thousands)

	2017			2016		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets						
Loans (TE)	$ 1,875,414	$ 88,240	4.71%	$ 1,715,145	$ 79,637	4.64%
Federal funds sold	92,558	1,095	1.18%	143,302	768	0.54%
Federal Home Loan Bank stock	6,751	337	4.99%	6,751	270	4.00%
Securities (TE)	249,444	4,111	1.65%	269,316	3,541	1.31%
Total interest-earning assets (TE)	**$ 2,224,167**	**93,783**	**4.22%**	**$ 2,134,514**	**84,216**	**3.95%**
Interest-bearing liabilities						
Deposits						
NOW accounts	$ 344,890	741	0.21%	$ 326,679	524	0.16%
Savings deposits	140,530	161	0.11%	123,764	86	0.07%
Money market deposits	472,247	1,265	0.27%	461,159	819	0.18%
Time deposits	332,085	2,787	0.84%	365,199	2,808	0.77%
Total interest-bearing deposits	1,289,752	4,954	0.38%	1,276,801	4,237	0.33%
Short-term borrowings	101,452	334	0.33%	108,504	112	0.10%
Long-term borrowings	26,832	771	2.87%	16,815	627	3.73%
Total interest-bearing liabilities	**$ 1,418,036**	**6,059**	**0.43%**	**$ 1,402,120**	**4,976**	**0.35%**
NET INTEREST MARGIN (TE)		**$ 87,724**	**3.94%**		**$ 79,240**	**3.71%**

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

3.34 percent at year-end 2017. As a result of the redemption of the higher rate debt and the increase in Federal Home Loan Bank advances at lower rates, the average rate on long-term borrowings declined from 3.73 percent to 2.87 percent from 2016 to 2017.

The Company's average loan to deposit ratio increased from 92.11 percent in 2016 to 97.17 percent in 2017 as the average balance of loans increased by $160.27 million while average deposits increased by $68.10 million.

The table above reflects information regarding the Company's average balances, interest income or expense, and average rates by each major balance sheet category for the years ended December 31, 2017 and 2016.

The table below reflects the changes in net interest income in 2017 and 2016 due to changes in rates and volumes computed on a tax equivalent basis.

TAXABLE EQUIVALENT RATE/VOLUME ANALYSIS
(in thousands)

	2017/2016			2016/2015		
		Increase/Decrease Due To			Increase/Decrease Due To	
	Net Change	Rate	Volume	Net Change	Rate	Volume
Interest income						
Loans	$ 8,603	$ 1,054	$ 7,549	$ 2,421	$ (1,438)	$ 3,859
Federal funds sold	327	926	(599)	334	473	(139)
Federal Home Loan Bank stock	67	67	0	0	0	0
Securities	570	898	(328)	1,033	446	587
Total interest income	9,567	2,945	6,622	3,788	(519)	4,307
Interest expense						
Deposits						
NOW accounts	217	179	38	30	(15)	45
Savings deposits	75	57	18	10	(1)	11
Money market deposits	446	416	30	52	6	46
Time deposits	(21)	257	(278)	(753)	(273)	(480)
Short-term borrowings	222	245	(23)	24	3	21
Long-term borrowings	144	(143)	287	(427)	(195)	(232)
Total interest expense	1,083	1,011	72	(1,064)	(474)	(590)
Net interest income	**$ 8,484**	**$ 1,934**	**$ 6,550**	**$ 4,852**	**$ (44)**	**$ 4,896**

NON-INTEREST INCOME

Total non-interest income was $38.69 million in 2017, a decrease of $279,000 from 2016. Mortgage banking income decreased by $703,000 as secondary market mortgage activity decreased. Service charges on deposits continued to be challenged in 2017, but remained relatively stable from the prior year with a modest decrease of $124,000. The largest increase in non-interest income was a $664,000 increase in net gains (losses) and write-downs of other real estate owned. The Company continued to decrease the amount of properties held in other real estate owned and was able to recoup some of the previous write-downs and losses on other real estate owned properties as they were sold.

The Company generated $7.19 million in fees from its trust services during 2017, an increase of $438,000 from 2016, or 6.48 percent. Total assets under management in the Trust Department increased by $204.71 million, or 14.08%, from $1.45 billion at year-end 2016 to $1.66 billion at year-end 2017.

Insurance commissions earned through Central Insurance Services, Inc. remained stable, increasing slightly from $4.22 million in 2016 to $4.25 million in 2017, representing a 0.70 percent increase. Central Investment Center, Inc. generated revenue of $1.94 million in 2017 which was an increase of 15.00 percent from $1.68 million in 2016.

Service charges on deposits continued to be challenged in 2017, but remained relatively stable from the prior year with a modest decrease of $124,000 to $7.73 million in 2017 as consumer protection legislation and greater competition for fees from outside the banking industry continue to drive down the volume of overdraft fee income.

Mortgage banking income decreased by $703,000 from $4.52 million in 2016 to $3.82 million in 2017. With the rising rate environment during 2017, the demand for re-financing mortgage loans declined. Loans originated for sale and subsequently sold were $185.47 million in 2017 compared to $224.10 million in 2016, a decrease of $38.63 million or 17.24 percent.

One residual impact of the most recent economic difficulties was the higher level of foreclosed real estate in prior years. Other real estate owned is property that has been foreclosed upon, or has been returned to the Bank in lieu of payment of customer debt, and is recorded at fair value less estimated costs to sell the properties. Reducing the level of other real estate owned helps to reduce expenses on properties held and also reduces the level of nonperforming assets. Over the years from December 31, 2013, to December 31, 2017, other real estate owned was reduced by $10.43 million. During 2017, other real estate owned declined by $2.33 million from $5.05 million at year-end 2016 to $2.72 million at year-end 2017. During 2017, the Company realized net gains on the disposal of other real estate and write-downs to the recorded value of other real estate totaling $782,000 compared to net gains, less write-downs, of $118,000 recorded in 2016.

NON-INTEREST EXPENSE

Non-interest expense for 2017 totaled $93.81 million, an increase of $2.45 million or 2.68 percent over 2016. While salaries and benefits expense, occupancy and equipment expense, advertising and business development expense, card and interchange expense, and other non-interest expenses increased, these increases were partially offset by declines in FDIC insurance expense, processing charges, and professional services.

Salaries and benefits are the largest component of non-interest expense, totaling $46.85 million in 2017, an increase of $1.45 million, or 3.20 percent from 2016. The higher 2017 expense was attributed to normal salary increases and higher benefit costs which continue to increase in the current economic environment. On December 31, 2017, the Company employed 496 full-time-equivalent employees compared to 493 full-time-equivalent employees at the same date in 2016.

ANALYSIS OF NON-INTEREST INCOME

(in thousands)

				2017/2016		2016/2015	
	2017	2016	2015	CHANGE	%	CHANGE	%
Trust fees	$ 7,193	$ 6,755	$ 6,560	$ 438	6.48 %	$ 195	2.97 %
Service charges on deposit accounts	7,725	7,849	8,173	(124)	(1.58)%	(324)	(3.96)%
Mortgage banking income	3,821	4,524	4,294	(703)	(15.54)%	230	5.36 %
Card and interchange fees	5,905	6,247	5,724	(342)	(5.47)%	523	9.14 %
Electronic banking fees	5,037	5,276	4,885	(239)	(4.53)%	391	8.00 %
Net gain (loss) and write-downs of OREO	782	118	(1,806)	664	562.71 %	1,924	(106.53)%
Other non-interest income	8,231	8,204	7,723	27	0.33 %	481	6.23 %
Total non-interest income	$ 38,694	$ 38,973	$ 35,553	$ (279)	(0.72)%	$ 3,420	9.62 %

Occupancy and equipment expense increased by $687,000, primarily due to an increase in depreciation expense as the Company made new investments in software and technology equipment. Expenses on other real estate owned increased by $246,000 due to the need to cover expenses on properties held during the year; however, with the reduction in other real estate owned during 2017, certain of these expenses are not expected to recur. FDIC insurance expense decreased by $258,000 as the FDIC Insurance Fund implemented changes in assessment determination which decreased the Company's insurance assessments. Processing charges and professional services decreased slightly, which was offset by a small increase in card and interchange expense.

INCOME TAXES

The Company recorded income tax expense of $11.17 million in 2017 compared to $3.87 million in 2016, an increase of $7.30 million. Part of the increase in income tax expense was due to higher pre-tax earnings of $7.71 million. In addition, on December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the "Act") was signed into law. Among other things, the Act reduces the Company's corporate federal tax rate from 35.00 percent to 21.00 percent effective January 1, 2018. As a result, the Company was required to re-measure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of $3.93 million in 2017. Without this additional charge, income tax expense would have been $7.24 million and the effective tax rate would have been 25.33 percent compared to an effective tax rate of 18.54 percent for 2016.

The Company's tax planning strategy includes the participation in Industrial Revenue Bond lending for nonprofit organizations to increase tax-exempt income, and the Company is also a limited partner in 15 low-income housing projects and a historic renovation project for which it receives tax credits, and is an investor in a Community Development Entity for which it receives New Market Tax Credits. Beginning in 2018, the Company will get the benefit of the lower corporate federal tax rate of 21.00 percent.

FINANCIAL CONDITION

At December 31, 2017, total assets of the Company were $2.41 billion, an increase of $110.24 million, or 4.80 percent, compared to total assets at December 31, 2016. During 2017, the Company saw its highest loan growth in several years and was able to utilize on-balance sheet liquidity for asset deployment. Earning assets totaled $2.29 billion on December 31, 2017, or 95.02 percent of total assets. The Company's net loans increased $196.63 million, or 11.10 percent, cash and cash equivalents decreased by $8.31 million, or 5.49 percent, and the securities portfolio decreased by $64.49 million, or 22.99 percent.

EARNING ASSETS

Gross loans outstanding totaled $1.99 billion at December 31, 2017, an increase of $196.54 million, or 10.96 percent. Loan demand in all segments of loans increased during 2017. In particular, the Company was able to increase its presence in the Northern Kentucky and Louisville markets, while continuing the focus of maintaining strong customer relationships in all markets.

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

On-balance sheet liquidity has been at all-time highs in recent years and remained strong in 2017, although the Company was able to employ more of its existing cash and short-term

ANALYSIS OF NON-INTEREST EXPENSE

(in thousands)

	2017	2016	2015	2017/2016 CHANGE	2017/2016 %	2016/2015 CHANGE	2016/2015 %
Salaries and benefits	$ 46,847	$ 45,394	$ 42,795	$ 1,453	3.20 %	$ 2,599	6.07 %
Occupancy and equipment	18,637	17,950	17,626	687	3.83 %	324	1.84 %
Processing charges	6,141	6,474	5,445	(333)	(5.14)%	1,029	18.90 %
Advertising and business development	6,181	5,646	5,473	535	9.48 %	173	3.16 %
Professional services	2,173	2,283	2,167	(110)	(4.82)%	116	5.35 %
FDIC insurance expense	1,125	1,383	1,707	(258)	(18.66)%	(324)	(18.98)%
Other non-interest expense	12,702	12,224	11,668	478	3.91 %	556	4.77 %
Total non-interest expense	$ 93,806	$ 91,354	$ 86,881	$ 2,452	2.68 %	$ 4,473	5.15 %

investments into earning assets with higher rates during 2017. Total deposits increased by $75.25 million from year-end 2016 to year-end 2017, and management deployed these funds as well as some of the Company's federal funds sold and securities into loans.

ALLOWANCE FOR LOAN LOSSES

At December 31, 2017, the allowance for loan losses was $20.49 million, or 1.03 percent of gross loans outstanding, compared with $20.58 million, or 1.15 percent at December 31, 2016. The provision for loan losses during 2017 was $2.31 million compared to $4.46 million during 2016. The lower level of provision for loan losses was directly attributable to lower levels of net charge-offs as well as improvements in credit quality, with the majority of the provision for loan losses recorded as a result of the increase in loan volume.

The credit quality of the loan portfolio during 2017 demonstrated a marked improvement. Nonperforming loans as a percentage of gross loans decreased from 1.46 percent at December 31, 2016, to 0.68 percent at December 31, 2017, and total delinquent loans as a percentage of gross loans decreased from 1.92 percent at December 31, 2016, to 1.04 percent at December 31, 2017. Loans delinquent 90 days or more decreased from $24.99 million at December 31, 2016, to $5.83 million at December 31, 2017, and nonaccrual loans declined from $25.60 million at December 31, 2016, to $13.31 million at December 31, 2017. Net charge-offs in 2017 were $2.41 million, a decline of $3.32 million over 2016 net charge-offs of $5.72 million. As a result, net charge-offs as a percentage of average loans were 0.13 percent in 2017 compared to 0.33 percent in 2016.

In addition, there was improvement in the level of adversely classified loans and the level of impaired loans during 2017. A loan is considered to be impaired when it is probable that all principal and interest amounts will not be collected in accordance with the original loan terms. Loans deemed to be impaired declined from $72.48 million at December 31, 2016, to $61.24 million at December 31, 2017, a decrease of $11.24 million. The provision and allowance for loan losses are based on management's ongoing review of the loan portfolio and other qualitative factors on a monthly basis and are subject to review by the Board of Directors and the periodic evaluation by various regulatory authorities. While management uses the best information available at the time of the evaluation and is comfortable with the overall adequacy of the allowance for loan losses at December 31, 2017, future adjustments may be necessary if economic conditions worsen or if assumptions in the evaluation differ substantially from actual results.

DEPOSITS

Total deposits were $1.99 billion at year-end 2017, an increase of $75.25 million, or 3.93 percent from December 31, 2016. Interest bearing deposits increased by $44.23 million or 3.45 percent year over year, while non-interest bearing deposits increased by $31.02 million from year-end 2016 to year-end 2017, an increase of 4.90 percent.

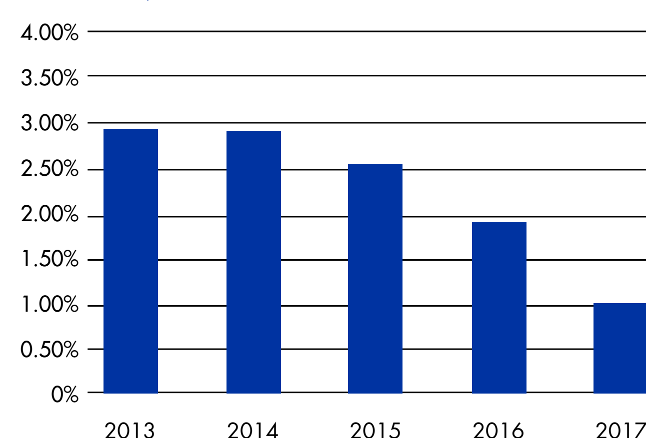
Management concentrated its efforts on maintaining and expanding current customer relationships as well as developing new relationships, particularly in the Northern Kentucky and Louisville markets. The Company continued to experience growth in demand deposit, NOW, money market, and savings balances as time deposits declined slightly year over year. The Company offers fixed-rate certificates of deposit with maturities ranging from seven days to five years; however, with the continuing low levels of market rates, demand for these products continues to be low.

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 totaled $97.90 million at December 31, 2017, which was a decrease of $7.79 million from $105.69 million at December 31, 2016. These accounts are overnight repurchase agreements requiring a direct pledge from the Company's investment portfolio.

LONG-TERM BORROWINGS

The Company's long-term borrowings consist of advances from the Federal Home Loan Bank and subordinated debentures. At December 31, 2017, the Company had $25.44 million outstanding in advances from the Federal Home Loan Bank compared to $564,000 at December 31, 2016. The increase was the result of borrowing an additional $25.00 million from



ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(in thousands)

	2017	2016	2015	2014	2013
Allowance for loan losses					
Balance January 1	$ 20,582	$ 21,840	$ 23,037	$ 23,913	$ 27,480
Provision for loan losses	2,310	4,464	961	3,217	8,775
Allowance sold with sale of subsidiary	-	-	-	-	(640)
Less: Net charge-offs	(2,407)	(5,722)	(2,158)	(4,093)	(11,702)
Balance December 31	$ 20,485	$ 20,582	$ 21,840	$ 23,037	$ 23,913
Average loans, net of unearned income	$ 1,875,414	$ 1,715,145	$ 1,631,982	$ 1,635,738	$ 1,592,481
Loans, net of unearned income, at year-end	$ 1,988,855	$ 1,792,320	$ 1,680,813	$ 1,647,145	$ 1,626,056
Nonperforming loans at year-end	$ 13,589	$ 26,245	$ 35,754	$ 37,895	$ 38,389
Other real estate owned at year-end	$ 2,721	$ 5,050	$ 5,806	$ 10,332	$ 13,151
Ratios:					
Provision for loan losses to average loans	0.12%	0.26%	0.06%	0.20%	0.55%
Net charge-offs to average loans	0.13%	0.33%	0.13%	0.25%	0.73%
Allowance for loan losses to loans	1.03%	1.15%	1.30%	1.40%	1.47%
Allowance for loan losses to nonperforming loans	150.75%	78.42%	61.08%	60.79%	62.29%
Nonperforming loans to loans	0.68%	1.46%	2.13%	2.30%	2.36%
Nonperforming assets to total assets	0.68%	1.36%	1.90%	2.29%	2.46%
Nonperforming assets to shareholders' equity and allowance for loan losses	5.92%	12.12%	17.06%	21.11%	23.78%
Total delinquent loans at year-end	1.04%	1.92%	2.53%	2.89%	2.93%

the Federal Home Loan Bank in July 2017. The advances outstanding at December 31, 2017, mature between July 2020 and December 2027, and have a weighted average rate of 1.75 percent at December 31, 2017. Each advance is payable at its maturity, with a prepayment penalty. The advances are borrowed under a blanket lien agreement, and are collateralized by Federal Home Loan Bank stock and eligible 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 $15.46 million of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The subordinated debentures mature on June 15, 2035, and have a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) and 1.75 percent, which was 3.34 percent on December 31, 2017.

The trust preferred securities are included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

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. As of January 1, 2015, capital guidelines from the Basel Committee on Banking Supervision (Basel III rules) became effective with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. Capital ratios remained strong during 2016 and 2017, and continued to be well above the minimum requirements to be considered "well capitalized."

In order for a bank holding company to be considered "well capitalized," a company must maintain a Total capital to risk-weighted assets ratio of 10.0 percent, a Tier I capital to risk-weighted assets ratio of 8.0 percent, a Common Tier 1 equity to risk-weighted assets ratio of 6.5 percent, and a Tier I capital to average assets ratio of 5.0 percent. On December 31, 2017, the Company had a Total capital to risk-weighted assets ratio of 13.0 percent, a Tier I capital to risk-weighted assets ratio of 12.1 percent, a Common Tier 1 equity to risk-weighted assets ratio of 11.4 percent and a Tier I capital to average assets ratio of 10.9 percent.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Central Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017, 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 5, 2018 expressed an unmodified opinion.

Crowe Horwath LLP

Crowe Horwath LLP
Louisville, Kentucky
March 5, 2018

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

	December 31 2017	December 31 2016
ASSETS		
Cash and due from financial institutions	$ 50,851	$ 48,514
Federal funds sold	92,000	102,900
Interest bearing deposits with other financial institutions	250	-
Total cash and cash equivalents	143,101	151,414
Available for sale securities	138,102	169,942
Held to maturity securities	77,952	110,604
Total securities	216,054	280,546
Loans held for sale	5,328	5,395
Loans, net of allowance of $20,485 and $20,582	1,968,370	1,771,738
Premises and equipment, net	31,680	33,966
Other real estate owned	2,721	5,050
Interest receivable	5,945	5,422
Federal Home Loan Bank stock, at cost	6,751	6,751
Goodwill	14,313	14,313
Other assets	14,462	23,894
Total assets	$ 2,408,725	$ 2,298,489
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 664,586	$ 633,571
Interest bearing	1,326,442	1,282,210
Total deposits	1,991,028	1,915,781
Federal funds purchased and repurchase agreements	98,397	106,191
Federal Home Loan Bank advances	25,440	564
Subordinated debentures	15,464	15,464
Interest payable	339	219
Other liabilities	22,978	22,581
Total liabilities	2,153,646	2,060,800
SHAREHOLDERS' EQUITY		
Common stock, $10 par value, 350,000 shares authorized, 347,922 shares issued	3,479	3,479
Additional paid-in capital	6,890	6,890
Retained earnings	250,586	233,557
Accumulated other comprehensive income (loss)	(5,876)	(6,237)
Total shareholders' equity	255,079	237,689
Total liabilities and shareholders' equity	$ 2,408,725	$ 2,298,489

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except share data)

	Years Ended December 31 2017	Years Ended December 31 2016
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 86,523	$ 78,134
Securities	4,108	3,525
Federal funds sold and other	1,432	1,039
	92,063	82,698
INTEREST EXPENSE		
Deposits	4,954	4,237
Subordinated debentures	448	491
Other borrowings	657	248
	6,059	4,976
Net interest income	86,004	77,722
Provision for loan losses	2,310	4,464
Net interest income after provision for loan losses	83,694	73,258
NON-INTEREST INCOME		
Service charges on deposit accounts	7,725	7,849
Mortgage banking income	3,821	4,524
Card and interchange fees	5,905	6,247
Trust fees	7,193	6,755
Electronic banking	5,037	5,276
Net gain (loss) on sales and write-downs of other real estate owned	782	118
Other fees and income	8,231	8,204
	38,694	38,973
NON-INTEREST EXPENSE		
Salaries and benefits	46,847	45,394
Occupancy and equipment	18,637	17,950
Processing charges	6,141	6,474
Advertising and business development	6,181	5,646
Card and interchange expenses	4,801	4,609
Professional services	2,173	2,283
FDIC assessment	1,125	1,383
Other real estate owned, net	728	482
Other	7,173	7,133
	93,806	91,354
Income before income taxes	28,582	20,877
Income taxes	11,172	3,871
Net income	$ 17,410	$ 17,006
Basic earnings per share	$ 50.04	$ 48.88
Weighted average number of common shares outstanding	347,922	347,922

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands except share data)

	Years Ended December 31 2017	2016
OPERATING ACTIVITIES		
Net income	$ 17,410	$ 17,006
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	2,310	4,464
Depreciation and amortization	6,670	6,784
Net loss (gain) on sales and write-downs of other real estate owned	(782)	(118)
Net gain on sale of loans	(3,637)	(4,324)
Net change in:		
Loans held for sale	3,704	7,077
Interest receivable	(523)	(128)
Other assets	7,111	1,532
Interest payable	120	(25)
Other liabilities	881	3,377
Net cash from operating activities	33,264	35,645
INVESTING ACTIVITIES		
Available for sale securities:		
Purchases	-	(141,692)
Maturities, calls and return of principal	32,933	88,759
Held to maturity securities:		
Purchases	-	(45,000)
Maturities, calls and return of principal	32,485	61,976
Net change in loans	(210,424)	(121,915)
Purchases of premises and equipment	(2,101)	(1,347)
Proceeds from sale of other real estate owned	14,593	5,560
Net cash from investing activities	(132,514)	(153,659)
FINANCING ACTIVITIES		
Net change in deposits	75,247	80,908
Net change in federal funds purchased and repurchase agreements	(7,794)	11,796
Repayment of Federal Home Loan Bank advances	(124)	(151)
Issuance of Federal Home Loan Bank advances	25,000	-
Redemption of subordinated debentures	-	(5,278)
Cash dividends paid	(1,392)	(1,044)
Net cash from financing activities	90,937	86,231
Net change in cash and cash equivalents	(8,313)	(31,783)
Cash and cash equivalents, beginning of year	151,414	183,197
Cash and cash equivalents, end of year	$ 143,101	$ 151,414
Supplemental cash flow information:		
Interest paid	$ 5,939	$ 5,001
Income taxes paid	4,010	2,750
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$ 11,482	$ 4,686

See accompanying notes.

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

Years Ended December 31, 2017 and 2016	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2016	**$ 3,479**	**$ 6,890**	**$ 217,595**	**$ (6,209)**	**$ 221,755**
Net income	-	-	17,006	-	17,006
Cash dividends declared ($3 per share)	-	-	(1,044)	-	(1,044)
Other comprehensive income (loss)				(28)	(28)
Balances, December 31, 2016	**3,479**	**6,890**	**233,557**	**(6,237)**	**237,689**
Net income	-	-	17,410	-	17,410
Cash dividends declared ($4 per share)	-	-	(1,392)	-	(1,392)
Other comprehensive income (loss)	-	-	-	1,372	1,372
Reclassification of disproportionate tax effect	-	-	1,011	(1,011)	-
Balances, December 31, 2017	**$ 3,479**	**$ 6,890**	**$ 250,586**	**$ (5,876)**	**$ 255,079**

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

	Years Ended December 31 2017	2016
Net income	$ **17,410**	$ 17,006
Other comprehensive income (loss):		
Unrealized gains/losses on securities:		
Unrealized holding gain (loss) arising during the period	**1,588**	(530)
Tax effect	**(556)**	188
Net of tax	**1,032**	(342)
Defined benefit pension plans:		
Net gain (loss) arising during the period	**577**	483
Tax effect	**(237)**	(169)
Net of tax	**340**	314
Total other comprehensive income (loss)	**1,372**	(28)
Comprehensive income	$ **18,782**	$ 16,978

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(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., Central Bank Title Agency, LLC, and CBT Real Estate Holdings, LLC. As of June 1, 2017, Central Bank of Jefferson Co., Inc., which was previously a subsidiary of Central Bancshares, Inc., was merged into Central Bank & Trust Co. 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 real estate acquired in settlement of loans.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 5, 2018, 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, amounts due from financial institutions, and federal funds sold with maturities under 90 days. Net cash flows are reported for customer loan and deposit transactions, and federal funds purchased and repurchase agreements.

Securities: 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

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

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

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

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

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

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 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 or to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrowers and guarantors to evaluate ability to repay the loans.

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

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

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

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

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

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

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

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

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

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

Federal Home Loan Bank (FHLB) Stock: The 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, 2017, 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 deposits, held by the trust department in a fiduciary or agency capacity are not included in the consolidated financial statements since such items are not assets of the Company.

Investment in Limited Partnerships: The Company is a limited equity partner in 15 low-income housing projects and one historic renovation project. The investments are accounted for using the equity method and are included in other assets. The investments had a balance of $3,239 and $4,666 at year-end 2017 and 2016. At year-end 2017, remaining funding commitments were $2,549.

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

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.

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. The 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. The accumulated other comprehensive income (loss) at December 31, 2016 of $(6,237) was comprised of $(6,055) related to the defined benefit and non-qualified pension plans and $(182) 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 $47,791 and $38,924 at December 31, 2017 and 2016.

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

Adoption of New Accounting Standards: On February 14, 2018, FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. Under U.S. GAAP, the effect of changes in tax laws or rates is recognized in income tax expense in the period in which the legislation is enacted and the re-measurement of deferred tax items reported in AOCI is recorded through income tax expense, creating a disproportionate tax effect in AOCI as the recorded deferred tax asset or liability no longer equals the tax effect included in AOCI for that item. At December 31, 2017, the Company early adopted ASU 2018-02 and reclassified $1,011 of disproportionate tax effect out of accumulated other comprehensive income (loss) and into retained earnings.

In January 2016, the FASB amended existing guidance by issuing ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value recognized in net income. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and it eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. Entities that are not public business entities are not required to apply the fair value of financial instruments disclosure guidance in ASU 825-10-50. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. As of December 31, 2017, the Company early adopted ASU 2016-01 and as a result, the disclosures required by ASU 825-10-50 have been omitted.

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
2017				
U.S. government sponsored entities and agencies	$ 53,236	$ 224	$ (210)	$ 53,250
Agency mortgage-backed securities: residential	68,076	419	(12)	68,483
Corporate bonds	15,487	904	(22)	16,369
	$ 136,799	$ 1,547	$ (244)	$ 138,102
2016				
U.S. government sponsored entities and agencies	$ 73,453	$ 140	$ (331)	$ 73,262
Agency mortgage-backed securities: residential	81,418	386	(96)	81,708
Corporate bonds	15,356	-	(384)	14,972
	$ 170,227	$ 526	$ (811)	$ 169,942

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
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
2016				
U.S. government sponsored entities and agencies	$ 60,500	$ -	$ (603)	$ 59,897
Agency mortgage-backed securities: residential	35,253	24	(464)	34,813
States and political subdivisions	14,851	49	(1)	14,899
	$ 110,604	$ 73	$ (1,068)	$ 109,609

The amortized cost and fair value of debt securities at December 31, 2017 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	$ -	$ -	$ 1,000	$ 999
Due from one to five years	26,308	26,236	47,850	47,393
Due from five to ten years	4,867	4,850	-	-
Due after ten years	37,548	38,533	-	-
Agency mortgage-backed securities: residential	68,076	68,483	29,102	28,734
Total	$ 136,799	$ 138,102	$ 77,952	$ 77,126

Securities with a carrying amount of $172,205 and $177,942 at December 31, 2017 and 2016, were pledged to secure public deposits and repurchase agreements.

At December 31, 2017 and 2016, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of shareholders' equity.

There were no sales of securities in 2017 or 2016.

Securities with unrealized losses at year-end 2017 and 2016, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below.

Available for sale	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2017						
U.S. government sponsored entities and agencies	$ 4,743	$ (15)	$ 28,397	$ (195)	$ 33,140	$ (210)
Agency mortgage-backed securities: residential	-	-	8,079	(12)	8,079	(12)
Corporate bonds	-	-	4,977	(22)	4,977	(22)
Total available for sale	$ 4,743	$ (15)	$ 41,453	$ (229)	$ 46,196	$ (244)
2016						
U.S. government sponsored entities and agencies	$ 25,329	$ (258)	$ 13,727	$ (73)	$ 39,056	$ (331)
Agency mortgage-backed securities: residential	27,857	(42)	6,476	(54)	34,333	(96)
Corporate bonds	10,017	(338)	4,954	(46)	14,971	(384)
Total available for sale	$ 63,203	$ (638)	$ 25,157	$ (173)	$ 88,360	$ (811)

Held to maturity	Less than 12 Months Fair Value	Less than 12 Months Unrecognized Loss	12 Months or More Fair Value	12 Months or More Unrecognized Loss	Total Fair Value	Total Unrecognized Loss
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)
2016						
U.S. government sponsored entities and agencies	$ 59,897	$ (603)	$ -	$ -	$ 59,897	$ (603)
Agency mortgage-backed securities: residential	34,099	(464)	-	-	34,099	(464)
States and political subdivisions	1,502	(1)	718	-	2,220	(1)
Total held to maturity	$ 95,498	$ (1,068)	$ 718	$ -	$ 96,216	$ (1,068)

Unrealized losses on debt securities have not been recognized into income because the issued bonds are of high credit quality (rated AA or higher) as of December 31, 2017 and at acquisition date, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

NOTE 3 – LOANS

Loans at December 31 were as follows:

	2017	2016
Commercial	$ 385,239	$ 366,499
Commercial real estate	1,086,023	963,612
Residential real estate	420,230	377,050
Installment	85,894	74,017
Credit card receivables	13,148	12,821
	1,990,534	1,793,999
Deferred loan fees, net	(1,679)	(1,679)
Allowance for loan losses	(20,485)	(20,582)
Loans, net	$ 1,968,370	$ 1,771,738

The following table presents the activity in the allowance for loan losses by segment of loans for the years ended December 31, 2017 and 2016:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
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
2016							
Allowance for loan losses:							
Beginning balance	$ 5,001	$ 12,830	$ 2,164	$ 972	$ 220	$ 653	$ 21,840
Provision for loan losses	(78)	3,090	287	814	271	80	4,464
Loans charged off	(667)	(5,325)	(614)	(1,289)	(260)	-	(8,155)
Recoveries	818	900	72	553	90	-	2,433
Total ending allowance balance	$ 5,074	$ 11,495	$ 1,909	$ 1,050	$ 321	$ 733	$ 20,582

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, 2017 and 2016:

	Commercial	Commercial Real Estate	Residential Real Estate	Installment	Credit Card Receivables	Unallocated	Total
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
2016							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 755	$ 3,287	$ 105	$ -	$ -	$ -	$ 4,147
Collectively evaluated for impairment	4,319	8,208	1,804	1,050	321	733	16,435
Total ending allowance balance	$ 5,074	$ 11,495	$ 1,909	$ 1,050	$ 321	$ 733	$ 20,582
Loans:							
Individually evaluated for impairment	$ 12,845	$ 53,142	$ 6,445	$ 38	$ 7	$ -	$ 72,477
Collectively evaluated for impairment	353,654	910,470	370,605	73,979	12,814	-	1,721,522
Total ending loans balance	$ 366,499	$ 963,612	$ 377,050	$ 74,017	$ 12,821	$ -	$ 1,793,999

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

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

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2016:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2016						
With no related allowance recorded:						
Commercial	$ 12,096	$ 10,927	$ -	$ 6,038	$ 351	$ 351
Commercial real estate	26,812	25,268	-	20,824	506	506
Residential real estate	3,483	3,407	-	2,093	26	26
Installment	99	38	-	43	-	-
Credit card receivables	7	7	-	5	-	-
Subtotal	42,497	39,647	-	29,003	883	883
With an allowance recorded:						
Commercial	$ 2,147	$ 1,918	$ 755	$ 4,389	$ 45	$ 45
Commercial real estate	28,773	27,874	3,287	32,360	748	748
Residential real estate	3,547	3,038	105	4,675	94	94
Installment	-	-	-	37	-	-
Credit card receivables	-	-	-	4	-	-
Subtotal	34,467	32,830	4,147	41,428	887	887
Total	$ 76,964	$ 72,477	$ 4,147	$ 70,431	$ 1,770	$ 1,770

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

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

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2017 and 2016:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2017	2016	2017	2016
Commercial	$ 3,666	$ 2,038	$ -	$ -
Commercial real estate	5,481	17,995	-	-
Residential real estate	3,838	5,159	247	444
Installment	299	347	1	27
Credit card receivables	28	60	29	175
Total	$ 13,312	$ 25,599	$ 277	$ 646

The following table presents the aging of the recorded investment in past due loans as of December 31, 2017 and 2016 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, 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
December 31, 2016					
Commercial	$ 3,680	$ 930	$ 4,610	$ 361,889	$ 366,499
Commercial real estate	1,962	20,448	22,410	941,202	963,612
Residential real estate	2,419	3,216	5,635	371,415	377,050
Installment	1,952	188	2,140	71,877	74,017
Credit card receivables	100	209	309	12,512	12,821
Total	$ 10,113	$ 24,991	$ 35,104	$ 1,758,895	$ 1,793,999

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 $856 and $1,153 at December 31, 2017 and 2016.

Troubled Debt Restructurings: The Company has troubled debt restructurings of $42,640 and $54,215 as of December 31, 2017 and 2016, and has allocated $2,258 and $1,785 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2017 and 2016. The Company has committed to lend additional amounts totaling up to $161 and $110 as of December 31, 2017 and 2016 to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2017 and 2016, 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, 2017 and 2016:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
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
December 31, 2016:			
Troubled debt restructurings:			
Commercial	8	$ 1,747	$ 2,646
Commercial real estate	25	25,331	19,906
Residential real estate	8	897	897
Total	41	$ 27,975	$ 23,449

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. The troubled debt restructurings described above increased the allowance for loan losses by $3,286 and resulted in $3,156 of charge-offs during the year ended December 31, 2016.

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. There was one residential real estate loan with a recorded investment of $53 for which there was a payment default within 12 months following the modification during the year ended December 31, 2016. 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 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. 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, 2016.

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, 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
December 31, 2016						
Commercial	$ 352,283	$ 1,757	$ 12,459	$ -	$ -	$ 366,499
Commercial real estate	893,029	11,847	58,736	-	-	963,612
Residential real estate	250,959	1,454	7,148	-	117,489	377,050
Installment	-	-	10	8	73,999	74,017
Credit card receivables	-	11	52	-	12,758	12,821
	$ 1,496,271	$ 15,069	$ 78,405	$ 8	$ 204,246	$ 1,793,999

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Loans originated for sale in the secondary market and subsequently sold totaled $185,473 and $224,104 during 2017 and 2016. The Company had commitments to originate $14,791 in loans at December 31, 2017, which it intends to sell after the loans are closed.

Loans serviced for others, which are not reported as assets, totaled $45,247 and $49,369 at December 31, 2017 and 2016.

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

	2017	2016
Beginning of year	$ 201	$ 164
Originated	67	93
Amortized to expense	(60)	(56)
End of year	$ 208	$ 201

No valuation allowance for impaired servicing rights is considered necessary. The fair value of capitalized mortgage servicing rights was estimated to be $339 and $329 at year-end 2017 and 2016.

NOTE 5 – OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2017	2016
Other real estate owned, beginning of year	$ 5,050	$ 5,806
Acquisition and improvement	11,482	4,686
Proceeds from sales	(14,593)	(5,560
Provision for valuation allowance	(416)	(916)
Net gain (loss) on sales	1,198	1,034
Other real estate owned, end of year	$ 2,721	$ 5,050

Activity in the valuation allowance was as follows:

	2017	2016
Beginning of year	$ 1,569	$ 4,156
Additions charged to expense	416	916
Reductions from sales	(975)	(3,503)
End of year	$ 1,010	$ 1,569

Expenses related to other real estate owned include:

	2017	2016
Net loss (gain) on sales	$ (1,198)	$ (1,034)
Provision for valuation allowance	416	916
Operating expenses, net	728	482
	$ (54)	$ 364

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2017	2016
Land	$ 2,991	$ 2,991
Buildings and improvements	21,593	21,558
Leasehold improvements	30,203	30,193
Furniture, fixtures and equipment	40,615	39,125
Construction in progress	1,193	579
	96,595	94,446
Accumulated depreciation	(64,915)	(60,480)
Total	$ 31,680	$ 33,966

Depreciation and amortization expense amounted to $4,387 and $4,306 in 2017 and 2016.

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 $5,499 and $5,526 in 2017 and 2016. Rent commitments under noncancelable operating leases, before considering renewal options that generally are present, were as follows:

2018	$ 6,028
2019	5,771
2020	5,742
2021	5,478
2022	5,012
Thereafter	4,129
	$ 32,160

NOTE 7 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250 at year-end 2017 and 2016 were $104,421 and $106,964.

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

2018	$	224,439
2019		48,192
2020		17,934
2021		22,090
2022		17,110
Thereafter		82
	$	329,847

Deposits from directors and executive officers and companies in which they have beneficial ownership were $11,067 and $11,112 at December 31, 2017 and 2016.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

		2017		2016
Maturity of July 2020 at a rate of 1.74% at year-end 2017	**$**	**25,000**	$	-
Maturities January 2022 through December 2027, fixed rates ranging from 2.00% to 5.50%, averaging 2.44% at year-end 2017 and 2016		**440**		564
Total	**$**	**25,440**	$	564

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The advances are borrowed under a blanket lien agreement. The advances are collateralized by Federal Home Loan Bank stock and first mortgage loans with an aggregate unpaid principal balance of $357,480 and $327,641 at December 31, 2017 and 2016. Based on this collateral and the holding of Federal Home Loan Bank stock, the Company is eligible to borrow up to a total of $173,369 at year-end 2017. In addition, the Federal Home Loan Bank issues letters of credit on behalf of a subsidiary bank of the Company as security for certain deposit relationships, as the need arises. Outstanding letters of credit at December 31, 2017 and 2016 were $79,438 and $84,965.

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 which was 3.34% at year-end 2017, equal to the sum of the three month London Interbank Offered Rate ("LIBOR") and 1.75%. The Company's investment in the common stock of the trust was $464 and is included in other assets. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

Line of Credit: The Company has an outstanding line of credit for $10,000 from a commercial bank for the purpose of securing additional funds for capital infusion to its subsidiary or for debt service needs. As of December 31, 2017, the Company had not drawn upon this line. Terms of the line of credit include a variable interest rate equal to the sum of prime as published in The Wall Street Journal and 0.50% (4.75% as of December 31, 2017) with a floor of 4.75%, and monthly payments of interest only with the balance due at maturity on September 30, 2018. The line of credit is secured by 100% of the stock of Central Bank & Trust Co.

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. The most recent analysis performed indicated that discounts ranging from approximately 10% to 40% should be applied to all appraisal values, depending on the age of the appraisal and any known deterioration in value since the date of the appraisal.

Assets Measured on a Recurring Basis

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

	Fair Value Measurements at December 31, Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (2017):			
Available for sale securities:			
U.S. government sponsored entities and agencies	$ -	$ 53,250	$ -
Agency mortgage-backed securities: Residential	-	68,483	-
Corporate bonds	-	4,978	11,391
Assets (2016):			
Available for sale securities:			
U.S. government sponsored entities and agencies	$ -	$ 73,262	$ -
Agency mortgage-backed securities: Residential	-	81,708	-
Corporate bonds	-	4,954	10,018

There were no transfers between level 1 and level 2 during 2017 or 2016. There were no transfers between level 2 and level 3 during 2017. Two corporate bonds with a fair value of $10,018 at December 31, 2016 were transferred from level 2 to level 3 because of a lack of observable market data for the securities. The Company's policy is to recognize transfers into or out of a level as of the end of the reporting period. As a result, the fair value for these securities was transferred on December 31, 2016.

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 the bonds classified as level 3. The key unobservable input in determining the fair value of the bonds was a discount rate of 3.482% and 4.198% at December 31, 2017 and 2016.

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 (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
Assets (2016):			
Impaired loans:			
Commercial	$ -	$ -	$ 464
Commercial real estate	-	-	4,782
Residential real estate	-	-	531
Other real estate owned:			
Commercial real estate	-	-	2,640
Residential real estate	-	-	529

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. Impaired loans that are measured for impairment using the fair value of the collateral had a principal balance of $9,580, with a valuation allowance of $3,803 at December 31, 2016, resulting in $490 of additional provision for loan losses for the year ended December 31, 2016.

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. Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $3,169 which is made up of the outstanding balance of $4,738 net of a valuation allowance of $1,569 at December 31, 2016, resulting in an additional provision of $916 for the year ended December 31, 2016.

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, 2017 and 2016:

	Valuation Techniques	Fair Value	Asset Category	Unobservable Input(s)	Range (Weighted Average)
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%)
2016	Sales approach	$ 5,032	Other real estate owned, all classes of impaired loans	Adjustment for differences between the comparable sales, aging, and specific borrower information	3%–37% (13%)
	Income approach	$ 3,914	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:

	2017		2016	
Current	$	4,275	$	2,597
Deferred		6,897		1,274
	$	11,172	$	3,871

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 15 low-income housing projects, one New Market Tax Credit project, ownership of Qualified Zone Academy Bonds, and tax exempt interest income totaling $3,194 and $2,820 for 2017 and 2016.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the "Act") was signed into law. Among other things, the Act reduces the Company's corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result, the Company was required to re-measure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The re-measurement 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, I*ncome Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* and reclassified $1,011 out of accumulated other comprehensive income (loss) and into retained earnings the portion of income tax expense recorded as of December 22, 2017 due to re-measuring to 21% deferred taxes on available for sale securities and the defined benefit pension plans.

Deferred tax assets and liabilities relate principally to unrealized losses on securities available for sale, adjustment for pension obligations, premises and equipment, mortgage servicing rights, the allowance for loan losses, Federal Home Loan Bank stock dividends, fair value adjustments, other real estate owned losses, partnership investments, and net operating loss carryforwards. At December 31, 2017, the Company had net operating loss carryforwards of $212 which expire in 2025. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. The utilization of the net operating loss carryforwards is limited annually under Internal Revenue Code Section 382.

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

	2017		2016	
Deferred tax assets	$	11,629	$	21,834
Deferred tax liabilities		(4,414)		(6,919)
	$	7,215	$	14,915

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

The Company has no unrecognized tax benefits as of December 31, 2017 and 2016. 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, 2017 and 2016. 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 2013 and the Kentucky returns are subject to examination by taxing authorities for all years after 2012. 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 contribution to the plan is made according to established laws and regulations. Plan assets are primarily invested in equity securities, fixed income securities and cash equivalents. The plan provides defined benefits based on years of service and final average salary. The Company uses December 31 as the measurement date for its pension plans.

The Company also maintains a non-qualified supplemental pension plan covering certain key executives, which provides for benefit payments that exceed the limit for deductibility imposed by income tax regulations. The benefit obligation related to this unfunded plan was $5,092 and $4,619 at December 31, 2017 and 2016. Amounts recognized in accumulated other comprehensive income (loss) related to this plan at December 31, 2017 and 2016 were $(974) and $(933) 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 2018.

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

	December 31,	
	2017	2016
Benefit obligation	$ **(34,107)**	$ (31,576)
Fair value of plan assets	**30,409**	27,994
Funded status	$ **(3,698)**	$ (3,582)

	2017	2016
Employer contributions	$ **-**	$ -
Benefits paid	**1,247**	1,865

The following benefit payments are expected:

2018	$ 1,684
2019	1,008
2020	1,125
2021	1,270
2022	1,378
2023–2027	9,120

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2017 and 2016 were $(7,765) and $(8,383) and were the result of a net actuarial loss in the plan. The accumulated benefit obligation was $34,107 and $31,576 at year-end 2017 and 2016.

Components of net periodic pension cost and other amounts recognized in other comprehensive income (loss) for 2017 and 2016 for the Company's defined benefit pension plans included the following:

	2017	2016
Interest cost on projected benefit obligation	$ 1,330	$ 1,360
Expected return on plan assets	(1,178)	(1,220)
Amortization of net gain (loss)	581	630
Net periodic pension cost	733	770
Net gain (loss)	(37)	132
Amortization of net gain (loss)	(581)	(630)
Total recognized in other comprehensive income (loss)	(618)	(498)
Total recognized in net periodic pension cost and other comprehensive income (loss)	$ 115	$ 272

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 $484 and $581 as of December 31, 2017 and 2016.

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 2017 and 2016. 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 2017 and 2016.

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 2017 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 agency securities, taxable municipal securities, 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 2017 and 2016, and expected long-term rate of return by asset category are as follows:

Asset Class	Percentage of Plan Assets at Year-End 2017	Percentage of Plan Assets at Year-End 2016	Weighted-Average Expected Long-Term Rate of Return
Equities:			
Common stock	17.26%	25.85%	6.00%–8.00%
Common stock mutual funds	9.66	16.73	6.00%–8.00%
Real estate investment trust	0.65	0.74	6.00%–8.00%
Fixed income:			
Cash and cash equivalents	5.53	2.26	0.00%
Fixed income mutual funds	14.98	0.00	4.00%
Debt securities:			
Obligations of states and political subdivisions	51.92	54.42	4.00%
	100.00%	100.00%	

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

Equities: The fair values for equity securities, including common stock, 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 (Level 2).

The fair value of the plan assets at December 31, 2017 and 2016, 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)
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	$ -
2016				
Plan assets:				
Cash and cash equivalents	$ 632	$ 632	$ -	$ -
Equities:				
Common stock	7,240	7,240	-	-
Common stock mutual funds	4,683	4,683	-	-
Real estate investment trust	206	206	-	-
Fixed income:				
Obligations of states and political subdivisions	15,233	-	15,233	-
Total plan assets	$ 27,994	$ 12,761	$ 15,233	$ -

There were no transfers between Level 1 and Level 2 during 2017 or 2016.

Deferred Compensation Plans: Deferred Compensation Plans: The Company maintains deferred compensation plans covering selected directors and key employees. Net deferred compensation expense was $280 and $92 in 2017 and 2016. The accrued liability associated with these plans of $1,443 and $1,163 at December 31, 2017 and 2016 is included in other liabilities.

Employee Stock Ownership Plan: The Company maintains an employee stock ownership plan (the "ESOP"). Contributions are determined annually by the Board of Directors in amounts not to exceed 15 percent of the total compensation of all participants. ESOP expense was $974 and $1,181 in 2017 and 2016. As of December 31, 2017 and 2016, a total of 37,329 and 37,466 shares with a fair value of $32,514 and $25,964 were allocated to active participants as well as $149 and $112 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, 2017 is the fair value of all ESOP shares distributed in 2017 and shares to be distributed in 2018 to participants who had terminated as of year-end 2017. 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 $1,658 and $1,611 in 2017 and 2016.

NOTE 12 – REGULATORY MATTERS

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

Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The 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 2017 is 1.25% and for 2016 is 0.625%. Accumulated other comprehensive income (loss) is not included in computing regulatory capital. Management believes as of December 31, 2017, the Company and Bank 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 2017 and 2016, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios, exclusive of 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 Capital (to Risk-Weighted Assets):						
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 I Capital (to Risk-Weighted Assets):						
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 Tier I (CET 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 I Capital (to Average Assets):						
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%

	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
December 31, 2016						
Total Capital (to Risk-Weighted Assets):						
Company	$ 262,074	13.4%	$ 156,770	8.0%	N/A	N/A
Central Bank & Trust Co.	239,345	13.1	145,728	8.0	$ 182,161	10.0%
Central Bank of Jefferson County, Inc.	20,938	14.7	11,383	8.0	14,228	10.0
Tier I Capital (to Risk-Weighted Assets):						
Company	$ 241,492	12.3%	$ 117,577	6.0%	N/A	N/A
Central Bank & Trust Co.	220,120	12.1	109,296	6.0	$ 145,728	8.0%
Central Bank of Jefferson County, Inc.	19,581	13.8	8,537	6.0	11,383	8.0
Common Tier I (CET 1):						
Company	$ 226,246	11.6%	$ 88,183	4.5%	N/A	N/A
Central Bank & Trust Co.	220,120	12.1	81,972	4.5	$ 118,404	6.5%
Central Bank of Jefferson County, Inc.	19,581	13.8	6,403	4.5	9,248	6.5
Tier I Capital (to Average Assets):						
Company	$ 241,246	10.6%	$ 90,736	4.0%	N/A	N/A
Central Bank & Trust Co.	220,120	10.4	84,354	4.0	$ 105,442	5.0%
Central Bank of Jefferson County, Inc.	19,581	11.3	6,941	4.0	8,676	5.0

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 most restrictive dividend limitations described, the Bank could pay dividends in 2018 of $28,052 plus any 2018 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:

	2017	2016
Standby letters of credit	$ **40,421**	$ 29,480
Commitments to extend credit	$ **294,420**	$ 260,844
Unused lines of credit	$ **427,555**	$ 350,955

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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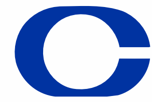

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