UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number: 001-33033

LIMESTONE BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky **(State or other jurisdiction of incorporation or organization)**	**61-1142247** **(I.R.S. Employer Identification No.)**
2500 Eastpoint Parkway, Louisville, Kentucky **(Address of principal executive offices)**	**40223** **(Zip Code)**

Registrant's telephone number, including area code: (502) 499-4800
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	**LMST**	**Nasdaq Capital Market**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes ☐ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "accelerated filer," "large accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☒ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the close of business on June 30, 2019, was $79,993,646 based upon the last sales price reported (for purposes of this calculation, the market value of non-voting common shares was based on the market value of the common shares into which they are convertible upon transfer).
6,271,143 Common Shares and 1,220,000 Non-Voting Common Shares were outstanding as of February 28, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held June 17, 2020 are incorporated by reference into Part III of this Form 10-K.

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PART I

Preliminary Note Concerning Forward-Looking Statements

This report contains statements about the future expectations, activities and events that constitute forward-looking statements. Forward-looking statements express the Company's beliefs, assumptions and expectations of its future financial and operating performance and growth plans, taking into account information currently available to us. These statements are not statements of historical fact. The words "believe," "may," "should," "anticipate," "estimate," "expect," "intend," "objective," "seek," "plan," "strive" or similar words, or the negatives of these words, identify forward-looking statements.

Forward-looking statements involve risks and uncertainties that may cause the Company's actual results to differ materially from the expectations of future results management expressed or implied in any forward-looking statements. These risks and uncertainties can be difficult to predict and may be beyond the Company's control. Factors that could contribute to differences in the Company's results include, but are not limited to deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; changes in the interest rate environment, which may reduce the Company's margins or impact the value of securities, loans, deposits and other financial instruments; changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; general economic or business conditions, either nationally, regionally or locally in the communities the Bank serves, may be worse than expected, resulting in, among other things, a deterioration in credit quality or a reduced demand for credit; the results of regulatory examinations; any matter that would cause us to conclude that there was impairment of any asset, including intangible assets; the continued service of key management personnel; the Company's ability to attract, motivate and retain qualified employees; factors that increase the competitive pressure among depository and other financial institutions, including product and pricing pressures; the ability of the Company's competitors with greater financial resources to develop and introduce products and services that enable them to compete more successfully than us; inability to comply with regulatory capital requirements and to secure any required regulatory approvals for capital actions; legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry; future acquisitions; integrations and performance of acquired businesses; and fiscal and governmental policies of the United States federal government.

Other risks are detailed in Item 1A. "Risk Factors" of this Form 10-K all of which are difficult to predict and many of which are beyond the Company's control.

Forward-looking statements are not guarantees of performance or results. A forward-looking statement may include the assumptions or bases underlying the forward-looking statement. Management has made assumptions and bases in good faith and believe they are reasonable. However, that estimates based on such assumptions or bases frequently differ from actual results, and the differences can be material. The forward-looking statements included in this report speak only as of the date of the report. Management does not intend to update these statements unless required by applicable laws.

Item 1. Business

As used in this report, references to "the Company," "we," "our," "us," and similar terms refer to the consolidated entity consisting of Limestone Bancorp, Inc. and its wholly-owned subsidiary. The "Bank" refers to Limestone Bancorp, Inc.'s bank subsidiary, Limestone Bank, Inc.

The Company is a bank holding company headquartered in Louisville, Kentucky. The Company's common stock is traded on Nasdaq's Capital Market under the symbol LMST. The Company operates Limestone Bank (the Bank), its wholly owned subsidiary and the eighth largest bank domiciled in the Commonwealth of Kentucky based on total assets. The Bank operates banking offices in 14 counties in Kentucky. The Bank's markets include metropolitan Louisville in Jefferson County and the surrounding counties of Bullitt and Henry. The Bank serves south central, southern, and western Kentucky from banking centers in Barren, Butler, Daviess, Edmonson, Green, Hardin, Hart, Ohio, and Warren counties. The Bank also has banking centers in Lexington, Kentucky, the second largest city in the state, and Frankfort, Kentucky, the state capital. The Bank is a traditional community bank with a wide range of personal and business banking products and services. As of December 31, 2019, the Company had total assets of $1.25 billion, total loans of $926.3 million, total deposits of $1.03 billion and stockholders' equity of $105.8 million.

Markets

The Bank operates in markets that include the four largest cities in Kentucky – Louisville, Lexington, Bowling Green and Owensboro – and in other communities along the I-65, Western Kentucky Parkway, and Natcher Parkway corridors.

- **Louisville/Jefferson, Bullitt and Henry Counties:** The Company's headquarters are in Louisville, the largest city in Kentucky. The Bank also has banking offices in Bullitt County, south of Louisville, and Henry County, east of Louisville. The Company's banking offices in these counties also serve the contiguous counties of Spencer, Shelby and Oldham to the east and northeast of Louisville. The area's major employers are diversified across many industries and include the air hub for United Parcel Service ("UPS"), two Ford assembly plants, Humana, Norton Healthcare, Brown-Forman, YUM! Brands, Papa John's Pizza, and Texas Roadhouse.

- **Lexington/Fayette County:** Lexington, located in Fayette County, is the second largest city in Kentucky. Lexington is the financial, educational, retail, healthcare and cultural hub for Central and Eastern Kentucky. It is known worldwide for its horse farms and Keeneland Race Track, and proudly boasts of itself as "The Horse Capital of the World". It is also the home of the University of Kentucky and Transylvania University. The area's major employers include Toyota, Lexmark, IBM Global Services and Valvoline.

- **Frankfort/Franklin County:** Frankfort, located along Interstate 64 in Franklin County, is the capital of the Commonwealth of Kentucky and the seat of Franklin County. Frankfort is home to Kentucky's General Assembly or Legislature which consists of the Kentucky Senate and the Kentucky House of Representatives. Frankfort is also the home of the Kentucky State University and major employers including Montaplast of North America, Inc., Buffalo Trace Distillery, Topy Corporation, Beam, Inc., and Nashville Wire Products.

- **Southern Kentucky:** This market includes Bowling Green, the third largest city in Kentucky, located about 120 miles south of Louisville and 60 miles north of Nashville, Tennessee. Bowling Green, located in Warren County, is the home of Western Kentucky University and is the economic hub of the area. This market also includes communities in the contiguous Barren County, including the city of Glasgow. Major employers in Barren and Warren Counties include General Motor's Corvette plant, automotive supply chain manufacturers, and R.R. Donnelley's regional printing facility.

- **Owensboro/Daviess County:** Owensboro, located on the banks of the Ohio River, is Kentucky's fourth largest city. The city is called a festival city, with over 20 annual community celebrations that attract visitors from around the world, including its world famous Bar-B-Q Festival which attracts over 80,000 visitors. It is an industrial, medical, retail and cultural hub for Western Kentucky and the area employers include Owensboro Medical System, US Bank Home Mortgage, Titan Contracting, Specialty Food Group, and Toyotetsu.

- **South Central Kentucky:** South of the Louisville metropolitan area, the Bank has banking offices in Butler, Edmonson, Green, Hardin, Hart, and Ohio Counties. This region includes stable community markets comprised primarily of agricultural and service-based businesses. Each of the Company's banking offices in these markets has a stable customer and core deposit base.

Products and Services

The Bank meets its customers' banking needs with a broad range of financial products and services. Its lending services include real estate, commercial, mortgage, agriculture, and consumer loans to those in its communities and to small to medium-sized businesses, the owners and employees of those businesses, as well as other executives and professionals. We complement the Company's lending operations with an array of retail and commercial deposit products. In addition, the Company offers customers drive-through banking facilities, automatic teller machines, night depository, personalized checks, credit cards, debit cards, internet banking, mobile banking, treasury management services, remote deposit services, electronic funds transfers through ACH services, domestic and foreign wire transfers, cash management and vault services, and loan and deposit sweep accounts.

Employees

At December 31, 2019, the Company had 244 full-time equivalent employees, and a total of 251 employees. The Company's employees are not subject to a collective bargaining agreement, and management considers the Company's relationship with employees to be good.

Recent Acquisitions

On November 15, 2019, the Bank completed the acquisition of four branch banking centers located in the Kentucky cities of Elizabethtown, Frankfort, and Owensboro. The purchase included approximately $126.8 million in performing loans and $1.5 million in premises and equipment, as well as approximately $131.8 million in customer deposits. This acquisition allows the Bank to further optimize its branch footprint regionally and solidifies its presence and ability to serve customers in Daviess, Hardin, and Franklin counties. For further information, see Note 23 – Acquisitions to the financial statements in Item 8 of this report.

Competition

The banking business is highly competitive, and the Bank experiences competition from many other financial institutions and non-bank financial competitors. Competition is based upon interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of the services offered, the convenience of banking facilities, the availability of technology channels and, in the case of loans to commercial borrowers, relative lending limits. The Bank competes with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as super-regional, national and international financial institutions that operate offices within the Company's market area and beyond.

Supervision and Regulation

Bank and Holding Company Laws, Rules and Regulations. The following is a summary description of the relevant laws, rules and regulations governing banks and bank holding companies. The descriptions of, and references to, the statutes and regulations below are brief summaries and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

The Dodd-Frank Act. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") was signed into law. The Dodd-Frank Act imposed new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States. There are a number of reform provisions that significantly impact the ways in which banks and bank holding companies, including the Company and the Bank, do business. For example, regulations issued under the Dodd-Frank Act changed the assessment base for federal deposit insurance premiums by modifying the assessment base calculation to be based on a depository institution's consolidated assets less tangible capital instead of deposits, and permanently increased the standard maximum amount of deposit insurance per customer to $250,000. The Dodd-Frank Act also imposed more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred security issuances from counting as Tier I capital. The Dodd-Frank Act also repealed the federal prohibition on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts. The Dodd-Frank Act codified and expanded the Federal Reserve's source of strength doctrine, which requires that all bank holding companies serve as a source of financial strength for its subsidiary banks. Other provisions of the Dodd-Frank Act include, but are not limited to: (i) the creation of the Consumer Financial Protection Bureau with rulemaking authority with respect to consumer protection laws; (ii) enhanced regulation of financial markets, including derivatives and securitization markets; (iii) reform related to the regulation of credit rating agencies; (iv) the elimination of certain trading activities by banks; and (v) new disclosure and other requirements relating to executive compensation and corporate governance. The implementation of the Dodd-Frank Act has resulted in greater compliance costs and higher fees paid to regulators.

Economic Growth, Regulatory Relief, and Consumer Protection Act. The Economic Growth, Regulatory Relief and Consumer Protection Act was signed into law on May 25, 2018. This Act amended certain provisions of the Dodd-Frank Act and other banking laws. The amendments are designed to provide regulatory relief to banking organizations, primarily small, community banking organizations, by adjusting thresholds at which increased regulatory requirements begin to apply. As implemented through regulations, community banking organizations with assets of less than $10 billion are now subject to reduced reporting requirements and, effective January 1, 2020, an optional simplified capital adequacy measure is available to those that have a leverage ratio greater than 9%.

Limestone Bancorp. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). As such, the Company must file with the Federal Reserve Board annual and quarterly reports and other information regarding the Company's business operations and the business operations of the Company's subsidiaries. The Company is also subject to examination by the Federal Reserve Board and to operational guidelines established by the Federal Reserve Board. The Company is subject to the Bank Holding Company Act and other federal laws on the types of activities in which we may engage, and to other supervisory requirements, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions. A bank holding company must obtain Federal Reserve Board approval before acquiring, directly or indirectly, ownership or control of more than 5% of the voting stock or all or substantially all of the assets of a bank, merging or consolidating with any other bank holding company and before engaging, or acquiring a company that is not a bank and is engaged in certain non-banking activities. Federal law also prohibits a person or group of persons from acquiring "control" of a bank holding company without notifying the Federal Reserve Board in advance, and then may only do so if the Federal Reserve Board does not object to the proposed transaction. The Federal Reserve Board has established a rebuttable presumptive standard that the acquisition of 10% or more of the voting stock of a bank holding company would constitute an acquisition of control of the bank holding company for purposes of the Change in Bank Control Act. In addition, approval of the Federal Reserve Board is required before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of a bank holding company's voting securities, or otherwise obtaining control or a "controlling influence" over a bank holding company.

Permissible Activities. A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any bank, bank holding company or company engaged in any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Under current federal law, a bank holding company may elect to become a financial holding company, which enables the holding company to conduct activities that are "financial in nature," incidental to financial activity, or complementary to financial activity that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Activities that are "financial in nature" include securities underwriting, dealing and market making in securities; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. No prior regulatory approval or notice is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The Bank has not filed an election to become a financial holding company.

Dividends. Under Federal Reserve Board policy, bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not declare a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

The Company is a legal entity separate and distinct from the Bank. Historically, the majority of the Company's revenue has been from dividends paid to it by the Bank. The Bank is subject to laws and regulations that limit the amount of dividends it can pay. If, in the opinion of a federal regulatory agency, an institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, the agency may require, after notice and hearing, that the institution cease such practice. The federal banking agencies have indicated that paying dividends that deplete an institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), an insured institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the Federal Reserve and the FDIC have issued policy statements providing that bank holding companies and banks should generally pay dividends only out of current operating earnings. A bank holding company may still declare and pay a dividend if it does not have current operating earnings if the bank holding company expects profits for the entire year and the bank holding company obtains the prior consent of the Federal Reserve.

Under Kentucky law, dividends by Kentucky banks may be paid only from current or retained net profits. The KDFI must approve the declaration of dividends if the total dividends to be declared by a bank for any calendar year would exceed the bank's total net profits for such year combined with its retained net profits for the preceding two years, less any required transfers to surplus or a fund for the retirement of preferred stock or debt. Additionally, retained earnings must be positive. The Company is also subject to the Kentucky Business Corporation Act, which generally prohibits dividends to the extent they result in the insolvency of the corporation from a balance sheet perspective or if the corporation is unable to pay its debts as they come due. The Bank did not pay any dividends in 2019 or 2018. The Bank has negative retained earnings and, as such, cannot pay dividends without prior regulatory approval.

Source of Financial Strength. Under Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to, and to commit resources to support, its bank subsidiaries. This support may be required at times when, absent such a policy, the bank holding company may not be inclined to provide it. In addition, any capital loans by the bank holding company to its bank subsidiaries are subordinate in right of payment to deposits and to certain other indebtedness of the bank subsidiary. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of subsidiary banks will be assumed by the bankruptcy trustee and entitled to a priority of payment. The Federal Reserve's "Source of Financial Strength" policy was codified in the Dodd-Frank Act.

Limestone Bank. The Bank, a Kentucky chartered commercial bank, is subject to regular bank examinations and other supervision and regulation by both the FDIC and the KDFI. Kentucky's banking statutes contain a "super-parity" provision that permits a well-rated Kentucky banking corporation to engage in any banking activity which could be engaged in by a national bank operating in Kentucky; a state bank, a thrift or savings bank operating in any other state; or a federal chartered thrift or federal savings association meeting the qualified thrift lender test and operating in any state could engage, provided the Kentucky bank first obtains a legal opinion specifying the statutory or regulatory provisions that permit the activity.

Capital Adequacy Requirements. The Company and the Bank are required to comply with capital adequacy guidelines. Guidelines are established by the Federal Reserve Board for the Company and the FDIC for the Bank. Both the Federal Reserve Board and the FDIC have substantially similar risk based and leverage ratio guidelines for banking organizations, which are intended to ensure that banking organizations have adequate capital related to the risk levels of assets and off-balance sheet instruments. The capital adequacy guidelines are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amended the regulatory risk-based capital rules applicable to the Company and Bank. The final rules implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in “Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems” (“Basel III”) and changes required by the Dodd-Frank Act, and became effective for the Company and Bank on January 1, 2015.

The Basel III minimum capital level requirements applicable to bank holding companies and banks subject to the rules are a common equity Tier 1 capital ratio of 4.5%, a Tier 1 risk-based capital ratio of 6%, a total risk-based capital ratio of 8%, and a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a “capital conservation buffer” of 2.5% above the regulatory minimum risk-based capital ratios, which was fully phased in as of January 1, 2019. With the capital conservation buffer fully phased in, the required ratios area common equity Tier 1 risk-based capital ratio of 7.0%, a Tier 1 risk-based capital ratio of 8.5%, and a total risk-based capital ratio of 10.5%.

An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under the Basel III capital rules, Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Tier 2 capital may consist of subordinated debt, certain hybrid capital instruments, qualifying preferred stock and a limited amount of the allowance for loan losses. Proceeds of trust preferred securities are excluded from Tier 1 capital unless issued before 2010 by an institution with less than $15 billion of assets. Total capital is the sum of Tier 1 and Tier 2 capital.

Prompt Corrective Action. Pursuant to the Federal Deposit Insurance Act (“FDIA”), the FDIC must take prompt corrective action to resolve the problems of undercapitalized institutions. FDIC regulations define the levels at which an insured institution would be considered “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized”. A bank is “undercapitalized” if it fails to meet any one of the ratios required to be adequately capitalized. A depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating. The degree of regulatory scrutiny increases and the permissible activities of a bank decrease, as the bank moves downward through the capital categories. Depending on a bank’s level of capital, the FDIC’s corrective powers include:

- requiring a capital restoration plan;
- placing limits on asset growth and restriction on activities;
- requiring the bank to issue additional voting or other capital stock or to be acquired;
- placing restrictions on transactions with affiliates;
- restricting the interest rate the bank may pay on deposits;
- ordering a new election of the bank’s board of directors;
- requiring that certain senior executive officers or directors be dismissed;
- prohibiting the bank from accepting deposits from correspondent banks;
- requiring the bank to divest certain subsidiaries;

- prohibiting the payment of principal or interest on subordinated debt; and
- ultimately, appointing a receiver for the bank.

If an institution is required to submit a capital restoration plan, the institution's holding company must guarantee the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy. The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Deposit Insurance Assessments. The deposits of the Bank are insured by the Deposit Insurance Fund ("DIF") of the FDIC up to the limits set forth under applicable law and are subject to the deposit insurance premium assessments of the DIF. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"). Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits.

The Dodd-Frank Act imposed additional assessments and costs with respect to deposits. Under the Dodd-Frank Act, the FDIC imposes deposit insurance assessments based on total assets rather than total deposits. Pursuant to the Dodd-Frank Act, the FDIC revised the deposit insurance assessment system and implemented a revised assessment rate process with the goal of differentiating insured depository institutions who pose greater risk to the DIF.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to these matters. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of FDIA. See "Prompt Corrective Actions" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Incentive Compensation. The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets, such as Limestone Bancorp and Limestone Bank, that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which the Company may structure compensation for its executives.

In June 2010, the Federal Reserve, OCC, and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees who have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed above.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Limestone Bancorp, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions.

Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Branching. Kentucky law permits Kentucky chartered banks to establish a banking office in any county in Kentucky. A Kentucky bank may also establish a banking office outside of Kentucky. Well capitalized Kentucky banks that have been in operation at least three years and satisfy certain criteria relating to, among other things, their composite and management ratings, may establish a banking office in Kentucky without the approval of the KDFI upon notice to the KDFI and any other state bank with its main office located in the county where the new banking office will be located. Otherwise, branching requires the approval of the KDFI, which must ascertain and determine that the public convenience and advantage will be served and promoted and that there is reasonable probability of the successful operation of the banking office. The transaction must also be approved by the FDIC, which considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers.

Section 613 of the Dodd-Frank Act effectively eliminated the interstate branching restrictions set forth in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. Banks located in any state may now de novo branch in any other state, including Kentucky. Such unlimited branching power may increase competition within the markets in which the Company and the Bank operate.

Insider Credit Transactions. The restrictions on loans to directors, executive officers, principal shareholders and their related interests (collectively referred to as "insiders") contained in the Federal Reserve Act and Regulation O apply to all insured depository institutions and their subsidiaries. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests, which may not exceed the institution's total unimpaired capital and surplus.

Consumer Protection Laws. The Bank is subject to federal consumer protection statues and regulations promulgated under those laws, including, but not limited to, the:

- Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide certain information about home mortgage and refinanced loans;
- Real Estate Settlement Procedures Act ("RESPA"), requiring lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibiting certain abusive practices;
- Secure and Fair Enforcement for Mortgage Licensing Act ("S.A.F.E. Act"), requiring residential loan originators who are employees of financial institutions to meet registration requirements;
- Fair Credit Reporting Act and Regulation V, governing the provision of consumer information to credit reporting agencies and the use of consumer information;
- Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, religion or other prohibited factors in the extension of credit;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act, which requires disclosure of deposit terms to consumers;
- Regulation CC, which relates to the availability of deposit funds to consumers;
- Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act, governing automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Automated Overdraft Payment Regulations and Regulation E, requiring financial institutions to provide customer notices, monitor overdraft payment programs, and prohibiting financial institutions from charging consumer fees for paying overdrafts on automated teller machine and one time debit card transactions unless a consumer consents, or opts in to the service for those types of transactions.

The Dodd-Frank Act created the Consumer Financial Protection Bureau, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive acts or practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Economic Growth, Regulatory Relief and Consumer Protection Act created a qualified mortgage safe harbor for eligible loans that are originated and retained by a bank with total assets of less than $10 billion.

The Dodd-Frank Act also permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. Federal preemption of state consumer protection law requirements, traditionally an attribute of the federal savings association charter, has also been modified by the Dodd-Frank Act and now requires a case-by-case determination of preemption by the Office of the Comptroller of the Currency ("OCC") and eliminates preemption for subsidiaries of a bank. Depending on the implementation of this revised federal preemption standard, the operations of the Bank could become subject to additional compliance burdens in the states in which it operates.

Loans to One Borrower. Under current limits, loans and extensions of credit outstanding at one time to a single borrower and not fully secured generally may not exceed 20% of an institution's unimpaired capital and unimpaired surplus. Loans and extensions of credit fully secured by collateral may represent an additional 10% of unimpaired capital and unimpaired surplus.

Volcker Rule. On December 10, 2013, the final Volcker Rule under the Dodd-Frank Act was approved and implemented by the Federal Reserve Board, the FDIC, the Securities and Exchange Commission ("SEC"), and the Commodity Futures Trading Commission. The Volcker Rule places limits on the trading activity of insured depository institutions and entities affiliated with a depository institution, subject to certain exceptions, and restricts them from engaging in hedging activities that do not hedge a specific identified risk. On October 8, 2019, the Federal Reserve and Securities and SEC finalized changes to the Volcker Rule, under which the most stringent regulations will apply to banks with the most trading assets and liabilities, while banks with significantly less trading activity will have fewer rules to abide by. The rule goes into effect on January 1, 2020, with a compliance date of January 1, 2021. The Economic Growth Regulatory Relief and Consumer Protection Act exempted banks, like the Bank, which have less than $10 billion in assets and no material trading assets and liabilities from the Volcker Rule.

Privacy. Federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires the FDIC to assess the Company's record in meeting the credit needs of the communities the Bank serves, including low- and moderate-income neighborhoods and persons. The FDIC's assessment of the Company's record is made available to the public. The assessment also is part of the Federal Reserve Board's consideration of applications to acquire, merge or consolidate with another banking institution or its holding company, to establish a new banking office or to relocate an office.

Bank Secrecy Act. The Bank Secrecy Act of 1970 ("BSA") was enacted to deter money laundering, establish regulatory reporting standards for currency transactions and improve detection and investigation of criminal, tax and other regulatory violations. BSA and subsequent laws and regulations require us to take steps to prevent the use of the Bank in the flow of illegal or illicit money, including, without limitation, ensuring effective management oversight, establishing sound policies and procedures, developing effective monitoring and reporting capabilities, ensuring adequate training and establishing a comprehensive internal audit of BSA compliance activities. In recent years, federal regulators have increased the attention paid to compliance with the provisions of BSA and related laws, with particular attention paid to "Know Your Customer" practices. Banks have been encouraged by regulators to enhance their identification procedures prior to accepting new customers in order to deter criminal elements from using the banking system to move and hide illegal and illicit activities.

USA Patriot Act. The USA Patriot Act of 2001 (the "Patriot Act") contains anti-money laundering measures affecting insured depository institutions, broker-dealers and certain other financial institutions. The Patriot Act requires financial institutions to implement policies and procedures to combat money laundering and the financing of terrorism. This includes standards for verifying customer identification at account opening, as well as rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. It grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on the operations of financial institutions. In addition, the Patriot Act requires the federal bank regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

Effect on Economic Environment. The policies of regulatory authorities, including the monetary policy of the Federal Reserve Board, have a significant effect on the operating results of bank holding companies and bank subsidiaries. Among the means available to the Federal Reserve Board to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits. Their use may affect interest rates charged on loans or paid for deposits.

Federal Reserve Board monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of such policies on the Company's business and earnings and those of the Company's subsidiaries cannot be predicted.

Legislative and Regulatory Initiatives. From time to time various laws, regulations and governmental programs affecting financial institutions and the financial industry are introduced in Congress or otherwise promulgated by regulatory agencies. Such measures may change the environment in which the Company and its subsidiaries operate in substantial and unpredictable ways. The nature and extent of future legislative, regulatory or other changes affecting financial institutions are unpredictable at this time. Future legislation, policies and the effects thereof might have a significant influence on overall growth and distribution of loans, investments and deposits. They also may affect interest rates charged on loans or paid on time and savings deposits. New legislation and policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

Available Information

The Company files periodic reports with the SEC including its annual report on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8-K and proxy statements. The Bank's Internet address is http://www.limestonebank.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8, and amendments to those reports are accessible at no cost on its web site at http://www.limestonebank.com, under the Investors Relations section of the About Us tab, once they have been electronically filed with or furnished to the SEC. A shareholder may also request a copy of the Annual Report on Form 10-K free of charge upon written request to: Chief Financial Officer, Limestone Bancorp, Inc., 2500 Eastpoint Parkway, Louisville, Kentucky 40223. The Internet address of the Company is http://www.snl.com/IRW/CorporateProfile/1022071.

Item 1A. Risk Factors

An investment in the Company's common stock involves a number of risks. Realization of any of the risks described below could have a material adverse effect on the Company's business, financial condition, results of operations, cash flow and/or future prospects.

The Company's business may be adversely affected by conditions in the financial markets and by economic conditions generally.

Weakness in business and economic conditions generally or specifically in the Company's markets may have one or more of the following adverse effects on the Company's business:

- A decrease in the demand for loans and other products and services the Bank offers;
- A decrease in the value of collateral securing the Bank's loans; and
- An increase in the number of customers who become delinquent, file for protection under bankruptcy laws or default on their loans.

Adverse conditions in the general business environment have had an adverse effect on the Company's business in the past. Although the general business environment has improved, management cannot predict how long such improvement can be sustained. In addition, the improvement of certain economic indicators, such as real estate asset values, rents, and unemployment, may vary between geographic markets and may continue to lag behind improvement in the overall economy. These economic indicators typically affect the real estate and financial services industries, in which the Bank has a significant number of customers, more significantly than other economic sectors. Furthermore, the Bank has a substantial lending business that depends upon the ability of borrowers to make debt service payments on loans. Should economic conditions worsen, the Company's business, financial condition or results of operations could be adversely affected.

The Bank's profitability depends significantly on local economic conditions.

Most of the Bank's business activities are conducted in central Kentucky and most of its credit exposure is in that region. The Bank is at risk from adverse economic or business developments affecting this area, including declining regional and local business and employment activity, a downturn in real estate values and agricultural activities and natural disasters. To the extent the central Kentucky economy weakens, delinquency rates, foreclosures, bankruptcies and losses in the Bank's loan portfolio will likely increase. Moreover, the value of real estate or other collateral that secures the loans could be adversely affected by the economic downturn or a localized natural disaster. Events that adversely affect business activity and real estate values in central Kentucky have had in the past and may in the future to have a negative impact on the Bank's business, financial condition, results of operations and future prospects.

Small to medium-sized business portfolio may have fewer resources to weather a downturn in the economy.

The loan portfolio includes loans to small and medium-sized businesses and other commercial enterprises. Small and medium-sized businesses frequently have smaller market shares than their competitors, may be more vulnerable to economic downturns, often need additional capital to expand or compete and may experience variations in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small or medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay the loan. A continued economic downturn may have a more pronounced negative impact on the target market, causing the Bank to incur substantial credit losses that could materially harm operating results.

The Bank's decisions regarding credit risk may not be accurate, and its allowance for loan losses may not be sufficient to cover actual losses, which could adversely affect its business, financial condition and results of operations.

The Bank maintains an allowance for loan losses at a level management believes is adequate to absorb probable incurred losses in the loan portfolio based on historical loan loss experience, economic and environmental factors, specific problem loans, value of underlying collateral and other relevant factors. If management's assessment of these factors is ultimately inaccurate, the allowance may not be sufficient to cover actual future loan losses, which would adversely affect operating results. Management's estimates are subjective, and their accuracy depends on the outcome of future events. Changes in economic, operating, and other conditions that are generally beyond the Bank's control could cause actual loan losses to increase significantly. In addition, bank regulatory agencies, as an integral part of their supervisory functions, periodically review the adequacy of the allowance for loan losses. Regulatory agencies may require an increase in provision for loan losses or to recognize additional loan charge-offs when their judgment differs. Any of these events could have a material negative impact on operating results.

Levels of classified loans and non-performing assets may increase in the future if economic conditions cause borrowers to default. Furthermore, the value of the collateral underlying a given loan, and the realizable value of such collateral in a foreclosure sale, may decline, making it less likely to realize a full recovery if a borrower defaults on a loan. Any increases in the level of non-performing assets, loan charge-offs or provision for loan losses, or the inability to realize the estimated net value of underlying collateral in the event of a loan default, could negatively affect the Bank's business, financial condition, results of operations and the trading price of the Company's common shares.

If the Bank experiences greater credit losses than anticipated, its operating results would be adversely affected.

As a lender, the Bank is exposed to the risk that borrowers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on operating results. Credit risk with respect to the real estate and construction loan portfolio will relate principally to the creditworthiness of borrowers and the value of the real estate serving as security for the repayment of loans. Credit risk with respect to the commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within the local markets.

Management makes various assumptions and judgments about the collectability of its loan portfolio and provides an allowance for estimated loss losses based on a number of factors. Management believes the Bank's allowance for loan losses is adequate. However, if assumptions or judgments are wrong, the allowance for loan losses may not be sufficient to cover actual loan losses. Management may have to increase the allowance in the future at the request of one of the Bank's primary regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of the loan portfolio. The actual amount of future provisions for loan losses cannot be determined at this time and may vary from the amounts of past provisions.

A large percentage of the Bank's loans are collateralized by real estate, and any prolonged weakness in the real estate market may result in losses and adversely affect profitability.

Approximately 75.3% of the Bank's loan portfolio as of December 31, 2019, was comprised of commercial and residential loans collateralized by real estate. Adverse economic conditions could decrease demand for real estate and depress real estate values in the Company's markets. Persistent weakness in the real estate market could significantly impair the value of loan collateral and the ability to sell the collateral upon foreclosure. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it will become more likely that management would be required to increase the Bank's allowance for loan losses. If during a period of depressed real estate values, management was required to liquidate the collateral securing a loan to satisfy the debt or to increase the allowance for loan losses, it could materially reduce the Bank's profitability and adversely affect its financial condition.

The Bank offers real estate construction and development loans, which carry a higher degree of risk than other real estate loans. Weakness in the residential construction and commercial development real estate markets has in the past increased the non-performing assets in the Bank's loan portfolio and its provision for loan loss expense. These impacts have had, and could have in the future, a material adverse effect on capital, financial condition and results of operations.

Approximately 7.0% of the Company's loan portfolio as of December 31, 2019 consisted of real estate construction and development loans, down from 11.4% at December 31, 2018 and 8.1% at December 31, 2017. These loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends on the ultimate completion of the project and permanent financing or sale of the property. If the Bank is forced to foreclose on a project prior to its completion, it may not be able to recover the entire unpaid portion of the loan or it may be required to fund additional money to complete the project, or hold the property for an indeterminate period of time. Any of these outcomes may result in losses and adversely affect profitability and financial condition.

Residential construction and commercial development real estate activity in the Bank's markets were affected by the challenging economic conditions that followed the financial crisis of 2008. Weakness in these sectors could lead to valuation adjustments to the loan portfolios and real estate owned. A weak real estate market could reduce demand for residential housing, which, in turn, could adversely affect real estate development and construction activities. Consequently, the longer challenging economic conditions persist, the more likely they are to adversely affect the ability of residential real estate development borrowers to repay loans and the value of property used as collateral for such loans.

The Bank may acquire or hold from time to time OREO properties, which could increase operating expenses and result in future losses to the Company.

In the past, the Bank has acquired and disposed of a significant amount of real estate as a result of foreclosure or by deed in lieu of foreclosure that is listed on the balance sheet as other real estate owned ("OREO"). An increase in the OREO portfolio increases the expenses incurred to manage and dispose of these properties, which sometimes includes funding construction required to facilitate sale.

Properties in the Company's OREO portfolio are recorded at fair value, which represents the estimated sales price of the properties on the date acquired less estimated selling costs. Generally, in determining "fair value" an orderly disposition of the property is assumed, except where a different disposition strategy is expected. Significant judgment is required in estimating the fair value of OREO, and the period of time within which such estimates can be considered current may change during periods of market volatility. Any decreases in market prices of real estate may lead to additional OREO write downs, with a corresponding expense in the statement of operations. Management evaluates OREO property values periodically and writes down the carrying value of the properties if and when the results of the Company's analysis require it.

In response to market conditions and other economic factors, management may utilize alternative sale strategies other than orderly disposition as part of the Bank's OREO disposition strategy, such as auctions or bulk sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of OREO properties. In addition, the disposition of OREO through alternative sales strategies could impact the fair value of comparable OREO properties remaining in the portfolio. Generally, state regulatory requirements limit the period a Bank is permitted to hold OREO to ten years. All OREO properties held by the Bank at December 31, 2019 are currently under contract for sale.

Profitability is vulnerable to fluctuations in interest rates.

Changes in interest rates could harm financial condition or results of operations. The results of operations depend substantially on net interest income, the difference between interest earned on interest-earning assets (such as investments and loans) and interest paid on interest-bearing liabilities (such as deposits and borrowings). Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic or international economic or political conditions. Factors beyond the Company's control, such as inflation, recession, unemployment and money supply may also affect interest rates. If, as a result of decreasing interest rates, interest-earning assets mature or reprice more quickly than interest-bearing liabilities in a given period, net interest income may decrease. Likewise, net interest income may decrease if interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period as a result of increasing interest rates.

Fixed-rate loans increase the exposure to interest rate risk in a rising rate environment because interest-bearing liabilities may be subject to repricing before assets become subject to repricing. Fixed rate investment securities are subject to fair value declines as interest rates rise. Adjustable-rate loans decrease the risk associated with rising interest rates but involve other risks, such as the inability of borrowers to make higher payments in an increasing interest rate environment. At the same time, for secured loans, the marketability of the underlying collateral may be adversely affected by higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as the borrowers refinance their loans at lower interest rates, which could reduce net interest income and harm results of operations.

Changes to LIBOR may adversely impact the value of, and the return on, the Bank's financial instruments that are indexed to LIBOR

On July 27, 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR to the LIBOR administrator after 2021. The announcement also indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide LIBOR submissions to the LIBOR administrator or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable benchmark for certain financial instruments, what rate or rates may become accepted alternatives to LIBOR, or the effect of any such changes in views or alternatives on the values of the financial instruments, whose interest rates are tied to LIBOR. Uncertainty as to the nature of such potential changes, alternative reference rates, the elimination or replacement of LIBOR, or other reforms may adversely affect the value of, and the return on our financial instruments.

If the Bank cannot obtain adequate funding, it may not be able to meet the cash flow requirements of its depositors and borrowers, or meet the operating cash needs of the Company.

The Company's liquidity policies and limits are established by the Board of Directors of the Bank, with operating limits managed and monitored by the Asset Liability Committee ("ALCO"), based upon analyses of the ratio of loans to deposits and the percentage of assets funded with non-core or wholesale funding. The ALCO regularly monitors the overall liquidity position of the Bank and the Company to ensure that various alternative strategies exist to meet unanticipated events that could affect liquidity. Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. If the Company's liquidity policies and strategies do not work as well as intended, the Bank may be unable to make loans and repay deposit liabilities as they become due or are demanded by customers. The ALCO follows established board approved policies and monitors guidelines to diversify the Company's wholesale funding sources to avoid concentrations in any one-market source. Wholesale funding sources include Federal funds purchased, securities sold under repurchase agreements, and Federal Home Loan Bank ("FHLB") advances that are collateralized with mortgage-related assets.

The Bank maintains a portfolio of securities that can be used as a secondary source of liquidity. There are other available sources of liquidity, including additional collateralized borrowings such as FHLB advances, the issuance of debt securities, and the issuance of preferred or common shares in public or private transactions. If the Bank is unable to access any of these funding sources when needed, it might not be able to meet the needs of customers, which could adversely impact its financial condition, its results of operations, cash flows, and its level of regulatory-qualifying capital.

The Company may not be able to realize the value of its deferred tax assets.

Due to losses in prior years, the Company has a net operating loss carry-forward of $22.9 million, credit carry-forwards of $381,000, and other net deferred tax assets of $4.5 million. In order to realize the benefit of these tax losses, credits and deductions, the Company must generate substantial taxable income in future periods. Deferred tax assets are calculated using a federal corporate tax rate of 21%. Changes in tax laws and rates may affect deferred tax assets in the future. If lower federal corporate tax rates are enacted, net deferred tax assets would be reduced commensurate with the rate reduction. Additionally, should the Company need to raise additional capital by issuing new common shares or securities convertible into common shares, then depending on the number of common share equivalents issued, it could trigger a "change in control," as defined by Section 382 of the Internal Revenue Code. Such an event could negatively impact or limit the ability to utilize net operating loss carry-forwards, credit loss carry-forwards, and other net deferred tax assets.

As a bank holding company, the Company depends on dividends and distributions paid to it by its banking subsidiary.

The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. The principal source of cash flow, from which we would fund any dividends paid to shareholders, has historically been dividends the Company receives from the Bank. Regulations of the FDIC and the KDFI govern the ability of the Bank to pay dividends and other distributions to the Company, and regulations of the Federal Reserve govern the ability to pay dividends or make other distributions to shareholders. Since the Bank will not be in a position to pay dividends to the Company without prior regulatory approval until retained earnings are positive, cash inflows for the Company are limited to proceeds from common stock, preferred stock, or debt issuances. See the "Item 1. Business" "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Dividends."

The Company's senior debt is secured by the Bank's common stock and contains financial covenants that must be maintained to avoid default.

The Company's senior secured loan agreement is with a commercial bank. The loan matures on June 30, 2022. Interest is payable quarterly at a rate of three-month LIBOR plus 250 basis points through June 30, 2020, at which time quarterly principal payments of $250,000 plus interest will commence. The loan is secured by a first priority pledge of 100% of the issued and outstanding stock of the Bank. The Company may prepay any amount due under the promissory note at any time without premium or penalty.

The loan agreement contains customary representations, warranties, covenants and events of default, including the following financial covenants: (i) the Company must maintain minimum cash on hand of not less than $2,500,000, (ii) the Company must maintain a total risk based capital ratio at least equal to 10% of risk-weighted assets, (iii) the Bank must maintain a total risk based capital ratio at least equal to 11% of risk-weighted assets, and (iv) non-performing assets of the Bank may not exceed 2.5% of the Bank's total assets. Both the Company and Bank were in compliance with the covenants as of December 31, 2019.

Risk related to legal proceedings.

From time to time, the Company is involved in judicial, regulatory, and arbitration proceedings concerning matters arising from the Company's business activities and fiduciary responsibilities. The Company establishes reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The Company may still incur legal costs for a matter even if a reserve has not been established. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of a pending or future legal proceeding, depending on the remedy sought and granted, could materially adversely affect results of operations and financial condition.

Acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties.

The Company regularly explores opportunities to acquire banks, branches, financial institutions, or other financial services businesses or assets. The Company cannot predict the number, size or timing of acquisitions. Difficulty in integrating an acquired business or company may cause the Company not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. The integration could result in higher than expected deposit attrition (run-off), loss of key employees, disruption of the Company's business or the business of the acquired company, or otherwise adversely affect the Company's ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. Also, the negative effect of any divestitures required by regulatory authorities in acquisitions or business combinations may be greater than expected. The Company may also issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to current shareholders.

The Company may sell capital stock in the future to raise additional capital or for additional liquidity. Future sales or other dilution of equity may adversely affect the market price of the Company's common shares.

The issuance of additional common shares or securities convertible into common shares would dilute the ownership interest of the Company's existing common shareholders. The market price of the Company's common shares could decline as a result of such an offering as well as other sales of a large block of shares of common shares or similar securities in the market after such an offering, or the perception that such sales could occur. The Company's common shares have traded from time-to-time at a price below book value per share. A sale of common shares at or below book value would be dilutive to current shareholders. The sale of shares at a price below market value could negatively impact the market price of the Company's common shares.

FDIC deposit insurance premiums and assessments can impact non-interest expense.

The Bank's deposits are insured by the FDIC up to legal limits and, accordingly, the Bank is subject to FDIC deposit insurance premiums and assessments. FDIC assessments for deposit insurance are based on the average total consolidated assets of the insured institution during the assessment period, less the average tangible equity of the institution during the assessment period. Any increase in assessment rates may adversely affect the Bank's business, financial condition or results of operations.

The Bank face s strong competition from other financial institutions and financial service companies, which could adversely affect the results of operations and financial condition.

The Bank competes with other financial institutions in attracting deposits and making loans. The competition in attracting deposits comes principally from other commercial banks, credit unions, savings and loan associations, securities brokerage firms, insurance companies, money market funds, and other mutual funds. The competition in making loans comes principally from other commercial banks, credit unions, savings and loan associations, mortgage banking firms, and consumer finance companies. In addition, competition for business in the Louisville and Lexington metropolitan areas has grown in recent years as changes in banking law have allowed banks to enter those markets by establishing new branches.

Competition in the banking industry may also limit the ability to attract and retain banking clients. We maintain smaller staffs of associates and have fewer financial and other resources than larger institutions with which we compete. Financial institutions that have far greater resources and greater efficiencies than we do may have several marketplace advantages resulting from their ability to:

- offer higher interest rates on deposits and lower interest rates on loans than we can;
- offer a broader range of services than we do;
- maintain more branch locations than we do; and
- mount extensive promotional and advertising campaigns.

In addition, banks and other financial institutions with larger capitalization and other financial intermediaries may not be subject to the same regulatory restrictions and may have larger lending limits. Some of the Company's current commercial banking clients may seek alternative banking sources as they develop needs for credit facilities larger than we can accommodate. If we are unable to attract and retain customers, we may not be able to maintain growth and the results of operations and financial condition may otherwise be negatively impacted.

The Company depends on its senior management team, and the unexpected loss of one or more of the senior executives could impair relationships with customers and adversely affect business and financial results.

Future success significantly depends on the continued services and performance of key management personnel. Future performance will depend on the ability to motivate and retain these and other key officers. The Dodd-Frank Act, and the policies of bank regulatory agencies have placed restrictions on executive compensation practices. Such restrictions and standards may further impact the ability to compete for talent with other businesses that are not subject to the same limitations. The loss of the services of members of senior management or other key officers or the inability to attract additional qualified personnel as needed could materially harm its business.

Reported financial results depend on management's selection of accounting methods and certain assumptions and estimates.

Accounting policies and assumptions are fundamental to the reported financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner in which to report the financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting reported financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include the valuation of securities, allowance for loan losses, valuation of OREO and valuation of net deferred income tax asset. Because of the uncertainty of estimates involved in these matters, we may be required, among other things, to recognize other-than-temporary impairment on securities, significantly increase the allowance for credit losses, sustain credit losses that are higher than the reserve provided, recognize impairment on OREO, or permanently impair deferred tax assets.

While management continually monitors and improves the system of internal controls, data processing systems, and corporate wide processes and procedures, the Company may suffer losses from operational risk in the future.

Management maintains internal operational controls, and has invested in technology to help process large volumes of transactions. However, we may not be able to continue processing at the same or higher levels of transactions. If systems of internal controls should fail to work as expected, if systems were to be used in an unauthorized manner, or if employees were to subvert the system of internal controls, significant losses could occur.

The Company processes large volumes of transactions on a daily basis exposing it to numerous types of operational risk, which could cause us to incur substantial losses. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by employees or persons outside of the company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

The Company establishes and maintains systems of internal operational controls that provide management with timely and accurate information about its level of operational risk. While not foolproof, these systems have been designed to manage operational risk at appropriate, cost effective levels. We have also established procedures that are designed to ensure policies relating to conduct, ethics and business practices are followed. Nevertheless, we experience loss from operational risk from time to time, including the effects of operational errors, and these losses may be substantial.

Information systems may experience an interruption or security breach.

Failure in or breach of operational or security systems or infrastructure, or those of third party vendors and other service providers, including as a result of cyber-attacks, could disrupt the Bank's businesses, result in the disclosure or misuse of confidential or proprietary information, damage its reputation, increase costs and cause losses. As a financial institution, the Bank depends on its ability to process, record and monitor a large number of customer transactions on a continuous basis. As customer, public and regulatory expectations regarding operational and information security have increased, operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns. Business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume, electrical or telecommunications outages, natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics, events arising from local or larger scale political or social matters, including terrorist acts, and, as described below, cyber-attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

Information security risks for financial institutions have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use personal smartphones, tablet PC's, and other mobile devices that are beyond our control systems. Although we believe we have appropriate information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber-attacks or information security breaches. These events could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our customers' confidential, proprietary and other information or that of its customers, or otherwise disrupt the business operations of the Bank, its customers or other third parties.

Third parties with which the Bank does business or that facilitate our business activities, could also be sources of operational and information security risk to the Bank, including from breakdowns or failures of their own systems or capacity constraints. Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, we can give no assurance that we will not suffer such losses in the future. Risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats and the prevalence of Internet and mobile banking. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the networks, systems or devices that the Bank's customers use to access our products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our business, results of operations or financial condition.

The Company operates in a highly regulated environment and, as a result, is subject to extensive regulation and supervision that could adversely affect financial performance and ability to implement growth and operating strategies.

The Company is subject to examination, supervision and comprehensive regulation by federal and state regulatory agencies, as described under “Item 1 – Business-Supervision and Regulation.” Regulatory oversight of banks is primarily intended to protect depositors, the federal deposit insurance funds, and the banking system as a whole, and not shareholders. Compliance with these regulations is costly and may make it more difficult to operate profitably.

Federal and state banking laws and regulations govern numerous matters including the payment of dividends, the acquisition of other banks, and the establishment of new banking offices. We must also meet specific regulatory capital requirements. Failure to comply with these laws, regulations, and policies or to maintain required capital could affect the ability to pay dividends on common shares, the ability to grow through the development of new offices, make acquisitions, and remain independent. These limitations may prevent us from successfully implementing growth and operating strategies.

In addition, the laws and regulations applicable to banks could change at any time, which could significantly impact our business and profitability. For example, new legislation or regulation could limit the manner in which we may conduct our business, including our ability to attract deposits and make loans. Events that may not have a direct impact on us, such as the bankruptcy or insolvency of a prominent U.S. corporation, can cause legislators and banking regulators and other agencies such as the Consumer Financial Protection Bureau, the SEC, the Public Company Accounting Oversight Board and various taxing authorities to respond by adopting and or proposing substantive revisions to laws, regulations, rules, standards, policies, and interpretations. The nature, extent, and timing of the adoption of significant new laws and regulations, or changes in or repeal of existing laws and regulations may have a material impact on our business and results of operations. Changes in regulation may cause us to devote substantial additional financial resources and management time to compliance, which may negatively affect operating results.

Changes in banking laws could have a material adverse effect.

The Bank is subject to changes in federal and state laws as well as changes in banking and credit regulations, and governmental economic and monetary policies. Management cannot predict whether any of these changes could adversely and materially affect us. The current regulatory environment for financial institutions entails significant potential increases in compliance requirements and associated costs. Federal and state banking regulators also possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums and limitations on our activities that could have a material adverse effect on our business and profitability.

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Bank operates 20 banking offices in Kentucky. The following table shows the location, square footage and ownership of each property. Management believes that each of these locations is adequately insured. Support operations are located at the main office in Louisville and in Glasgow.

Markets	Square Footage	Owned/Leased
Frankfort/Franklin County		
Frankfort Office: 100 Highway 676, Frankfort	3,000	Leased
Elizabethtown/Hardin County		
Elizabethtown Office: 1690 Ring Road, Suite 100, Elizabethtown	4,000	Leased
Louisville/Jefferson, Bullitt and Henry Counties		
Main Office: 2500 Eastpoint Parkway, Louisville	30,000	Owned
Eminence Office: 646 Elm Street, Eminence	1,500	Owned
Hillview Office: 6890 North Preston Highway, Hillview	3,500	Owned
Pleasureville Office: 5440 Castle Highway, Pleasureville	10,000	Owned
Conestoga Office: 155 Conestoga Parkway, Shepherdsville	3,900	Owned
Lexington/Fayette County		
Lexington Office: 2424 Harrodsburg Road, Suite 100, Lexington	8,500	Leased
City Center Office: 130 West Main Street, Lexington	2,400	Leased
South Central Kentucky		
Brownsville Office: 113 East Main Cross Street, Brownsville	8,500	Owned
Greensburg Office: 202 North Main Street, Greensburg	11,000	Owned
Horse Cave Office: 201 East Main Street, Horse Cave	5,000	Owned
Morgantown Office: 112 West G.L. Smith Street, Morgantown	7,500	Owned
Munfordville Office: 949 South Dixie Highway, Munfordville	9,000	Owned
Beaver Dam Office: 1300 North Main Street, Beaver Dam	3,200	Owned
Owensboro/Daviess County		
Owensboro Office: 1819 Frederica Street, Owensboro	3,000	Owned
Owensboro Frederica Office: 3500 Frederica Street, Owensboro	5,000	Owned
Owensboro Villa Point: 3332 Villa Point Drive, Owensboro	2,000	Leased
Southern Kentucky		
Campbell Lane Office: 751 Campbell Lane, Bowling Green	7,500	Owned
Glasgow Office: 1006 West Main Street, Glasgow	12,000	Owned
Other Properties		
Office Building: 2708 North Jackson Highway, Canmer	3,500	Owned
Other Properties - Held for Sale		
Office Building: 701 Columbia Avenue, Glasgow	20,000	Owned

Item 3. Legal Proceedings

In the normal course of business, the Company and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions may include claims for substantial compensatory and/or punitive damages or claims for indeterminate amount of damages. Litigation is subject to inherent uncertainties and unfavorable outcomes could occur.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such matters could be material to the Company's operating results and cash flows for a particular future period, depending on, among other things, the level of the Company's revenues or income for such period. The Company will accrue for a loss contingency if (1) it is probable that a future event will occur and confirm the loss and (2) the amount of the loss can be reasonably estimated.

The Company is not currently involved in any material litigation.

Item 4. Mine Safety Disclosure

Not applicable.

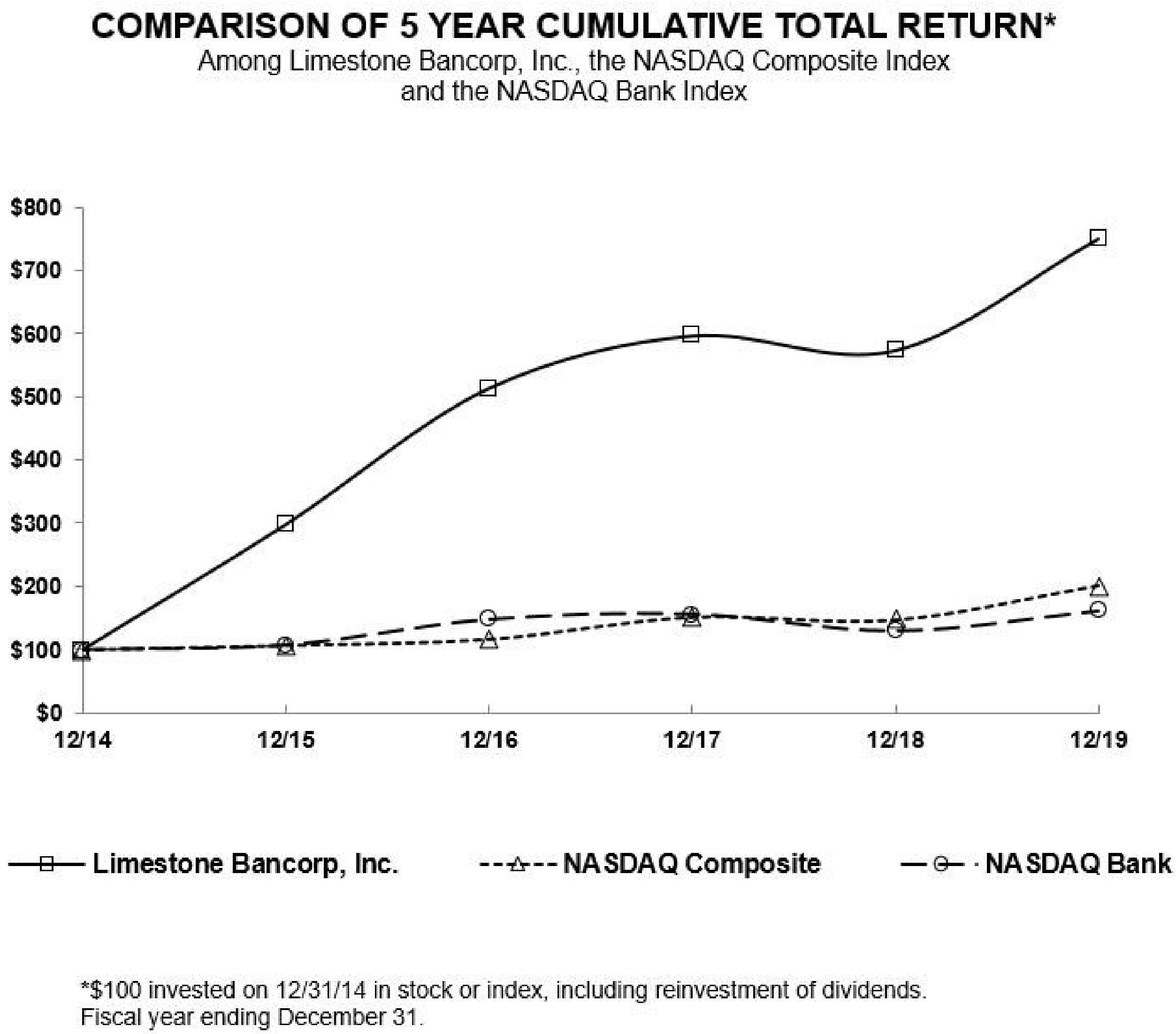
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The Company's common shares are traded on the Nasdaq Capital Market under the ticker symbol "LMST".

As of January 31, 2020, our common shares were held by approximately 1,417 shareholders, including 330 shareholders of record and approximately 1,087 beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees, and our non-voting common shares were held by two holders.



Dividends

As a bank holding company, the Company's ability to declare and pay dividends depends on various federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

The principal source of revenue with which to pay dividends on common shares are dividends the Bank may declare and pay out of funds legally available for payment of dividends. Currently, the Bank must obtain the prior written consent of its primary regulators prior to declaring or paying any dividends until retained earnings are positive. A Kentucky chartered bank may declare a dividend of an amount of the bank's net profits as the board deems appropriate. The approval of the KDFI is required if the total of all dividends declared by a bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus or a fund for the retirement of preferred stock or debt.

Purchase of Equity Securities by Issuer

During the fourth quarter of 2019, the Company did not repurchase any of its common shares, which is its only registered class of equity securities.

Equity Compensation Plan Information

The following table provides information about our equity compensation plans as of December 31, 2019:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column 1)
Equity compensation plans approved by shareholders	—	—	292,497
Equity compensation plans not approved by shareholders	—	—	—
Total	—	—	292,497

At December 31, 2019, 292,497 common shares remain available for issuance under the Company's 2018 Omnibus Equity Compensation Plan.

Item 6. Selected Financial Data

The following table summarizes the Company's selected historical consolidated financial data from 2015 to 2019. You should read this information in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statements and Supplementary Data."

Selected Consolidated Financial Data

	As of and for the Years Ended December 31,				
(Dollars in thousands except per share data)	**2019**	**2018**	**2017**	**2016**	**2015**
Income Statement Data:					
Interest income	**$ 49,584**	$ 43,461	$ 37,522	$ 35,602	$ 36,574
Interest expense	**14,234**	9,790	6,405	5,981	7,023
Net interest income	**35,350**	33,671	31,117	29,621	29,551
Provision (negative provision) for loan losses	—	(500)	(800)	(2,450)	(4,500)
Non-interest income	**5,918**	5,779	5,404	5,218	7,695
Non-interest expense (1)	**30,270**	29,126	30,767	40,021	44,959
Income (loss) before income taxes	**10,998**	10,824	6,554	(2,732)	(3,213)
Income tax expense (benefit) (2)	**480**	2,030	(31,899)	21	—
Net income (loss)	**10,518**	8,794	38,453	(2,753)	(3,213)
Less:					
Earnings (loss) allocated to participating securities	**106**	144	967	(88)	(336)
Net income (loss) attributable to common	**$ 10,412**	$ 8,650	$ 37,486	$ (2,665)	$ (2,877)
Common Share Data: (3)					
Basic earnings (loss) per common share	**$ 1.41**	$ 1.23	$ 6.15	$ (0.46)	$ (0.62)
Diluted earnings (loss) per common share	**1.41**	1.23	6.15	(0.46)	(0.62)
Cash dividends declared per common share	—	—	—	—	—
Book value per common share	**14.15**	12.34	11.17	4.81	5.43
Tangible book value per common share (4)	**12.98**	12.34	11.17	4.79	5.33
Balance Sheet Data (at period end): (1)					
Total assets	**$ 1,245,779**	$ 1,069,692	$ 970,801	$ 945,177	$ 948,722
Debt obligations:					
FHLB advances	**61,389**	46,549	11,797	22,458	3,081
Junior subordinated debentures	**21,000**	21,000	21,000	21,000	21,000
Subordinated capital note	**17,000**	—	2,250	3,150	4,050
Senior debt	**5,000**	10,000	10,000	—	—
Average Balance Data: (1)					
Average assets	**$ 1,112,388**	$ 1,026,310	$ 947,961	$ 929,140	$ 984,419
Average loans	**801,813**	743,352	667,474	621,275	635,948
Average deposits	**936,243**	860,825	864,278	852,717	907,785
Average FHLB advances	**35,038**	43,363	9,184	2,967	3,473
Average junior subordinated debentures	**21,000**	21,000	21,000	21,000	23,981
Average subordinated capital note	**7,545**	791	2,805	3,708	4,608
Average senior debt	**7,781**	10,000	5,068	—	—
Average stockholders' equity	**100,126**	84,860	37,851	39,423	33,083

(1) On November 15, 2019, the Company completed a four branch acquisition. The purchase included $126.8 million in performing loans and $1.5 million in premises and equipment, as well as $131.8 million in customer deposits. Acquisition related costs totaled $775,000, or $0.08 per common share after taxes.

(2) Income tax expense for 2019 benefitted $1.6 million, or $0.21 per basic and diluted share, from the establishment of a state net deferred tax asset related to the 2019 tax law enactments. Income tax expense for 2017 benefitted $54.0 million from the reversal of the deferred tax valuation allowance offset by $20.3 million of income tax expense related to the revaluation of the deferred tax asset to 21%.

(3) On December 16, 2016, the Company completed a 1-for-5 reverse stock split of its issued and outstanding common and non-voting common shares. As a result of the reverse stock split, all share and per share data has been adjusted in the accompanying tables. Preferred shares were not impacted by the 1-for-5 reverse stock split.

(4) Tangible book value per common share is a non-GAAP financial measure derived from GAAP based amounts. Tangible book value is calculated by excluding the balance of intangible assets from common stockholders' equity. Tangible book value per common share is calculated by dividing tangible common equity by common shares outstanding, as compared to book value per common share, which is calculated by dividing common stockholders' equity by common shares outstanding. Management believes this is consistent with bank regulatory agency treatment, which excludes tangible assets from the calculation of risk-based capital.

	As of and for the Years Ended December 31,				
	2019	2018	2017	2016	2015
Tangible Book Value Per Share	(in thousands, except share and per share data)				
Common stockholder's equity	$ 105,750	$ 92,097	$ 69,902	$ 29,962	$ 29,246
Less: Goodwill	6,252	—	—	—	—
Less: Intangible assets	2,500	—	—	140	532
Tangible common equity	96,998	92,097	69,902	29,822	28,714
Shares outstanding	7,471,975	7,462,720	6,259,864	6,224,533	5,389,507
Tangible book value per common share	$ 12.98	$ 12.34	$ 11.17	$ 4.81	$ 5.33
Book value per common share	14.15	12.34	11.17	4.79	5.43

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Management's discussion and analysis of financial condition and results of operations analyzes the consolidated financial condition and results of operations of Limestone Bancorp, Inc. (the "Company") and its wholly owned subsidiary, Limestone Bank, Inc. (the "Bank"). The Company is a Louisville, Kentucky-based bank holding company that operates banking offices in fourteen Kentucky counties. The Bank's markets include metropolitan Louisville in Jefferson County and the surrounding counties of Bullitt and Henry. The Bank serves south central, southern, and western Kentucky from banking offices in Barren, Butler, Daviess, Edmonson, Green, Hardin, Hart, Ohio, and Warren Counties. The Bank also has an office in Lexington, the second largest city in the state, and Frankfort, the state capital. The Bank is a traditional community bank with a wide range of personal and business banking products and services.

Historically, the Bank has focused on commercial and commercial real estate lending, both in markets where we have banking offices and other growing markets in our region. Commercial, commercial real estate and real estate construction loans accounted for 58.8% of our total loan portfolio as of December 31, 2019, and 60.9% as of December 31, 2018. Commercial lending generally produces higher yields than residential lending, but involves greater risk and requires more rigorous underwriting standards and credit quality monitoring.

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes and other schedules presented elsewhere in the report.

Overview

Net income before taxes was $11.0 million for the year ended December 31, 2019 compared to $10.8 million for the year ended December 31, 2018. Income tax expense was $480,000 for 2019 and $2.0 million for 2018.

For the year ended December 31, 2019, the Company reported net income of $10.5 million compared with net income of $8.8 million for the year ended December 31, 2018 and net income of $38.5 million for the year ended December 31, 2017, which includes the reversal of a deferred tax asset valuation allowance. Basic and diluted income per common share were $1.41 for the year ended December 31, 2019, compared with net income per common share of $1.23 for 2018, and net income per common share of $6.15 for 2017.

The following significant items are of note for the year ended December 31, 2019:

- On November 15, 2019, the Bank completed the acquisition of four branch banking centers located in the Kentucky cities of Elizabethtown, Frankfort, and Owensboro. The purchase included approximately $126.8 million in performing loans and $1.5 million in premises and equipment, as well as approximately $131.8 million in customer deposits. This acquisition allows the Bank to further optimize its branch footprint regionally and solidifies its presence and ability to serve customers in Daviess, Hardin, and Franklin counties. Fourth quarter results were impacted by non-recurring acquisition related expenses of approximately $775,000, or $0.08 per common share after taxes.

- During the first quarter of 2019, the Company benefited $341,000, or approximately $0.05 per basic and diluted share, from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital, and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021. In addition, the Company has state net operating loss carryforwards ("NOLs") of $31.8 million, which were previously subject to a full valuation allowance and will begin to expire in 2025. In April 2019, tax legislation was enacted which allowed for certain Kentucky NOLs to be utilized in a combined filing return. Therefore, the Company will begin filing a Kentucky combined filing in 2021 and, as a result, a state NOL tax benefit, net of federal impact, of $1.2 million, or approximately $0.16 per basic and diluted share, was recognized in the second quarter of 2019.

- Average loans receivable increased approximately $58.5 million or 7.9% to $801.2 million for the year ended December 31, 2019, compared with $743.4 million for the year ended December 31, 2018. Loan interest income benefited from an increase in interest revenue volume of approximately $3.0 million and interest rate increases of $1.8 million for the year ended December 31, 2019, compared with the year ended December 31, 2018.

- Net interest margin decreased 13 basis points to 3.40% for the year ended 2019 compared with 3.53% in the year ended December 31, 2018. The yield on earning assets increased to 4.76% in 2019, compared to 4.55% in 2018. The cost of interest-bearing liabilities increased to 1.66% in 2019 from 1.23% in 2018 as a result of Federal Reserve increases in short-term interest rates during 2018, which negatively affected certificate of deposit repricing in 2019.

- The Company recorded no provision for loan losses expense in 2019, compared to a negative provision for loan losses expense of $500,000 for 2018. Historical loss experience, risk grade classification metrics, charge-off levels, and past due trends remain at historically strong levels and were generally stable between periods. Net loan charge-offs were $504,000 for 2019, compared to net loan recoveries of $1.2 million for 2018 and net loan recoveries of $35,000 for 2017.

- Nonaccrual loans decreased $463,000 to $1.5 million at December 31, 2019, compared with $2.0 million at December 31, 2018. The decrease in nonaccrual loans was primarily due to $1.7 million in paydowns, $992,000 in charge-offs, $880,000 in loans returned to accrual status, offset by $3.1 million in loans placed on non-accrual.

- The ratio of non-performing assets to total assets decreased to 0.42% at December 31, 2019, compared with 0.60% at December 31, 2018, and 1.14% at December 31, 2017.

- Deposits were $1.03 billion at December 31, 2019, compared with $894.2 million at December 31, 2018. Non-interest bearing demand deposits increased $44.9 million or 31.5% during 2019 to $187.6 million compared with $142.6 million at December 31, 2018. Money market accounts decreased $11.1 million or 6.4% during 2019 to $160.8 million compared with $171.9 million at December 31, 2018. Savings accounts increased $21.5 million during 2019 to $56.0 million compared to $34.5 million at December 31, 2018. Certificate of deposit balances increased $25.6 million during 2019 to $476.5 million at December 31, 2019, from $450.9 million at December 31, 2018.

- On July 23, 2019, the Company completed the issuance of a $17.0 million 10-year subordinated note. The note carries interest at a fixed rate of 5.75% for the first five years and qualifies as Tier 2 regulatory capital. The Company contributed $10.0 million of the proceeds to the Bank as Tier 1 capital, used $5.0 million to reduce senior debt, and retained the remaining proceeds for general corporate purposes.

These items are discussed in further detail throughout this Item 7.

Application of Critical Accounting Policies

The Company's accounting and reporting policies comply with GAAP and conform to general practices within the banking industry. Management believes the following significant accounting policies may involve a higher degree of management assumptions and judgments that could result in materially different amounts to be reported if conditions or underlying circumstances were to change.

Allowance for Loan Losses – The Bank maintains an allowance for loan losses believed to be sufficient to absorb probable incurred credit losses existing in the loan portfolio. The Board of Directors evaluates the adequacy of the allowance for loan losses on a quarterly basis. Management evaluates the adequacy of the allowance using, among other things, historical loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and current economic conditions and trends. The allowance may be allocated for specific loans or loan categories, but the entire allowance is available for any loan. The allowance consists of specific and general components. The specific component relates to loans that are individually evaluated and measured for impairment. The general component is based on historical loss experience adjusted for qualitative environmental factors. Management develops allowance estimates based on actual loss experience adjusted for current economic conditions and trends. Allowance estimates are a prudent measurement of the risk in the loan portfolio applied to individual loans based on loan type. If the mix and amount of future charge-off percentages differ significantly from the assumptions used by management in making its determination, management may be required to materially increase its allowance for loan losses and provision for loan losses, which could adversely affect results.

Income Taxes – Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current year. Deferred tax liabilities ("DTLs") and assets ("DTAs") are also established for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. A DTL or DTA is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred income tax liabilities and assets is considered critical, as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax liabilities and assets involves the use of estimates, assumptions, interpretations and judgments concerning certain accounting pronouncements and federal and state tax codes.

There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings. The Company believes its tax assets and liabilities are adequate and are properly recorded in the consolidated financial statements at December 31, 2019 and 2018.

Results of Operations

The following table summarizes components of income and expense and the change in those components for 2019 compared with 2018:

	For the Years Ended December 31,		Change from Prior Period	
	2019	2018	Amount	Percent
	(dollars in thousands)			
Gross interest income	$ 49,584	$ 43,461	$ 6,123	14.1%
Gross interest expense	14,234	9,790	4,444	45.4
Net interest income	35,350	33,671	1,679	5.0
Provision (negative provision) for loan losses	—	(500)	500	(100.0)
Non-interest income	5,923	5,785	138	2.4
Gains on sale of securities, net	(5)	(6)	1	(16.7)
Non-interest expense	30,270	29,126	1,144	3.9
Net income before taxes	10,998	10,824	174	1.6
Income tax expense (benefit)	480	2,030	(1,550)	(76.4)
Net income	10,518	8,794	1,724	19.6

Net income of $10.5 million for the year ended December 31, 2019 increased by $1.7 million from net income of $8.8 million for 2018. Income tax expense for 2019 benefitted $1.6 million from the establishment of a state net deferred tax asset related to the 2019 tax law enactments. The new laws eliminate the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital, and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021. Based upon historically strong trends in asset quality and management's assessment of risk within the portfolio, the Company recorded no provision for loan losses expense in 2019, compared to $500,000 negative provision for loan losses expense for 2018. Non-interest income increased $139,000 million during 2019. There was an increase of $607,000 in bank card interchange fees, partially offset by a decrease in other non-interest income of $468,000 related to the $150,000 one-time gain on the sale of the secondary market residential servicing rights portfolio in the third quarter of 2018 and a $632,000 gain on the sale of a subdivided lot at the Company's headquarters offset by a $392,000 impairment charge associated with the transfer of the Bank's former data processing center to Premises Held for Sale in the fourth quarter of 2018.

Non-interest expense increased $1.1 million during 2019 due primarily to $775,000 of expenses attributable to the branch acquisition. There was also an increase of $744,000 in salary and employee benefits, as the Bank added sales talent and customer facing associates during 2019, and branch staff added in connection with the branch purchase transaction. Deposit account related expense increased $401,000, which was offset by decreases in OREO expenses of $500,000, and FDIC insurance expense of $346,000.

The following table summarizes components of income and expense and the change in those components for 2018 compared with 2017:

	For the Years Ended December 31,		Change from Prior Period	
	2018	2017	Amount	Percent
	(dollars in thousands)			
Gross interest income	$ 43,461	$ 37,522	$ 5,939	15.8%
Gross interest expense	9,790	6,405	3,385	52.8
Net interest income	33,671	31,117	2,554	8.2
Provision (negative provision) for loan losses	(500)	(800)	300	37.5
Non-interest income	5,785	5,116	669	13.1
Gains on sale of securities, net	(6)	288	(294)	(102.1)
Non-interest expense	29,126	30,767	(1,641)	(5.3)
Net income (loss) before taxes	10,824	6,554	4,270	65.2
Income tax expense (benefit)	2,030	(31,899)	33,929	NM
Net income (loss)	8,794	38,453	(29,659)	NM

NM: Not Meaningful

Net income of $8.8 million for the year ended December 31, 2018 decreased by $29.7 million from net income of $38.5 million for 2017. Net income for 2017 was impacted by the reversal of the Company's deferred tax asset valuation allowance and the change in federal corporate tax rates in connection with the enactment of the Tax Cuts and Jobs Act of 2017. This resulted in an income tax benefit of $31.9 million for 2017. During 2018, improving trends in non-performing loans, past due loans, and loan risk categories continued. A negative provision for loan losses expense of $500,000 was recorded during 2018, compared to $800,000 negative provision for loan losses expense for 2017. Non-interest income increased $669,000 during 2018. There was an increase of $310,000 in bank card interchange fees, $232,000 in other non-interest income, and $102,000 in service charges on deposit accounts. Non-interest expense decreased $1.6 million during 2018 due primarily to decreases in OREO expense of $1.1 million and FDIC insurance of $855,000 offset by an increase in salaries and employee benefits of $399,000.

Net Interest Income – Net interest income was $35.4 million for the year ended December 31, 2019, an increase of $1.7 million, or 5.0%, compared with $33.7 million for the same period in 2018. Net interest spread and margin were 3.10% and 3.40%, respectively, for 2019, compared with 3.32% and 3.53%, respectively, for 2018.

Net interest margin for 2019 was under pressure as the Federal Reserve lowered its target rate by 25 basis points on July 31, 2019, September 18, 2019, and October 30, 2019. The Company's interest rate risk profile is marginally asset sensitive as its assets generally reprice more quickly then its liabilities over a twelve-month horizon. In particular, the Federal Reserve's actions served to lower rates on the short end of the yield curve impacting yields on fed funds, certain floating rate investment securities, and loans with variable rate pricing features. These rate decreases in 2019 followed four 25 basis point increases during 2018. As of December 31, 2019, time deposits comprise $476.5 million of the Company's liabilities with $389.3 million, or 82%, set to reprice or mature within one year of which, $179.4 million with a current average rate of 2.19% reprice or mature within the first quarter of 2020.

Average interest-earning assets were $1.04 billion for 2019, compared with $957.5 million for 2018, a 8.9% increase, primarily attributable to higher average loans and average investment securities. Average loans were $801.8 million for 2019, compared with $743.4 million for 2018, a 7.9% increase due to loan growth, as well as the completion of the branch acquisition on November 15, 2019. This resulted in an increase in interest revenue of approximately $3.0 million and an increase of $1.8 million attributable to increasing interest rates for 2019 as compared to 2018. Average investment securities were $206.2 million for 2019, compared with $178.9 million for 2018, a 15.2% increase. Total interest income increased 14.1% to $49.6 million for 2019, compared with $43.5 million for 2018.

Average interest-bearing liabilities increased by 7.2% to $856.3 million for 2019, compared with $799.0 million for 2018 due to deposit growth, as well as the completion of the branch acquisition on November 15, 2019. Total interest expense increased by 45.4% to $14.2 million for 2019, compared with $9.8 million during 2018, due primarily to increases in rates paid on certificates of deposits and other time deposits in 2019 compared to 2018. Average volume of certificates of deposit increased 9.9% to $483.2 million for 2019, compared with $439.6 million for 2018. The average interest rate paid on certificates of deposit increased to 1.98% for 2019, compared with 1.35% for 2018. Average volume of interest checking and money market deposit accounts increased 6.5% to $265.7 million for 2019, compared with $249.4 million for 2018. The average interest rate paid on interest checking and money market deposit accounts increased to 0.76% for 2019, compared with 0.62% for 2018. The cost of interest-bearing liabilities for 2019 was also impacted by the subordinated debt issuance at a fixed rate of 5.75%.

Net interest income was $33.7 million for the year ended December 31, 2018, an increase of $2.6 million, or 8.2%, compared with $31.1 million for the same period in 2017. Net interest spread and margin were 3.32% and 3.53%, respectively, for 2018, compared with 3.35% and 3.48%, respectively, for 2017. Average nonaccrual loans were $3.5 million and $7.1 million in 2018 and 2017, respectively.

Average interest-earning assets were $957.5 million for 2018, compared with $904.1 million for 2017, a 5.9% increase, primarily attributable to higher average loans, partially offset by a decrease in average investment securities. Average loans were $743.4 million for 2018, compared with $667.5 million for 2017, an 11.4% increase. Average investment securities were $178.9 million for 2018, compared with $193.1 million for 2017, a 7.3% decrease. Average interest-bearing deposits with financial institutions and fed funds sold were $27.9 million in 2018, compared with $36.2 million in 2017, a 22.8% decrease. Total interest income increased 15.8% to $43.5 million for 2018, compared with $37.5 million for 2017.

Average interest-bearing liabilities increased by 3.3% to $799.0 million for 2018, compared with $773.2 million for 2017. Total interest expense increased by 52.8% to $9.8 million for 2018, compared with $6.4 million during 2017, due primarily to increases in rates paid on certificates of deposits and other time deposits as well as increases in average balances of FHLB advances in 2018 compared to 2017. Average volume of certificates of deposit decreased 2.8% to $439.6 million for 2018, compared with $452.4 million for 2017. The average interest rate paid on certificates of deposit increased to 1.35% for 2018, compared with 0.93% for 2017. Average volume of interest checking and money market deposit accounts increased 0.9% to $249.4 million for 2018, compared with $247.3 million for 2017. The average interest rate paid on interest checking and money market deposit accounts increased to 0.62% for 2018, compared with 0.38% for 2017. Both the yield on earning assets and cost of interest-bearing liabilities were impacted by increases in short-term interest rates during 2017 and 2018.

Average Balance Sheets

The following table sets forth the average daily balances, the interest earned or paid on such amounts, and the weighted average yield on interest-earning assets and weighted average cost of interest-bearing liabilities for the periods indicated. Dividing income or expense by the average daily balance of assets or liabilities, respectively, derives such yields and costs for the periods presented.

	For the Years Ended December 31,					
	2019			2018		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loans receivables (1)(2)						
Real estate	$ 576,441	$ 30,139	5.23%	$ 548,877	$ 27,296	4.97%
Commercial	134,735	6,660	4.94	123,044	5,934	4.82
Consumer	51,001	2,863	5.61	32,049	1,765	5.51
Agriculture	39,116	2,480	6.34	38,796	2,334	6.02
Other	520	11	2.12	586	13	2.22
U.S. Treasury and agencies	23,263	558	2.40	23,732	549	2.31
Mortgage-backed securities	91,609	2,495	2.72	81,771	2,142	2.62
Collateralized loan obligations	49,881	2,015	4.04	32,163	1,177	3.66
State and political subdivision securities (non-taxable) (3)	11,759	326	3.51	14,189	383	3.42
State and political subdivision securities (taxable)	18,270	583	3.19	18,890	570	3.02
Corporate bonds	11,376	618	5.43	8,162	442	5.42
FHLB stock	6,691	348	5.20	7,280	429	5.89
Federal funds sold	182	4	2.20	1,152	22	1.91
Interest-bearing deposits in other financial institutions	27,809	484	1.74	26,763	405	1.51
Total interest-earning assets	1,042,653	49,584	4.76%	957,454	43,461	4.55%
Less: Allowance for loan losses	(8,786)			(8,692)		
Non-interest-earning assets	78,521			77,548		
Total assets	$ 1,112,388			$ 1,026,310		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Certificates of deposit and other time deposits	$ 483,222	$ 9,564	1.98%	$ 439,597	$ 5,949	1.35%
Interest checking and money market deposits	265,687	2,026	0.76	249,415	1,543	0.62
Savings accounts	36,035	67	0.19	34,866	57	0.16
FHLB advances	35,038	810	2.31	43,363	867	2.00
Junior subordinated debentures	21,000	1,005	4.79	21,000	946	4.50
Subordinated capital note	7,545	433	5.74	791	39	4.93
Senior debt	7,781	329	4.23	10,000	389	3.89
Total interest-bearing liabilities	856,308	14,234	1.66%	799,032	9,790	1.23%
Non-interest-bearing liabilities						
Non-interest-bearing deposits	151,299			136,947		
Other liabilities	4,655			5,471		
Total liabilities	1,012,262			941,450		
Stockholders' equity	100,126			84,860		
Total liabilities and stockholders' equity	$ 1,112,388			$ 1,026,310		
Net interest income		$ 35,350			$ 33,671	
Net interest spread			3.10%			3.32%
Net interest margin			3.40%			3.53%
Ratio of average interest-earning assets to average interest-bearing liabilities			121.76%			119.83%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans of $2.2 million and $3.5 million in average loan amounts outstanding.
(3) Taxable equivalent yields are calculated assuming a 21% federal income tax rate for 2019 and 2018.

	For the Years Ended December 31,					
	2018			2017		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loans receivables (1)(2)						
Real estate	$ 548,877	$ 27,296	4.97%	$ 509,133	$ 24,544	4.82%
Commercial	123,044	5,934	4.82	107,188	4,403	4.11
Consumer	32,049	1,765	5.51	10,790	843	7.81
Agriculture	38,796	2,334	6.02	39,839	2,047	5.14
Other	586	13	2.22	524	29	5.53
U.S. Treasury and agencies	23,732	549	2.31	31,440	694	2.21
Mortgage-backed securities	81,771	2,142	2.62	94,451	2,240	2.37
Collateralized loan obligations	32,163	1,177	3.66	20,242	541	2.67
State and political subdivision securities (non-taxable) (3)	14,189	383	3.42	19,617	571	4.48
State and political subdivision securities (taxable)	18,890	570	3.02	23,689	757	3.20
Corporate bonds	8,162	442	5.42	3,651	167	4.57
FHLB stock	7,280	429	5.89	7,323	366	5.00
Federal funds sold	1,152	22	1.91	960	10	1.04
Interest-bearing deposits in other financial institutions	26,763	405	1.51	35,222	310	0.88
Total interest-earning assets	957,454	43,461	4.55%	904,069	37,522	4.18%
Less: Allowance for loan losses	(8,692)			(8,961)		
Non-interest-earning assets	77,548			52,853		
Total assets	$ 1,026,310			$ 947,961		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Certificates of deposit and other time deposits	$ 439,597	$ 5,949	1.35%	$ 452,443	$ 4,191	0.93%
Interest checking and money market deposits	249,415	1,543	0.62	247,261	940	0.38
Savings accounts	34,866	57	0.16	35,486	59	0.17
FHLB advances	43,363	867	2.00	9,184	120	1.31
Junior subordinated debentures	21,000	946	4.50	21,000	753	3.59
Subordinated capital note	791	39	4.93	2,805	148	5.28
Senior debt	10,000	389	3.89	5,068	194	3.83
Total interest-bearing liabilities	799,032	9,790	1.23%	773,247	6,405	0.83%
Non-interest-bearing liabilities						
Non-interest-bearing deposits	136,947			129,088		
Other liabilities	5,471			7,775		
Total liabilities	941,450			910,110		
Stockholders' equity	84,860			37,851		
Total liabilities and stockholders' equity	$ 1,026,310			$ 947,961		
Net interest income		$ 33,671			$ 31,117	
Net interest spread			3.32%			3.35%
Net interest margin			3.53%			3.48%
Ratio of average interest-earning assets to average interest-bearing liabilities			119.83%			116.92%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans of $3.5 million and $7.1 million in average loan amounts outstanding.
(3) Taxable equivalent yields are calculated assuming a 21% and 35% federal income tax rate for 2018 and 2017, respectively.

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Rate/Volume Analysis

The table below sets forth information regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (changes in rate multiplied by old volume); (2) changes in volume (changes in volume multiplied by old rate); and (3) changes in rate-volume (change in rate multiplied by change in volume). Changes in rate-volume are proportionately allocated between rate and volume variance.

	Year Ended December 31, 2019 vs. 2018 Increase (decrease) due to change in			Year Ended December 31, 2018 vs. 2017 Increase (decrease) due to change in		
	Rate	Volume	Net Change	Rate	Volume	Net Change
	(in thousands)					
Interest-earning assets:						
Loan receivables	$ 1,789	$ 3,022	$ 4,811	$ 1,723	$ 3,753	$ 5,476
U.S. Treasury and agencies	20	(11)	9	32	(177)	(145)
Mortgage-backed securities	87	266	353	220	(318)	(98)
Collateralized loan obligations	133	705	838	245	391	636
State and political subdivision securities	47	(91)	(44)	(76)	(299)	(375)
Corporate bonds	1	175	176	36	239	275
FHLB stock	(48)	(33)	(81)	65	(2)	63
Federal funds sold	3	(21)	(18)	9	3	12
Interest-bearing deposits in other financial institutions	63	16	79	182	(87)	95
Total increase (decrease) in interest income	2,095	4,028	6,123	2,436	3,503	5,939
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	2,977	638	3,615	1,880	(122)	1,758
Interest checking and money market accounts	377	106	483	595	8	603
Savings accounts	8	2	10	(1)	(1)	(2)
FHLB advances	123	(180)	(57)	94	653	747
Junior subordinated debentures	59	—	59	193	—	193
Subordinated capital note	7	387	394	(9)	(100)	(109)
Senior debt	32	(92)	(60)	3	192	195
Total increase (decrease) in interest expense	3,583	861	4,444	2,755	630	3,385
Increase (decrease) in net interest income	$ (1,488)	$ 3,167	$ 1,679	$ (319)	$ 2,873	$ 2,554

Non-interest Income – The following table presents for the periods indicated the major categories of non-interest income:

	For the Years Ended December 31,		
	2019	2018	2017
	(in thousands)		
Service charges on deposit accounts	$ 2,381	$ 2,355	$ 2,253
Bank card interchange fees	2,438	1,831	1,521
Income from bank owned life insurance	410	437	412
Net gain (loss) on sales and calls of securities	(5)	(6)	288
Other	694	1,162	930
Total non-interest income	$ 5,918	$ 5,779	$ 5,404

Non-interest income increased by $139,000 for 2019 to $5.9 million compared with $5.8 million for the year ended December 31, 2018. This increase was primarily due to growth in bank card interchange fees of $607,000 partially offset by a decrease in other non-interest income of $468,000 related to the $150,000 one-time gain on the sale of the secondary market residential servicing rights portfolio in the third quarter of 2018 and a $632,000 gain on the sale of a subdivided lot at the Company's headquarters offset by a $392,000 impairment charge associated with the transfer of the Bank's former data processing center to held for sale in the fourth quarter of 2018.

Non-interest income increased by $375,000 in 2018 to $5.8 million compared with $5.4 million for the year ended December 31, 2017. This increase was primarily attributable to a $310,000 increase in bank card interchange fees, a $232,000 increase in other non-interest income, and a $102,000 increase in service charges on deposit accounts partially offset by a $6,000 net loss on sale of securities for 2018 compared to a $288,000 net gain during 2017.

Non-interest Expense – The following table presents the major categories of non-interest expense:

	For the Years Ended December 31,		
	2019	2018	2017
		(in thousands)	
Salary and employee benefits	$ 16,233	$ 15,489	$ 15,090
Occupancy and equipment	3,522	3,586	3,420
FDIC insurance	211	557	1,412
Data processing expense	1,259	1,192	1,256
Marketing expense	908	1,114	1,098
State franchise and deposit tax	1,210	1,118	956
Deposit account related expense	1,224	823	896
Professional fees	769	814	978
Communications	772	701	722
Insurance expense	444	478	540
Postage and delivery	544	364	395
Litigation and loan collection expense	189	245	179
Other real estate owned expense	368	868	1,973
Acquisition costs	775	—	—
Other	1,842	1,777	1,852
Total non-interest expense	$ 30,270	$ 29,126	$ 30,767

Non-interest expense for the year ended December 31, 2019 of $30.3 million represented a 3.9% increase from $29.1 million for 2018. The increase in non-interest expense was attributable primarily to $775,000 of expenses related to the branch acquisition. There was also an increase of $744,000 in salary and employee benefits, as the Bank added sales talent and customer facing associates during 2019, and branch staff added in connection with the branch purchase transaction. Deposit account related expense increased $401,000, which correlated to growth in card interchange income, and was offset by decreases in OREO expenses of $500,000, and FDIC insurance expense of $346,000. As shown below, expenses related to OREO decreased due to lower valuation adjustment write-downs during 2019 compared to 2018.

	2019	2018
	(in thousands)	
Net gain on sales	$ —	$ (72)
Valuation adjustment write-downs	260	850
Operating expense	108	90
Total	$ 368	$ 868

During the year ended December 31, 2019, fair value write-downs of $260,000 were recorded compared with $850,000 for the year ended December 31, 2018. The 2019 write-downs reflect declines in the fair value due to changes in marketing strategies. There were no OREO sales in 2019 compared to $876,000 during 2018.

Non-interest Expense Comparison – 2018 to 2017

Non-interest expense for the year ended December 31, 2018 of $29.1 million represented a 3.1% decrease from $30.8 million for 2017. The decrease in non-interest expense was attributable primarily to a decrease in OREO expense of $1.1 million. Non-interest expense also benefited from a $855,000 decrease in FDIC insurance as a result of the Bank's improved risk profile, partially offset by a $399,000 increase in salaries and employee benefits. As shown below, expenses related to OREO decreased due to lower valuation adjustment write-downs during 2018 compared to 2017.

	2018	2017
	(in thousands)	
Net gain on sales	$ (72)	$ (74)
Valuation adjustment write-downs	850	1,963
Operating expense	90	84
Total	$ 868	$ 1,973

During the year ended December 31, 2018, fair value write-downs of $850,000 were recorded compared with $2.0 million for the year ended December 31, 2017. The 2018 write-downs reflect declines in fair value due to changes in marketing strategies and new appraisals. OREO sales totaled $876,000 and $793,000 during 2018 and 2017, respectively.

Income Tax Expense and Benefit – Effective tax rates differ from the federal statutory rate applied to income (loss) before income taxes due to the following:

	2019	2018	2017
		(in thousands)	
Statutory tax rate	21%	21%	35%
Federal statutory rate times financial statement income (loss)	$ 2,310	$ 2,273	$ 2,294
Effect of:			
Valuation allowance	—	—	(54,049)
Tax-exempt income	(66)	(80)	(196)
Establish state deferred tax asset	(1,577)	—	—
Non-taxable life insurance income	(86)	(92)	(144)
Restricted stock vesting	(137)	(115)	(121)
Change in federal statutory rate	—	—	20,274
Other, net	36	44	43
Total	$ 480	$ 2,030	$ (31,899)

The Company had a full valuation allowance against its net deferred tax asset since 2011. During the fourth quarter of 2017, management concluded it was more-likely-than-not the asset would be utilized to reduce future taxes payable related to the future taxable income of the Company, and as such, reversed the valuation allowance. As a result of the conclusion to reverse the valuation allowance, the Company recorded an income tax benefit of $54.0 million for the year ended December 31, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. Among other significant changes to the tax code, the new law lowered the federal corporate tax rate from 35% to 21% beginning in 2018. As a result, the Company revalued its net deferred tax asset at the new 21% rate for 2017. Due to this revaluation, the Company recorded a $20.3 million charge to income tax expense for the year ended December 31, 2017.

The combination of the reversal of the valuation allowance and the change in federal corporate tax rates, as well as income tax expense for the year, resulted in an income tax benefit of $31.9 million for the year ended December 31, 2017.

During the first quarter of 2019, the Company benefited $341,000, or approximately $0.05 per basic and diluted share, from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital, and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021.

In addition, the Company has state net operating loss carryforwards ("NOLs") of $31.8 million, which were previously subject to a full valuation allowance and will begin to expire in 2025. In April 2019, tax legislation was enacted which allowed for certain Kentucky NOLs to be utilized in a combined filing return. Therefore, the Company will begin filing a Kentucky combined filing in 2021 and, as a result, a state NOL tax benefit, net of federal impact, of $1.2 million, or approximately $0.16 per basic and diluted share, was recognized in the second quarter of 2019.

See Note 14, “Income Taxes”, to the financial statements for additional discussion of our income taxes.

Analysis of Financial Condition

Total assets at December 31, 2019 were $1.25 billion compared with $1.07 billion at December 31, 2018, an increase of $176.1 million or 16.5%. This increase was primarily attributable to an increase in net loans of $161.5 million, which resulted from $124.7 million in outstanding loans at December 31, 2019 associated with the branch acquisition, as well as loan growth.

Total assets at December 31, 2018 were $1.07 billion compared with $970.8 million at December 31, 2017, an increase of $98.9 million or 10.2%. This increase was primarily attributable to an increase in net loans of $52.5 million as well as an increase in securities available for sale of $48.5 million.

Loans Receivable – Loans receivable increased $161.0 million, or 21.0%, during the year ended December 31, 2019, to $926.3 million. Our commercial and commercial real estate portfolios increased by an aggregate of $78.7 million, or 16.9%, during 2019 and comprised 58.8% of the total loan portfolio at December 31, 2019.

Loans receivable increased $53.1 million, or 7.5%, during the year ended December 31, 2018, to $765.2 million. The Bank’s commercial and commercial real estate portfolios increased by an aggregate of $50.2 million, or 12.1%, during 2018 and comprised 60.9% of the total loan portfolio at December 31, 2018.

Loan Portfolio Composition – The following table presents a summary of the loan portfolio at the dates indicated, net of deferred loan fees, by type. There are no foreign loans in our portfolio and other than the categories noted, there is no concentration of loans in any industry exceeding 10% of total loans.

	As of December 31,			
	2019		2018	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial	$ 145,551	15.71%	$ 129,368	16.91%
Commercial Real Estate:				
Construction	64,911	7.01	86,867	11.35
Farmland	79,118	8.54	77,937	10.18
Nonfarm nonresidential	255,459	27.58	172,177	22.50
Residential Real Estate:				
Multi-family	70,950	7.66	49,757	6.50
1-4 Family	226,629	24.47	175,761	22.97
Consumer	47,790	5.16	39,104	5.11
Agriculture	35,064	3.79	33,737	4.41
Other	799	0.08	536	0.07
Total loans	$ 926,271	100.00%	$ 765,244	100.00%

	As of December 31,					
	2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Commercial	$ 113,771	15.98%	$ 97,761	15.29%	$ 86,176	13.93%
Commercial Real Estate:						
Construction	57,342	8.05	36,330	5.68	33,154	5.36
Farmland	88,320	12.40	71,507	11.19	76,412	12.35
Nonfarm nonresidential	156,724	22.01	149,546	23.39	140,570	22.72
Residential Real Estate:						
Multi-family	56,588	7.94	48,197	7.54	44,131	7.13
1-4 Family	179,222	25.17	188,092	29.42	201,478	32.57
Consumer	18,439	2.59	9,818	1.54	10,010	1.62
Agriculture	41,154	5.78	37,508	5.87	26,316	4.25
Other	555	0.08	477	0.08	419	0.07
Total loans	$ 712,115	100.00%	$ 639,236	100.00%	$ 618,666	100.00%

Lending activities are subject to a variety of lending limits imposed by state and federal law. The Bank's secured legal lending limit to a single borrower or guarantor was approximately $42.6 million at December 31, 2019.

The Bank had 14 and 13 loan relationships each with aggregate extensions of credit in excess of $10.0 million, all of which were classified as pass by the Bank's internal loan review process at December 31, 2019 and 2018, respectively.

As of December 31, 2019, the Bank had $64.1 million of loan participations purchased from, and $15.7 million of loan participations sold to, other banks. As of December 31, 2018, the Bank had $57.5 million of loan participations purchased from, and $20.1 million of loan participations sold to, other banks.

Loan Maturity Schedule – The following table sets forth at December 31, 2019, the dollar amount of loans, net of deferred loan fees, maturing in the loan portfolio based on their contractual terms to maturity:

	As of December 31, 2019			
	Maturing Within One Year	Maturing 1 through 5 Years	Maturing Over 5 Years	Total Loans
	(dollars in thousands)			
Loans with fixed rates:				
Commercial	$ 6,633	$ 35,622	$ 11,948	$ 54,203
Commercial Real Estate:				
Construction	4,489	6,083	3,839	14,411
Farmland	2,524	17,064	16,223	35,811
Nonfarm nonresidential	14,313	73,873	67,803	155,989
Residential Real Estate:				
Multi-family	1,492	30,292	18,575	50,359
1-4 Family	5,439	21,291	89,110	115,840
Consumer	1,295	43,020	1,410	45,725
Agriculture	3,614	4,565	218	8,397
Other	—	400	324	724
Total fixed rate loans	$ 39,799	$ 232,210	$ 209,450	$ 481,459
Loans with floating rates:				
Commercial	$ 18,706	$ 47,163	$ 25,479	$ 91,348
Commercial Real Estate:				
Construction	9,297	30,509	10,694	50,500
Farmland	1,632	7,801	33,874	43,307
Nonfarm nonresidential	4,528	35,291	59,651	99,470
Residential Real Estate:				
Multi-family	—	3,491	17,100	20,591
1-4 Family	2,138	10,641	98,010	110,789
Consumer	2,065	—	—	2,065
Agriculture	23,147	3,298	222	26,667
Other	—	—	75	75
Total floating rate loans	$ 61,513	$ 138,194	$ 245,105	$ 444,812

Loan Portfolio by Risk Category – The following table presents a summary of the loan portfolio at the dates indicated, by risk category.

	As of December 31,				
	2019	2018	2017	2016	2015
			(in thousands)		
Pass	$ 888,707	$ 745,604	$ 673,033	$ 586,430	$ 517,484
Watch	27,522	13,164	25,715	30,431	63,363
Special Mention	—	113	164	497	1,395
Substandard	10,042	6,363	13,203	21,878	36,424
Doubtful	—	—	—	—	—
Total	$ 926,271	$ 765,244	$ 712,115	$ 639,236	$ 618,666

Loans receivable increased $161.0 million, or 21.0%, during the year ended December 31, 2019. Since December 31, 2018, the pass category increased approximately $143.1 million, the watch category increased approximately $14.4 million, the special mention category declined approximately $113,000, and the substandard category increased approximately $3.7 million. The increase in watch category primarily related to $11.3 million in commercial loans migrating during 2019. The $3.7 million increase in loans classified as substandard was primarily driven by $3.4 million in principal payments received, $999,000 in charge-offs, and $2.0 million in loans upgraded from substandard, offset by $10.0 million in loans moved to substandard during 2019. These trends were considered during the evaluation of qualitative trends in the portfolio when establishing the general component of the allowance for loan losses.

Loan Delinquency – The following table presents a summary of loan delinquencies at the dates indicated.

	As of December 31,				
	2019	2018	2017	2016	2015
			(in thousands)		
Past Due Loans:					
30-59 Days	$ 1,747	$ 1,593	$ 1,478	$ 2,302	$ 3,133
60-89 Days	670	331	171	315	241
90 Days and Over	—	—	1	—	—
Total Loans Past Due 30-90+ Days	2,417	1,924	1,650	2,617	3,374
Nonaccrual Loans	1,528	1,991	5,457	9,216	14,087
Total Past Due and Nonaccrual Loans	$ 3,945	$ 3,915	$ 7,107	$ 11,833	$ 17,461

Loans past due 30-59 days increased from $1.6 million at December 31, 2018 to $1.7 million at December 31, 2019, and loans past due 60-89 days increased from $331,000 at December 31, 2018 to $670,000 at December 31, 2019. This represents a $493,000 increase in loans past due 30-89 days. This trend in delinquency levels is considered during the evaluation of qualitative trends in the portfolio when establishing the general component of our allowance for loan losses.

Nonaccrual loans decreased $463,000 from December 31, 2018 to December 31, 2019. This decrease was primarily driven by $1.7 million in paydowns, $992,000 in charge-offs, and $880,000 in loans returned to accrual status, offset by $3.1 million in loans placed on non-accrual. The $1.5 million in nonaccrual loans at December 31, 2019, and $2.0 million at December 31, 2018, were generally secured by farmland and 1-4 family residential real estate loans. Management believes it has established adequate loan loss reserves for these credits.

Troubled Debt Restructuring – A troubled debt restructuring (TDR) occurs when the Bank has agreed to a loan modification in the form of a concession to a borrower who is experiencing financial difficulty. The Bank's TDRs typically involve a reduction in interest rate, a deferral of principal for a stated period of time, or an interest only period. All TDRs are considered impaired, and the Bank has allocated reserves for these loans to reflect the present value of the concessionary terms granted to the borrower. If the loan is considered collateral dependent, it is reported net of allocated reserves, at the fair value of the collateral less cost to sell.

The Bank does not have a formal loan modification program. If a borrower is unable to make contractual payments, management reviews the particular circumstances of that borrower's situation and determine whether or not to negotiate a revised payment stream. The goal when restructuring a credit is to afford the borrower a reasonable period of time to remedy the issue causing cash flow constraints so that the credit may return to performing status over time. If a borrower fails to perform under the modified terms, the loan(s) are placed on nonaccrual status and collection actions are initiated.

Management periodically reviews renewals and modifications of previously identified TDRs for which there was no principal forgiveness, to consider if it is appropriate to remove the TDR classification. If the borrower is no longer experiencing financial difficulty and the renewal/modification did not contain a concessionary interest rate or other concessionary terms, management considers the potential removal of the TDR classification. If deemed appropriate based upon current underwriting, the TDR classification is removed as the borrower has complied with the terms of the loan at the date of renewal/modification and there was a reasonable expectation that the borrower would continue to comply with the terms of the loan after the date of the renewal/modification. Additionally, the TDR classification may be removed in circumstances in which the Company performs a non-concessionary re-modification of the loan at terms that were considered to be at market for loans with comparable risk. Management expects the borrower will continue to perform under the re-modified terms based on the borrower's past performance.

If the borrower fails to perform, management places the loan on nonaccrual status and seeks to liquidate the underlying collateral. The nonaccrual policy for restructured loans is identical to the nonaccrual policy for all loans. The policy calls for a loan to be reported as nonaccrual if it is maintained on a cash basis because of deterioration in the financial condition of the borrower, payment in full of principal and interest is not expected, or principal or interest is past due 90 days or more unless the assets are both well secured and in the process of collection. Changes in value for impairment, including the amount attributed to the passage of time, are recorded entirely within the provision for loan losses. Upon determination that a loan is collateral dependent, the loan is charged down to the fair value of collateral less estimated costs to sell.

At December 31, 2019, the Bank had three restructured loans totaling $475,000 with borrowers who experienced deterioration in financial condition compared with two restructured loans totaling $910,000 at December 31, 2018. In general, these loans were granted interest rate reductions to provide cash flow relief to borrowers experiencing cash flow difficulties. At December 31, 2019 and December 31, 2018, the Bank had no restructured loans that had been granted principal payment deferrals until maturity. There were no concessions made to forgive principal relative to these loans, although partial charge-offs have been recorded for certain restructured loans. In general, these loans are secured by first liens on 1-4 residential properties, commercial real estate properties, or farmland. At December 31, 2019 and December 31, 2018, all TDRs were performing according to their modified terms.

There were two modifications granted during 2019 that resulted in loans being identified as TDRs. There were no modifications granted during 2018 that resulted in loans being identified as TDRs. During the twelve months ended December 31, 2019, TDRs were reduced as a result of $726,000 in payments. See "Note 3 – Loans," to the financial statements for additional disclosure related to troubled debt restructuring.

Non-Performing Assets – Non-performing assets consist of certain restructured loans for which interest rate or other terms have been renegotiated, loans past due 90 days or more still on accrual, loans on which interest is no longer accrued, real estate acquired through foreclosure and repossessed assets. Loans, including impaired loans, are placed on nonaccrual status when they become past due 90 days or more as to principal or interest, unless they are adequately secured and in the process of collection. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral less cost to sell if the loan is collateral dependent. Loans are reviewed on a regular basis and normal collection procedures are implemented when a borrower fails to make a required payment on a loan. If the delinquency on a mortgage loan exceeds 120 days and is not cured through normal collection procedures or an acceptable arrangement is not agreed to with the borrower, management institutes measures to remedy the default, including commencing a foreclosure action. Consumer loans generally are charged off when a loan is deemed uncollectible and often before any available collateral has been disposed. Commercial business and real estate loan delinquencies are handled on an individual basis, generally with the advice of legal counsel.

Interest income on loans is recognized on the accrual basis except for those loans placed on nonaccrual status. The accrual of interest on impaired loans is discontinued when management believes, after consideration of economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful, which typically occurs after the loan becomes 90 days delinquent. When interest accrual is discontinued, existing accrued interest is reversed and interest income is subsequently recognized only to the extent cash payments are received on well-secured loans.

Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. New and used automobiles and other motor vehicles acquired as a result of foreclosure are classified as repossessed assets until they are sold. When such property is acquired it is recorded at its fair market value less cost to sell. Any write-down of the property at the time of acquisition is charged to the allowance for loan losses. Subsequent gains and losses are included in non-interest expense.

The following table sets forth information with respect to non-performing assets as of the dates indicated:

	As of December 31,				
	2019	2018	2017	2016	2015
	(dollars in thousands)				
Loans on nonaccrual status	$ 1,528	1,991	5,457	9,216	14,087
Troubled debt restructurings on accrual	475	910	1,217	5,350	17,440
Past due 90 days or more still on accrual	—	—	1	—	—
Total non-performing loans and TDRs on accrual	2,003	2,901	6,675	14,566	31,527
Real estate acquired through foreclosure	3,225	3,485	4,409	6,821	19,214
Other repossessed assets	—	—	—	—	—
Total non-performing assets and TDRs on accrual	$ 5,228	$ 6,386	$ 11,084	$ 21,387	$ 50,741
Non-performing loans and TDRs on accrual to total loans	0.22%	0.38%	0.94%	2.28%	5.10%
Non-performing assets and TDRs on accrual to total assets	0.42%	0.60%	1.14%	2.26%	5.35%
Allowance for non-performing loans	$ 48	$ 83	$ 108	$ 241	$ 295
Allowance for non-performing loans to non-performing loans and TDRs on accrual	2.40%	2.86%	1.62%	1.65%	0.94%

Interest income that would have been recorded if nonaccrual loans were on a current basis in accordance with their original terms was $315,000, $274,000, and $465,000 for the years ended December 31, 2019, 2018, and 2017, respectively.

Allowance for Loan Losses – The allowance for loan losses is based on management's continuing review and evaluation of individual loans, loss experience, current economic conditions, risk characteristics of various categories of loans and such other factors that, in management's judgment, require current recognition in estimating loan losses.

Management has established loan grading procedures that result in specific allowance allocations for any estimated inherent risk of loss. For loans not individually evaluated, a general allowance allocation is computed using factors developed over time based on actual loss experience. The specific and general allocations plus consideration of qualitative factors represent management's estimate of probable losses contained in the loan portfolio at the evaluation date. Although the allowance for loan losses is comprised of specific and general allocations, the entire allowance is available to absorb any credit losses.

The following table sets forth an analysis of loan loss experience as of and for the periods indicated:

	As of December 31,				
	2019	2018	2017	2016	2015
	(dollars in thousands)				
Balances at beginning of period	$ 8,880	$ 8,202	$ 8,967	$ 12,041	$ 19,364
Loans charged-off:					
Real estate	322	450	750	2,157	5,050
Commercial	37	50	5	276	696
Consumer	663	95	51	99	221
Agriculture	266	13	95	18	118
Other	—	8	—	79	47
Total charge-offs	1,288	616	901	2,629	6,132
Recoveries:					
Real estate	597	1,437	714	1,189	2,338
Commercial	106	261	59	334	723
Consumer	75	69	115	299	184
Agriculture	3	15	33	114	8
Other	3	12	15	69	56
Total recoveries	784	1,794	936	2,005	3,309
Net charge-offs (recoveries)	504	(1,178)	(35)	624	2,823
Provision (negative provision) for loan losses	—	(500)	(800)	(2,450)	(4,500)
Balance at end of period	$ 8,376	$ 8,880	$ 8,202	$ 8,967	$ 12,041
Allowance for loan losses to period-end loans	0.90%	1.16%	1.15%	1.40%	1.95%
Net charge-offs (recoveries) to average loans	0.06%	(0.16)%	(0.01)%	0.10%	0.44%
Allowance for loan losses to non-performing loans and TDRs on accrual	418.17%	306.10%	122.88%	61.16%	38.19%

The allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The allowance for loan losses is comprised of general reserves and specific reserves. The loan loss reserve, as a percentage of total loans at December 31, 2019, was 0.90% compared to 1.16% at December 31, 2018. Loans acquired in the branch transaction totaled $124.7 million at December 31, 2019, and were recorded at fair value as determined by an independent third party. The fair value reflects a credit-related adjustment of $1.4 million offset by an adjustment for other factors of $924,000. Any subsequent deterioration of these acquired loans may require an adjustment through the allowance for loan loss. New loans continue to be underwritten with lower loss expectations. Historical loss experience, risk grade classification metrics, charge-off levels, and past due trends remained stable between periods. The allowance for loan losses to non-performing loans was 418.17% at December 31, 2019, compared with 306.10% at December 31, 2018. Net charge-offs totaled $504,000 for 2019 compared to net recoveries of $1.2 million for 2018.

A general reserve is maintained for each loan type in the loan portfolio. In determining the amount of the general reserve portion of the allowance for loan losses, management considers factors such as our historical loan loss experience, the growth, composition and diversification of our loan portfolio, current delinquency levels, loan quality grades, the results of recent regulatory examinations and general economic conditions. Based on these factors, management applies estimated percentages to the various categories of loans, not including any loan that has a specific allowance allocated to it, based on our historical experience, portfolio trends and economic and industry trends. This information is used by management to set the general reserve portion of the allowance for loan losses at a level it deems prudent.

Generally, all loans identified as impaired are reviewed on a quarterly basis in order to determine whether a specific allowance is required. A loan is considered impaired when, based on current information, it is probable that the Bank will not receive all amounts due in accordance with the contractual terms of the loan agreement. Once a loan has been identified as impaired, management measures impairment in accordance with ASC 310-10, *"Impairment of a Loan."* When management's measured value of the impaired loan is less than the recorded investment in the loan, the amount of the impairment is recorded as a specific reserve or charged-off if the loan is deemed collateral dependent. These specific reserves are determined on an individual loan basis based on management's current evaluation of our loss exposure for each credit given the payment status, financial condition of the borrower and value of any underlying collateral. Loans for which specific reserves have been provided are excluded from the general reserve calculations described below. Changes in specific reserves from period to period are the result of changes in the circumstances of individual loans such as charge-offs, pay-offs, changes in collateral values or other factors.

The allowance for loan losses represents management's estimate of the amount necessary to provide for probable losses in the loan portfolio in the normal course of business. Due to the uncertainty of risks in the loan portfolio, management's judgment of the amount of the allowance necessary to absorb loan losses is approximate. The allowance for loan losses is also subject to regulatory examinations and may be adjusted in response to a determination by the regulatory agencies as to its adequacy in comparison with peer institutions.

Management makes specific allowances for each impaired loan based on its type and risk classification as discussed above. Impaired loans have been assessed for collectability which considered, among other things, the borrower's ability to repay, the value of the underlying collateral, and other market conditions to ensure that the allowance for loan losses is adequate to absorb probable incurred losses.

Based on prior charge-offs, the current recorded investments in loans individually evaluated for impairment in the commercial real estate and residential real estate segments of the portfolio are significantly below the unpaid principal balances of those loans. The recorded investment net of the allocated allowance was 59.74% and 47.80% of the unpaid principal balance in the commercial real estate and residential real estate segments, respectively, at December 31, 2019.

A significant portion of the portfolio is comprised of loans secured by real estate. A decline in the value of the real estate serving as collateral for loans may impact our ability to collect those loans. In general, management obtains updated appraisals on property securing our loans when circumstances are warranted such as at the time of renewal or when market conditions have significantly changed. Management uses qualified licensed appraisers approved by our Board of Directors. These appraisers possess prerequisite certifications and knowledge of the local and regional marketplace.

Based on its assessment of the loan portfolio, management presents a quarterly review of the allowance for loan losses to the Bank's Board of Directors, indicating any change in the allowance for loan losses since the last review and any recommendations as to adjustments in the allowance for loan losses.

This assessment is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as events change. New loans continue to be underwritten with lower loss expectations. Historical loss experience, risk grade classification metrics, charge-off levels, and past due trends remained stable between periods. The level of the allowance is based on estimates, and losses may ultimately vary from these estimates.

The Bank follows a loan grading program designed to evaluate the credit risk in the loan portfolio. Through this loan grading process, an internally classified watch list is maintained which helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans categorized as watch list loans show warning elements where the present status exhibits one or more deficiencies that require attention in the short-term or where pertinent ratios of the loan account have weakened to a point where more frequent monitoring is warranted. These loans do not have all of the characteristics of a classified loan (substandard or doubtful) but show weakened elements as compared with those of a satisfactory credit. These loans are reviewed to assist in assessing the adequacy of the allowance for loan losses.

In establishing the appropriate risk rating for specific assets, management considers, among other factors, the borrower's ability to repay, the borrower's repayment history, the current delinquency status, the estimated value of the underlying collateral, and the capacity and willingness of a guarantor to satisfy the obligation. As a result of this process, loans are categorized as special mention, substandard or doubtful.

Loans classified as "special mention" do not have all of the characteristics of substandard or doubtful loans. They have one or more deficiencies that warrant special attention and which corrective action, such as accelerated collection practices, may remedy.

Loans classified as "substandard" are those loans with clear and defined weaknesses such as a highly leveraged position, unfavorable financial ratios, uncertain repayment sources or poor financial condition that may jeopardize the repayment of the debt as contractually agreed. They are characterized by the distinct possibility that the Bank will sustain some losses if the deficiencies are not corrected.

Loans classified as "doubtful" are those loans which have characteristics similar to substandard loans but with an increased risk that collection or liquidation in full is highly questionable and improbable.

Specific reserves may be carried for accruing TDRs in compliance with restructured terms. Once a loan is deemed impaired or uncollectible as contractually agreed (other than performing TDRs), the loan is charged-off either partially or in-full against the allowance for loan losses, based upon the expected future cash flows discounted at the loan's effective interest rate, or the fair value of collateral less estimated cost to sell with respect to collateral-based loans if collateral dependent.

As of December 31, 2019, $10.0 million of loans were classified as substandard, there were no loans classified as special mention, and no loans classified as doubtful or loss. This compares with $6.4 million of loans classified as substandard, $113,000 classified as special mention and no loans classified as doubtful or loss as of December 31, 2018. The $3.7 million increase in loans classified as substandard was primarily driven by $3.4 million in principal payments received, $2.0 million in loans upgraded from substandard, and $999,000 in charge-offs, offset by $10.0 million in loans moved to substandard during 2019. Substandard loans are primarily concentrated in the commercial portfolio. As of December 31, 2019, $401,000 of the allowance for loan losses was allocated to substandard loans. This compares to allocations of $266,000 in the allowance for loan losses related to substandard loans at December 31, 2018.

The following table depicts management's allocation of the allowance for loan losses by loan type. Allowance funding and allocation is based on management's current evaluation of risk in each category, economic conditions, past loss experience, loan volume, past due history and other factors. Since these factors and management's assumptions are subject to change, the allocation is not necessarily predictive of future portfolio performance. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

	As of December 31,			
	2019		2018	
	Amount of Allowance	Percent of Loans to Total Loans	Amount of Allowance	Percent of Loans to Total Loans
	(dollars in thousands)			
Commercial	$ 1,710	15.71%	$ 1,299	16.91%
Commercial Real Estate:				
Construction	363	7.01	419	11.35
Farmland	654	8.54	543	10.18
Nonfarm nonresidential	3,063	27.58	3,714	22.50
Residential Real Estate:				
Multi-family	478	7.66	403	6.50
1-4 Family	1,265	24.47	2,049	22.97
Consumer	485	5.16	130	5.11
Agriculture	355	3.79	321	4.41
Other	3	0.08	2	0.07
Total	$ 8,376	100.0%	$ 8,880	100.0%

	As of December 31,					
	2017		2016		2015	
	Amount of Allowance	Percent of Loans to Total Loans	Amount of Allowance	Percent of Loans to Total Loans	Amount of Allowance	Percent of Loans to Total Loans
	(dollars in thousands)					
Commercial	$ 892	15.98%	$ 475	15.29%	$ 818	13.93%
Commercial Real Estate:						
Construction	301	8.05	470	5.68	424	5.36
Farmland	449	12.40	288	11.19	364	12.35
Nonfarm nonresidential	3,282	22.01	4,136	23.39	6,205	22.72
Residential Real Estate:						
Multi-family	627	7.94	610	7.54	422	7.13
1-4 Family	2,273	25.17	2,816	29.42	3,562	32.57
Consumer	64	2.59	8	1.54	122	1.62
Agriculture	313	5.78	162	5.87	122	4.25
Other	1	0.08	2	0.08	2	0.07
Total	$ 8,202	100.0%	$ 8,967	100.0%	$ 12,041	100.0%

Provision for Loan Losses – No provision for loan losses was recorded for the year ended December 31, 2019, compared with a negative provision for loan losses of $500,000 for 2018 and a negative provision for loan losses of $800,000 for 2017. Based upon historically strong trends in asset quality and management's assessment of risk in the loan portfolio, no provision for loan losses was recorded in 2019. Asset quality improvement is evidenced by, among other things, loan risk category migration. The pass category increased approximately $143.1 million, the watch category increased approximately $14.4 million, the special mention category declined approximately $113,000 and the substandard category increased approximately $3.7 million. Additionally, non-accrual loans decreased $463,000 or 23.3% during 2019. Net charge-offs were $504,000 for 2019 compared to net recoveries of $1.2 million in 2018 and net recoveries of $35,000 in 2017. Management considers the size and volume of our portfolio as well as the credit quality of our loan portfolio based upon risk category classification when determining the loan loss provision for each period and the allowance for loan losses at period end.

Foreclosed Properties – Foreclosed properties at December 31, 2019 were $3.2 million compared with $3.5 million at December 31, 2018. See "Note 6 - Other Real Estate Owned," to the financial statements. There was no acquisition or sale of OREO properties during 2019. Management values foreclosed properties at fair value less estimated cost to sell when acquired and expects to liquidate these properties to recover our investment in the due course of business.

OREO is recorded at fair market value less estimated cost to sell at time of acquisition. Any write-down of the property at the time of acquisition is charged to the allowance for loan losses. When foreclosed properties are acquired, management obtains a new appraisal or has staff from the Bank's special assets group evaluate the latest in-file appraisal in connection with the transfer to OREO. Management typically obtains updated appraisals within five quarters of the anniversary date of ownership unless a sale is imminent. Subsequent reductions in fair value are recorded as non-interest expense when a new appraisal indicates a decline in value or in cases where a listing price is lowered below the appraisal amount.

The following table presents the major categories of OREO at the year-ends indicated:

	2019	2018 (in thousands)	2017
Commercial Real Estate:			
Construction, land development, and other land	$ 3,225	$ 3,485	$ 4,335
Farmland	—	—	74
	$ 3,225	$ 3,485	$ 4,409

Net activity relating to other real estate owned during the years indicated is as follows:

	2019	2018 (in thousands)	2017
OREO Activity			
OREO as of January 1	$ 3,485	$ 4,409	$ 6,821
Real estate acquired	—	730	270
Valuation adjustment write-downs	(260)	(850)	(1,963)
Net gain on sale	—	72	74
Proceeds from sale of properties	—	(876)	(793)
OREO as of December 31	$ 3,225	$ 3,485	$ 4,409

Write-downs and operating expenses for OREO totaled $368,000 for the year ended December 31, 2019, compared with $868,000 in 2018 and $2.0 million in 2017.

During the year ended December 31, 2019, fair value write-downs of $260,000 were recorded compared with $850,000 for 2018 and $2.0 million for 2017. The write-downs recorded in each year reflect fair value write-downs due to updated appraisals, changes in marketing strategies, and reductions in listing prices for certain properties. There were no OREO sales in 2019, compared with $876,000 and $793,000 during 2018, and 2017, respectively. Management expects to resolve certain nonaccrual loans through the acquisition and sale of the underlying real estate collateral.

Investment Securities – The securities portfolio serves as a source of liquidity and earnings and contributes to the management of interest rate risk. Investments are made in various types of liquid assets, including U.S. Treasury obligations and securities of various federal agencies, obligations of states and political subdivisions, corporate bonds, and collateralized loan obligations. The investment portfolio increased by $7.8 million, or 3.9%, to $209.0 million at December 31, 2019, compared with $201.2 million at December 31, 2018.

The following table sets forth the carrying value of our securities portfolio at the dates indicated.

	December 31, 2019				December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)							
Securities available for sale								
U.S. Government and federal agencies	$ 22,281	$ 196	$ (147)	$ 22,330	$ 23,280	$ 2	$ (722)	$ 22,560
Agency mortgage-backed: residential	91,269	1,186	(255)	92,200	87,689	192	(1,891)	85,990
Collateralized loan obligations	49,831	—	(412)	49,419	49,942	—	(103)	49,839
State and municipal	27,819	550	(3)	28,366	32,841	230	(259)	32,812
Corporate bonds	16,472	213	—	16,685	9,890	127	(26)	9,991
Total available for sale	$ 207,672	$ 2,145	$ (817)	$ 209,000	$ 203,642	$ 551	$ (3,001)	$ 201,192

The following table sets forth the contractual maturities, fair values and weighted-average yields for our available for sale securities held at December 31, 2019:

	Due Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale										
U.S. Government and federal agencies	$ —	—%	$ —	—%	$ 10,233	2.65%	$ 12,097	2.22%	$ 22,330	2.41%
Agency mortgage-backed: residential	—	—	5,550	2.50	10,284	2.29	76,366	2.67	92,200	2.62
Collateralized loan obligations	—	—	—	—	16,071	4.07	33,348	3.43	49,419	3.64
State and municipal	7,090	3.26	13,232	2.15	4,754	3.32	3,290	4.19	28,366	2.86
Corporate bonds	—	—	—	—	7,251	5.05	9,434	4.84	16,685	4.93
Total available for sale	$ 7,090	3.26%	$ 18,782	2.25%	$ 48,583	3.47%	$ 134,545	3.01%	$ 209,000	3.06%

Average yields in the table above were calculated on a tax equivalent basis using a federal income tax rate of 21%. Mortgage-backed securities are securities that have been developed by pooling a number of real estate mortgages. These securities are issued by federal agencies such as Ginnie Mae, Fannie Mae and Freddie Mac, as well as non-agency company issuers. These securities are deemed to have high credit ratings, and minimum regular monthly cash flows of principal and interest. Cash flows from agency backed mortgage-backed securities are guaranteed by the issuing agencies.

Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Mortgage-backed securities that are purchased at a premium will generally return decreasing net yields as interest rates drop because home owners tend to refinance their mortgages. Thus, the premium paid must be amortized over a shorter period. Therefore, those securities purchased at a discount will obtain higher net yields in a decreasing interest rate environment. As interest rates rise, the opposite will generally be true. During a period of increasing interest rates, fixed rate mortgage-backed securities generally do not experience heavy prepayments of principal and consequently, average life will not be shortened. If interest rates begin to fall, prepayments will generally increase. Non-agency issuer mortgage-backed securities do not carry a government guarantee. Management limits purchases of these securities to bank qualified issues with high credit ratings. At this time, there are no holdings of this type in the portfolio. At December 31, 2019, 82.8% of the Bank's agency mortgage-backed securities had contractual final maturities of more than ten years with a weighted average life of 19.1 years.

The Bank owns Collateralized Loan Obligations (CLOs), which are debt securities secured by professionally managed portfolios of senior-secured loans to corporations. CLO managers are typically large non-bank financial institutions or banks and are typically $300 million to $1 billion in size, contain one hundred or more loans and have five to six credit tranches ranging from AAA, AA, A, BBB, BB, B and equity tranche. Interest and principal are paid first to the AAA tranche then to the next lower rated tranche. Losses are borne first by the equity tranche then by the subsequently higher rated tranche. CLOs may be less liquid than government securities from time to time and volatility in the CLO market may cause the value of these investments to decline.

The market value of CLOs may be affected by, among other things, changes in composition of the underlying loans, changes in the cash flows from the underlying loans, defaults and recoveries on the underlying loans, capital gains and losses on the underlying loans, and prepayments on the underlying loans. Although we attempt to mitigate the credit and liquidity risks associated with CLOs by purchasing CLOs with credit ratings of A or higher, completing pre-purchase due diligence, and through ongoing monitoring, no assurance can be given that these risk mitigation efforts will be successful.

At December 31, 2019, $32.9 million and $16.5 million of our CLOs were AA and A rated, respectively. There were no CLOs rated below A and none of the CLOs were subject to ratings downgrade in 2019. All of the Bank's CLOs are floating rate, with rates set on a quarterly basis at three month LIBOR plus a spread.

Deposits – The Bank attracts both short-term and long-term deposits from the general public by offering a wide range of deposit accounts and interest rates. In recent years, the Bank has been required by market conditions to rely increasingly on short to mid-term certificate accounts and other deposit alternatives, which are more responsive to market interest rates.

The Bank primarily relies on its banking office network to attract and retain deposits in its local markets and has in the past leveraged the online channel to attract out-of-market deposits. Market interest rates and rates on deposit products offered by competing financial institutions can significantly affect our ability to attract and retain deposits. During 2019, total deposits increased $132.7 million compared with 2018. During 2018, total deposits increased $47.2 million compared with 2017. The increase in deposits for 2019 was primarily related to the branch acquisition. The increase in deposits for 2018 was primarily in certificates of deposit balances as well as money market accounts.

To evaluate our funding needs in light of deposit trends resulting from continually changing conditions, management evaluates simulated performance reports that forecast changes in margins along with other pertinent economic data. The Bank continues to offer attractively priced deposit products along its product line to allow it to retain deposit customers and reduce interest rate risk during various rising and falling interest rate cycles.

The Bank offers savings accounts, interest checking accounts, money market accounts and fixed rate certificates with varying maturities. The flow of deposits is influenced significantly by general economic conditions, changes in interest rates and competition. Management adjusts interest rates, maturity terms, service fees and withdrawal penalties on the Bank's deposit products periodically. The variety of deposit products allows the Bank to compete more effectively in obtaining funds and to respond with more flexibility to the flow of funds away from depository institutions into outside investment alternatives. However, the ability to attract and maintain deposits and the cost of these funds have been, and will continue to be, significantly affected by market conditions.

The following table sets forth the average daily balances and weighted average rates paid for deposits for the periods indicated:

	For the Years Ended December 31,					
	2019		2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Demand	$ 151,299		$ 136,947		$ 129,088	
Interest Checking	104,077	0.30%	90,583	0.13%	101,980	0.13%
Money Market	161,610	1.06	158,832	0.90	145,281	0.55
Savings	36,035	0.19	34,866	0.16	35,486	0.17
Certificates of Deposit	483,222	1.98	439,597	1.35	452,443	0.93
Total Deposits	$ 936,243		$ 860,825		$ 864,278	
Weighted Average Rate		1.25%		0.88%		0.60%

The following table sets forth the average daily balances and weighted average rates paid for our certificates of deposit for the periods indicated:

	For the Years Ended December 31,					
	2019		2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Less than $250,000	$ 454,528	1.97%	$ 410,942	1.34%	$ 419,816	0.92%
$250,000 or more	28,694	2.16	28,655	1.51	32,627	1.01
Total	$ 483,222	1.98%	$ 439,597	1.35%	$ 452,443	0.93%

The following table shows at December 31, 2019 the amount of our time deposits of $250,000 or more by time remaining until maturity:

Maturity Period (in thousands)		
Three months or less	$	15,067
Three months through six months		20,206
Six months through twelve months		8,449
Over twelve months		7,453
Total	$	51,175

The Bank maintains competitive pricing on its deposit products, which Management believes allows it to retain a substantial percentage of our customers when their time deposits mature.

Borrowing – Deposits are the primary source of funds for lending and investment activities and for general business purposes. The Bank also uses borrowings from the FHLB of Cincinnati to supplement the pool of lendable funds, meet deposit withdrawal requirements and manage the terms of liabilities. FHLB borrowings are secured by the Bank's stock in the FHLB, and substantially all of its first mortgage residential loans. At December 31, 2019, the Bank had $61.4 million outstanding from the FHLB and the capacity to increase borrowings by an additional $24.4 million. The FHLB of Cincinnati functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB and is authorized to borrow on the security of such stock and certain of our home mortgages and other assets (principally, securities that are obligations of, or guaranteed by, the United States) provided that it meets certain standards related to creditworthiness.

The following table sets forth information about our FHLB borrowings as of and for the periods indicated:

	December 31, 2019	December 31, 2018	December 31, 2017
		(dollars in thousands)	
Average balance outstanding	$ 35,038	$ 43,363	$ 9,184
Maximum amount outstanding at any month-end during the period	61,389	71,630	26,830
End of period balance	61,389	46,549	11,797
Weighted average interest rate:			
At end of period	1.70%	2.45%	1.48%
During the period	2.31%	2.00%	1.31%

Junior Subordinated Debentures – At December 31, 2019, the Company had four issues of junior subordinated debentures outstanding totaling $21.0 million as shown in the table below.

Description	Liquidation Amount Trust Preferred Securities	Issuance Date	Interest Rate (1)	Junior Subordinated Debt and Investment in Trust	Maturity Date
	(dollars in thousands)				
Statutory Trust I	$ 3,000	2/13/2004	3-month LIBOR + 2.85%	$ 3,093	2/13/2034
Statutory Trust II	5,000	2/13/2004	3-month LIBOR + 2.85%	5,155	2/13/2034
Statutory Trust III	3,000	4/15/2004	3-month LIBOR + 2.79%	3,093	4/15/2034
Statutory Trust IV	10,000	12/14/2006	3-month LIBOR + 1.67%	10,435	3/1/2037
	$ 21,000			$ 21,776	

(1) As of December 31, 2019, the 3-month LIBOR was 1.91%.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debentures at maturity or their earlier redemption at the liquidation preference. The subordinated debentures are redeemable before the maturity date at our option at their principal amount plus accrued interest.

The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed 20 consecutive quarters. A deferral period may begin at the Company's discretion so long as interest payments are current. At December 31, 2019, the Company is current on all interest payments.

The Federal Reserve Board rules allow trust preferred securities issued prior to May 19, 2010 to be included in Tier 1 capital, subject to quantitative and qualitative limits. Currently, no more than 25% of our Tier 1 capital can consist of trust preferred securities and qualifying perpetual preferred stock. To the extent the amount of our trust preferred securities exceeds the 25% limit, the excess would be includable in Tier 2 capital. As of December 31, 2019, the Company's trust preferred securities totaled 22% of its Tier 1 capital and 0% of its Tier 2 capital.

Each of the trusts issuing the trust preferred securities holds junior subordinated debentures issued with an original maturity of 30 years. In the last five years before the junior subordinated debentures mature, the associated trust preferred securities are excluded from Tier 1 capital and included in Tier 2 capital. In addition, the trust preferred securities during this five-year period are amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year before maturity.

Subordinated Capital Note - On July 23, 2019, the Company completed the issuance of a $17.0 million 10-year subordinated note. The note carries interest at a fixed rate of 5.75% for the first five years and qualifies as Tier 2 regulatory capital. The Company contributed $10.0 million of the proceeds to the Bank as Tier 1 capital, used $5.0 million to reduce senior debt, and retained the remaining proceeds for general corporate purposes.

Senior Debt – On June 30, 2017, the Company entered into a $10.0 million senior secured loan agreement with a commercial bank. The loan matures on June 30, 2022. Interest is payable quarterly at a rate of three-month LIBOR plus 250 basis points through June 30, 2020, at which time quarterly principal payments of $250,000 plus interest will commence. The loan is secured by a first priority pledge of 100% of the issued and outstanding stock of the Bank. The Company may prepay any amount due under the promissory note at any time without premium or penalty. Proceeds of $5 million from the subordinated capital notes issued in 2019 were used to reduce the balance of the senior debt.

The loan agreement contains customary representations, warranties, covenants and events of default, including the following financial covenants: (i) the Company must maintain minimum cash on hand of not less than $2,500,000, (ii) the Company must maintain a total risk based capital ratio at least equal to 10% of risk-weighted assets, (iii) the Bank must maintain a total risk based capital ratio at least equal to 11% of risk-weighted assets, and (iv) non-performing assets of the Bank may not exceed 2.5% of the Bank's total assets. Both the Company and Bank were in compliance with the covenants as of December 31, 2019.

Liquidity

Liquidity risk arises from the possibility the Company may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The objective of liquidity risk management is to ensure that we meet the cash flow requirements of depositors and borrowers, as well as operating cash needs, taking into account all on- and off-balance sheet funding demands. Liquidity risk management also involves ensuring that cash flow needs are met at a reasonable cost. Management maintains an investment and funds management policy, which identifies the primary sources of liquidity, establishes procedures for monitoring and measuring liquidity, and establishes minimum liquidity requirements in compliance with regulatory guidance. The Asset Liability Committee regularly monitors and reviews our liquidity position.

Funds are available to the Bank from a number of sources, including the sale of securities in the available for sale investment portfolio, principal pay-downs on loans and mortgage-backed securities, customer deposit inflows, and other wholesale funding.

The Bank also borrows from the FHLB to supplement funding requirements. At December 31, 2019, the unused borrowing capacity with the FHLB was $24.4 million. Borrowings are collateralized by first mortgage residential loans and borrowing capacity is based on the underlying book value of eligible pledged loans.

The Bank also has available on an unsecured basis federal funds borrowing line from a correspondent bank totaling $5.0 million. Management believes the sources of liquidity are adequate to meet expected cash needs for the foreseeable future. Historically, the Bank has also utilized brokered and wholesale deposits to supplement its funding strategy. At December 31, 2019, the Bank had no brokered deposits.

The Company uses cash on hand to service senior debt, service junior subordinated debentures, and to provide for operating cash flow needs. The Company also may issue common equity, preferred equity and debt to support cash flow needs and liquidity requirements. At December 31, 2019, cash on hand totaled $4.8 million, of which, $88,000 is held in escrow by the Company's senior debt holder to service interest payments.

Capital

Stockholders' equity increased $13.7 million to $105.8 million at December 31, 2019, compared with $92.1 million at December 31, 2018. The increase was due primarily to current year net income $10.5 million, as well as other comprehensive income for the year of $2.9 million.

On July 23, 2019, the Company completed the issuance of a $17.0 million 10-year subordinated note. The note carries interest at a fixed rate of 5.75% for the first five years and qualifies as Tier 2 regulatory capital. The Company contributed $10.0 million of the proceeds to the Bank as Tier 1 capital, used $5.0 million to reduce senior debt, and retained the remaining proceeds for general corporate purposes.

The following table shows the ratios of Tier 1 capital, common equity Tier 1, and total capital to risk-adjusted assets and the leverage ratios (excluding the capital conservation buffer) for the Bank at December 31, 2019:

	Regulatory Minimums	Well-Capitalized Minimums	Limestone Bank
Tier 1 capital	6.0%	8.0%	11.25%
Common equity Tier 1 capital	4.5	6.5	11.25
Total risk-based capital	8.0	10.0	12.08
Tier 1 leverage ratio	4.0	5.0	9.99

Failure to meet minimum capital requirements could result in additional discretionary actions by regulators that, if taken, could have a materially adverse effect on our financial condition.

Each of the federal bank regulatory agencies has established risk-based capital requirements for banking organizations. The Basel III regulatory capital reforms became effective for the Company and Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. These rules refine the definition of what constitutes "capital" for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The final rules allowed banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. The Company and the Bank opted out of this requirement. The rules also establish a "capital conservation buffer" of 2.5% above the regulatory minimum risk-based capital ratios. With the capital conservation buffer fully phased in as of January 1, 2019, the minimum ratios are a common equity Tier 1 risk-based capital ratio of 7.0%, a Tier 1 risk-based capital ratio of 8.5%, and a total risk-based capital ratio of 10.5%. An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Off Balance Sheet Arrangements

In the normal course of business, the Bank enters into various transactions, which, in accordance with GAAP, are not included in the Company's consolidated balance sheets. The Bank enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The commitments associated with outstanding standby letters of credit and commitments to extend credit as of December 31, 2019 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect our actual future cash funding requirements:

	One year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
			(dollars in thousands)		
Commitments to extend credit	$ 49,105	$ 45,536	$ 10,919	$ 45,578	$ 151,138
Standby letters of credit	3,684	11	—	—	3,695
Total	$ 52,789	$ 45,547	$ 10,919	$ 45,578	$ 154,833

Standby Letters of Credit – Standby letters of credit are written conditional commitments the Bank issues to guarantee the performance of a borrower to a third party. If the borrower does not perform in accordance with the terms of the agreement with the third party, the Bank may be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Bank would be entitled to seek recovery from the borrower. The Bank's policies generally require that standby letter of credit arrangements be underwritten in a manner consistent with a loan of similar characteristics.

Commitments to Extend Credit – The Bank enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Bank's commitments to extend credit are contingent upon borrowers maintaining specific credit standards at the time of loan funding. The Bank minimizes our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Risk Participation Agreements – In connection with the purchase of loan participations, the Bank has entered into risk participation agreements, which had notional amounts totaling $26.6 million at December 31, 2019 and December 31, 2018.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of December 31, 2019:

	One year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
			(dollars in thousands)		
Time deposits	$ 389,349	$ 59,468	$ 27,422	$ 295	$ 476,534
FHLB borrowing (1)	60,484	818	80	7	61,389
Operating leases	510	541	532	3,721	5,304
Junior subordinated debentures	—	—	—	21,000	21,000
Subordinated capital note	—	—	—	17,000	17,000
Senior debt	500	4,500	—	—	5,000
Total	$ 450,843	$ 65,327	$ 28,034	$ 42,023	$ 586,227

(1) Fixed rate borrowings with rates ranging from 0% to 5.24%, and maturities ranging from 2020 through 2033, averaging 1.70%.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

The Bank has an asset and liability structure that is essentially monetary in nature. As a result, interest rates have a more significant impact on performance than the effects of general levels of inflation. Periods of high inflation are often accompanied by relatively higher interest rates, and periods of low inflation are accompanied by relatively lower interest rates. As market interest rates rise or fall in relation to the rates earned on loans and investments, the value of these assets decreases or increases respectively.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

To minimize the volatility of net interest income and exposure to economic loss that may result from fluctuating interest rates, the Bank manages its exposure to adverse changes in interest rates through asset and liability management activities within guidelines established by the Asset Liability Committee ("ALCO"). The ALCO, which is comprised of senior officers, has the responsibility for approving and ensuring compliance with asset/liability management policies. Interest rate risk is the exposure to adverse changes in the net interest income as a result of market fluctuations in interest rates. The ALCO, on an ongoing basis, monitors interest rate and liquidity risk in order to implement appropriate funding and balance sheet strategies. Management considers interest rate risk to be our most significant market risk.

The Company utilizes an earnings simulation model to analyze net interest income sensitivity. It then evaluates potential changes in market interest rates and their subsequent effects on net interest income. The model projects the effect of instantaneous movements in interest rates of both 100 and 200 basis points that are sustained for one year. Assumptions based on the historical behavior of our deposit rates and balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results may differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

Given an instantaneous 100 basis point increase in interest rates, the base net interest income would decrease by an estimated 2.3% at December 31, 2019 compared with an increase of 2.0% at December 31, 2018.

The following table indicates the estimated impact on net interest income under various interest rate scenarios for the year ended December 31, 2019, as calculated using the static shock model approach:

	Change in Future Net Interest Income	
	Dollar Change	Percentage Change
	(dollars in thousands)	
+ 200 basis points	$ (2,024)	(5.1)%
+ 100 basis points	(934)	(2.3)
- 100 basis points	83	0.2
- 200 basis points	291	0.7

Implementation of strategies to mitigate the risk of changing interest rates in the future, could lessen our forecasted "base case" net interest income in the event of no interest rate changes. Interest sensitivity at any point in time will be affected by a number of factors. These factors include the mix of interest sensitive assets and liabilities as well as their relative pricing schedules. It is also influenced by market interest rates, deposit growth, loan growth, deposit decay rates and asset prepayment speed assumptions.

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at December 31, 2019, which management anticipates, based upon certain assumptions, to reprice or mature in each of the future time periods shown. The projected repricing of assets and liabilities anticipates prepayments and scheduled rate adjustments, as well as contractual maturities under an interest rate unchanged scenario within the selected time intervals. While management believes such assumptions are reasonable, management cannot provide assurance that assumed repricing rates will approximate actual future activity.

	Volume Subject to Repricing Within						
	0 – 90 Days	91 – 181 Days	182 – 365 Days	1 – 5 Years	Over 5 Years	Non-Interest Sensitive	Total
	(dollars in thousands)						
Assets:							
Federal funds sold and short-term investments	$ 21,962	$ —	$ —	$ —	$ —	$ —	$ 21,962
Investment securities	84,993	6,608	14,687	63,822	37,597	1,293	209,000
FHLB stock	6,237	—	—	—	—	—	6,237
Loans, net of allowance	346,609	63,754	109,897	357,414	48,597	(8,376)	917,895
Fixed and other assets	—	—	—	—	—	90,685	90,685
Total assets	$ 459,801	$ 70,362	$ 124,584	$ 421,236	$ 86,194	$ 83,602	$ 1,245,779
Liabilities and Stockholders' Equity							
Interest-bearing checking, savings, and money market accounts	$ 362,890	$ —	$ —	$ —	$ —	$ —	$ 362,890
Certificates of deposit	180,602	136,839	72,163	86,634	296	—	476,534
Borrowed funds	86,021	577	265	17,514	12	—	104,389
Other liabilities	—	—	—	—	—	196,216	196,216
Stockholders' equity	—	—	—	—	—	105,750	105,750
Total liabilities and stockholders' equity	$ 629,513	$ 137,416	$ 72,428	$ 104,148	$ 308	$ 301,966	$ 1,245,779
Period gap	$ (169,712)	$ (67,054)	$ 52,156	$ 317,088	$ 85,886		
Cumulative gap	$ (169,712)	$ (236,766)	$ (184,610)	$ 132,478	$ 218,364		
Period gap to total assets	(13.62)%	(5.38)%	4.19%	25.45%	6.89%		
Cumulative gap to total assets	(13.62)%	(19.00)%	(14.81)%	10.64%	17.53%		
Cumulative interest-earning assets to cumulative interest-bearing liabilities	73.04%	69.13%	78.01%	114.04%	123.14%		

The one-year cumulative gap position as of December 31, 2019 was negative $184.6 million or 14.8% of total assets. This is a one-day position that is continually changing and is not necessarily indicative of the Company's position at any other time. Any gap analysis has inherent shortcomings because certain assets and liabilities may not move proportionally as interest rates change.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and reports are included in this section:

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of Limestone Bancorp, Inc. (the "Company") is responsible for the preparation, integrity, and fair presentation of the Company's annual consolidated financial statements. All information has been prepared in accordance with U.S. generally accepted accounting principles and, as such, includes certain amounts that are based on Management's best estimates and judgments.

Management is responsible for establishing and maintaining adequate internal control over financial reporting presented in conformity with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Two of the objectives of internal control are to provide reasonable assurance to Management and the Board of Directors that transactions are properly authorized and recorded in the Company's financial records, and that the preparation of the Company's financial statements and other financial reporting is done in accordance with U.S. generally accepted accounting principles. There are inherent limitations in the effectiveness of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to reliability of financial statements. Furthermore, internal control can vary with changes in circumstances.

Management has made its own assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, in relation to the criteria described in the report, *Internal Control — Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on its assessment, Management believes that as of December 31, 2019, the Company's internal control over financial reporting was effective in achieving the objectives stated above. Crowe LLP has issued its report on the audited 2019 consolidated financial statements and attestation report on the effectiveness of the Company's internal control over financial reporting in its report dated February 28, 2020 that follows under the heading "Report of Independent Registered Public Accounting Firm."

John T. Taylor
Chief Executive Officer

Phillip W. Barnhouse
Chief Financial Officer

February 28, 2020

Crowe LLP
Independent Member Crowe Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of Limestone Bancorp, Inc.
Louisville, Kentucky

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Limestone Bancorp, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Crowe LLP
Crowe LLP

We have served as the Company's auditor since 1998.

Louisville, Kentucky
February 28, 2020

LIMESTONE BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31,
(Dollar amounts in thousands except share data)

	2019	2018
Assets		
Cash and due from banks	$ 8,241	$ 6,963
Interest bearing deposits in banks	21,962	28,398
Cash and cash equivalents	30,203	35,361
Securities available for sale	209,000	201,192
Loans, net of allowance of $8,376 and $8,880, respectively	917,895	756,364
Premises and equipment, net	19,658	14,655
Premises held for sale	900	1,050
Other real estate owned	3,225	3,485
Federal Home Loan Bank stock	6,237	7,233
Bank owned life insurance	16,037	15,646
Deferred taxes, net	27,765	29,282
Goodwill	6,252	—
Other intangible assets, net	2,500	—
Accrued interest receivable and other assets	6,107	5,424
Total assets	$ 1,245,779	$ 1,069,692
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$ 187,551	$ 142,618
Interest bearing	839,424	751,613
Total deposits	1,026,975	894,231
Federal Home Loan Bank advances	61,389	46,549
Accrued interest payable and other liabilities	8,665	5,815
Junior subordinated debentures	21,000	21,000
Subordinated capital note	17,000	—
Senior debt	5,000	10,000
Total liabilities	1,140,029	977,595
Commitments and contingent liabilities (Note 18)	—	—
Stockholders' equity		
Common stock, no par, 39,000,000 shares authorized, 6,251,975 and 6,242,720 voting, and 1,220,000 and 1,220,000 non-voting shares issued and outstanding, respectively	140,639	140,639
Additional paid-in capital	24,508	24,287
Retained deficit	(55,683)	(66,201)
Accumulated other comprehensive loss	(3,714)	(6,628)
Total common stockholders' equity	105,750	92,097
Total liabilities and stockholders' equity	$ 1,245,779	$ 1,069,692

See accompanying notes.

LIMESTONE BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31,
(Dollar amounts in thousands except per share data)

	2019	2018	2017
Interest income			
Loans, including fees	$ 42,153	$ 37,342	$ 31,866
Taxable securities	6,269	4,880	4,399
Tax exempt securities	326	383	571
Federal funds sold and other	836	856	686
	49,584	43,461	37,522
Interest expense			
Deposits	11,657	7,549	5,190
Federal Home Loan Bank advances	810	867	120
Senior debt	329	389	194
Junior subordinated debentures	1,005	946	753
Subordinated capital note	433	39	148
	14,234	9,790	6,405
Net interest income	35,350	33,671	31,117
Negative provision for loan losses	—	(500)	(800)
Net interest income after negative provision for loan losses	35,350	34,171	31,917
Non-interest income			
Service charges on deposit accounts	2,381	2,355	2,253
Bank card interchange fees	2,438	1,831	1,521
Income from bank owned life insurance	410	437	412
Net gain (loss) on sales and calls of investment securities	(5)	(6)	288
Other	694	1,162	930
	5,918	5,779	5,404
Non-interest expense			
Salaries and employee benefits	16,233	15,489	15,090
Occupancy and equipment	3,522	3,586	3,420
Professional fees	769	814	978
Marketing expense	908	1,114	1,098
FDIC insurance	211	557	1,412
Data processing expense	1,259	1,192	1,256
State franchise and deposit tax	1,210	1,118	956
Deposit account related expense	1,224	823	896
Other real estate owned expense	368	868	1,973
Litigation and loan collection expense	189	245	179
Communications expense	772	701	722
Insurance expense	444	478	540
Postage and delivery	544	364	395
Acquisition costs	775	—	—
Other	1,842	1,777	1,852
	30,270	29,126	30,767
Income before income taxes	10,998	10,824	6,554
Income tax expense (benefit)	480	2,030	(31,899)
Net income	10,518	8,794	38,453
Basic and diluted income per common share	$ 1.41	$ 1.23	$ 6.15

See accompanying notes.

LIMESTONE BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31,
(in thousands)

	2019	2018	2017
Net income	$ 10,518	$ 8,794	$ 38,453
Other comprehensive income (loss):			
Unrealized gain (loss) on securities:			
Unrealized gain (loss) arising during the period	3,773	(1,652)	1,141
Transfer of investment securities from held to maturity to available for sale	—	—	702
Amortization during the period of net unrealized loss transferred to held to maturity	—	—	119
Less reclassification adjustment for gains (losses) included in net income (loss)	(5)	(6)	288
Net unrealized gain (loss) recognized in comprehensive income	3,778	(1,646)	1,674
Tax effect	(864)	347	(587)
Other comprehensive income (loss)	2,914	(1,299)	1,087
Comprehensive income	$ 13,432	$ 7,495	$ 39,540

See accompanying notes.

LIMESTONE BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2019
(Dollar amounts in thousands except share and per share data)

	Shares					Amount						
	Preferred		Common			Preferred		Common				
	Series E	Series F	Common	Non-Voting Common	Total Common	Series E	Series F	Common and Non-Voting Common	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balances, December 31, 2016	6,198	4,304	4,632,933	1,591,600	6,224,533	$ 1,644	$ 1,127	$ 125,729	$ 24,097	$ (113,561)	$ (6,303)	$ 32,733
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	—	—	37,865	—	37,865	—	—	—	—	—	—	—
Forfeited unvested stock	—	—	(1,316)	—	(1,316)	—	—	—	—	—	—	—
Reverse stock split rounding shares	—	—	(1,218)	—	(1,218)	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	400	—	—	400
Net income	—	—	—	—	—	—	—	—	—	38,453	—	38,453
Net change in accumulated other comprehensive loss, net of taxes	—	—	—	—	—	—	—	—	—	—	1,087	1,087
Non-voting shares converted to voting	—	—	1,371,600	(1,371,600)	—	—	—	—	—	—	—	—
Balances, December 31, 2017	6,198	4,304	6,039,864	220,000	6,259,864	$ 1,644	$ 1,127	$ 125,729	$ 24,497	$ (75,108)	$ (5,216)	$ 72,673
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	—	—	52,856	—	52,856	—	—	—	—	—	—	—
Issuance of stock	—	—	150,000	1,000,000	1,150,000	—	—	14,910	—	—	—	14,910
Redemption and retirement of preferred shares	(6,198)	(4,304)	—	—	—	(1,644)	(1,127)	—	(734)	—	—	(3,505)
Stock-based compensation expense	—	—	—	—	—	—	—	—	524	—	—	524
Net income	—	—	—	—	—	—	—	—	—	8,794	—	8,794
Reclassification of disproportionate tax effect due to change in federal tax rate	—	—	—	—	—	—	—	—	—	113	(113)	—
Net change in accumulated other comprehensive loss, net of taxes	—	—	—	—	—	—	—	—	—	—	(1,299)	(1,299)
Balances, December 31, 2018	—	—	6,242,720	1,220,000	7,462,720	$ —	$ —	$ 140,639	$ 24,287	$ (66,201)	$ (6,628)	$ 92,097
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	—	—	13,503	—	13,503	—	—	—	(314)	—	—	(314)
Forfeited unvested stock	—	—	(4,248)	—	(4,248)	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	535	—	—	535
Net income	—	—	—	—	—	—	—	—	—	10,518	—	10,518
Net change in accumulated other comprehensive loss, net of taxes	—	—	—	—	—	—	—	—	—	—	2,914	2,914
Balances, December 31, 2019	—	—	6,251,975	1,220,000	7,471,975	$ —	$ —	$ 140,639	$ 24,508	$ (55,683)	$ (3,714)	$ 105,750

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,
(in thousands)

	2019	2018	2017
Cash flows from operating activities			
Net income	$ 10,518	$ 8,794	$ 38,453
Adjustments to reconcile net income (loss) to net cash from operating activities			
Depreciation and amortization	1,669	1,080	1,239
Negative provision for loan losses	—	(500)	(800)
Net amortization on securities	700	865	1,246
Stock-based compensation expense	535	524	400
Deferred taxes, net	653	2,376	(31,899)
Net gain on sales of loans held for sale	—	(1)	(46)
Origination of loans held for sale	—	—	(2,859)
Proceeds from sales of loans held for sale	—	71	2,835
Net gain on sales of other real estate owned	—	(72)	(74)
Net write-down of other real estate owned	260	850	1,963
Net realized (gain) loss on sales and calls of investment securities	5	6	(288)
Net (gain) loss on sale of premises and equipment	(1)	(692)	3
Impairment on premises held for sale	150	392	—
Increase in cash surrender value of life insurance, net of premium expense	(391)	(417)	(391)
Amortization of operating lease right-of-use assets	185	—	—
Net change in accrued interest receivable and other assets	(302)	(491)	2,079
Net change in accrued interest payable and other liabilities	(763)	(155)	(9,854)
Net cash from operating activities	13,218	12,630	2,007
Cash flows from investing activities			
Purchases of available for sale securities	(29,169)	(77,159)	(21,112)
Proceeds from sales and calls of available for sale securities	5,351	6,054	41,686
Proceeds from maturities and prepayments of available for sale securities	19,083	20,116	21,838
Proceeds from calls of held to maturity securities	—	—	47
Proceeds from maturities of held to maturity securities	—	—	145
Proceeds from sale of other real estate owned	—	876	793
Proceeds from mandatory redemption of Federal Home Loan Bank stock	996	90	—
Net changes in loans	(35,538)	(52,885)	(73,202)
Proceeds from sale of premises and equipment	1	1,590	331
Purchases of premises and equipment	(1,321)	(1,168)	(284)
Net cash paid for acquisition	(5,280)	—	—
Net cash from investing activities	(45,877)	(102,486)	(29,758)
Cash flows from financing activities			
Net change in deposits	975	47,207	(2,901)
Repayment of Federal Home Loan Bank advances	(160,160)	(120,248)	(55,661)
Advances from Federal Home Loan Bank	175,000	155,000	45,000
Repayment of subordinated capital note	—	(2,250)	(900)
Proceeds from issuance of subordinated capital note	17,000	—	—
Proceeds from senior debt	—	—	10,000
Repayment of senior debt	(5,000)	—	—
Proceeds from issuance of common stock, net	—	14,910	—
Common shares withheld for taxes	(314)	—	—
Redemption of preferred stock	—	(3,505)	—
Net cash from financing activities	27,501	91,114	(4,462)
Net change in cash and cash equivalents	(5,158)	1,258	(32,213)
Beginning cash and cash equivalents	35,361	34,103	66,316
Ending cash and cash equivalents	$ 30,203	$ 35,361	$ 34,103
Supplemental cash flow information:			
Interest paid	$ 13,763	$ 10,607	$ 5,665
Income taxes paid (refunded)	(346)	—	—
Supplemental non-cash disclosure:			
Transfer from loans to other real estate	—	$ 730	$ 270
Transfer from premises and equipment to premises and equipment held for sale	—	1,050	—
Transfer from held to maturity to available for sale securities	—	—	41,380

AOCI component of transfer from held to maturity to available for sale, net of tax	—	—	456
Initial recognition of right-of-use lease assets	507	—	—

See accompanying notes.

LIMESTONE BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation – The consolidated financial statements include Limestone Bancorp, Inc. (Company) and its subsidiary, Limestone Bank, Inc. (Bank). The Company owns a 100% interest in the Bank.

The Company provides financial services through its offices in south central, southern, and western Kentucky, Lexington, Louisville, and Frankfort. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, agricultural, and real estate loans. Substantially all loans are collateralized by specific items of collateral including business assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, borrowers' ability to repay their loans is dependent on the real estate and general economic conditions in the area. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions, federal funds sold, municipal securities, collateralized loan obligations, corporate securities, and bank owned life insurance.

Use of Estimates – To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.

Cash and Cash Equivalents – For the purpose of presentation in the statements of cash flows, the Company considers all cash and amounts due from depository institutions as well as interest bearing deposits in banks that mature within one year and are carried at cost to be cash equivalents. Included in cash and due from banks and interest bearing deposits are amounts required to be held at the Federal Reserve Bank of St. Louis or maintained in vault cash in accordance with regulatory reserve requirements. The balance requirements were $10.1 million and $7.4 million at December 31, 2019 and 2018, respectively.

Securities – Debt securities are classified as held to maturity and carried at amortized cost when management has the intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method anticipating prepayments on mortgage backed securities. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least 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 1) OTTI related to credit loss, which is 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. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. The recorded investment in loans includes the outstanding principal balance and unamortized deferred origination costs and fees.

Interest income recognition on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well collateralized and in process of collection. Consumer loans are typically charged off no later than 90 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is not expected.

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

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 uncollectability 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. A loan is deemed impaired when, based on current information and events, it is probable that the Bank 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 treated as impaired.

Factors considered 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. The significance of payment delays and payment shortfalls is determined 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.

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. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and are not separately identified for impairment disclosures. 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 at the fair value of the collateral. For troubled debt restructurings that subsequently default, the amount of reserve is determined in accordance with the accounting policy for the allowance for loan losses.

The general component 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 actual loss history experienced over the most recent five years with equal weighting. 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: changes in lending policies, procedures, and practices; effects of any change in risk selection and underwriting standards; national and local economic trends and conditions; industry conditions; trends in volume and terms of loans; experience, ability and depth of lending management and other relevant staff; levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; and effects of changes in credit concentrations.

A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for loan losses. Management identified the following portfolio segments: commercial, commercial real estate, residential real estate, consumer, agricultural, and other.

- Commercial loans are made to businesses and depend on the strength of the industries, related borrowers, and cash flow from the businesses. Commercial loans are advances for equipment purchases, or to provide working capital, or to meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrowers to evaluate their ability to repay the loans.
- Commercial real estate loans are affected by the local commercial real estate market and the local economy. Commercial real estate loans include loans on commercial properties occupied by borrowers and/or tenants. Construction and development loans are a component of this segment. These loans are generally secured by land under development or homes and commercial buildings under construction. Loans secured by farmland are also a component of this segment. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service the debt.
- Residential real estate loans are affected by the local residential real estate market, local economy, and, for variable rate mortgages, movement in indices tied to these loans. For owner occupied residential loans, the borrowers' repayment ability is evaluated through a review of credit scores and debt to income ratios. For non-owner occupied residential loans, such as rental real estate, financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service the debt. Appraisals are obtained to support the loan amount.

- Consumer loans depend on local economies. Consumer loans are generally unsecured, but may be secured by consumer assets. Management evaluates the borrowers' repayment ability through a review of credit scores and an evaluation of debt to income ratios. Consumer loans may be for consumer goods purchases, cash flow needs, or for student loans or student debt refinances.
- Agriculture loans depend on the industries tied to these loans and are generally secured by livestock, crops, and/or equipment, but may be unsecured. Management evaluates the borrowers' repayment ability through financial and business performance review.
- Other loans include loans to municipalities, loans secured by stock, and overdrafts. For municipal loans, management evaluates the borrowers' revenue streams as well as ability to repay form general funds. For loans secured by stock, management evaluates the market value of the stock securing the loan in relation to the loan amount. Overdrafts are funded based on pre-established criteria related to the deposit account relationship.

Management analyzes key relevant risk characteristics for each portfolio segment having determined that loans in each segment possess similar general risk characteristics that are analyzed in connection with loan underwriting processes and procedures. In determining the allocated allowance, the weighted average loss rates over the most recent five years are used with equal weighting. Commercial real estate qualitative adjustment considerations include trends in the markets for underlying collateral values, risks related to tenant rents, and economic factors such as decreased sales demand, elevated inventory levels, and declining collateral values. Residential real estate loan considerations include macro-economic factors such as unemployment rates, trends in vacancy rates, and home value trends. The commercial and agricultural portfolio qualitative adjustments are related to economic and portfolio performance trends. The agricultural, consumer and other portfolios are less significant in terms of size and risk is assessed based on the smaller dollar size of these loans and the geographical areas where the collateral is located.

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

Other Real Estate Owned ("OREO") – Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value, less estimated costs to sell. If fair value declines subsequent to foreclosure, a write-down is recorded through expense. Costs after acquisition are expensed.

Premises and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives generally ranging from 5 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line or accelerated method with useful lives generally ranging from 3 to 10 years.

Premises and equipment held for sale are recorded at fair value less estimated cost to sell at the time of transfer based upon independent third party appraisal. If fair value declines subsequent to transfer, write-downs are recorded through expense.

Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value through a charge to earnings.

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. Because this stock is viewed as long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance – The Bank has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets – Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Bank has selected November 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Bank's balance sheet.

Other intangible assets consist of a core deposit intangible asset arising from a branch acquisition and is amortized on an accelerated method over its estimated useful life of 13 years.

Benefit Plans – Employee 401(k) plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Stock-Based Compensation – Compensation cost is recognized for unvested stock awards issued to employees, based on the fair value of these awards at the date of grant. The market price of the Company’s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company’s accounting policy is to recognize compensation cost net of forfeitures as they occur.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a 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% 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.

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.

Comprehensive Income (Loss) – Comprehensive loss consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

Earnings Per Common Share – Basic earnings per common share are net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect, if any, of additional potential common shares issuable under stock options, warrants, and any convertible securities. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements.

Earnings Allocated to Participating Securities – The Company has issued and outstanding unvested common shares to employees and directors through the stock incentive plan. Earnings are allocated to these participating securities based on their percentage of total issued and outstanding shares.

Loss Contingencies – Loss contingencies, including claims and legal actions arising in the normal 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.

Dividend Restrictions – Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

Fair Value of Financial Instruments – Fair values of financial instruments 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.

Derivative Instruments – Derivative Instruments are carried at fair value and reflect the estimated amounts that would have been received to terminate these contracts at the reporting date based upon pricing or valuation models applied to current market information.

As part of the asset/liability management program, the Company utilizes, from time to time, risk participation agreements to reduce its sensitivity to changing interest rates. These are derivative instruments, which are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated statements of operations or other comprehensive income ("OCI") depending on the use of the derivative and whether the instrument qualifies for hedge accounting. The key criterion for the hedge accounting is that the hedged relationship must be found to be effective as determined by FASB ASC 815 Derivatives and Hedging.

To date, the Company has not entered into a cash flow hedge. For cash flow hedges, changes in the fair values of the derivative instruments are reported in OCI to the extent the hedge is effective. The gains and losses on derivative instruments that are reported in OCI are reflected in the consolidated statements of income in the periods in which the results of operations are impacted by the variability of the cash flows of the hedged item. Generally, net interest income is increased or decreased by amounts receivable or payable with respect to the derivatives, which qualify for hedge accounting. At inception of the hedge, a Company must establish the method it uses for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The ineffective portion of the hedge, if any, is recognized currently in the consolidated statements of operations and time value expiration of the hedge when measuring ineffectiveness is excluded.

The risk participation agreements are not designated against specific assets or liabilities under ASC 815, and, therefore, do not qualify for hedge accounting. The derivatives are recorded on the balance sheet at fair value and changes in fair value of both the borrower and the offsetting swap agreements are recorded (and essentially offset) in non-interest income. The fair value of the derivative instruments incorporates a consideration of credit risk in accordance with ASC 820, resulting in some volatility in earnings each period.

New Accounting Standards – In February 2016, the FASB issued an update ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees are required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Based on the Company's existing lease agreements on January 1, 2019, the impact of adopting the new guidance on the consolidated financial statements was the recording of a $507,000 lease liability and a right of use asset, which is included in other liabilities and premises and equipment, respectively, on the consolidated balance sheet. The adoption of this ASU did not have a meaningful impact on the Company's performance metrics, including regulatory capital ratios and return on average assets. Disclosures about the Company's leasing activities are presented in Note 5 – Leases.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The final standard will change estimates for credit losses related to financial assets measured at amortized cost such as loans, held-to-maturity debt securities, and certain other contracts. For estimating credit losses, the FASB is replacing the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. Under the CECL model, certain financial assets that are carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, are required to be presented at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. The change could materially affect how the allowance for loan losses is determined. The impact of CECL model implementation is being evaluated, but it is expected that a one-time cumulative-effect adjustment to the allowance for loan losses will be recognized in retained earnings on the consolidated balance sheet as of the beginning of the first reporting period in which the new standard is effective, as is consistent with regulatory expectations set forth in interagency guidance. In December 2018, the OCC, The Board of Governors of the Federal Reserve System, and the FDIC approved a final rule to address changes to the credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from adoption of the new accounting standard. In October 2019, the FASB voted to delay implementation for smaller reporting companies, private companies, and not-for-profit entities. The Company currently qualifies as a smaller reporting company. Companies qualifying for the delay will be required to implement CECL for fiscal year and interim periods beginning after December 15, 2022.

In January 2017, the FASB amended ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments are effective for public business entities for the first interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has goodwill from the 2019 branch acquisition and will perform an annual impairment test or more frequently if changes or circumstances occur that would more likely than not reduce the fair value of the reporting unit below its carrying value. Although the Company cannot anticipate future goodwill impairment assessments, based on the most recent assessment it is unlikely that an impairment amount would need to be calculated and, therefore, does not anticipate a material impact from these amendments to the Company's financial position and results of operations. The current accounting policies and processes are not anticipated to change, except for the elimination of the Step 2 analysis.

In March 2017, the FASB issued ASU No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization of Purchased Callable Debt Securities. The final standard will shorten the amortization period for premiums on callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. The standard was effective for public companies for fiscal years beginning after December 15, 2018. Adoption of this new guidance did not have a material impact on the consolidated financial statements.

NOTE 2 – SECURITIES

Securities are classified as available for sale (AFS). AFS securities may be sold if needed for liquidity, asset liability management, or other reasons. AFS securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax.

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

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available for sale				
U.S. Government and federal agency	$ 22,281	$ 196	$ (147)	$ 22,330
Agency mortgage-backed: residential	91,269	1,186	(255)	92,200
Collateralized loan obligations	49,831	—	(412)	49,419
State and municipal	27,819	550	(3)	28,366
Corporate bonds	16,472	213	—	16,685
Total available for sale	$ 207,672	$ 2,145	$ (817)	$ 209,000

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available for sale				
U.S. Government and federal agency	$ 23,280	$ 2	$ (722)	$ 22,560
Agency mortgage-backed: residential	87,689	192	(1,891)	85,990
Collateralized loan obligations	49,942	—	(103)	49,839
State and municipal	32,841	230	(259)	32,812
Corporate bonds	9,890	127	(26)	9,991
Total available for sale	$ 203,642	$ 551	$ (3,001)	$ 201,192

Sales and calls of securities were as follows:

	2019	2018	2017
		(in thousands)	
Proceeds	$ 5,351	$ 6,054	$ 41,733
Gross gains	1	—	449
Gross losses	6	6	161

The tax provision related to net gains and losses realized on sales was an income tax benefit of $1,000 for 2019, an income tax benefit of $1,000 for 2018, and income tax expense of $101,000 for 2017.

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

	December 31, 2019	
	Amortized Cost	Fair Value
	(in thousands)	
Maturity		
Available for sale		
Within one year	$ 49,398	$ 49,152
One to five years	38,081	38,524
Five to ten years	26,085	26,285
Beyond ten years	2,839	2,839
Agency mortgage-backed: residential	91,269	92,200
Total	$ 207,672	$ 209,000

Securities pledged at year-end 2019 and 2018 had carrying values of approximately $75.8 million and $64.4 million, respectively, and were pledged to secure public deposits.

At December 31, 2019 and 2018, the Bank held securities issued by the Commonwealth of Kentucky or Kentucky municipalities having a book value of $14.5 million and $15.3 million, respectively. At year-end 2019, there were no other holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders’ equity.

The Bank owns Collateralized Loan Obligations (CLOs), which are debt securities secured by professionally managed portfolios of senior-secured loans to corporations. CLO managers are typically large non-bank financial institutions or banks and are typically $300 million to $1 billion in size, contain one hundred or more loans, have five to six credit tranches ranging from AAA, AA, A, BBB, BB, B and equity tranche. Interest and principal are paid first to the AAA tranche then to the next lower rated tranche. Losses are borne first by the equity tranche then by the subsequently higher rated tranche. CLOs may be less liquid than government securities from time to time and volatility in the CLO market may cause the value of these investments to decline.

The market value of CLOs may be affected by, among other things, changes in composition of the underlying loans, changes in the cash flows from the underlying loans, defaults and recoveries on the underlying loans, capital gains and losses on the underlying loans, and prepayments on the underlying loans.

At December 31, 2019, $32.9 million and $16.5 million of our CLOs were AA and A rated, respectively. There were no CLOs rated below A and none of the CLOs were subject to ratings downgrade in 2019. All of our CLOs are floating rate, with rates set on a quarterly basis at three month LIBOR plus a spread.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, underlying credit quality of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer’s financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the sector or industry trends and cycles affecting the issuer, and the results of reviews of the issuer’s financial condition. As of December 31, 2019, management does not believe any securities in the portfolio with unrealized losses should be classified as other than temporarily impaired.

Securities with unrealized losses at December 31, 2019 and December 31, 2018, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows:

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
			(in thousands)			
2019						
Available for sale						
U.S. Government and federal agency	$ 12,567	$ (147)	$ —	$ —	$ 12,567	$ (147)
Agency mortgage-backed: residential	18,457	(97)	10,665	(158)	29,122	(255)
Collateralized loan obligations	9,539	(46)	35,336	(366)	44,875	(412)
State and municipal	911	(3)	—	—	911	(3)
Corporate bonds	—	—	—	—	—	—
Total temporarily impaired	$ 41,474	$ (293)	$ 46,001	$ (524)	$ 87,475	$ (817)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
			(in thousands)			
2018						
Available for sale						
U.S. Government and federal agency	$ 3,431	$ (57)	$ 17,212	$ (665)	$ 20,643	$ (722)
Agency mortgage-backed: residential	30,229	(343)	40,932	(1,548)	71,161	(1,891)
Collateralized loan obligations	48,294	(103)	—	—	48,294	(103)
State and municipal	6,133	(29)	7,252	(230)	13,385	(259)
Corporate bonds	3,569	(26)	—	—	3,569	(26)
Total temporarily impaired	$ 91,656	$ (558)	$ 65,396	$ (2,443)	$ 157,052	$ (3,001)

NOTE 3 – LOANS

Loans net of unearned income, deferred loan origination costs, and net premiums on acquired loans by class were as follows:

	2019	2018
	(in thousands)	
Commercial	$ 145,551	$ 129,368
Commercial Real Estate:		
Construction	64,911	86,867
Farmland	79,118	77,937
Nonfarm nonresidential	255,459	172,177
Residential Real Estate:		
Multi-family	70,950	49,757
1-4 Family	226,629	175,761
Consumer	47,790	39,104
Agriculture	35,064	33,737
Other	799	536
Subtotal	926,271	765,244
Less: Allowance for loan losses	(8,376)	(8,880)
Loans, net	$ 917,895	$ 756,364

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2019, 2018, and 2017:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
December 31, 2019:				(in thousands)			
Beginning balance	$ 1,299	$ 4,676	$ 2,452	$ 130	$ 321	$ 2	$ 8,880
Provision (negative provision)	342	(622)	(958)	943	297	(2)	–
Loans charged off	(37)	(47)	(275)	(663)	(266)	–	(1,288)
Recoveries	106	73	524	75	3	3	784
Ending balance	$ 1,710	$ 4,080	$ 1,743	$ 485	$ 355	$ 3	$ 8,376

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
December 31, 2018:				(in thousands)			
Beginning balance	$ 892	$ 4,032	$ 2,900	$ 64	$ 313	$ 1	$ 8,202
Provision (negative provision)	196	(192)	(599)	92	6	(3)	(500)
Loans charged off	(50)	(198)	(252)	(95)	(13)	(8)	(616)
Recoveries	261	1,034	403	69	15	12	1,794
Ending balance	$ 1,299	$ 4,676	$ 2,452	$ 130	$ 321	$ 2	$ 8,880

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
December 31, 2017:				(in thousands)			
Beginning balance	$ 475	$ 4,894	$ 3,426	$ 8	$ 162	$ 2	$ 8,967
Provision (negative provision)	363	(1,223)	(129)	(8)	213	(16)	(800)
Loans charged off	(5)	(58)	(692)	(51)	(95)	–	(901)
Recoveries	59	419	295	115	33	15	936
Ending balance	$ 892	$ 4,032	$ 2,900	$ 64	$ 313	$ 1	$ 8,202

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method as of December 31, 2019:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
				(in thousands)			
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 3	$ 37	$ 2	$ –	$ –	$ –	$ 42
Collectively evaluated for impairment	1,707	4,043	1,741	485	355	3	8,334
Total ending allowance balance	$ 1,710	$ 4,080	$ 1,743	$ 485	$ 355	$ 3	$ 8,376
Loans:							
Loans individually evaluated for impairment	$ 74	$ 1,064	$ 892	$ 98	$ 42	$ –	$ 2,170
Loans collectively evaluated for impairment	145,477	398,424	296,687	47,692	35,022	799	924,101
Total ending loans balance	$ 145,551	$ 399,488	$ 297,579	$ 47,790	$ 35,064	$ 799	$ 926,271

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method as of December 31, 2018:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer (in thousands)	Agriculture	Other	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ –	$ 35	$ 168	$ –	$ –	$ –	$ 203
Collectively evaluated for impairment	1,299	4,641	2,284	130	321	2	8,677
Total ending allowance balance	$ 1,299	$ 4,676	$ 2,452	$ 130	$ 321	$ 2	$ 8,880
Loans:							
Loans individually evaluated for impairment	$ 53	$ 510	$ 2,348	$ –	$ –	$ –	$ 2,911
Loans collectively evaluated for impairment	129,315	336,471	223,170	39,104	33,737	536	762,333
Total ending loans balance	$ 129,368	$ 336,981	$ 225,518	$ 39,104	$ 33,737	$ 536	$ 765,244

Impaired Loans

Impaired loans include restructured loans and loans on nonaccrual or classified as doubtful, whereby collection of the total amount is improbable, or loss, whereby all or a portion of the loan has been written off or a specific allowance for loss had been provided.

The following table presents information related to loans individually evaluated for impairment by class of loan as of and for the year ended December 31, 2019:

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated (in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With No Related Allowance Recorded:						
Commercial	$ 138	$ 50	$ —	$ 57	$ 3	$ 3
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	380	293	—	179	23	23
Nonfarm nonresidential	1,057	489	—	295	34	3
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	1,679	745	—	1,402	219	191
Consumer	309	98	—	56	6	6
Agriculture	304	42	—	47	3	3
Other	—	—	—	—	—	—
Subtotal	3,867	1,717	—	2,036	288	229
With An Allowance Recorded:						
Commercial	24	24	3	15	2	—
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	282	282	37	236	9	—
Nonfarm nonresidential	—	—	—	—	—	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	183	147	2	459	6	—
Consumer	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	489	453	42	710	17	—
Total	$ 4,356	$ 2,170	$ 42	$ 2,746	$ 305	$ 229

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

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
			(in thousands)			
With No Related Allowance Recorded:						
Commercial	$ 120	$ 53	$ —	$ 125	$ —	$ —
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	1,860	89	—	1,156	360	360
Nonfarm nonresidential	402	262	—	327	19	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	2,678	1,628	—	1,964	—	—
Consumer	12	—	—	1	—	—
Agriculture	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	5,072	2,032	—	3,573	379	360
With An Allowance Recorded:						
Commercial	—	—	—	60	3	—
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	—	—	—	—	—	—
Nonfarm nonresidential	159	159	35	100	—	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	720	720	168	1,111	—	—
Consumer	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	879	879	203	1,271	3	—
Total	$ 5,951	$ 2,911	$ 203	$ 4,844	$ 382	$ 360

The following table presents information related to loans individually evaluated for impairment by class of loan 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 Income Recognized
			(in thousands)			
With No Related Allowance Recorded:						
Commercial	$ 703	$ 487	$ —	$ 495	$ 7	$ 7
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	3,687	2,059	—	2,651	210	210
Nonfarm nonresidential	1,047	576	—	716	59	47
Residential real estate:						
Multi-family	—	—	—	820	—	—
1-4 Family	4,293	2,787	—	2,884	143	143
Consumer	9	1	—	2	2	2
Agriculture	—	—	—	24	1	1
Other	—	—	—	—	—	—
Subtotal	9,739	5,910	—	7,592	422	410
With An Allowance Recorded:						
Commercial	100	100	13	100	7	—
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	—	—	—	235	—	—
Nonfarm nonresidential	—	—	—	238	14	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	1,163	1,163	206	1,404	68	—
Consumer	—	—	—	—	—	—
Agriculture	—	—	—	24	—	—
Other	—	—	—	—	—	—
Subtotal	1,263	1,263	219	2,001	89	—
Total	$ 11,002	$ 7,173	$ 219	$ 9,593	$ 511	$ 410

Troubled Debt Restructuring

A troubled debt restructuring (TDR) occurs when the Bank has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. The Bank's TDRs typically involve a reduction in interest rate, a deferral of principal for a stated period of time, or an interest only period. All TDRs are considered impaired and the Bank has allocated reserves for these loans to reflect the present value of the concessionary terms granted to the borrower.

The following table presents the TDR loan modifications by portfolio segment outstanding as of December 31, 2019 and 2018:

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
December 31, 2019			
Commercial Real Estate:			
Nonfarm nonresidential	$ 400	$ —	$ 400
Residential Real Estate:			
1-4 Family	75	—	75
Total TDRs	$ 475	$ —	$ 475

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
December 31, 2018			
Commercial Real Estate:			
Nonfarm nonresidential	$ 190	$ —	$ 190
Residential Real Estate:			
1-4 Family	720	—	720
Total TDRs	$ 910	$ —	$ 910

At December 31, 2019 and 2018, 100% of the Company's TDRs were performing according to their modified terms. The Company allocated $1,000 and $168,000 as of December 31, 2019 and 2018, respectively, in reserves to customers whose loan terms have been modified in TDRs. The Company has committed to lend no additional amounts as of December 31, 2019 or December 31, 2018 to customers with outstanding loans that are classified as TDRs.

The following table presents a summary of the TDR loan modifications by portfolio segment that occurred during the twelve months ended December 31, 2019:

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
December 31, 2019			
Commercial Real Estate:			
Nonfarm nonresidential	$ 215	$ —	$ 215
Residential Real Estate:			
1-4 Family	75	—	75
Total TDRs	$ 290	$ —	$ 290

As of December 31, 2019, 100% of the Company's TDRs that occurred during 2019 were performing in accordance with their modified terms. The Company has allocated $1,000 in reserves to customers whose loan terms have been modified during 2019. For modifications occurring during the twelve months ended December 31, 2019, the post-modification balances approximate the pre-modification balances. There were no modifications during the twelve months ended December 31, 2018.

Management periodically reviews renewals and modifications of previously identified TDRs, for which there was no principal forgiveness, to consider if it is appropriate to remove the TDR classification. If the borrower is no longer experiencing financial difficulty and the renewal/modification did not contain a concessionary interest rate or other concessionary terms, management considers the potential removal of the TDR classification. If deemed appropriate based upon current underwriting, the TDR classification is removed as the borrower has complied with the terms of the loan at the date of renewal/modification and there was a reasonable expectation that the borrower would continue to comply with the terms of the loan subsequent to the date of the renewal/modification. In this instance, the TDR was originally considered a restructuring in a prior year as a result of a modification with an interest rate that was not commensurate with the risk of the underlying loan. Additionally, TDR classification can be removed in circumstances in which the Company performs a non-concessionary re-modification of the loan at terms that were considered to be at market for loans with comparable risk. Management expects the borrower will continue to perform under the re-modified terms based on the borrower's past history of performance.

During the years ended December 31, 2019, 2018, and 2017, no TDRs defaulted on their restructured loan within the twelve-month period following the loan modification. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual.

Non-performing Loans

Non-performing loans include impaired loans and smaller balance homogeneous loans, such as residential mortgage and consumer loans, that are collectively evaluated for impairment. The following table presents the recorded investment in nonaccrual and loans past due 90 days and still on accrual by class of loan as of December 31, 2019 and 2018:

	Nonaccrual		Loans Past Due 90 Days And Over Still Accruing	
	2019	2018	2019	2018
	(in thousands)			
Commercial	$ 50	$ 53	$ —	$ —
Commercial Real Estate:				
Construction	—	—	—	—
Farmland	431	249	—	—
Nonfarm nonresidential	90	61	—	—
Residential Real Estate:				
Multi-family	—	—	—	—
1-4 Family	817	1,628	—	—
Consumer	98	—	—	—
Agriculture	42	—	—	—
Other	—	—	—	—
Total	$ 1,528	$ 1,991	$ —	$ —

The following table presents the aging of the recorded investment in past due loans by class as of December 31, 2019 and 2018:

	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days And Over Past Due	Nonaccrual	Total Past Due And Nonaccrual
			(in thousands)		
December 31, 2019					
Commercial	$ 14	$ 3	$ —	$ 50	$ 67
Commercial Real Estate:					
Construction	—	—	—	—	—
Farmland	274	—	—	431	705
Nonfarm nonresidential	206	—	—	90	296
Residential Real Estate:					
Multi-family	—	—	—	—	—
1-4 Family	1,162	503	—	817	2,482
Consumer	91	164	—	98	353
Agriculture	—	—	—	42	42
Other	—	—	—	—	—
Total	$ 1,747	$ 670	$ —	$ 1,528	$ 3,945

	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days And Over Past Due	Nonaccrual	Total Past Due And Nonaccrual
			(in thousands)		
December 31, 2018					
Commercial	$ 39	$ —	$ —	$ 53	$ 92
Commercial Real Estate:					
Construction	—	—	—	—	—
Farmland	244	107	—	249	600
Nonfarm nonresidential	—	52	—	61	113
Residential Real Estate:					
Multi-family	—	—	—	—	—
1-4 Family	1,299	137	—	1,628	3,064
Consumer	8	35	—	—	43
Agriculture	3	—	—	—	3
Other	—	—	—	—	—
Total	$ 1,593	$ 331	$ —	$ 1,991	$ 3,915

Credit Quality Indicators

Management categorizes all loans into risk categories at origination based upon original underwriting. Thereafter, management 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. Additionally, loans are analyzed through internal and external loan review processes. Borrower relationships in excess of $500,000 are routinely analyzed through credit administration processes which classify the loans as to credit risk. The following definitions are used for risk ratings:

Watch – Loans classified as watch are those loans which have or may experience a potentially adverse development which necessitates increased monitoring.

Special Mention – Loans classified as special mention do not have all of the characteristics of substandard or doubtful loans. They have one or more deficiencies which warrant special attention and which corrective action, such as accelerated collection practices, may remedy.

Substandard – Loans classified as substandard are those loans with clear and defined weaknesses such as a highly leveraged position, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize the repayment of the debt as contractually agreed. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful are those loans which have characteristics similar to substandard loans but with an increased risk that collection or liquidation in full is 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. As of December 31, 2019 and 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(in thousands)			
December 31, 2019						
Commercial	$ 130,312	$ 11,280	$ —	$ 3,959	$ —	$ 145,551
Commercial Real Estate:						
Construction	64,911	—	—	—	—	64,911
Farmland	71,503	6,663	—	952	—	79,118
Nonfarm nonresidential	245,995	6,986	—	2,478	—	255,459
Residential Real Estate:						
Multi-family	70,950	—	—	—	—	70,950
1-4 Family	221,727	2,420	—	2,482	—	226,629
Consumer	47,657	5	—	128	—	47,790
Agriculture	34,853	168	—	43	—	35,064
Other	799	—	—	—	—	799
Total	$ 888,707	$ 27,522	$ —	$ 10,042	$ —	$ 926,271

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(in thousands)			
December 31, 2018						
Commercial	$ 129,106	$ 141	$ —	$ 121	$ —	$ 129,368
Commercial Real Estate:						
Construction	86,867	—	—	—	—	86,867
Farmland	74,054	2,741	—	1,142	—	77,937
Nonfarm nonresidential	169,551	1,983	—	643	—	172,177
Residential Real Estate:						
Multi-family	44,697	5,060	—	—	—	49,757
1-4 Family	169,342	2,209	113	4,097	—	175,761
Consumer	38,768	11	—	325	—	39,104
Agriculture	32,683	1,019	—	35	—	33,737
Other	536	—	—	—	—	536
Total	$ 745,604	$ 13,164	$ 113	$ 6,363	$ —	$ 765,244

NOTE 4 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2019	2018
	(in thousands)	
Land and buildings	$ 21,228	$ 19,974
Furniture and equipment	8,884	7,420
Leased right-of-use asset	3,070	—
	33,182	27,394
Accumulated depreciation	(13,524)	(12,739)
	$ 19,658	$ 14,655

See 'Note 5 – Leases' for additional details regarding the Bank's leased right-of-use asset and lease liability.

Depreciation expense was $801,000, $833,000 and $955,000 for 2019, 2018 and 2017, respectively.

NOTE 5 – LEASES

Effective January 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842). As of January 1, 2019, the Company had two leases. During 2019, the Company assumed three leases as a result of the branch transaction, and also commenced the lease for a new branch in Lexington. As of December 31, 2019, the Company leases real estate for six branch offices or offsite ATM machines under various operating lease agreements. The lease agreements have maturity dates ranging from 2021 to 2055, including all expected extension periods. The weighted average remaining life of the lease term for these leases was 22 years as of December 31, 2019.

In determining the present value of lease payments, the Bank uses the implicit lease rate when readily determinable. As most of the Bank's leases do not provide an implicit rate, the incremental borrowing rate based on the information available at commencement date is used. The incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment. This methodology will be continued for the commencement of any subsequent lease agreements. The weighted average discount rate for the leases was 5.46% as of December 31, 2019.

Total rental expense was $294,000 for the year ended December 31, 2019. The right-of-use asset, included in premises and equipment, and lease liability, included in other liabilities, was $3.1 million as of December 31, 2019.

Total estimated rental commitments for the operating leases were as follows as of December 31, 2019 (in thousands):

	2019
2020	$ 510
2021	279
2022	262
2023	266
2024	266
Thereafter	3,721
Total minimum lease payments	5,304
Discount effect of cash flows	(2,234)
Present value of lease liabilities	$ 3,070

NOTE 6 – OTHER REAL ESTATE OWNED

Other real estate owned (OREO) is real estate acquired as a result of foreclosure or by deed in lieu of foreclosure. It is classified as real estate owned until such time as it is sold. When property is acquired as a result of foreclosure or by deed in lieu of foreclosure, it is recorded at its fair market value less estimated cost to sell. Any write-down of the property at the time of acquisition is charged to the allowance for loan losses.

The following table presents the major categories of OREO at the period-ends indicated:

	2019	2018
	(in thousands)	
Commercial Real Estate:		
Construction, land development, and other land	3,225	3,485
	$ 3,225	$ 3,485

Residential loans secured by 1-4 family residential properties in the process of foreclosure totaled $172,000 and $771,000 at December 31, 2019 and December 31, 2018, respectively.

Activity relating to OREO during the years indicated is as follows:

	2019	2018	2017
		(in thousands)	
OREO Activity			
OREO as of January 1	$ 3,485	$ 4,409	$ 6,821
Real estate acquired	—	730	270
Valuation adjustment write-downs	(260)	(850)	(1,963)
Net gain on sale	—	72	74
Proceeds from sale of properties	—	(876)	(793)
OREO as of December 31	$ 3,225	$ 3,485	$ 4,409

Expenses related to OREO include:

	2019	2018	2017
		(in thousands)	
Net gain on sales	$ —	$ (72)	$ (74)
Valuation adjustment write-downs	260	850	1,963
Operating expense	108	90	84
Total	$ 368	$ 868	$ 1,973

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the Company's acquired goodwill and intangible assets as of December 31, 2019 (in thousands):

	2019	
	Gross Carrying Amount	Accumulated Amortization
Goodwill	$ 6,252	$ —
Core deposit intangibles	2,500	—
Total	$ 8,752	$ —

During 2019, the Company recorded $6.3 million of goodwill related to a branch acquisition transaction (see Note 23). Goodwill represents the excess of the total purchase price paid over the fair value of the identifiable assets acquired, net of the fair value of the liabilities assumed. Goodwill is not amortized but is evaluated for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Impairment exists when a reporting unit's carrying amount exceeds its fair value. The Company has selected November 30 as the date to perform the annual impairment test. No goodwill impairment charges were recorded in 2019. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

The core deposit intangible asset is amortized over a weighted average estimated life of the related deposits and is not estimated to have a significant residual value. The Company did not record any intangible amortization expense during 2019.

The estimated amortization expense of the core deposit intangible for the years ending December 31 is as follows (in thousands):

	Amortization Expense
2020	$ 256
2021	256
2022	256
2023	256
2024	256
Thereafter	1,220
	$ 2,500

NOTE 8 – DEPOSITS

The following table details deposits by category:

	December 31, 2019	December 31, 2018
	(in thousands)	
Non-interest bearing	$ 187,551	$ 142,618
Interest checking	146,038	94,269
Money market	160,837	171,924
Savings	56,015	34,534
Certificates of deposit	476,534	450,886
Total	$ 1,026,975	$ 894,231

Time deposits of $250,000 or more were approximately $51.2 million and $38.9 million at year-end 2019 and 2018, respectively.

Scheduled maturities of total time deposits for each of the next five years are as follows (in thousands):

	Total
2020	$ 389,349
2021	49,858
2022	9,610
2023	16,017
2024	11,405
Thereafter	295
	$ 476,534

NOTE 9 – ADVANCES FROM FEDERAL HOME LOAN BANK

At year-end, advances from the Federal Home Loan Bank were as follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
Short term advances (fixed rates 1.66% to 1.76%) maturing January 2020	$ 60,000	$ 45,000
Long term advances (fixed rates 0.00% to 5.24%) maturing April 2020 to August 2033	1,389	1,549
Total advances from the Federal Home Loan Bank	$ 61,389	$ 46,549

FHLB advances had a weighted-average rate of 1.70% at December 31, 2019 and 2.45% at December 31, 2018. Each advance is payable per terms on agreement, with a prepayment penalty. No prepayment penalties were incurred during 2019 or 2018. The advances were collateralized by approximately $166.0 million and $130.4 million of first mortgage loans, under a blanket lien arrangement at December 31, 2019 and December 31, 2018, respectively. At December 31, 2019, our additional borrowing capacity with the FHLB was $24.4 million.

Scheduled principal payments during the next five years and thereafter (in thousands):

	Advances
2020	$ 60,484
2021	718
2022	100
2023	59
2024	21
Thereafter	7
	$ 61,389

At year-end 2019, the Company had a $5.0 million federal funds line of credit available on an unsecured basis from a correspondent institution.

NOTE 10 – JUNIOR SUBORDINATED DEBENTURES

The junior subordinated debentures are redeemable at par prior to maturity at the option of the Company as defined within the trust indenture. The Company has the option to defer interest payments on the junior subordinated debentures from time to time for a period not to exceed 20 consecutive quarters. A deferral period may begin at the Company's discretion so long as interest payments are current. The Company is prohibited from paying dividends on preferred and common shares when interest payments are in deferral. At December 31, 2019, the Company is current on all interest payments.

A summary of the junior subordinated debentures is as follows:

Description	Issuance Date	Interest Rate (1)	Junior Subordinated Debt Owed To Trust	Maturity Date (2)
Statutory Trust I	2/13/2004	3-month LIBOR + 2.85%	$ 3,000,000	2/13/2034
Statutory Trust II	2/13/2004	3-month LIBOR + 2.85%	5,000,000	2/13/2034
Statutory Trust III	4/15/2004	3-month LIBOR + 2.79%	3,000,000	4/15/2034
Statutory Trust IV	12/14/2006	3-month LIBOR + 1.67%	10,000,000	3/01/2037
			$ 21,000,000	

(1) As of December 31, 2019, the 3-month LIBOR was 1.91%.
(2) The debentures are callable at the Company's option at their principal amount plus accrued interest.

NOTE 11 – SUBORDINATED CAPITAL NOTE

On July 23, 2019, the Company completed the issuance of a $17.0 million 10-year subordinated note. The note carries interest at a fixed rate of 5.75% for the first five years and qualifies as Tier 2 regulatory capital. The Company contributed $10.0 million of the proceeds to the Bank as Tier 1 capital, used $5.0 million to reduce senior debt, and retained the remaining proceeds for general corporate purposes.

NOTE 12 – SENIOR DEBT

On June 30, 2017, the Company entered into a $10.0 million senior secured loan agreement with a commercial bank. The loan matures on June 30, 2022. Interest is payable quarterly at a rate of three-month LIBOR plus 250 basis points through June 30, 2020, at which time quarterly principal payments of $250,000 plus interest will commence. As of December 31, 2019, the interest rate was 4.60%. The loan is secured by a first priority pledge of 100% of the issued and outstanding stock of the Bank. The Company may prepay any amount due under the promissory note at any time without premium or penalty. Proceeds of $5.0 million from the subordinated capital notes issued in 2019 were used to reduce the outstanding balance of the senior debt.

The loan agreement contains customary representations, warranties, covenants and events of default, including the following financial covenants: (i) the Company must maintain minimum cash on hand of not less than $2,500,000, (ii) the Company must maintain a total risk based capital ratio at least equal to 10% of risk-weighted assets, (iii) the Bank must maintain a total risk based capital ratio at least equal to 11% of risk-weighted assets, and (iv) non-performing assets of the Bank may not exceed 2.5% of the Bank's total assets. Both the Company and Bank were in compliance with the covenants as of December 31, 2019.

NOTE 13 – OTHER BENEFIT PLANS

401(k) Plan – The Company's 401(k) Savings Plan allows employees to contribute up to the annual limits as determined by the Internal Revenue Service. For 2019 and 2018, the Company matched 100% of the first 1% of compensation contributed and 50% of the next 5% contributed by employees. In 2017, the Company matched 50% of the first 4% of compensation contributed. The Company, at its discretion, may make additional contributions. Total contributions made by the Company to the plan totaled approximately $362,000, $347,000 and $200,000 in 2019, 2018 and 2017, respectively.

Supplemental Executive Retirement Plan – The Company had a supplemental executive retirement plan covering certain executive officers. Under the plan, the Company pays each participant, or their beneficiary, a specific defined benefit amount over 10 years, beginning with the individual's retirement or early termination of service for reasons other than cause. A liability is accrued for the obligation under these plans. The expense incurred for the plan was $6,000, $77,000 and $121,000 for the years ended December 31, 2019, 2018 and 2017, respectively.
The Company approved the termination of the plan effective January 31, 2018. As a result of the termination, the plan was liquidated with all benefits paid in a lump sum to the participants on February 1, 2019. No additional expenses were incurred as a result of the plan termination. The related liability was $1.3 million at December 31, 2018 and was included in other liabilities on the balance sheet.

The Company purchased life insurance on the participants of the plan. The cash surrender value of all insurance policies was $16.0 million and $15.6 million at December 31, 2019 and 2018, respectively. Income earned from the cash surrender value of life insurance totaled $410,000, $437,000 and $412,000 for the years ended December 31, 2019, 2018, and 2017, respectively.

NOTE 14 – INCOME TAXES

Income tax expense (benefit) was as follows:

	2019	2018	2017
		(in thousands)	
Current	$ (173)	$ (346)	$ —
Deferred	505	121	2,523
Net operating loss	1,725	2,255	(647)
Establish state deferred tax asset	(1,577)	—	—
Change in federal statutory rate	—	—	20,274
Change in valuation allowance	—	—	(54,049)
	$ 480	$ 2,030	$ (31,899)

Prior to 2017, the Company had a full valuation allowance against its net deferred tax asset which was established in 2011. During the fourth quarter of 2017, management concluded it was more-likely-than-not the asset would be utilized to reduce future taxes payable related to the future taxable income of the Company, and as such, reversed the valuation allowance. As a result of the conclusion to reverse the valuation allowance, the Company recorded an income tax benefit of $54.0 million for the year ended December 31, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. Among other significant changes to the tax code, the new law lowered the federal corporate tax rate from 35% to 21% beginning in 2018. As a result, the Company revalued its net deferred tax asset at the new 21% rate. Due to this revaluation, the Company recorded a $20.3 million charge to income tax expense for the year ended December 31, 2017.

The combination of the reversal of the valuation allowance and the change in federal corporate tax rates, as well as income tax expense for the year, resulted in an income tax benefit of $31.9 million for the year ended December 31, 2017.

During the first quarter of 2019, the Company benefited $341,000, or approximately $0.05 per basic and diluted share, from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital, and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021.

In addition, the Company has state net operating loss carryforwards (“NOLs”) of $31.8 million, which were previously subject to a full valuation allowance and will begin to expire in 2025. In April 2019, tax legislation was enacted which allowed for certain Kentucky NOLs to be utilized in a combined filing return. Therefore, the Company will begin filing a Kentucky combined filing in 2021 and, as a result, a state NOL tax benefit, net of federal impact, of $1.2 million, or approximately $0.16 per basic and diluted share, was recognized in the second quarter of 2019.

Effective tax rates differ from federal statutory rate applied to income (loss) before income taxes due to the following:

	2019	2018	2017
		(in thousands)	
Federal statutory rate	21%	21%	35%
Federal statutory rate times financial statement income (loss)	$ 2,310	$ 2,273	$ 2,294
Effect of:			
Valuation allowance	—	—	(54,049)
Tax-exempt income	(66)	(80)	(196)
Establish state deferred tax asset	(1,577)	—	—
Non-taxable life insurance income	(86)	(92)	(144)
Restricted stock vesting	(137)	(115)	(121)
Change in federal statutory rate	—	—	20,274
Other, net	36	44	43
Total	$ 480	$ 2,030	$ (31,899)

Year-end deferred tax assets and liabilities were due to the following:

	2019	2018
	(in thousands)	
Deferred tax assets:		
Net operating loss carry-forward	$ 22,915	$ 24,507
Allowance for loan losses	2,090	1,865
OREO write-down	2,665	2,611
Alternative minimum tax credit carry-forward	173	346
Net assets from acquisitions	228	290
Net unrealized loss on securities	—	515
New market tax credit carry-forward	208	208
Nonaccrual loan interest	303	235
Accrued expenses	102	239
Deferred compensation	—	267
Lease liability	766	—
Other	309	241
	29,759	31,324
Deferred tax liabilities:		
FHLB stock dividends	563	557
Fixed assets	57	94
Deferred loan costs	170	136
Net unrealized gain on securities	331	—
Lease right-of-use assets	766	—
Other	107	138
	1,994	925
Net deferred tax assets before valuation allowance	27,765	30,399
Valuation allowance	—	(1,117)
Net deferred tax assets before valuation allowance	$ 27,765	$ 29,282

At December 31, 2019, the Company had federal net operating loss carryforwards of $103.1 million, which will begin to expire in 2032, and state net operating loss carryforwards of $31.8 million, which will begin to expire in 2025. As of December 31, 2019, a total of $173,000 in alternative minimum tax credit carry-forward was reclassified to other assets as it is currently refundable for the 2019 tax year.

The Company does not have any beginning and ending unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. There were no interest and penalties recorded in the income statement or accrued for the years ended December 31, 2019 or December 31, 2018 related to unrecognized tax benefits.

Under Section 382 of the Internal Revenue Code, as amended ("Section 382"), the Company's net operating loss carryforwards and other deferred tax assets can generally be used to offset future taxable income and therefore reduce federal income tax obligations. However, the Company's ability to use its NOLs would be limited if there was an "ownership change" as defined by Section 382. This would occur if shareholders owning (or deemed to own under the tax rules) 5% or more of the Company's voting and non-voting common shares increase their aggregate ownership of the Company by more than 50 percentage points over a defined period of time.

In 2015, the Company took two measures to preserve the value of its NOLs. First, the Company adopted a tax benefits preservation plan designed to reduce the likelihood of an "ownership change" occurring as a result of purchases and sales of the Company's common shares. Upon adoption of this plan, the Company declared a dividend of one preferred stock purchase right for each common share outstanding as of the close of business on July 10, 2015. Any shareholder or group that acquires beneficial ownership of 5% or more of the Company (an "acquiring person") could be subject to significant dilution in its holdings if the Company's Board of Directors does not approve such acquisition. Existing shareholders holding 5% or more of the Company will not be considered acquiring persons unless they acquire additional shares, subject to certain exceptions described in the plan. In addition, as amended November 25, 2019, the Board of Directors has the discretion to exempt certain transactions and certain persons whose acquisition of securities is determined by the Board not to jeopardize the Company's deferred tax assets. The rights plan was extended in May 2018 to expire upon the earlier of (i) June 30, 2021, (ii) the beginning of a taxable year with respect to which the Board of Directors determines that no tax benefits may be carried forward, (iii) the repeal or amendment of Section 382 or any successor statute, if the Board of Directors determines that the plan is no longer needed to preserve the tax benefits, and (iv) certain other events as described in the plan.

On September 23, 2015, the Company's shareholders approved an amendment to its articles of incorporation to further help protect the long-term value of the Company's NOLs. The amendment provides a means to block transfers of our common shares that could result in an ownership change under Section 382. The transfer restrictions were extended in May 2018 by shareholder vote and will expire on the earlier of (i) May 23, 2021, (ii) the beginning of a taxable year with respect to which the Board of Directors determines that no tax benefit may be carried forward, (iii) the repeal of Section 382 or any successor statute if our Board determines that the transfer restrictions are no longer needed to preserve the tax benefits of our NOLs, or (iv) such date as the Board otherwise determines that the transfer restrictions are no longer necessary.

The Company and its subsidiaries are subject to U.S. federal income tax and the Company is subject to income tax in the Commonwealth of Kentucky. The Company is no longer subject to examination by taxing authorities for years before 2016.

NOTE 15 – RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, significant shareholders, and their affiliates in 2019 were as follows (in thousands):

Beginning balance	$	14,191
New loans and advances		6,247
Repayments		(8,046)
Ending balance	$	12,392

Deposits from principal officers, directors, significant shareholders, and their affiliates at year-end 2019 and 2018 were $505,000 and $178,000, respectively.

Hogan Development Company assists the Bank in onboarding, managing, and selling the Bank's OREO. Hogan Development Company is owned by W. Glenn Hogan, a director. The agreement with Hogan Development Company is periodically reviewed and evaluated by the Audit Committee. The Bank paid real estate management fees of $20,000 in both 2019 and 2018. The Bank paid no real estate sales and leasing commissions in 2019 or 2018.

On March 30, 2018, the Company completed a private placement of common stock. In the transaction, the Company issued 150,000 common shares and 1.0 million non-voting common shares to Patriot Financial Partners III, L.P. at $13.00 per share resulting in net proceeds of $14.9 million. W. Kirk Wycoff, a former director of the Company and Bank, serves as a general partner of Patriot Financial Partners III, L.P.

On June 26, 2018, the Company completed the purchase and retirement of all of its issued and outstanding Series E and Series F Non-Voting Perpetual Preferred Shares for an aggregate price of $3.5 million paid in cash. The Series E and Series F Shares had an aggregate liquidation preference of $10.5 million. Participating sellers in the transaction, among others, were directors W. Glenn Hogan, Michael T. Levy, Dr. Edmond J. Seifried, and Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel, L.P., each affiliates of former director W. Kirk Wycoff. An independent third party financial advisory firm served as the financial advisor in this transaction to a special committee of directors comprised of members having no interest in the repurchase transaction.

NOTE 16 – PREFERRED STOCK

At December 31, 2017, the Company had issued and outstanding 6,198 Series E preferred shares and 4,304 Series F preferred shares, both of which series were not convertible into common shares, had a liquidation preference of $1,000 per share, and were entitled to a 2% noncumulative annual dividend if and when declared. Series E and Series F preferred shares ranked senior to, and had liquidation and dividend preferences over, the common shares and non-voting common shares.

On June 26, 2018, the Company completed the purchase and retirement of all of its issued and outstanding Series E and Series F preferred shares for an aggregate price of $3.5 million paid in cash. The Series E and F shares had an aggregate liquidation preference of $10.5 million.

NOTE 17 – REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. 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 result in regulatory action.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Company and Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule through January 1, 2019. The final rules allowed banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. The Company and the Bank opted out of this requirement. The rules also require a "capital conservation buffer" of 2.5% above the regulatory minimum risk-based capital ratios. With the capital conservation buffer fully phased in as of January 1, 2019, the minimum ratios are a common equity Tier 1 risk-based capital ratio of 7.0%, a Tier 1 risk-based capital ratio of 8.5%, and a total risk-based capital ratio of 10.5%. The capital conservation buffer for 2019 is 2.5% and 1.875% for 2018. An institution is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions without prior regulatory approval.

The Company's capital ratios were positively impacted by the $17.0 million of subordinated notes issued on July 23, 2019, as the subordinated notes meet the requirements to qualify as Tier 2 capital. The Bank's capital ratios also benefitted as the Company contributed $10.0 million of the proceeds to the Bank as Common Equity Tier 1 Capital.

As of December 31, 2019, the Company and Bank meet all capital adequacy requirements to which they are subject. At year end 2019 and 2018, 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 the notification that management believes have changed the institution's category.

The following tables show the ratios (excluding capital conservation buffer) and amounts of common equity Tier 1, Tier 1 capital, and total capital to risk-adjusted assets and the leverage ratios for the Bank at the dates indicated (dollars in thousands):

	Actual		Minimum Requirement for Capital Adequacy Purposes		Minimum Requirement to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2019:						
Total risk-based capital (to risk- weighted assets)	$ 121,335	12.08%	$ 80,341	8.00%	$ 100,426	10.00%
Total common equity Tier 1 risk- based capital (to risk-weighted assets)	112,959	11.25	45,192	4.50	65,277	6.50
Tier 1 capital (to risk-weighted assets)	112,959	11.25	60,256	6.00	80,341	8.00
Tier 1 capital (to average assets)	112,959	9.99	45,208	4.00	56,510	5.00

	Actual		Minimum Requirement for Capital Adequacy Purposes		Minimum Requirement to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:						
Total risk-based capital (to risk- weighted assets)	$ 109,309	12.88%	$ 67,920	8.00%	$ 84,900	10.00%
Total common equity Tier 1 risk- based capital (to risk-weighted assets)	100,429	11.83	38,205	4.50	55,185	6.50
Tier 1 capital (to risk-weighted assets)	100,429	11.83	50,940	6.00	67,920	8.00
Tier 1 capital (to average assets)	100,429	9.60	41,837	4.00	52,297	5.00

Kentucky banking laws limit the amount of dividends that may be paid to a holding company by its subsidiary banks without prior approval. These laws limit the amount of dividends that may be paid in any calendar year to current year's net income, as defined in the laws, combined with the retained net income of the preceding two years, less any dividends declared during those periods. In addition, a bank must have positive retained earnings.

NOTE 18 – OFF BALANCE SHEET RISKS, COMMITMENTS, AND CONTINGENT LIABILITIES

The Company, in the normal course of business, is party to financial instruments with off balance sheet risk. The financial instruments include commitments to extend credit and standby letters of credit. The contract or notional amounts of these instruments reflect the potential future obligations of the Company pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case-by-case basis in accordance with the Company's credit policies. Collateral from the client may be required based on the Company's credit evaluation of the client and may include business assets of commercial clients, as well as personal property and real estate of individual clients or guarantors.

An approved but unfunded loan commitment represents a potential credit risk and a liquidity risk, since the Company's client(s) may demand immediate cash that would require funding. In addition, unfunded loan commitments represent interest rate risk as market interest rates may rise above the rate committed to the Company's client. Since a portion of these loan commitments normally expire unused, the total amount of outstanding commitments at any point in time may not require future funding. Commitments to make loans are generally made for periods of one year or less.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the Company also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Company does not deem this risk to be material. No liability is currently established for standby letters of credit.

The following table presents the contractual amounts of financial instruments with off-balance sheet risk for each year ended:

	2019		2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to make loans	$ 11,577	$ 20,415	$ 5,317	$ 11,236
Unused lines of credit	7,916	111,230	7,410	73,024
Standby letters of credit	531	3,164	541	1,752

Commitments to make loans are generally made for periods of one year or less.

In connection with the purchase of loan participations, the Bank entered into risk participation agreements, which had notional amounts totaling $26.6 million at December 31, 2019 and $26.6 million at December 31, 2018. The risk participation agreements are not designated against specific assets or liabilities under ASC 815, Derivatives and Hedging, and, therefore, do not qualify for hedge accounting. The derivatives are recorded in other liabilities on the balance sheet at fair value and changes in fair value of both the borrower and the offsetting swap agreements are recorded (and essentially offset) in non-interest income. The fair value of the derivative instruments incorporates a consideration of credit risk in accordance with ASC 820, resulting in some volatility in earnings each period. At December 31, 2019 and December 31, 2018, the fair value of the risk participation agreements were $87,000 and $12,000, respectively.

In the normal course of business, the Company and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions may include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such matters could be material to the Company's operating results and cash flows for a particular future period, depending on, among other things, the level of the Company's revenues or income for such period. The Company will accrue for a loss contingency if (1) it is probable that a future event will occur and confirm the loss and (2) the amount of the loss can be reasonably estimated. The Company is not currently involved in any material litigation.

NOTE 19 – FAIR VALUES

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. Various valuation techniques are used to determine fair value, including market, income and cost approaches. 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 an entity has the ability to access as of the measurement date, or observable inputs.
>
> **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, and other inputs that are observable or can be corroborated by observable market data.
>
> **Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When that occurs, the fair value hierarchy is classified on the lowest level of input that is significant to the fair value measurement. The following methods and significant assumptions are used to estimate fair value.

> **Securities:** The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges, if available. This valuation method is classified as Level 1 in the fair value hierarchy. For securities where quoted prices are not available, fair values are calculated on market prices of similar securities, or matrix pricing, which is a mathematical technique used widely 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. Matrix pricing relies on the securities' relationship to similarly traded securities, benchmark curves, and the benchmarking of like securities. Matrix pricing utilizes observable market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. In instances where broker quotes are used, these quotes are obtained from market makers or broker-dealers recognized to be market participants. This valuation method is classified as Level 2 in the fair value hierarchy. 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. This valuation method is classified as Level 3 in the fair value hierarchy. Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.
>
> **Impaired Loans:** An impaired loan is evaluated at the time the loan is identified as impaired and is recorded at fair value less costs to sell. Fair value is measured based on the value of the collateral securing the loan and is classified as Level 3 in the fair value hierarchy. Fair value is determined using several methods. Generally, the fair value of real estate is determined based on appraisals by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.
> Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. These routine adjustments are made to adjust the value of a specific property relative to comparable properties for variations in qualities such as location, size, and income production capacity relative to the subject property of the appraisal. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Management routinely apply internal discounts to the value of appraisals used in the fair value evaluation of our impaired loans. The deductions to the appraisal take into account changing business factors and market conditions, as well as potential value impairment in cases where our appraisal date predates a likely change in market conditions. These deductions range from 10% for routine real estate collateral to 25% for real estate that is determined to have a thin trading market or to be specialized collateral. This is in addition to estimated discounts for cost to sell of six to ten percent.

Management also apply discounts to the expected fair value of collateral for impaired loans where the likely resolution involves litigation or foreclosure. Resolution of this nature generally results in receiving lower values for real estate collateral in a more aggressive sales environment. Discounts ranging from 10% to 33% have been utilized in our impairment evaluations when applicable.

Impaired loans are evaluated quarterly for additional impairment. Management obtains updated appraisals on properties securing our loans when circumstances are warranted such as at the time of renewal or when market conditions have significantly changed. This determination is made on a property-by-property basis in light of circumstances in the broader economic climate and the assessment of deterioration of real estate values in the market in which the property is located.

Other Real Estate Owned (OREO): OREO is evaluated at the time of acquisition and recorded at fair value as determined by independent appraisal or internal evaluation less estimated cost to sell. Quarterly evaluations of OREO for impairment are driven by property type. For smaller dollar single family homes, management consults with staff from the Bank's special assets group as well as external realtors and appraisers. Based on these consultations, management determines asking prices for OREO properties being marketed for sale. If the internally evaluated fair value or asking price is below the recorded investment in the property, appropriate write-downs are taken.

For larger dollar commercial real estate properties, management obtains a new appraisal of the subject property or has staff in the special assets group evaluate the latest in-file appraisal in connection with the transfer to OREO. Management generally obtains updated appraisals within five quarters of the anniversary date of ownership unless a sale is imminent. When an asking price is lowered below the most recent appraised value, appropriate write-downs are taken.

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

		Fair Value Measurements at December 31, 2019 Using (in thousands)		
Description	**Carrying Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale securities				
U.S. Government and federal agency	$ 22,330	$ —	$ 22,330	$ —
Agency mortgage-backed: residential	92,200	—	92,200	—
Collateralized loan obligations	49,419	—	49,419	—
State and municipal	28,366	—	28,366	—
Corporate bonds	16,685	—	16,685	—
Total	$ 209,000	$ —	$ 209,000	$ —

Description	Carrying Value	Fair Value Measurements at December 31, 2018 Using (in thousands) Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Government and federal agency	$ 22,560	$ —	$ 22,560	$ —
Agency mortgage-backed: residential	85,990	—	85,990	—
Collateralized loan obligations	49,839	—	49,839	—
State and municipal	32,812	—	32,812	—
Corporate bonds	9,991	—	9,991	—
Total	$ 201,192	$ —	$ 201,192	$ —

There were no transfers between Level 1 and Level 2 during 2019 or 2018.

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

Description	Carrying Value	Fair Value Measurements at December 31, 2019 Using (in thousands) Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial	$ 21	$ —	$ —	$ 21
Commercial real estate:				
Farmland	245	—	—	245
Residential real estate:				
1-4 Family	145	—	—	145

Description	Carrying Value	Fair Value Measurements at December 31, 2018 Using (in thousands) Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial real estate:				
Nonfarm nonresidential	$ 124	$ —	$ —	$ 124
Residential real estate:				
1-4 Family	552	—	—	552
Other real estate owned, net:				
Commercial real estate:				
Construction	3,485	—	—	3,485

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $453,000, with a valuation allowance of $42,000, at December 31, 2019, resulting in no additional provision for loan losses for the year ended December 31, 2019. At December 31, 2018, impaired loans had a carrying amount of $879,000, with a valuation allowance of $203,000, at December 31, 2018, resulting in no additional provision for loan losses for the year ended December 31, 2018.

OREO, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of $3.5 million at December 31, 2018. Write-downs of $850,000 were recorded on OREO for the years ended December 31, 2018.

The following table presents qualitative information about level 3 fair value measurements for financial assets measured at fair value on a non-recurring basis at December 31, 2018:

	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)	
Impaired loans – Residential real estate	$ 552	Sales comparison approach	Adjustment for differences between the comparable sales	0% - 26%	(11%)
Other real estate owned – Commercial real estate	$ 3,485	Sales comparison approach	Adjustment for differences between the comparable sales	0% - 35%	(18%)
		Income approach	Discount or capitalization rate	25%	(25%)

Carrying amount and estimated fair values of financial instruments were as follows at year-end 2019:

	Carrying Amount	Fair Value Measurements at December 31, 2019 Using			
		Level 1	Level 2 (in thousands)	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 30,203	$ 30,203	$ —	$ —	$ 30,203
Securities available for sale	209,000	—	209,000	—	209,000
Federal Home Loan Bank stock	6,237	N/A	N/A	N/A	N/A
Loans, net	917,895	—	—	925,388	925,388
Accrued interest receivable	4,257	—	1,118	3,139	4,257
Financial liabilities					
Deposits	$ 1,026,975	$ 187,551	$ 839,882	$ —	$ 1,027,433
Federal Home Loan Bank advances	61,389	—	61,395	—	61,395
Junior subordinated debentures	21,000	—	—	17,466	17,466
Subordinated capital note	17,000	—	—	17,003	17,003
Senior debt	5,000	—	—	5,022	5,022
Accrued interest payable	1,129	—	647	482	1,129

Carrying amount and estimated fair values of financial instruments were as follows at year-end 2018:

	Carrying Amount	Fair Value Measurements at December 31, 2018 Using			
		Level 1	Level 2 (in thousands)	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 35,361	$ 35,361	$ —	$ —	$ 35,361
Securities available for sale	201,192	—	201,192	—	201,192
Federal Home Loan Bank stock	7,233	N/A	N/A	N/A	N/A
Loans, net	756,364	—	—	744,076	744,076
Accrued interest receivable	3,665	—	1,222	2,443	3,665
Financial liabilities					
Deposits	$ 894,231	$ 142,618	$ 750,015	$ —	$ 892,633
Federal Home Loan Bank advances	46,549	—	46,519	—	46,519
Junior subordinated debentures	21,000	—	—	16,226	16,226
Senior debt	10,000	—	—	9,585	9,585
Accrued interest payable	658	—	598	60	658

In accordance with the Company's adoption of ASU 2016-01 as of January 1, 2018, the methods utilized to measure the fair value of financial instruments represent an approximation of exit price; however, an actual exit price may differ.

NOTE 20 – STOCK PLANS AND STOCK BASED COMPENSATION

Shares available for issuance under the 2018 Omnibus Equity Compensation Plan (“2018 Plan”) total 292,497. Shares issued to employees under the plan vest annually on the anniversary date of the grant over three years. Shares issued annually to each non-employee director have a fair market value of $25,000 and vest on December 31 in the year of grant.

The fair value of the 2019 unvested shares issued was $511,000, or $14.81 per weighted-average share. The Company recorded $535,000, $524,000, and $400,000 of stock-based compensation during 2019, 2018, and 2017, respectively, to salaries and employee benefits. Management expects substantially all of the unvested shares outstanding at the end of the period to vest according to the vesting schedule. A deferred tax benefit of $112,000, $110,000, and $140,000 was recognized related to this expense in 2019, 2018, and 2017, respectively.

The following table summarizes unvested share activity as of and for the periods indicated for the Stock Incentive Plan:

	Twelve Months Ended December 31, 2019		Twelve Months Ended December 31, 2018	
	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding, beginning	116,909	$ 8.69	142,334	$ 5.67
Granted	34,501	14.81	52,856	13.94
Vested	(89,388)	7.83	(78,281)	6.75
Forfeited	(4,248)	13.07	—	—
Outstanding, ending	57,774	$ 13.35	116,909	$ 8.69

Unrecognized stock based compensation expense related to unvested shares for 2020 and beyond is estimated as follows (in thousands):

2020	$ 309
2021	194
2022	20
2023 & thereafter	—

NOTE 21 – EARNINGS PER SHARE

The factors used in the basic and diluted earnings per share computation follow:

	2019	2018	2017
	(in thousands, except share and per share data)		
Net income	$ 10,518	$ 8,794	$ 38,453
Less:			
Earnings allocated to unvested shares	106	144	967
Net income attributable to common shareholders, basic and diluted	$ 10,412	$ 8,650	$ 37,486
Basic			
Weighted average common shares including unvested common shares and participating preferred shares outstanding	7,468,215	7,159,723	6,249,059
Less:			
Weighted average unvested common shares	75,084	117,030	157,127
Weighted average common shares outstanding	7,393,131	7,042,693	6,091,932
Basic income per common share	$ 1.41	$ 1.23	$ 6.15
Diluted			
Add: Dilutive effects of assumed exercises of common stock warrants	—	—	—
Weighted average common shares and potential common shares	7,393,131	7,042,693	6,091,932
Diluted income per common share	$ 1.41	$ 1.23	$ 6.15

The Company had no outstanding stock options at December 31, 2019, 2018 or 2017. A warrant for the purchase of 66,113 shares of the Company's common stock at an exercise price of $79.41 was outstanding at December 31, 2017, but was not included in the diluted EPS computation as inclusion would have been anti-dilutive. The warrant expired on November 21, 2018.

NOTE 22 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company adopted ASC 606 using the full retrospective method. The adoption of ASC 606 for in-scope revenue streams did not result in a cumulative effect adjustment. Bank card interchange income and expenses were previously reported net in non-interest income. The income statement impact of adopting ASC 606 resulted in a reclassification adjustment of $549,000 related to the year ended December 31, 2017, between bank card interchange income and deposit account related expense in order to report debit card interchange income gross and provide a comparable disclosure for all periods. This reclassification adjustment had no impact on previously reported net income for the year ended December 31, 2017.

All of the Company's revenue from customers in the scope of ASC 606 is recognized within non-interest income. A description of the Company's revenue streams accounted for under ASC 606 follows:

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

Bank Card Interchange Income: The Company earns interchange fees from bank cardholder transactions conducted through a third party payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Prior to adopting ASC 606, the Company reported bank card interchange fees net of expenses. Under ASC 606, bank card interchange fees are reported gross.

Gains/Losses on Sales of OREO: The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assess whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. Gains and losses on sales of OREO are netted with OREO expense and reported in non-interest expense.

Other Non-interest Income: Other non-interest income includes revenue from several sources that are within the scope of ASC 606, including title insurance commissions, income from secondary market loan sales, gains on sales of premises and equipment, and other transaction-based revenue that is individually immaterial. Other non-interest income included approximately $501,000, $660,000, and $666,000 of revenue for the years ended December 31, 2019, 2018, and 2017, respectively, within the scope of ASC 606. The remaining other non-interest income for the year is excluded from the scope of ASC 606.

NOTE 23 – ACQUISITIONS

On November 15, 2019, the Company completed the acquisition of four branch banking centers, certain performing loans, and certain customer deposits from Republic Bank and Trust. The branch banking centers are located in the Kentucky cities of Elizabethtown, Frankfort, and Owensboro. The purchase included approximately $126.8 million in performing loans and $1.5 million in premises and equipment, as well as approximately $131.8 million in customer deposits. This acquisition allows the Bank to further optimize its branch footprint regionally and solidifies its presence and ability to serve customers in Daviess, Hardin, and Franklin counties.

Included in the purchase price was goodwill and a core deposit intangible of $6.3 million and $2.5 million, respectively. Goodwill is the excess of the purchase price over the fair value of the identifiable net assets acquired and is the result of expected operational synergies and other factors. This goodwill and core deposit intangible is deductible for tax purposes. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. The core deposit intangible will be amortized over an estimated life of 13 years using an accelerated method. The Company did not recognize any core deposit intangible expense during 2019 and is projected for the next five years beginning 2020 to be $256,000 per year with $1.2 million in total for years after 2024.

The following table summarizes the estimated fair value of the assets acquired, liabilities assumed and consideration transferred in connection with the acquisition (in thousands):

Consideration: Cash	$	6,286
Fair value of total consideration transferred		6,286
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and cash equivalents	$	1,006
Loans		126,823
Premises and equipment		1,451
Leased right-of-use asset		1,892
Core deposit intangibles		2,500
Accrued interest receivable and other assets		380
Total assets acquired		134,052
Deposits		131,769
Lease liability		1,892
Accrued interest payable and other liabilities		357
Total liabilities assumed		134,018
Net identifiable assets		34
Goodwill		6,252
	$	6,286

If the Company obtains additional information during the twelve months subsequent to the acquisition date, the fair value of the acquired assets and liabilities may be adjusted, although such adjustments are not excepted to be significant.

The fair value of loans was estimated using discounted contractual cash flows. The book balance of the loans at the time of the acquisition was $127.3 million. The fair value disclosed above reflects a credit-related adjustment of $1.4 million offset by an adjustment for other factors of $924,000. There were no loans evidencing credit deterioration since origination (purchased credit impaired loans).

Acquisition-related costs to the branch acquisition were expensed as incurred and amounted to $775,000 for 2019. These costs were recorded in non-interest expense in the Consolidated Statement of Operations and primarily included integration costs, marketing, legal and consulting fees.

NOTE 24 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Limestone Bancorp Inc. is presented as follows:

CONDENSED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(in thousands)	
ASSETS		
Cash and cash equivalents (1)	$ 4,769	$ 5,369
Investment in banking subsidiary	138,321	114,042
Investment in and advances to other subsidiaries	776	776
Deferred taxes, net	5,138	3,142
Other assets	1,083	682
Total assets	$ 150,087	$ 124,011
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt	$ 43,775	$ 31,775
Accrued expenses and other liabilities	562	139
Shareholders' equity	105,750	92,097
Total liabilities and shareholders' equity	$ 150,087	$ 124,011

(1) $88,000 is held in escrow by the senior note lender to be used exclusively for interest payments on senior debt.

CONDENSED STATEMENTS OF OPERATIONS

	Years ended December 31, 2019	2018	2017
		(in thousands)	
Interest income	$ 83	$ 45	$ 4
Dividends from subsidiaries	36	35	26
Other income	19	38	—
Interest expense	(1,803)	(1,370)	(973)
Other expense	(1,179)	(1,290)	(1,137)
Loss before income tax and undistributed subsidiary income	(2,844)	(2,542)	(2,080)
Income tax expense (benefit)	(1,997)	(645)	(2,497)
Equity in undistributed subsidiary income	11,365	10,691	38,036
Net income	$ 10,518	$ 8,794	$ 38,453

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2019	2018	2017
	(in thousands)		
Cash flows from operating activities			
Net income	$ 10,518	$ 8,794	$ 38,453
Adjustments:			
Equity in undistributed subsidiary (income) loss	(11,365)	(10,691)	(38,036)
Deferred taxes, net	(1,996)	(645)	(2,497)
Stock-based compensation expense	535	524	400
Net change in other assets	(401)	30	805
Net change in other liabilities	423	(1,093)	(128)
Net cash used in operating activities	(2,286)	(3,081)	(1,003)
Cash flows from investing activities			
Investments in subsidiaries	(10,000)	(5,000)	(9,000)
Net cash used in investing activities	(10,000)	(5,000)	(9,000)
Cash flows from financing activities			
Proceeds from issuance of common stock	—	14,910	—
Redemption of preferred stock	—	(3,505)	—
Proceeds from issuance of subordinated capital note	17,000	—	—
Proceeds from senior debt	—	—	10,000
Repayment of senior debt	(5,000)	—	—
Common shares withheld for taxes	(314)	—	—
Net cash provided by financing activities	11,686	11,405	10,000
Net change in cash and cash equivalents	(600)	3,324	(3)
Beginning cash and cash equivalents	5,369	2,045	2,048
Ending cash and cash equivalents	$ 4,769	$ 5,369	$ 2,045

NOTE 25 – QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Negative Provision For Loan Losses	Income Before Income Taxes	Net Income (Loss)	Earnings Per Common Share Basic (1)	Diluted (1)
	(in thousands, except per share data)						
2019							
First quarter (2)	$ 12,186	$ 8,959	$ —	$ 2,962	$ 2,839	$ 0.38	$ 0.38
Second quarter (2)	12,376	8,800	—	3,022	3,633	0.49	0.49
Third quarter	12,485	$ 8,730	$ —	$ 2,813	$ 2,282	$ 0.31	$ 0.31
Fourth quarter (3)	12,537	8,861	—	2,201	1,764	0.24	0.24
2018							
First quarter	$ 10,015	$ 8,181	$ —	$ 2,263	$ 1,934	$ 0.31	$ 0.31
Second quarter	10,585	8,374	(150)	2,466	1,983	0.27	0.27
Third quarter	11,120	$ 8,412	$ (350)	$ 3,041	$ 2,437	$ 0.33	$ 0.33
Fourth quarter	11,741	8,704	—	3,054	2,440	0.33	0.33

(1) The sum of the quarterly net income per share (basic and diluted) differs from the annual net income per share (basic and diluted) because of the differences in the weighted average number of common shares outstanding and the common shares used in the quarterly and annual computations as well as differences in rounding.

(2) Income tax expense for 2019 benefitted $341,000, or $0.05 per basic and diluted share, in the first quarter of 2019 and $1.2 million, or $0.16 per basic and diluted share, from the establishment of a state net deferred tax asset related to the 2019 tax law enactments.

(3) On November 15, 2019, the Company completed a four branch acquisition. Acquisition related costs totaled $775,000, or $0.08 per common share after taxes.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Our management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2019. Based on that evaluation, management believes that our disclosure controls and procedures were effective to collect, process, and disclose the information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 within the required time periods as of the end of the period covered by this report.

Internal Control over Financial Reporting

Management's Report on Internal Controls Over Financial Reporting and the Report of Independent Registered Public Accounting Firm included in Item 8 of this report are incorporated herein by reference.

There was no change in the internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The Company has adopted a code of ethics applicable to the Chief Executive Officer and the senior financial officers, which is posted on the Bank’s website at http://www.limestonebank.com under the Investors Relations section of the About Us tab. If the Company amends or waives any of the provisions of the Code of Ethics applicable to its Chief Executive Officer or senior financial officers, management intends to disclose the amendment or waiver on our website. The Company will provide to any person without charge, upon request, a copy of this Code of Ethics. You can request a copy by contacting Limestone Bancorp, Inc., Chief Financial Officer, 2500 Eastpoint Parkway, Louisville, Kentucky, 40223, (telephone) 502-499-4800.

Additional information required by this Item 10 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2020, which includes the required information. The required information contained in our proxy statement under the headings “Proposal 1: Election of Directors,” “Corporate Governance,” and "Certain Relationships and Related Transactions - Delinquent Section 16(a) Reports" is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item 11 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2020, which includes the required information. The required information contained in our proxy statement under the headings “Corporate Governance,” “Compensation Discussion and Analysis,” “Executive Compensation,” and “Compensation Committee Report” is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Certain information required by this Item 12 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2020, which includes the required information. The required information contained in our proxy statement under the heading “Stock Ownership of Directors, Officers, and Principal Shareholders” is incorporated herein by reference.

Certain information required by this Item 12 appears under the heading “Equity Compensation Plan Information” in Item 5 of this report and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2020, which includes the required information. The required information contained in our proxy statement under the headings “Corporate Governance” and “Certain Relationships and Related Transactions” is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by this Item 14 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2020, which includes the required information. The required information contained in our proxy statement under the heading “Principal Accountant Fees and Services” is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. The following financial statements are included in this Form 10-K:

Consolidated Balance Sheets as of December 31, 2019 and 2018
Consolidated Statements of Operations for the Years Ended December 31, 2019, 2018, and 2017
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018, and 2017
Consolidated Statements of Change in Stockholders' Equity for the Years Ended December 31, 2019, 2018, and 2017
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018, and 2017
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

(a) 2. List of Financial Statement Schedules

Financial statement schedules are omitted because the information is not applicable.

(a) 3. List of Exhibits

The Exhibit Index appearing before the required signatures in this report is incorporated by reference. The compensatory plans or arrangement required to be filed as exhibits to this Form 10-K pursuant to Item 15(c) are noted with an asterisk in the Exhibit Index as noted therein.

Item 16. Form 10-K Summary

None

EXHIBIT INDEX

Exhibit No. (1)	Description
2.1+	Branch Purchase and Assumption Agreement between Republic Bank & Trust Company and Limestone Bank, Inc. dated July 24, 2019. Exhibit 2.1 to Form 8-K filed July 25, 2019 is incorporated by reference.
3.1	Articles of Incorporation of the Company, restated to reflect amendments. Filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q filed August 2, 2019 and incorporated by reference.
3.3	Amended and Restated Bylaws of Limestone Bancorp, Inc. dated June 18, 2018. Exhibit 3.2 to Form 8-K filed June 6, 2018 is hereby incorporated by reference.
4.1	Tax Benefits Preservation Plan, dated as of June 25, 2015, between the Company and American Stock Transfer Company, as Rights Agent. Exhibit 4.1 to Form 8-K filed June 29, 2015 is incorporated by reference.
4.2	Amendment No. 1 to the Tax Benefits Preservation Plan, dated August 4, 2015. Exhibit 4.2 to the Quarterly Report on Form 10-Q filed August 5, 2015 is incorporated by reference.
4.3+	Amendment No. 2 to the Tax Benefits Preservation Plan dated May 23, 2018. Exhibit 4 to the Form 8-K filed May 23, 2018 is incorporated by reference.
4.4	Amendment No. 3 to the Limestone Bancorp, Inc. Tax Benefits Preservation Plan, dated November 25, 2019. Exhibit 4.4 to the Form 8-K filed November 27, 2019 is incorporated herein by reference.
4.5	Indenture, dated July 23, 2019, by and between Limestone Bancorp, Inc. and Wilmington Trust National Association, as trustee. Exhibit 4.1 to Form 8-K filed July 25, 2019 is incorporated by reference.
4.6	Form of 5.75% Fixed-to-Floating Subordinated Notes due 2029 of Limestone Bancorp, Inc. Exhibit 4.2 to Form 8-K filed July 25, 2019 is incorporated by reference.
10.1	Loan Agreement between Limestone Bancorp, Inc. and First Merchants Bank dated June 30, 2017. Exhibit 1.1 to Form 8-K filed July 5, 2017 is incorporated by reference.
10.2	Promissory Note between Limestone Bancorp, Inc. and First Merchants Bank dated June 30, 2017. Exhibit 1.2 to Form 8-K filed July 5, 2017 is incorporated by reference.
10.3	Pledge Agreement between Limestone Bancorp, Inc. and First Merchants Bank dated June 30, 2017. Exhibit 1.3 to Form 8-K filed July 5, 2017 is incorporated by reference.
10.4	Form of Subordinated Note Purchase Agreement, dated July 23, 2019, by and among Limestone Bancorp, Inc. and the Purchasers. Exhibit 10.1 to Form 8-K filed July 25, 2019 is incorporated by reference.
10.5*	Limestone Bancorp, Inc. 2016 Omnibus Equity Compensation Plan. Appendix A to Schedule 14A proxy statement (DEF 14A) filed April 25, 2016 is incorporated by reference.
10.6*	Form of Limestone Bancorp, Inc. Restricted Stock Award Agreement. Exhibit 10.3 to 8-K filed June 22, 2016 is incorporated by reference.
10.7*	Limestone Bancorp, Inc. 2006 Non-Employee Directors Stock Ownership Incentive Plan, as amended and restated as of March 26, 2014. Exhibit 10.1 to Form S-8 Registration Statement (Reg. No. 333-202746) filed March 13, 2015 is incorporated by reference.

Exhibit No. (1)	Description
10.8*	Form of Ascencia Bank (now Limestone Bank) Supplemental Executive Retirement Plan. Exhibit 10.5 to Form S-1 Registration Statement (Reg. No. 333-133198) filed April 11, 2006 is incorporated by reference.
10.9*	Form of Amendment to Supplemental Executive Retirement Plan. Exhibit 10.7 to Form 10-K filed March 26, 2009 is incorporated by reference.
10.10*	Limestone Bancorp, Inc. 2018 Omnibus Equity Compensation Plan, Appendix B to Schedule 14A Proxy Statement (DEF 14A) filed April 13, 2018 is incorporated by reference.
10.11*	Form of Restricted Stock Award Agreement. Exhibit 10.11 to Form 10-K filed March 8, 2019 is incorporated herein by reference.
10.12*	Employment Agreement, dated April 24, 2019, with John T. Taylor. Exhibit 10.1 to Form 8-K filed April 26, 2019 is incorporated by reference.
10.13*	Employment Agreement, dated April 24, 2019, with John R. Davis. Exhibit 10.3 to Form 8-K filed April 26, 2019 is incorporated by reference.
10.14*	Employment Agreement, dated April 24, 2019, with Joseph C. Seiler. Exhibit 10.4 to Form 8-K filed April 26, 2019 is incorporated by reference.
10.15*	Employment Agreement, dated April 24, 2019, with Phillip W. Barnhouse. Exhibit 10.2 to Form 8-K filed April 26, 2019 is incorporated by reference.
10.16	Securities Purchase Agreement, dated March 30, 2018, between Limestone Bancorp, Inc. and Patriot Financial Partners III, L.P., incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated March 30, 2018.
10.17	Registration Rights Agreement, dated March 30, 2018, between Limestone Bancorp, Inc. and Patriot Financial Partners III, L.P., incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K dated March 30, 2018.
10.18	Offer to Purchase Issued and Outstanding Series E Preferred Shares and Series F Preferred Shares dated June 25, 2018. Exhibit 10.1 to Form 8-K filed June 27, 2018 is incorporated by reference.
10.19*	Description of Non-employee Director Restricted Stock Awards.
21.1	List of Subsidiaries of Limestone Bancorp, Inc.
23.1	Consent of Crowe LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 or 15d-14.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 or 15d-14.
32.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(b) or 15d-14(b) and U.S.C. Section 1350.
101	The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2019, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.

(1) The Company has other long-term debt agreements that meet the exclusion set forth in Section 601(b)(4)(iii)(A) of Regulation S-K. The Company hereby agrees to furnish a copy of such agreements to the Securities and Exchange Commission upon request.

\+ Schedules and similar attachments to the Purchase and Assumption Agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or similar attachment will be furnished to the Securities

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIMESTONE BANCORP, INC.

February 28, 2020

By: /s/ John T. Taylor
John T. Taylor
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

/s/ John T. Taylor John T. Taylor	Chief Executive Officer	February 28, 2020
/s/ Phillip W. Barnhouse Phillip W. Barnhouse	Chief Financial Officer	February 28, 2020
/s/ Celia P. Catlett Celia P. Catlett	Director	February 28, 2020
/s/ W. Glenn Hogan W. Glenn Hogan	Director	February 28, 2020
/s/ Kevin J. Kooman Kevin J. Kooman	Director	February 28, 2020
/s/ Michael T. Levy Michael T. Levy	Director	February 28, 2020
/s/ James M. Parsons James M. Parsons	Director	February 28, 2020
/s/ Bradford T. Ray Bradford T. Ray	Director	February 28, 2020
/s/ Dr. Edmond J. Seifried Dr. Edmond J. Seifried	Director	February 28, 2020

Exhibit 10.19

Description of Non-Employee Directors
Restricted Stock Awards

Under the 2018 Omnibus Equity Compensation Plan of Limestone Bancorp, Inc. (the "Company"), each non-employee director receives an annual grant of restricted shares having a market value of $25,000, based on the trading price of the Company's common shares at the closing of trading on the grant date. The grant date is the first day of the month after the annual meeting of shareholders of the Company.

Restricted shares are common shares that may not be transferred and are subject to forfeiture during a specified period. Otherwise, restricted shares have all of the rights of common shares during the restriction period, including the right to vote and the right to receive dividends. Restricted shares awarded to directors vest on December 31 of the year of grant. If a director ceases to serve on the Board of Directors for any reason, the director will automatically forfeit any unvested restricted shares. In the event of a change in control, the restrictions on the transfer of the shares will end. Under the terms of the restricted share awards to non-employee directors, a change in control means (i) the disposal of the Company's business or the business of the Company's subsidiary, Limestone Bank, Inc. (the "Bank"), pursuant to a liquidation, sale of assets or otherwise, (ii) any person, group or entity acquiring or gaining ownership or control of more than 50% of the Company's outstanding shares or the outstanding shares of the Bank, other than any trustee or other fiduciary holding shares under any employee benefit plan, or (iii) during any period of two consecutive years, individuals who were directors of the Company at the beginning of that period cease to constitute a majority of the Board of Directors, unless the election of each new director was approved by at least two-thirds of the directors then still in office who were directors at the beginning of the period.

The 2018 Omnibus Equity Compensation Plan was approved by the shareholders of the Company at the 2018 annual meeting of shareholders and is administered by the Compensation Committee of the Board of Directors. This compensatory arrangement under which non-employee directors are granted restricted shares under the 2018 Omnibus Equity Company Plan may be amended, modified or terminated at any time.

Exhibit 21.1

SUBSIDIARIES OF LIMESTONE BANCORP, INC.

Direct Subsidiary	Jurisdiction of Organization	Does Business As
Limestone Bank, Inc.	Kentucky	Limestone Bank, Inc.
Statutory Trust I	Connecticut	Statutory Trust I
Statutory Trust II	Connecticut	Statutory Trust II
Statutory Trust III	Connecticut	Statutory Trust III
Statutory Trust IV	Connecticut	Statutory Trust IV
PBIB Corporation, Inc.	Kentucky	PBIB Corporation, Inc.

Indirect Subsidiary	Jurisdiction of Organization	Does Business As	Parent Entity
PBI Title Services, LLC	Kentucky	PBI Title Services, LLC	Limestone Bank, Inc.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-188988; 333-189005; 333-202746; 333-202749; and 333-225384 on Form S-8 of Limestone Bancorp, Inc. of our report dated February 28, 2020 with respect to the consolidated financial statements and effectiveness of internal control over financial reporting of Limestone Bancorp, Inc., which report appears in this Annual Report on Form 10-K of Limestone Bancorp, Inc. for the year ended December 31, 2019.

/s/ Crowe LLP

Louisville, Kentucky
February 28, 2020

Exhibit 31.1

LIMESTONE BANCORP, INC.
RULE 13A-14(A) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John T. Taylor, Chief Executive Officer of Limestone Bancorp, Inc. (the “Company”), certify that:

1. I have reviewed this Annual Report on Form 10-K of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2020

/s/ John T. Taylor
John T. Taylor
Chief Executive Officer

Exhibit 31.2

LIMESTONE BANCORP, INC.
RULE 13A-14(A) CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Phillip W. Barnhouse, Chief Financial Officer of Limestone Bancorp, Inc. (the “Company”), certify that:

1. I have reviewed this Annual Report on Form 10-K of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2020

/s/ Phillip W. Barnhouse
Phillip W. Barnhouse
Chief Financial Officer

Exhibit 32.1

SECTION 906 CERTIFICATION

In connection with the Annual Report on Form 10-K of Limestone Bancorp, Inc. (the "Company") for the annual period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John T. Taylor, Chief Executive Officer of the Company, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

LIMESTONE BANCORP, INC.

Dated: February 28, 2020

By: /s/ John T. Taylor
John T. Taylor
Chief Executive Officer

Exhibit 32.2

SECTION 906 CERTIFICATION

In connection with the Annual Report on Form 10-K of Limestone Bancorp, Inc. (the “Company”) for the annual period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Phillip W. Barnhouse, Chief Financial Officer of the Company, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

LIMESTONE BANCORP, INC.

Dated: February 28, 2020

By: /s/ Phillip W. Barnhouse
Phillip W. Barnhouse
Chief Financial Officer