LIMESTONE BANCORP

2022 ANNUAL REPORT

LIMESTONE BANK

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, 2022

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

(502) 499-4800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares	LMST	The Nasdaq Stock 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☐ No ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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, 2022, was $96,526,944 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).

6,629,402 Common Shares and 1,000,000 Non-Voting Common Shares were outstanding as of February 28, 2023.

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PART I

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, Limestone Bank, Inc., which is referred to in this report as "the Bank."

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:

- risks related to the Company's pending merger with Peoples Bancorp Inc., including risks if the Company is unable to complete the Merger due to the failure to satisfy the conditions to completion of the Merger, including receipt of required regulatory and other approvals, the failure of the proposed merger to close for any other reason, the diversion of management's attention from ongoing business operations and opportunities due to the merger transaction, and the effect of the announcement and pendency of the merger transaction on the Company's customer and employee relationships and operating results;

- the impact of the novel coronavirus disease 2019 ("COVID-19") pandemic and the economic and financial disruptions and instabilities that have followed it;

- deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses;

- changes in inflation and efforts to control it;

- 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 the Bank to conclude that there was impairment of any asset, including intangible assets;

- the continued service of key management personnel, and 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;

- 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;

- legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry; 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, 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

Organized in 1988, Limestone Bancorp, 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, Inc. (the Bank), the eleventh 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, 2022, the Company had total assets of $1.46 billion, total loans of $1.11 billion, total deposits of $1.20 billion and stockholders' equity of $133.9 million.

Recent Developments

On October 24, 2022, Peoples Bancorp Inc., an Ohio corporation ("Peoples"), and the Company, entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which the Company agreed to merge with and into Peoples (the "Merger"). The Merger Agreement provides that the Company's wholly-owned banking subsidiary, Limestone Bank, Inc., will be merged with and into Peoples' wholly-owned banking subsidiary, Peoples Bank (the "Bank Merger"), following the Merger. The Boards of Directors of both Peoples and the Company have approved the Merger, the Bank Merger, and the Merger Agreement. The Merger is expected to close during the second quarter of 2022, subject to customary regulatory approval and completion of other customary closing conditions.

Website Access to Reports

The Company files reports with the SEC including the Annual Report on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8-K, and proxy statements, as well as any amendments to those reports. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are also accessible at no cost on the Company's web site at http://www.limestonebank.com after they are electronically filed with the SEC. The information contained on our website is not included, a part of, or incorporated by reference into this Annual Report on Form 10-K.

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 Worldport air hub for United Parcel Service ("UPS"), two Ford assembly plants, Humana, Norton Healthcare, the University of Louisville, Brown-Forman, Churchill Downs, YUM! Brands, 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, Xerox, Lexmark, 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. 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 equine, 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. Lending operations are complemented with an array of retail and commercial deposit products. In addition, the Bank offers customers drive-through banking facilities, curbside banking services, automatic teller machines, night depository, personalized checks, credit cards, debit cards, internet banking, mobile banking, curbside 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.

Human Capital Resources

At December 31, 2022, the Company had 222 full-time equivalent employees and a total of 228 employees ("team members"). The Company's team members are instrumental in building, maintaining, and servicing the customer relationships that make the community banking model a success. The Company strives to attract and retain a well-qualified, enthusiastic workforce by offering competitive compensation packages, comprehensive benefits, training, and opportunities for professional development and advancement. Team members are held accountable to the Company's core values, which are:

- Commitment to honesty and integrity;
- Commitment to have a positive and constructive attitude;
- Commitment to be a team player;
- Commitment to conduct oneself in a professional manner; and
- Commitment to celebrate successes.

The Company's team members are not subject to a collective bargaining agreement, and management considers the Company's relationship with its team members to be good. The Bank is consistently recognized as one of the "Best Places to Work in Kentucky."

Competition

The banking business is highly competitive, and the Bank experiences competition from a number of other financial institutions and non-bank financial competitors, many of whom may not be subject to the same extensive regulatory regime as the Bank. Competition is based upon relationships, the quality and scope of services levels, interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, 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, farm credit organizations, 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 Company and the Bank are subject to an extensive system of the laws, rules, and regulations that are intended primarily for the protection of customers, the Deposit Insurance Fund (DIF), and the banking system in general and not for the protection of shareholders and creditors. These laws and regulations govern areas such as capital, permissible activities, allowance for loan and lease losses, loans and investments, interest rates that can be charged on loans, and consumer protection communications and disclosures. Certain elements of selected laws, rules, and regulations are described in the sections that follow. These descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the laws, rules, and regulations.

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 it may engage, and to other supervisory requirements, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions. As a bank holding company, the Company must obtain Federal Reserve Board approval before acquiring, directly or indirectly, ownership or control of more than 5% of any class of voting stock or all or substantially all of the assets of a bank, before 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. For any acquisition transaction structured as a merger of the Bank, the approval of the Federal Deposit Insurance Corporation ("FDIC") and the Kentucky Department of Financial Institutions ("KDFI") would be required.

The Bank Holding Company Act and the Change in Bank Control Act prohibit a person or group of persons from acquiring "control" of a bank holding company without notifying the Federal Reserve Board in advance and obtaining the Federal Reserve Board's approval of, or non-objection to, the proposed transaction. The Federal Reserve Board has established a rebuttable presumptive standard that the acquisition of 10% or more of any class of voting securities of a bank holding company that has registered securities under Section 12 of the Securities Exchange Act of 1934 (such as the Company) constitutes an acquisition of control of the bank holding company for purposes of the Change in Bank Control Act. An acquisition of 25% of any class of voting securities of a bank holding company will conclusively be deemed to be an acquisition of control under the Change in Bank Control Act.

Permissible Activities. The Company is generally permitted under the Bank Holding Company Act to own up to 5% of the voting shares of a company and, subject to the receipt of any required approval by the Federal Reserve Board, 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 Company has not filed an election to become a financial holding company.

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 depositors 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 Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act").

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. 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. The Bank is prohibited from paying any dividend if undercapitalized or if payment would cause it to become undercapitalized, and it must maintain a sufficient capital conservation buffer under the capital adequacy guidelines in order to avoid limitations on dividends. 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.

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.

Based on these regulations, the Bank was eligible to pay $20.4 million of dividends as of December 31, 2022. The Bank paid the Company $7.5 million of dividends during 2022.

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.

The minimum capital level requirements applicable to the Company and the Bank 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 require a "capital conservation buffer" of 2.5% above the regulatory minimum risk-based capital ratios. Including this buffer, the required 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 capital that can be utilized for such actions.

Under the 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, an institution may be required to submit a capital restoration plan, and its holding company must guarantee compliance with the capital restoration plan up to 5% of the institution's assets at the time it became undercapitalized.

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 calculates a bank's premium assessment by multiplying its risk-based assessment rate by its assessment base. As required by the Dodd-Frank Act, a bank's assessment base is determined by its consolidated total assets less average tangible equity rather than deposits.

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 the Company and the 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, the Dodd-Frank Act requires the SEC to adopt rules under which listed companies must have (and disclose) a "clawback" policy for the recovery of erroneously awarded executive incentive compensation following an accounting restatement due to material noncompliance with financial reporting requirements under the securities laws. In October 2022, the SEC finalized rules to require listing standards to be updated to implement this "clawback" policy requirement and to impose related disclosure requirements on listed companies. When fully implemented, listed companies, like the Company, will be required to have a policy providing for the recovery, in the event of a required accounting restatement, of incentive-based compensation received by current or former executive officers where that compensation is based on the erroneously reported financial information.

In June 2010, the Federal Reserve, OCC, and FDIC issued comprehensive final guidance on incentive compensation policies of banking organizations intended to ensure that these policies 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 proposed joint compensation regulations under the Dodd-Frank Act. The agencies proposed such regulations in April 2011, and reproposed the regulations in 2016, but they have not been finalized.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, 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, and the Fair Housing Act, prohibiting discrimination on the basis of race, religion, national origin, sex, and a variety of 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 and Regulation E, establishing rights, liabilities, and responsibilities of participants in electronic fund transfer systems such as automated teller machine transfers, telephone bill-payment services, point-of-sale (POS) terminal transfers in stores, and preauthorized transfers from or to a consumer's account; and
- Automated Overdraft Payment Regulations, 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 ("CFPB"), which has broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. As a bank with less than $10 billion or more in assets, the Bank is subject to rules promulgated by the CFPB, but continues to be examined and supervised by the FDIC, its federal banking regulator 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 CFPB has established certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. 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.

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.

Privacy. Federal law currently contains extensive customer privacy protection provisions. Under these provisions, the Bank must provide to its customers, at the inception of the customer relationship and annually thereafter, its policies and procedures regarding the handling of customers' nonpublic personal financial information. Except for certain limited exceptions, the Bank may not provide such personal information to unaffiliated third parties unless it 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 and the FDIC'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 steps to be taken 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. Rules issued under the BSA require the Bank to identify the beneficial owners who own or control certain legal entity customers at the time an account is opened and to include in its anti-money laundering program risk-based procedures for conducting ongoing customer due diligence.

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.

The Dodd-Frank Act. The Dodd-Frank Act imposed new restrictions and requirements and an expanded framework of regulatory oversight for financial institutions, including depository institutions and their holding companies. The implementation of the Dodd-Frank Act has resulted in greater compliance costs and higher fees paid to regulators. The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 provided some regulatory relief to banking organizations, primarily small, community banking organizations, by adjusting thresholds at which certain increased regulatory requirements imposed under the Dodd-Frank Act begin to apply. As a result, traditional community banking organizations with assets of less than $10 billion, such as the Company, are exempt from the Volker Rule under the Dodd-Frank Act, which places limits and restrictions on trading and hedging activities. In addition, community banking organizations with assets of less than $10 billion are now subject to reduced reporting requirements and an optional simplified capital adequacy measure is available to those that have a leverage ratio greater than 9%. The Bank elected not to use this optional capital adequacy measure.

Effect of 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.

Item 1A. Risk Factors

FACTORS THAT MAY AFFECT FUTURE RESULTS

An investment in the Company's common stock is subject to certain risks, which are particular to the Company, as well as the industry and markets in which the Company operates. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this filing. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially and adversely affect its business, financial condition, and results of operations in the future. The value or market price of the Company's common stock could decline due to any of these identified or other risks, and an investor could lose all or part of their investment.

There are factors, many beyond the Company's control, which may significantly change the results or expectations of the Company. Some of these factors are described below, however, many are described in the other sections of this Annual Report on Form 10-K.

Risks Related to the Company's Pending Merger Transaction

Failure to complete the Company's proposed Merger with Peoples could negatively impact the Company's business, financial results and stock price.

If the Merger is not completed for any reason, the Company's ongoing business may be adversely affected, and, without realizing any of the benefits of having completed the Merger, the Company will be subject to a number of risks, including the following:

- the Company may experience negative reactions from the financial markets, including negative impacts on its stock price;
- the market price of the Company's common stock could decline to the extent that the current market prices reflect a market assumption that the Merger will be completed;
- the Company may experience negative reactions from the Company's customers, vendors and team members;
- the Company will have incurred substantial expenses and will be required to pay certain costs relating to the Merger, whether or not the Merger is completed, such as legal, accounting, investment banking and advisory and printing fees;
- the Company's compliance with the restrictions the Merger Agreement places on the conduct of the Company's business prior to completion of the Merger, the waiver of which is subject to the consent of Peoples, may adversely affect the Company's ability to pursue or execute alternative business strategies; and
- matters relating to the Merger require substantial commitments of time and resources by the Company's management (including integration planning), which could otherwise have been devoted to other opportunities that may have been beneficial to the Company, as an independent company.

In addition to the above risks, if the Merger Agreement is terminated and the Company's Board of Directors seeks another merger or business combination, the market price of the Company's common stock could decline, which could make it more difficult to find a party willing to offer equivalent or more attractive consideration than the consideration Peoples has agreed to provide. If the Merger Agreement is terminated under certain circumstances, the Company may be required to pay a termination fee of $8.3 million to Peoples, which may adversely affect the price of the Company's common stock. Any of the above risks could materially affect the Company's business, financial results and stock price.

Because the market price of Peoples common stock may fluctuate, the Company's shareholders cannot be certain of the precise value of the Merger consideration they may receive in the Merger.

At the time the Merger is completed, each issued and outstanding share of the Company's common stock will be converted into the right to receive 0.90 of a share of Peoples common stock.

The market value of Peoples common stock may fluctuate prior to closing of the Merger as a result of a variety of factors, including general market and economic conditions, changes in Peoples' businesses, operations and prospects, and regulatory considerations. Many of these factors are outside of the Company's and Peoples' control. Consequently, while the Merger Agreement includes a termination right designed to protect against a greater than 17.5% decline in the market price of Peoples common stock prior to the closing that exceeds the change in the Nasdaq Bank Index plus 17.5%, the Company's shareholders will not know in advance the actual market value of the shares of Peoples common stock that they are to receive in the Merger. The actual market value of the shares of Peoples common stock received by the Company's shareholders will depend on the market value of shares of Peoples common stock at the time the Merger is completed. This market value may be less or more than the value used to determine the exchange ratio stated in the Merger Agreement.

The Company faces risks and uncertainties related to its proposed Merger with Peoples.

Uncertainty about the effect of the Merger on the Company's team members and customers may have an adverse effect on the Company. These uncertainties may impair the Company's ability to attract, retain and motivate key personnel until the Merger is consummated and for a period of time thereafter, and could cause customers and others that deal with the Company to seek to change their existing business relationships with the Company. Team member retention may be particularly challenging during the pendency of the Merger, as team members may experience uncertainty about their roles with the surviving corporation following the Merger.

In addition, the Merger Agreement contains provisions that restrict the Company's ability to, among other things, solicit, knowingly encourage or facilitate inquiries or proposals or enter into any agreement with respect to, or initiate or participate in any negotiations or discussions with any person concerning any alternative business combination proposals, subject to a limited exception when required by the Company's Board of Directors' exercise of its fiduciary duties in response to an unsolicited acquisition proposal that is, or is reasonably capable of becoming, a superior proposal. These provisions, which include an $8.3 million termination fee payable under certain circumstances, might discourage a potential competing acquirer that might have an interest in engaging in a superior transaction from considering or proposing that acquisition, or might result in lower value received by the Company's shareholders than would have otherwise been received.

The Company and Peoples have operated and, until the completion of the Merger, will continue to operate, independently. The success of the Merger, including anticipated benefits and cost savings among other things, will depend, in part, on the Company's and Peoples' ability to successfully combine and integrate the Company's and Peoples' businesses in a manner that facilitates growth opportunities and realizes cost savings. It is possible that the integration process could result in the loss of key employees, the loss of customers, the disruption of either company's or both companies' ongoing business, inconsistencies in standards, controls, procedures and policies, unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated. If the combined companies experience difficulties with the integration process, the anticipated benefits of the Merger may not be realized fully or at all or may take longer to realize than expected.

The Merger Agreement may be terminated in accordance with its terms and the Merger may not be completed.

The Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete the Merger. Those conditions include: the approval of the Merger by the Company's shareholders and by the shareholders of Peoples (which approvals were obtained at meetings of shareholders held on February 23, 2023); the effectiveness of the registration statement on Form S-4 for the shares of Peoples common stock to be issued in the Merger; the receipt of authorization for listing on Nasdaq of the shares of Peoples common stock to be issued in the Merger; the receipt of all required regulatory approvals; the absence of any order, decree or injunction enjoining or prohibiting the Merger; subject to certain exceptions, the accuracy of representations and warranties under the Merger Agreement; the Company's and Peoples' performance of the Company's and their respective obligations under the Merger Agreement in all material respects; the absence of a material adverse effect on the Company or Peoples while the transaction is pending; and the Company's receipt of a tax opinion to the effect that the Merger will be treated as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. These conditions to the closing of the Merger may not be fulfilled in a timely manner or at all, and, accordingly, the Merger may be delayed or may not be completed.

The Company and Peoples may elect to terminate the Merger Agreement under certain circumstances. Among other situations, if the Merger is not completed by July 31, 2023, either the Company or Peoples may choose not to proceed with the Merger, subject to certain exceptions. The Company and Peoples can also mutually decide to terminate the Merger Agreement at any time. If the Merger Agreement is terminated, under certain limited circumstances, the Company may be required to pay a termination fee of $8.3 million to Peoples.

The Company's ability to complete the Merger is subject to the receipt of approval from various regulatory agencies, which may impose conditions that could adversely affect the Company or cause the Merger to be abandoned.

Before the transactions contemplated in the Merger Agreement can be completed, the Company and Peoples must obtain various regulatory approvals. The terms and conditions of the approvals that are granted may impose conditions, limitations, obligations or costs, or place restrictions on the conduct of the combined company's business or require changes to the terms of the transactions contemplated by the Merger Agreement. Although the Company and Peoples do not currently expect that any such conditions or changes would be imposed, there can be no assurance that the regulators will not impose any such conditions, obligations or restrictions, and that such conditions, limitations, obligations or restrictions will not have the effect of delaying or preventing completion of any of the transactions contemplated by the Merger Agreement, imposing additional material costs on or materially limiting the revenues of the combined company following the Merger or otherwise reduce the anticipated benefits of the Merger if the Merger were consummated successfully within the expected timeframe, any of which might have an adverse effect on the combined company following the Merger. Neither Peoples nor the Company will be required to complete the Merger if Peoples determines any required regulatory approval contains an unduly burdensome provision.

Shareholder litigation could prevent or delay the closing of the proposed Merger or otherwise negatively impact the Company's business and operations.

In connection with the Merger, lawsuits may be filed against the Company, Peoples, or the directors and officers of either company in connection with the Merger. Litigation filed against the Company, the Company's Board of Directors or Peoples and its Board of Directors could prevent or delay the completion of the Merger or result in the payment of damages following completion of the Merger. The defense or settlement of any lawsuit or claim that remains unresolved at the Effective Time of the Merger may adversely affect the combined company's business, financial condition, results of operations, cash flows and market price.

<u>Pandemic</u>

The COVID-19 pandemic creates significant risks and uncertainties for the Company's business.

In March 2020, the World Health Organization declared COVID-19 as a global pandemic. The COVID-19 pandemic created economic and financial disruption and adversely affected the business, financial condition, and results of operations of the Company and its customers. The COVID-19 pandemic caused changes in the behavior of customers, businesses, and their employees, as well as supply chain interruptions, and overall economic and financial market instability.

While government, schools, and businesses have largely reopened, future effects, including any actions taken by federal, state, and local governments in response to potential disruptions in the future or their impact, are unknown. Prior and ongoing governmental actions have and continue to meaningfully influence the interest-rate environment. If these actions are sustained, it may adversely impact several industries within the Company's geographic footprint and impair the ability of the Company's customers to fulfill their contractual obligations. This could cause the Company to experience a material adverse effect on business operations, liquidity, asset valuations, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios.

Bank Lending, Allowance for Loan Losses and Other Real Estate Owned

Global Economic and Geopolitical Instability and Inflationary Risks

Instability in global economic conditions and geopolitical matters, as well as volatility in financial markets, could have a material adverse effect on the Company's results of operations and financial condition. The macroeconomic environment in the United States is susceptible to global events and volatility in financial markets. For example, global demand for products continues to exceed supply during the economic recovery from the COVID-19 pandemic, creating significant inflationary pressures which, in turn, may adversely impact regional and global economic conditions, as well as the Company's financial condition and results of operations.

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. Certain economic indicators, such as real estate asset values, rents, and unemployment, may vary between geographic markets. 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 experience stress, 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 Kentucky and contiguous states 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 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 have had in the past and may in the future have a negative impact on the Bank's business, financial condition, results of operations, and future prospects.

Small to medium-sized businesses 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 72.4% of the Bank's loan portfolio as of December 31, 2022, 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.

Approximately 12.2% of the Company's loan portfolio as of December 31, 2022 consisted of real estate construction and development loans, up from 7.5% at December 31, 2021 and 9.7% at December 31, 2020. 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.

The CECL accounting standard will result in a significant change in how the Company recognizes credit losses and may have a material impact on the Company's financial condition or results of operations.

In June 2016, the FASB issued ASU, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model. Whereas the incurred loss model delays recognition of loss on financial instruments until it is probable a loss has occurred, the expected loss model will recognize a loss at the time the loan is first added to the balance sheet. As a result of this differing methodology, the Company expects adoption of the CECL model will materially affect the determination of the allowance and could require a significant increase to the allowance. Any material increase to the required level of loan loss allowance could adversely affect the Company's business, financial condition, and results of operations. The CECL standard became effective for the Company on January 1, 2023. See Note 1, "New *Accounting Standards*" for discussion regarding the standard and the estimated one-time cumulative-effect adjustment to the allowance and shareholders' equity. Interagency guidance issued in December 2018 allows for a three-year phase-in of the cumulative-effect adjustment for regulatory capital reporting.

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.

While there were no OREO properties held by the Bank at December 31, 2022, the Bank may acquire and dispose 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.

Interest Rates, Asset-Liability Management, Liquidity, and Common Stock

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 interest rate 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.

The planned phasing out of the LIBOR as a financial benchmark presents risks to the financial instruments originated or held by the Company.

LIBOR is the reference rate used for many transactions, including lending and borrowing, as well as the derivatives that may be used to manage risk related to such transactions. Effective January 1, 2022, LIBOR ceased to exist as a published rate for one-week and two-month dollar settings and will cease for remaining U.S. dollar settings after June 30, 2023. The expected discontinuation of LIBOR could have a significant impact on the financial markets and market participants such as the Company. As of December 31, 2022, the Company had approximately $66.1 million in variable rate loans with interest rates tied to LIBOR for which a replacement index had not yet been identified, as well as certain investment securities and debt obligations tied to LIBOR, all of which have maturity dates beyond June 30, 2023.

All loan contracts extending beyond June 30, 2023 will need to be managed effectively to ensure appropriate benchmark rate replacements are provided for and adopted. The Adjustable Interest Rate (LIBOR) Act, enacted in 2022, provides a mechanism to replace LIBOR with a replacement benchmark rate selected by the Federal Reserve Board in existing contracts that do not provide for a clearly defined or practicable replacement benchmark rate. In December 2022, the Federal Reserve Board finalized regulations to designate the Secured Overnight Financing Rate (SOFR) as its selected replacement benchmark rate.

Failure to identify a replacement benchmark rate and/or update data processing systems could result in future interest rate changes not being correctly captured, which could result in interest rate risk not being mitigated as intended, or interest earned being miscalculated, which could adversely impact the Company's business, financial condition, and results of operations. Uncertainty regarding the impact of LIBOR's phasing out and the taking of discretionary actions or negotiations of fallback provisions could result in pricing volatility, adverse tax or accounting impacts, or additional compliance, legal and operational costs.

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, brokered deposits, 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.

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 it 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. Based on these regulations, the Bank was eligible to pay $20.4 million of dividends at December 31, 2022. The Bank paid the Company $7.5 million of dividends during 2022. See the "Item 1. Business" "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Dividends."

Deferred Tax Assets

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 $13.8 million, credit carry-forwards of $208,000, and other net deferred tax assets of $7.3 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% and a state corporate tax rate of 5%. Changes in tax laws and rates may affect deferred tax assets in the future. If higher federal corporate tax rates are enacted, net deferred tax assets would be increased commensurate with the rate increase. Federal net operating loss carry-forwards begin to expire in 2033 and state net operating loss carryforwards begin to expire in 2031. 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, and result in an impairment of these deferred tax assets for financial reporting purposes.

Litigation

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.

Deposit Insurance Expense

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.

Competition, Management

The Bank faces 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, farm credit associations, 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. The Bank maintains smaller staffs of associates and has fewer financial and other resources than larger institutions with which it competes. Financial institutions that have far greater resources and greater efficiencies than the Bank may have several marketplace advantages resulting from their ability to:

- offer higher interest rates on deposits and lower interest rates on loans than the Bank can;
- offer a broader range of services than the Bank does;
- maintain more branch locations than the Bank does; 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 the Bank can accommodate. If the Bank is unable to attract and retain customers, it 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.

The Company's success significantly depends on the services and performance of key management personnel. Future performance will depend on the ability to motivate and retain 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 unexpected 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.

Accounting Estimates, Internal Controls, Cybersecurity

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 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 accounting policies include the valuation of securities, allowance for loan losses, and valuation of net deferred income tax asset. Because of the uncertainty of estimates involved in these matters, the Company 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, 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, the Company 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 it 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. The Company has also established procedures that are designed to ensure policies relating to conduct, ethics and business practices are followed. Nevertheless, the Company experiences 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 the Bank's 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 the Bank has business continuity plans and other safeguards in place, its business operations may be adversely affected by significant and widespread disruption to its physical infrastructure or operating systems that support its 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, the Bank's operations rely on the secure processing, transmission, and storage of confidential information in its computer systems and networks. In addition, to access the Bank's products and services, its customers may use personal smartphones, tablet PC's, and other mobile devices that are beyond its control systems. Although the Bank believes it has appropriate information security procedures and controls, its technologies, systems, networks, and its 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 the Bank's 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 its 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 the Bank has not experienced any material losses relating to cyber-attacks or other information security breaches, the Bank can give no assurance that it 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, the Bank may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support the Bank's businesses and customers, or cyber-attacks or security breaches of the networks, systems, or devices that the Bank's customers use to access its 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 the Bank's business, results of operations, or financial condition.

Bank Regulation

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, bank acquisition and merger transactions, and the establishment of new banking offices. The Company 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 and the implementation of strategic plans.

In addition, the laws and regulations applicable to banks could change at any time, which could significantly impact the Company's business and profitability. For example, new legislation or regulation could limit the manner in which the Company may conduct its business, including its 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 the Company's business and results of operations. Changes in regulation may cause the Company 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 the Bank's activities that could have a material adverse effect on its business and profitability.

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 Canmer.

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
Shepherdsville Office: 155 Conestoga Parkway, Shepherdsville	3,900	Owned
St. Matthews Office: 4304 Shelbyville Road, Louisville	3,400	Leased
Lexington/Fayette County		
Lexington Office: 3880 Fountainblue Lane, Suite 120, Lexington	3,000	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 Frederica Office: 3500 Frederica Street, Owensboro	5,000	Owned
Owensboro Gateway Commons: 3250 Hayden Road Unit #3, Owensboro	3,000	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

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 a party to any material litigation.

Item 4. Mine Safety Disclosure

Not applicable.

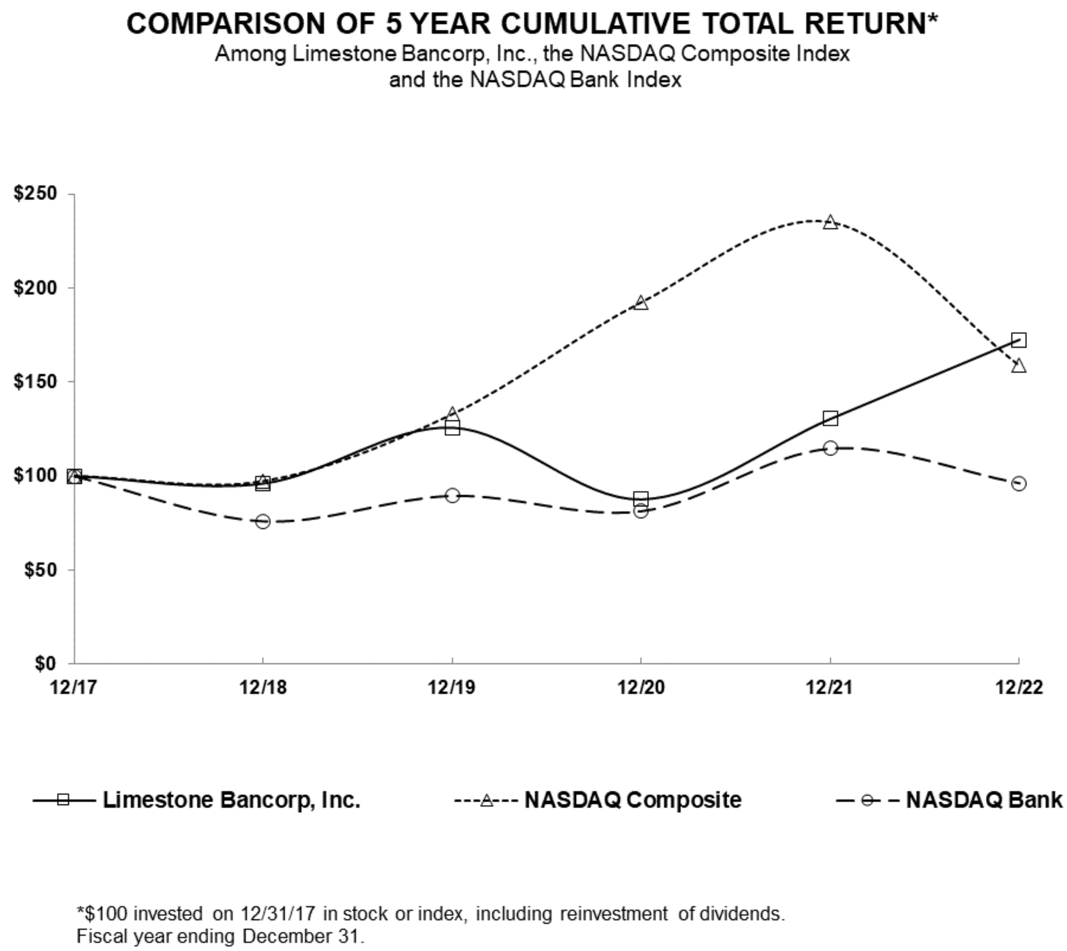
PART II

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, 2023, the Company's common shares were held by approximately 1,839 shareholders, including 336 shareholders of record and approximately 1,503 beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees, and the Company's non-voting common shares were held by one holder.



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. 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

On October 20, 2021, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to $3.0 million of the Company's Common Shares over time in the open market or in privately negotiated transactions. No shares were repurchased under the plan, which expired on December 31, 2022.

Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2022:

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	—	—	122,603
Equity compensation plans not approved by shareholders	—	—	—
Total	—	—	122,603

At December 31, 2022, 122,603 common shares remain available for issuance under the Company's 2018 Omnibus Equity Compensation Plan; however, the Company is precluded from issuing additional shares based on the terms of the Merger Agreement.

Item 6. Reserved

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

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 14 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 offices 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.

Selected Consolidated Financial Data

	As of and for the Years Ended December 31,				
(Dollars in thousands except per share data)	**2022**	**2021**	**2020**	**2019**	**2018**
Income Statement Data:					
Interest income	**$ 57,810**	$ 49,915	$ 50,753	$ 49,584	$ 43,461
Interest expense	**8,732**	5,693	10,152	14,234	9,790
Net interest income	**49,078**	44,222	40,601	35,350	33,671
Provision (negative provision) for loan losses	**80**	1,150	4,400	—	(500)
Non-interest income (1)	**8,877**	8,439	6,844	5,918	5,779
Non-interest expense (2)	**33,757**	31,971	32,416	30,270	29,126
Income before income taxes	**24,118**	19,540	10,629	10,998	10,824
Income tax expense (3)	**5,776**	4,631	1,624	480	2,030
Net income	**18,342**	14,909	9,005	10,518	8,794
Less:					
Earnings allocated to participating securities	**302**	219	68	106	144
Net income attributable to common	**$ 18,040**	$ 14,690	$ 8,937	$ 10,412	$ 8,650
Common Share Data:					
Basic earnings per common share	**$ 2.40**	$ 1.96	$ 1.20	$ 1.41	$ 1.23
Diluted earnings per common share	**2.40**	1.96	1.20	1.41	1.23
Cash dividends declared per common share	**0.20**	—	—	—	—
Book value per common share	**17.52**	17.24	15.47	14.15	12.34
Tangible book value per common share (4)	**16.48**	16.16	14.34	12.98	12.34
Balance Sheet Data (at period end):					
Total assets	**$ 1,462,455**	$ 1,415,692	$ 1,312,302	$ 1,245,779	$ 1,069,692
Debt obligations:					
FHLB advances	**70,000**	20,000	20,623	61,389	46,549
Junior subordinated debentures	**21,000**	21,000	21,000	21,000	21,000
Subordinated capital notes	**25,000**	25,000	25,000	17,000	—
Senior debt	—	—	—	5,000	10,000
Average Balance Data:					
Average assets	**$ 1,434,437**	$ 1,363,397	$ 1,294,934	$ 1,112,388	$ 1,026,310
Average loans	**1,072,330**	958,549	964,088	801,813	743,352
Average deposits	**1,197,906**	1,164,355	1,099,383	936,243	860,825
Average FHLB advances	**50,274**	20,152	34,101	35,038	43,363
Average junior subordinated debentures	**21,000**	21,000	21,000	21,000	21,000
Average subordinated capital notes	**25,000**	25,000	20,366	7,545	791
Average senior debt	—	—	2,896	7,781	10,000
Average stockholders' equity	**129,453**	123,942	109,958	100,126	84,860

(1) In 2022, the Company recognized a $163,000 gain on sale of premises held for sale.

In 2021, the Company recognized a $191,000 gain on the sale of OREO and a $465,000 gain on the call of a corporate bond from the Company's available for sale securities portfolio.

(2) On October 24, 2022, Peoples and the Company entered into the Merger Agreement. Merger expenses totaled $691,000, or $0.07 per common share after taxes.

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.

(3) Effective January 1, 2021, the Commonwealth of Kentucky eliminated the bank franchise tax, which was previously reported as a non-interest expense, and implemented a state income tax at a statutory rate of 5%. State income tax was $1.0 million for 2022 and $939,000 for 2021. For 2020 and 2019, income tax expense benefitted $478,000 and $1.6 million, respectively, from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during 2019.

(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,				
	2022	2021	2020	2019	2018
Tangible Book Value Per Share	(in thousands, except share and per share data)				
Common stockholder's equity	$ 133,858	$ 130,959	$ 116,024	$ 105,750	$ 92,097
Less: Goodwill	6,252	6,252	6,252	6,252	—
Less: Intangible assets	1,733	1,989	2,244	2,500	—
Tangible common equity	125,873	122,718	107,528	96,998	92,097
Shares outstanding	7,638,633	7,594,749	7,498,865	7,471,975	7,462,720
Tangible book value per common share	$ 16.48	$ 16.16	$ 14.34	$ 12.98	$ 12.34
Book value per common share	17.52	17.24	15.47	14.15	12.34

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

Overview

For the year ended December 31, 2022, the Company reported net income of $18.3 million compared with net income of $14.9 million for the year ended December 31, 2021 and net income of $9.0 million for the year ended December 31, 2020. Basic and diluted income per common share were $2.40 for the year ended December 31, 2022, compared with $1.96 for 2021, and $1.20 for 2020.

On October 24, 2022, the Company entered into an Agreement and Plan of Merger (Merger Agreement) with Peoples Bancorp Inc. (Peoples). The Merger Agreement provides for a business combination whereby the Company will merge with and into Peoples (the Merger), with Peoples as the surviving corporation in the Merger. Under the terms and subject to the conditions of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of the Company's common stock, issued and outstanding immediately prior to the Effective Time (except for Dissenting Shares, as provided for in the Merger Agreement), will be converted, in accordance with the procedures set forth in the Merger Agreement, into 0.90 common shares, no par value, of Peoples. Upon the terms and subject to the conditions set forth in the Merger Agreement, the Merger is expected to close in the second quarter of 2023.

The following significant items are of note for the year ended December 31, 2022:

- Average loans receivable increased approximately $113.8 million, or 11.9%, to $1.07 billion for the year ended December 31, 2022, compared with $958.5 million for the year ended December 31, 2021, as loan growth outpaced payoffs during 2022. SBA Paycheck Protection Program ("PPP") loans averaged $294,000 and $15.5 million for the year ended December 31, 2022 and 2021, respectively.

- Net interest margin increased 14 basis points to 3.62% for the year ended December 31, 2022, compared with 3.48% for the year ended December 31, 2021. The Federal Reserve increased the fed funds target by 425 basis points over its last seven meetings of 2022. As a result, the Bank's fed funds sold, floating rate investment securities, loans with variable rate pricing features, and new loan originations benefitted from the upward movement in short-term rates during 2022.

- The yield on earning assets increased to 4.27% for the year ended December 31, 2022, compared to 3.92% for the year ended December 31, 2021. The yield on earning assets for the year ended December 31, 2021 was significantly impacted by $2.8 million in PPP fees, compared to $45,000 for the year ended December 31, 2022. During the year ended December 31, 2022, PPP fees represented approximately one basis point of earning asset yield and net interest margin, compared to 21 basis points for the year ended December 31, 2021. The reduction in PPP fee income was offset by an increase in interest revenue due to an increase in average loans between periods. The increase in average loans resulted in an increase in interest revenue volume of approximately $5.3 million for the year ended December 31, 2022, as well as an increase in interest revenue attributable to rates of $552,000 due primarily to the impact of the increase in interest rates on new and renewed loans and the upward repricing of variable rate loans.

- The cost of interest-bearing liabilities increased to 0.86% in 2022 from 0.59% in 2021 as a result of increases in short-term interest rates during 2022.

- Net loan recoveries were $1.4 million for 2022, compared to net loan charge-offs of $2.1 million for 2021, and net loan charge-offs of $333,000 for 2020. During the third quarter of 2022, the Bank received a payoff on a $2.0 million nonaccrual commercial real estate loan resulting in a recovery of $1.5 million.

- A provision for loan losses of $80,000 was recorded in 2022, compared to a provision for loan losses of $1.2 million in 2021. The 2022 loan loss provisions were primarily attributable to growth trends within the portfolio, offset by a significant recovery during the third quarter and its impact on the historical loss percentages. The 2021 loan loss provisions were attributable to growth trends within the portfolio and net loan charge-offs impacting historical loss percentages during the period.

- Deposits were $1.20 billion at December 31, 2022, compared with $1.21 billion at December 31, 2021. Certificate of deposit balances increased $24.2 million and interest checking accounts increased $26.9 million during the year. These increases were offset by a decrease of $38.9 million in money market accounts, a decrease of $14.9 million in savings accounts, and a $5.1 million decrease in non-interest bearing demand deposits.

- The Company paid a $0.20 per common share in cash dividends to shareholders of record during 2022.

- In conjunction with the Merger Agreement discussed above, the Company, with the unanimous approval of the Board of Directors, terminated its Tax Benefit Preservation Plan on October 24, 2022. The Tax Benefit Preservation Plan was placed in service in 2015 and designed to preserve the benefits of the Company's substantial tax assets. Restrictions on transfer designed to protect the Company's tax assets remain in effect under the Company's Articles of Incorporation, as approved by shareholders.

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 also 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.

In June 2016, the FASB issued ASU, “Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,” which replaces the current “incurred loss” model for recognizing credit losses with an “expected loss” model. Whereas the incurred loss model delays recognition of loss on financial instruments until it is probable a loss has occurred, the expected loss model will recognize a loss at the time the loan is first added to the balance sheet. The CECL standard became effective for the Company on January 1, 2023. Management continues to refine assumptions, analyze forecast scenarios, and stress test the volatility of the model. Additionally, management is finalizing various accounting processes, and related controls. As a result, the Company estimates a one-time cumulative adjustment to the allowance for credit losses of up to $2.0 million. This estimate and the ongoing impact of adopting CECL are dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of the loan and securities portfolios, and other management judgments. The ultimate adjustment to record the impact of adoption may differ from the current estimate as the model is subject to further review and analysis by the Company’s management team. Interagency guidance issued in December 2018 allows for a three-year phase-in of the cumulative-effect adjustment for regulatory capital reporting.

Results of Operations

The following table summarizes components of income and expense and the change in those components for 2022 compared with 2021:

	For the Years Ended December 31,		Change from Prior Period	
	2022	**2021**	**Amount**	**Percent**
	(dollars in thousands)			
Gross interest income	$ 57,810	$ 49,915	$ 7,895	15.8%
Gross interest expense	8,732	5,693	3,039	53.4
Net interest income	49,078	44,222	4,856	11.0
Provision for loan losses	80	1,150	(1,070)	(93.0)
Non-interest income	8,880	7,979	901	11.3
Gain (loss) on sales and calls of securities, net	(3)	460	(463)	NM
Non-interest expense	33,757	31,971	1,786	5.6
Net income before taxes	24,118	19,540	4,578	23.4
Income tax expense	5,776	4,631	1,145	24.7
Net income	18,342	14,909	3,433	23.0

NM: Not Meaningful

Net income of $18.3 million for the year ended December 31, 2022 increased by $3.4 million from net income of $14.9 million for 2021. Net interest income increased $4.9 million for 2022 as a result of growth in the loan portfolio and increasing yields on earning assets, offset by $3.0 million increase in the cost of interest-bearing liabilities primarily due to recent increases in short-term interest rates. A provision for loan losses of $80,000 was recorded in 2022, compared to a $1.2 million provision for loan losses in 2021. The 2022 loan loss provisions were primarily attributable to growth trends within the portfolio, offset by a significant recovery during the third quarter and its impact on the historical loss percentages. The 2021 loan loss provisions were attributable to growth trends within the portfolio and net loan charge-offs impacting historical loss percentages during the period.

Non-interest income increased $438,000 during 2022. The increase was primarily due to an increase in service charges on deposit accounts of $519,000 and an increase in bank card interchange fees of $162,000, both of which were due to an increase in transaction volumes. Bank owned life insurance income increased $180,000 for the year ended December 31, 2022 due to additional policies being purchased in March 2022. Non-interest income for the year ended December 31, 2022 also included a $163,000 gain on sale of premises held for sale from the first quarter of 2022, while the year ended December 31, 2021 included a $191,000 gain on sale of OREO from the second quarter of 2021, as well as a $465,000 gain on the call of a corporate bond from the third quarter of 2021.

Non-interest expense increased $1.8 million during 2022. The increase was primarily due to an increase of $889,000 in salaries and benefits as a result of the inflationary impact on salary administration, increased health care utilization costs, and increased performance-based incentive compensation, merger expenses of $691,000 related to the pending Merger with Peoples as announced on October 24, 2022, and a $396,000 increase in other non-interest expense primarily related to losses associated with demand deposit charge-offs and fraudulent check and debit card activity during the period. These increases from the prior year were offset by a decrease in communications expense of $262,000 for 2022 as a result of changes in information technology infrastructure during the period.

The following table summarizes components of income and expense and the change in those components for 2021 compared with 2020:

	For the Years Ended December 31,		Change from Prior Period	
	2021	**2020**	**Amount**	**Percent**
		(dollars in thousands)		
Gross interest income	$ 49,915	$ 50,753	$ (838)	(1.7)%
Gross interest expense	5,693	10,152	(4,459)	(43.9)
Net interest income	44,222	40,601	3,621	8.9
Provision for loan losses	1,150	4,400	(3,250)	(73.9)
Non-interest income	7,979	6,849	1,130	16.5
Gain (loss) on sales and calls of securities, net	460	(5)	465	NM
Non-interest expense	31,971	32,416	(445)	(1.4)
Net income before taxes	19,540	10,629	8,911	83.8
Income tax expense	4,631	1,624	3,007	185.2
Net income	14,909	9,005	5,904	65.6

NM: Not Meaningful

Net income of $14.9 million for the year ended December 31, 2021 increased by $5.9 million from net income of $9.0 million for 2020. Net interest income increased $3.6 million for 2021 as a result of $1.7 million in increased PPP fee recognition connected to the forgiveness and payoff of PPP loans, partially offset by declining yields on earning assets, and a $4.5 million decrease in the cost of interest-bearing liabilities primarily due to downward repricing within the time deposit portfolio, and a reduction in the size of the time deposit portfolio. Provision for loan losses of $1.2 million was recorded in 2021, compared to a $4.4 million provision for loan losses in 2020. The 2021 loan loss provision was attributable to net loan charge-offs impacting historical loss percentages and growth trends within the portfolio during the year, while the provision for 2020 was largely attributable to the uncertainty surrounding the COVID-19 pandemic related economic and business disruptions.

Non-interest income increased $1.6 million during 2021. The increase was primarily due to an increase in bank card interchange fees of $740,000 as a result of an increase in debit card transactions, a $191,000 gain on the sale of OREO, and a $465,000 gain on the call of a corporate bond from the Bank's available for sale securities portfolio.

Non-interest expense decreased $445,000 during 2021. The decrease was primarily attributable to a decrease of $1.1 million in deposit and state franchise tax expense as a result of the elimination of the Kentucky bank franchise tax discussed below. This decrease was partially offset by an increase in salaries and employee benefits of $381,000 attributable to moderate merit increases in compensation and performance-based incentive compensation partially offset in 2021 by year over year average FTE reductions. Additionally, deposit account related expense increased $268,000 due to an increase in debit card transactions and the related processing costs.

Income tax expense was $4.6 million and $1.6 million for the year ended December 31, 2021 and 2020, respectively. Effective January 1, 2021, the Commonwealth of Kentucky eliminated the bank franchise tax and implemented a state income tax at a statutory rate of 5%. State income tax expense was $939,000 for the year ended December 31, 2021, compared to a state income tax benefit of $478,000 for the year ended December 31, 2020 related to the establishment of a net deferred tax asset due to the tax law change.

Net Interest Income – Net interest income was $49.1 million for the year ended December 31, 2022, an increase of $4.9 million, or 11.0%, compared with $44.2 million for the same period in 2021. Net interest spread and margin were 3.41% and 3.62%, respectively, for 2022, compared with 3.33% and 3.48%, respectively, for 2021.

The Federal Reserve increased the fed funds target by 425 basis points over its last seven meetings of 2022. As a result, the Bank's fed funds sold, floating rate investment securities, loans with variable rate pricing features, and new loan originations benefitted from the upward movement in short-term rates during 2022. The cost of interest-bearing liabilities were also impacted, although to a lesser extent.

The yield on earning assets increased to 4.27% for the year ended December 31, 2022, as compared to 3.92% for the year ended December 31, 2021 due to the rising interest rate environment. Average interest-earning assets increased $81.8 million during 2022 primarily attributable to an increase in loans and investment securities. Average loans increased approximately $113.8 million and average investment securities increased $20.2 million, while average lower yielding interest-bearing deposits in other financial institutions decreased $51.7 million during 2022. PPP loans averaged $294,000 and $15.5 million for the year ended December 31, 2022 and 2021, respectively. The increase in average loans resulted in an increase in interest revenue volume of approximately $5.3 million and an increase in interest revenue related to the increase in rates on new and renewed loans and the upward repricing of variable rate loans of $552,000. The increase in average investment securities also resulted in approximately $995,000 in additional income as compared to the prior year. Total interest income increased 15.8%, or $7.9 million, in 2022 compared to 2021.

Loan fee income can meaningfully impact net interest income, loan yields, and net interest margin. The amount of loan fee income included in total interest income was $1.0 million and $4.3 million for the years ended December 31, 2022 and 2021, respectively. This represents eight basis points of yield on earning assets and net interest margin for the year ended December 31, 2022 as compared to 33 basis points for the year ended December 31, 2021. Loan fee income for 2022 included $45,000 in fees earned on PPP loans, compared to $2.8 million in 2021, which represents approximately one basis point and 21 basis points of earning asset yield and net interest margin for those years, respectively.

The cost of interest-bearing liabilities increased to 0.86% for the year ended December 31, 2022, as compared to 0.59% for the year ended December 31, 2021. The cost of interest-bearing liabilities was negatively impacted by the increases in short-term interest rates. Average interest-bearing liabilities increased by $57.7 million during 2022 primarily due to a $73.9 million increase in average money market accounts and $30.1 million increase in FHLB advances offset by a $48.4 million decrease in average certificates of deposits. Total interest expense increased by 53.4% to $8.7 million for the year ended December 31, 2022 as compared to $5.7 million for the year ended December 31, 2021. As of December 31, 2022, time deposits comprise $290.2 million of the Company's liabilities with $233.0 million, or 80%, set to reprice or mature within one year of which, $69.3 million with a current average rate of 0.98% reprice or mature within the first quarter of 2023.

Net interest income was $44.2 million for the year ended December 31, 2021, an increase of $3.6 million, or 8.9%, compared with $40.6 million for the same period in 2020. Net interest spread and margin were 3.33% and 3.48%, respectively, for 2021, compared with 3.15% and 3.36%, respectively, for 2020.

The yield on earning assets decreased to 3.92% for the year ended December 31, 2021, as compared to 4.20% for the year ended December 31, 2020 due to the lower interest rate environment. Average interest-earning assets increased $67.4 million during 2021 primarily attributable to an increase in investment securities. Average loans decreased approximately $5.5 million during 2021. PPP loans averaged $15.5 million and $22.5 million for the year ended December 31, 2021 and 2020, respectively. Interest revenue in 2021 declined $390,000 due to lower interest rates on new and renewed loans, the downward repricing of variable rate loans, and lower rates on securities purchased over the past eight quarters, as compared to 2020. Total interest income decreased 1.7%, or $838,000, in 2021 compared to 2020.

Loan fee income can meaningfully impact net interest income, loan yields, and net interest margin. The amount of loan fee income included in total interest income was $4.3 million and $2.1 million for the years ended December 31, 2021 and 2020, respectively. This represents 33 basis points of yield on earning assets and net interest margin for the year ended December 31, 2021 as compared to 18 basis points for the year ended December 31, 2020. Loan fee income for 2021 included $2.8 million in fees earned on PPP loans, compared to $1.1 million in 2020, which represents 21 basis points and 10 basis points of earning asset yield and net interest margin for those years, respectively.

The cost of interest-bearing liabilities decreased to 0.59% for the year ended December 31, 2021, as compared to 1.05% for the year ended December 31, 2020 primarily based on downward repricing of time and other interest-bearing deposits and reduction in the size of the time deposit portfolio, as well as a shift in deposit mix. Average interest-bearing liabilities decreased by $4.1 million during 2021 primarily due to a $13.9 million decrease in FHLB advances. Total interest expense decreased by 43.9% to $5.7 million for the year ended December 31, 2021 as compared to $10.2 million for the year ended December 31, 2020. As of December 31, 2021, time deposits comprise $266.0 million of the Company's liabilities with $161.9 million, or 61%, set to reprice or mature within one year of which, $55.0 million with a current average rate of 0.33% reprice or mature within the first quarter of 2022.

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,					
	2022			2021		
	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)						
Real estate	$ 767,859	$ 35,526	4.63%	$ 675,791	$ 30,615	4.53%
Commercial	230,519	10,471	4.54	211,573	10,266	4.85
Consumer	34,237	1,947	5.69	34,041	1,608	4.72
Agriculture	39,190	2,375	6.06	36,596	1,945	5.31
Other	525	13	2.48	548	11	2.01
U.S. Treasury and agencies	25,695	523	2.04	25,657	542	2.11
Mortgage-backed securities	87,335	1,855	2.12	81,829	1,561	1.91
Collateralized loan obligations	48,539	1,712	3.53	44,396	831	1.87
State and political subdivision securities (non-taxable)	29,749	660	2.96	26,509	643	3.23
State and political subdivision securities (taxable)	14,525	393	2.71	16,971	425	2.50
Corporate bonds	45,058	1,682	3.73	35,340	1,253	3.55
FHLB stock	5,031	199	3.96	5,493	115	2.09
Federal funds sold	35	1	2.86	35	—	—
Interest-bearing deposits in other financial institutions	32,050	453	1.41	83,736	100	0.12
Total interest-earning assets	1,360,347	57,810	4.27%	1,278,515	49,915	3.92%
Less: Allowance for loan losses	(12,469)			(12,714)		
Non-interest-earning assets	86,559			97,596		
Total assets	$ 1,434,437			$ 1,363,397		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Certificates of deposit and other time deposits	$ 262,692	$ 1,929	0.73%	$ 311,140	$ 1,788	0.57%
Interest checking and money market deposits	497,811	2,712	0.54	423,938	1,289	0.30
Savings accounts	159,422	561	0.35	157,283	441	0.28
FHLB advances	50,274	1,162	2.31	20,152	154	0.76
Junior subordinated debentures	21,000	867	4.13	21,000	521	2.48
Subordinated capital notes	25,000	1,501	6.00	25,000	1,500	6.00
Senior debt	—	—	—	—	—	—
Total interest-bearing liabilities	1,016,199	8,732	0.86%	958,513	5,693	0.59%
Non-interest-bearing liabilities						
Non-interest-bearing deposits	277,981			271,994		
Other liabilities	10,804			8,948		
Total liabilities	1,304,984			1,239,455		
Stockholders' equity	129,453			123,942		
Total liabilities and stockholders' equity	$ 1,434,437			$ 1,363,397		
Net interest income		$ 49,078			$ 44,222	
Net interest spread			3.41%			3.33%
Net interest margin			3.62%			3.48%
Ratio of average interest-earning assets to average interest-bearing liabilities			133.87%			133.39%

(1) Includes loan fees in both interest income and the calculation of yield on loans.

	For the Years Ended December 31,					
	2021			2020		
	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)						
Real estate	$ 675,791	$ 30,615	4.53%	$ 684,447	$ 32,572	4.76%
Commercial	211,573	10,266	4.85	200,260	8,398	4.19
Consumer	34,041	1,608	4.72	39,931	2,051	5.14
Agriculture	36,596	1,945	5.31	38,833	2,058	5.30
Other	548	11	2.01	617	14	2.27
U.S. Treasury and agencies	25,657	542	2.11	20,239	491	2.43
Mortgage-backed securities	81,829	1,561	1.91	82,330	1,863	2.26
Collateralized loan obligations	44,396	831	1.87	45,595	1,234	2.71
State and political subdivision securities (non-taxable)	26,509	643	3.23	14,139	370	3.31
State and political subdivision securities (taxable)	16,971	425	2.50	16,301	494	3.03
Corporate bonds	35,340	1,253	3.55	23,572	960	4.07
FHLB stock	5,493	115	2.09	6,208	143	2.30
Federal funds sold	35	—	—	72	—	—
Interest-bearing deposits in other financial institutions	83,736	100	0.12	38,525	105	0.27
Total interest-earning assets	1,278,515	49,915	3.92%	1,211,069	50,753	4.20%
Less: Allowance for loan losses	(12,714)			(9,819)		
Non-interest-earning assets	97,596			93,684		
Total assets	$ 1,363,397			$ 1,294,934		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Certificates of deposit and other time deposits	$ 311,140	$ 1,788	0.57%	$ 436,083	$ 5,802	1.33%
Interest checking and money market deposits	423,938	1,289	0.30	336,596	1,464	0.43
Savings accounts	157,283	441	0.28	111,559	530	0.48
FHLB advances	20,152	154	0.76	34,101	371	1.09
Junior subordinated debentures	21,000	521	2.48	21,000	660	3.14
Subordinated capital notes	25,000	1,500	6.00	20,366	1,206	5.92
Senior debt	—	—	—	2,896	119	4.11
Total interest-bearing liabilities	958,513	5,693	0.59%	962,601	10,152	1.05%
Non-interest-bearing liabilities						
Non-interest-bearing deposits	271,994			215,145		
Other liabilities	8,948			7,230		
Total liabilities	1,239,455			1,184,976		
Stockholders' equity	123,942			109,958		
Total liabilities and stockholders' equity	$ 1,363,397			$ 1,294,934		
Net interest income		$ 44,222			$ 40,601	
Net interest spread			3.33%			3.15%
Net interest margin			3.48%			3.36%
Ratio of average interest-earning assets to average interest-bearing liabilities			133.39%			125.81%

(1) Includes loan fees in both interest income and the calculation of yield on loans.

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, 2022 vs. 2021 Increase (decrease) due to change in			Year Ended December 31, 2021 vs. 2020 Increase (decrease) due to change in		
	Rate	Volume	Net Change	Rate	Volume	Net Change
	(in thousands)					
Interest-earning assets:						
Loan receivables	$ 552	$ 5,335	$ 5,887	$ (390)	$ (258)	$ (648)
U.S. Treasury and agencies	(20)	1	(19)	(69)	120	51
Mortgage-backed securities	185	109	294	(291)	(11)	(302)
Collateralized loan obligations	796	85	881	(372)	(31)	(403)
State and political subdivision securities	(35)	20	(15)	(128)	332	204
Corporate bonds	69	360	429	(137)	430	293
FHLB stock	95	(11)	84	(13)	(15)	(28)
Federal funds sold	1	—	1	—	—	—
Interest-bearing deposits in other financial institutions	451	(98)	353	(81)	76	(5)
Total increase (decrease) in interest income	2,094	5,801	7,895	(1,481)	643	(838)
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	447	(306)	141	(2,668)	(1,346)	(4,014)
Interest checking and money market accounts	1,166	257	1,423	(502)	327	(175)
Savings accounts	114	6	120	(262)	173	(89)
FHLB advances	580	428	1,008	(91)	(126)	(217)
Junior subordinated debentures	346	—	346	(139)	—	(139)
Subordinated capital notes	1	—	1	16	278	294
Senior debt	—	—	—	(59)	(60)	(119)
Total increase (decrease) in interest expense	2,654	385	3,039	(3,705)	(754)	(4,459)
Increase (decrease) in net interest income	$ (560)	$ 5,416	$ 4,856	$ 2,224	$ 1,397	$ 3,621

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

	For the Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
Service charges on deposit accounts	$ 2,775	$ 2,256	$ 2,268
Bank card interchange fees	4,278	4,116	3,376
Income from bank owned life insurance	706	526	424
Gain on sale of other real estate owned	—	191	—
Gain (loss) on sales and calls of securities, net	(3)	460	(5)
Gain on sale of premises held for sale	163	—	—
Other	958	890	781
Total non-interest income	$ 8,877	$ 8,439	$ 6,844

Non-interest Income Comparison – 2022 to 2021

Non-interest income increased by $438,000 for 2022 to $8.9 million compared with $8.4 million for the year ended December 31, 2021. The increase was primarily due to an increase in services charges on deposit accounts of $519,000 and an increase in bank card interchange fees of $162,000, both of which were due to an increase in transaction volumes. Bank owned life insurance income increased $180,000 for the year ended December 31, 2022 due to additional policies being purchased in March 2022. Non-interest income for the year ended December 31, 2022 also included a $163,000 gain on sale of premises held for sale from the first quarter of 2022, while the year ended December 31, 2021 included a $191,000 gain on sale of OREO from the second quarter of 2021, as well as a $465,000 gain on the call of a corporate bond from the third quarter of 2021.

Non-interest Income Comparison – 2021 to 2020

Non-interest income increased by $1.6 million for 2021 to $8.4 million compared with $6.8 million for the year ended December 31, 2020. This increase was primarily related to bank card interchange fees of $740,000 as a result of an increase in debit card transactions, a $191,000 gain on the sale of OREO, and a $465,000 gain on the call of a corporate bond from the Bank's available for sale securities portfolio.

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

	For the Years Ended December 31,		
	2022	2021	2020
		(in thousands)	
Salary and employee benefits	$ 19,021	$ 18,132	$ 17,751
Occupancy and equipment	4,201	4,041	4,001
Deposit account related expense	2,249	2,158	1,890
Data processing expense	1,591	1,512	1,502
FDIC insurance	360	405	229
Marketing expense	605	727	629
Deposit and state franchise tax	396	375	1,475
Professional fees	818	952	937
Communications	419	681	856
Insurance expense	420	415	428
Postage and delivery	622	605	627
Merger expenses	691	—	—
Other	2,364	1,968	2,091
Total non-interest expense	$ 33,757	$ 31,971	$ 32,416

Non-interest Expense Comparison – 2022 to 2021

Non-interest expense increased $1.8 million, or 5.6%, to $33.8 million for the year ended December 31, 2022, compared with $32.0 million for the year ended December 31, 2021. The increase was primarily due to an increase of $889,000 in salaries and benefits as a result of the inflationary impact on salary administration, increased health care utilization costs, and increased performance-based incentive compensation, merger expenses of $691,000 related to the pending merger with Peoples, and a $396,000 increase in other non-interest expense primarily related to losses associated with demand deposit charge-offs and fraudulent check and debit card activity during the period. These increases from the prior year were offset by a decrease in communications expense of $262,000 for 2022 as a result of changes in information technology infrastructure during the period.

Non-interest Expense Comparison – 2021 to 2020

Non-interest expense for the year ended December 31, 2021 of $32.0 million represented a $445,000, or 1.4%, decrease from $32.4 million for 2020. The decrease in non-interest expense was primarily due to a $1.1 million decrease in deposit and state franchise tax expense as a result of the elimination of the Kentucky bank franchise tax discussed below. This decrease was partially offset by an increase in salaries and employee benefits of $381,000 attributable to moderate merit increases in compensation and performance-based incentive compensation partially offset in 2021 by year over year average FTE reductions. Additionally, deposit account related expense increased $268,000 due to an increase in debit card transactions.

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

	2022	2021	2020
		(in thousands)	
Federal statutory tax rate	21%	21%	21%
Federal statutory rate times financial statement income	$ 5,065	$ 4,103	$ 2,232
Effect of:			
State income taxes	907	741	—
Tax-exempt interest income	(107)	(123)	(73)
Establish state deferred tax asset	—	—	(478)
Non-taxable life insurance income	(148)	(111)	(89)
Restricted stock vesting	(30)	(10)	7
Other, net	89	31	25
Total income tax expense	$ 5,776	$ 4,631	$ 1,624

State income tax expense was $1.0 million for 2022, compared to $939,000 for 2021. For 2020, income tax expense benefitted $478,000 from the establishment of a net deferred tax assets related to a change in Kentucky tax law enacted during 2019. Effective January 1, 2021, the Commonwealth of Kentucky eliminated the bank franchise tax, which was previously recorded as non-interest expense, and implemented a state income tax at a statutory rate of 5%.

See Note 12, "Income Taxes", to the financial statements for additional discussion of the Company's income taxes.

Analysis of Financial Condition

Total assets at December 31, 2022 were $1.46 billion compared with $1.42 billion at December 31, 2021, an increase of $46.8 million or 3.3%. This increase was primarily attributable to an increase in net loans of $108.5 million, offset by a decrease in investment securities of $37.2 million, as well as $33.0 million decrease in cash and cash equivalents.

Total assets at December 31, 2021 were $1.42 billion compared with $1.31 billion at December 31, 2020, an increase of $103.4 million or 7.9%. This increase was primarily attributable to an increase in investment securities of $56.8 million, as well as $40.7 million in net loans.

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, collateralized loan obligations, corporate bonds, and obligations of states and political subdivisions. The investment portfolio decreased by $37.2 million, or 14.3%, to $223.4 million at December 31, 2022, compared with $260.7 million at December 31, 2021. The decrease was comprised primarily of $28.0 million in payment proceeds and $19.2 million in fair value declines attributable to the rising interest rate environment, partially offset by purchases of $10.6 million.

The following table sets forth the carrying value of the securities portfolio at the dates indicated (in thousands):

	December 31, 2022				December 31, 2021			
	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	$ 24,541	$ —	$ (2,784)	$ 21,757	$ 26,075	$ 301	$ (133)	$ 26,243
Agency mortgage-backed: residential	80,283	9	(10,387)	69,905	93,650	1,339	(970)	94,019
Collateralized loan obligations	48,202	—	(2,161)	46,041	50,227	—	(78)	50,149
Corporate bonds	45,512	—	(3,042)	42,470	43,432	572	(202)	43,802
Total available for sale	$ 198,538	$ 9	$ (18,374)	$ 180,173	$ 213,384	$ 2,212	$ (1,383)	$ 214,213

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Securities held to maturity								
State and municipal	$ 43,282	$ —	$ (8,386)	$ 34,896	$ 46,460	$ 158	$ (338)	$ 46,280
Total held to maturity	$ 43,282	$ —	$ (8,386)	$ 34,896	$ 46,460	$ 158	$ (338)	$ 46,280

The Bank owns Collateralized Loan Obligations (CLOs), which are debt securities secured by professionally managed portfolios of senior-secured loans to corporations. CLOs are typically $300 million to $1 billion in size, contain one hundred or more loans and have five to six credit tranches with credit ratings ranging from AAA, AA, A, BBB, BB, B and an 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, prepayments on the underlying loans, and other conditions or economic factors. At December 31, 2022, $27.0 million and $19.0 million of the Bank's CLOs were risk rated AA and A rated, respectively. None of the CLOs were subject to a ratings downgrade during the year ended December 31, 2022.

Stress testing was completed on each security in the CLO portfolio as of December 31, 2022. Each security in the portfolio passed, without dollar loss, a stress scenario characterized as severe, which assumed a ten percent per annum constant prepayment rate, a twelve percent per annum constant default rate for four years followed by a four percent rate thereafter, and a forty-five percent recovery rate on a one-year lag.

The corporate bond portfolio consists of 16 subordinated debt securities and two senior debt securities of U.S. banks and bank holding companies with maturities ranging from 2024 to 2037. The securities are either initially fixed rate for five years converting to floating rate at an index over LIBOR or SOFR, or floating rate at an index over LIBOR or SOFR from inception. Management regularly monitors the financial condition of these corporate issuers by reviewing their regulatory and public filings.

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, 2022, management does not believe any securities in the portfolio with unrealized losses should be classified as other than temporarily impaired.

The following table sets forth the contractual maturities, carrying values and weighted-average yields for the Bank's investment securities held at December 31, 2022:

	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	$ —	—%	$ 1,405	2.18%	$ 10,099	2.18%	$ 10,253	1.91%	$ 21,757	2.05%
Agency mortgage-backed: residential	—	—	1,186	2.29	6,632	2.06	62,087	2.38	69,905	2.35
Collateralized loan obligations	—	—	—	—	36,628	5.75	9,413	5.65	46,041	5.73
Corporate bonds	—	—	3,078	5.14	32,952	3.48	6,440	7.63	42,470	4.22
Total available for sale	$ —	—%	$ 5,669	3.78%	$ 86,311	4.15%	$ 88,193	3.01%	$ 180,173	3.56%
Held to maturity										
State and municipal	$ 3,265	1.71%	$ 5,571	1.39%	$ 4,713	1.84%	$ 29,733	2.42%	$ 43,282	2.17%
Total available for sale	$ 3,265	1.71%	$ 5,571	1.39%	$ 4,713	1.84%	$ 29,733	2.42%	$ 43,282	2.17%

Average yields in the table above were calculated on a tax equivalent basis. 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 increasing prepayments of principal and, consequently, average life will not be shortened. When interest rates 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, 2022, 88.8% of the Bank's agency mortgage-backed securities had contractual final maturities of more than ten years with a weighted maturity of 21.6 years.

Loans Receivable – Loans receivable increased $110.0 million, or 11.0%, during the year ended December 31, 2022, to $1.10 billion. The Bank's commercial and commercial real estate portfolios increased by an aggregate of $112.4 million, or 15.8%, during 2022 and comprised 74.0% of the total loan portfolio at December 31, 2022. The residential real estate and consumer portfolios decreased by an aggregate of $8.1 million, or 3.2%, during 2022 and comprised 22.3% of the total loan portfolio at December 31, 2022.

Loans receivable increased $39.8 million, or 4.1%, during the year ended December 31, 2021, to $1.0 billion. The Bank's commercial and commercial real estate portfolios increased by an aggregate of $72.1 million, or 11.3%, during 2021 and comprised 70.9% of the total loan portfolio at December 31, 2021. The residential real estate and consumer portfolios decreased by an aggregate of $26.0 million, or 9.2%, during 2021 and comprised 25.5% of the total loan portfolio at December 31, 2021.

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 the Bank's 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,			
	2022		2021	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial (1)	$ 230,262	20.71%	$ 220,826	22.04%
Commercial Real Estate:				
Construction	135,159	12.16	74,806	7.47
Farmland	65,256	5.87	68,388	6.83
Nonfarm nonresidential	391,701	35.23	345,893	34.53
Residential Real Estate:				
Multi-family	45,222	4.07	50,224	5.01
1-4 Family	166,988	15.02	168,873	16.86
Consumer	35,277	3.17	36,440	3.64
Agriculture	41,498	3.73	35,924	3.59
Other	491	0.04	466	0.03
Total loans	$ 1,111,854	100.00%	$ 1,001,840	100.00%

(1) Includes PPP loans of $141,000 and $1.2 million at December 31, 2022 and 2021, respectively.

Lending activities are subject to a variety of lending limits imposed by state and federal law. The Bank's statutory secured legal lending limit to a single borrower or guarantor was approximately $48.7 million at December 31, 2022 as measured at 30% of the Bank's unimpaired capital and surplus.

The Bank had 22 loan relationships each with aggregate extensions of credit in excess of $10.0 million at year end 2022 and 2021. The aggregate extension of credit to these relationships totaled $355.2 million and $310.7 million at year end 2022 and 2021, respectively. With respect to these large loan relationships, all 22 were classified as pass by the Bank's internal loan review process at December 31, 2022 and 2021. At December 31, 2022, the largest relationship totaled $32.4 million and was secured by multiple income producing commercial real estate properties.

As of December 31, 2022, the Bank had $128.5 million of loan participations purchased from, and $41.5 million of loan participations sold to, other banks. As of December 31, 2021, the Bank had $85.2 million of loan participations purchased from, and $12.8 million of loan participations sold to, other banks.

Loan Maturity Schedule – The following table sets forth at December 31, 2022, 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, 2022				
	Maturing Within One Year	Maturing 1 through 5 Years	Maturing 5 through 15 Years	Maturing Over 15 Years	Total Loans
	(dollars in thousands)				
Loans with fixed rates:					
Commercial	$ 6,815	$ 65,747	$ 63,145	$ —	$ 135,707
Commercial Real Estate:					
Construction	4,747	27,826	18,045	—	50,618
Farmland	2,856	17,353	10,513	1,844	32,566
Nonfarm nonresidential	16,803	152,005	94,100	5,110	268,018
Residential Real Estate:					
Multi-family	22	24,522	6,849	—	31,393
1-4 Family	2,325	13,860	22,610	47,944	86,739
Consumer	3,010	18,507	766	844	23,127
Agriculture	1,974	6,569	528	—	9,071
Other	—	491	—	—	491
Total fixed rate loans	$ 38,552	$ 326,880	$ 216,556	$ 55,742	$ 637,730
Loans with floating rates:					
Commercial	$ 31,739	$ 45,209	$ 17,607	$ —	$ 94,555
Commercial Real Estate:					
Construction	14,486	61,110	8,416	529	84,541
Farmland	1,158	5,224	9,855	16,453	32,690
Nonfarm nonresidential	10,681	50,453	25,927	36,622	123,683
Residential Real Estate:					
Multi-family	—	11,096	2,305	428	13,829
1-4 Family	3,072	10,210	34,896	32,071	80,249
Consumer	12,000	32	118	—	12,150
Agriculture	29,731	2,363	333	—	32,427
Other	—	—	—	—	—
Total floating rate loans	$ 102,867	$ 185,697	$ 99,457	$ 86,103	$ 474,124

Loan Portfolio by Risk Category – 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. In establishing the appropriate risk rating for loans, 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 pass, watch, special mention, substandard or doubtful.

Loans categorized as "watch" 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 warranting more frequent monitoring. 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.

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 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.

The following table presents a summary of the loan portfolio at the dates indicated, by risk category.

	As of December 31,				
	2022	2021	2020	2019	2018
			(in thousands)		
Pass	$ 1,089,330	$ 977,962	$ 926,025	$ 888,707	$ 745,604
Watch	15,189	7,856	18,879	27,522	13,164
Special Mention	—	—	—	—	113
Substandard	7,335	16,022	17,177	10,042	6,363
Doubtful	—	—	—	—	—
Total	$ 1,111,854	$ 1,001,840	$ 962,081	$ 926,271	$ 765,244

Loans receivable increased $110.0 million, or 11.0%, during the year ended December 31, 2022. Since December 31, 2021, the pass category increased approximately $111.4 million, the watch category increased approximately $7.3 million, and the substandard category decreased approximately $8.7 million. The increase in the watch category is primarily related to the downgrade of an $11.0 million commercial loan relationship. This downgrade was offset by $5.1 million in commercial loan payoffs during 2022. The $8.7 million decrease in loans classified as substandard was primarily driven by $8.2 million in principal payments received, $2.1 million in loans upgraded from substandard, and $462,000 in charge-offs, offset by $2.1 million in loans moved to substandard during 2022. 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,				
	2022	2021	2020	2019	2018
			(in thousands)		
Past Due Loans:					
30-59 Days	$ 1,919	$ 556	$ 1,537	$ 1,747	$ 1,593
60-89 Days	268	210	372	670	331
90 Days and Over	—	—	—	—	—
Total Loans Past Due 30-90+ Days	2,187	766	1,909	2,417	1,924
Nonaccrual Loans	856	3,124	1,676	1,528	1,991
Total Past Due and Nonaccrual Loans	$ 3,043	$ 3,890	$ 3,585	$ 3,945	$ 3,915

The trend in delinquency levels is considered during the evaluation of qualitative trends in the portfolio when establishing the general component of the Bank's allowance for loan losses.

Nonaccrual loans decreased $2.3 million from December 31, 2021 to December 31, 2022. This decrease was primarily driven by $2.9 million in paydowns, $245,000 in charge-offs, and $77,000 loans upgraded from non-accrual, offset by $924,000 in loans placed on non-accrual. The $2.9 million in paydowns of nonaccrual loans was driven by the payoff of a $2.0 million commercial real estate loan during the third quarter of 2022, which resulted in a recovery of $1.5 million. The $856,000 in nonaccrual loans at December 31, 2022 were generally secured by residential real estate loans. The $3.1 million in nonaccrual loans at December 31, 2021 were generally secured by commercial 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. TDRs are considered to be impaired loans, 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 generally 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 determines 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 shortfalls 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.

At December 31, 2022, the Bank had two restructured loans totaling $186,000 with borrowers who experienced deterioration in financial condition compared with three restructured loans totaling $405,000 at December 31, 2021. In general, these loans were granted interest rate reductions to provide cash flow relief to borrowers experiencing cash flow difficulties. At December 31, 2022 and December 31, 2021, 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 commercial real estate properties or first liens on 1-4 residential properties. At December 31, 2022 and December 31, 2021, 72% and 84%, respectively, of the TDRs were performing according to their modified terms.

No TDR modifications occurred during the year ended December 31, 2022. There was one modification granted during 2021 that resulted in a loan being identified as a TDR. See "Note 4 – 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,				
	2022	2021	2020	2019	2018
	(dollars in thousands)				
Loans on nonaccrual status	$ 856	3,124	1,676	1,528	1,991
Troubled debt restructurings on accrual	133	340	480	475	910
Past due 90 days or more still on accrual	—	—	—	—	—
Total non-performing loans and TDRs on accrual	989	3,464	2,156	2,003	2,901
Real estate acquired through foreclosure	—	—	1,765	3,225	3,485
Other repossessed assets	—	—	—	—	—
Total non-performing assets and TDRs on accrual	$ 989	$ 3,464	$ 3,921	$ 5,228	$ 6,386
Nonaccrual loans to total loans	0.08%	0.31%	0.17%	0.17%	0.26%
Non-performing loans and TDRs on accrual to total loans	0.09%	0.35%	0.22%	0.22%	0.38%
Non-performing assets and TDRs on accrual to total assets	0.07%	0.24%	0.30%	0.42%	0.60%
Allowance for loan losses to nonaccrual loans	1,522.20%	369.11%	742.42%	548.17%	446.01%
Allowance for non-performing loans	$ 18	$ 12	$ 22	$ 48	$ 83
Allowance for non-performing loans to non-performing loans and TDRs on accrual	1.82%	0.35%	1.02%	2.40%	2.86%

Interest income that would have been recorded if nonaccrual loans were on a current basis in accordance with their original terms was $265,000, $287,000, and $288,000 for the years ended December 31, 2022, 2021, and 2020, respectively. Nonperforming loans at December 31, 2022, were $989,000, or 0.09% of total loans, at December 31, 2022, and $3.5 million, or 0.35% of total loans, at December 31, 2021.

Allowance for Loan Losses and Provision for Loan Losses – The allowance for loan losses is established to provide for probable losses on loans that may not be fully repaid. It 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. 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. The allowance for loan losses is adjusted through charges to earnings in the form of a provision for loan losses. This assessment is an estimate and is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as events change.

Management utilizes loan grading procedures that result in specific allowance allocations for the estimated 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.

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 the Bank's ability to collect those loans. In general, management obtains updated appraisals on property securing the Bank's 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 the Company's Board of Directors. These appraisers possess prerequisite certifications and knowledge of the local and regional marketplace.

General Reserve - 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 the Bank's historical loan loss experience, the growth, composition and diversification of its 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 loss percentages to the various categories of loans, not including any loan that has a specific allowance allocated to it.

Specific Reserve - 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."* Generally, all loans identified as impaired are reviewed individually on a quarterly basis in order to determine whether a specific allowance is required. Additionally, specific reserves may be carried for accruing TDRs in compliance with restructured terms. 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. Loans for which specific reserves have been provided are excluded from the general reserve calculations described above.

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

	As of December 31,				
	2022	2021	2020	2019	2018
			(dollars in thousands)		
Balances at beginning of period	$ 11,531	$ 12,443	$ 8,376	$ 8,880	$ 8,202
Loans charged-off:					
Real estate	558	2,332	231	322	450
Commercial	31	19	32	37	50
Consumer	249	131	493	663	95
Agriculture	—	44	46	266	13
Other	—	—	—	—	8
Total charge-offs	838	2,526	802	1,288	616
Recoveries:					
Real estate	2,099	228	352	597	1,437
Commercial	38	172	29	106	261
Consumer	75	49	45	75	69
Agriculture	45	15	30	3	15
Other	—	—	13	3	12
Total recoveries	2,257	464	469	784	1,794
Net charge-offs (recoveries)	(1,419)	2,062	333	504	(1,178)
Provision (negative provision) for loan losses	80	1,150	4,400	—	(500)
Balance at end of period	$ 13,030	$ 11,531	$ 12,443	$ 8,376	$ 8,880
Allowance for loan losses to period-end loans	1.17%	1.15%	1.29%	0.90%	1.16%
Net charge-offs (recoveries) to average loans	(0.13)%	0.22%	0.03%	0.06%	(0.16)%
Allowance for loan losses to non-performing loans and TDRs on accrual	1,317.49%	332.88%	577.13%	418.17%	306.10%

The loan loss reserve, as a percentage of total loans at December 31, 2022, was 1.17% compared to 1.15% at December 31, 2021. The allowance for loan losses to non-performing loans was 1,317.49% at December 31, 2022, compared with 332.88% at December 31, 2021.

A provision for loan losses of $80,000 was recorded for the year ended December 31, 2022, compared to a provision for loan losses of $1.2 million for 2021, and $4.4 million for 2020. The loan loss provision for the year ended December 31, 2022 was primarily attributable to growth trends within the portfolio, offset by a recovery of $1.5 million recognized during the third quarter and its impact on the historical loss percentages. The 2021 loan loss provisions were attributable to growth trends within the portfolio and net loan charge-offs impacting historical loss percentages during the periods.

The following table depicts management's allocation of the allowance for loan losses by loan type based on the factors previously discussed. 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.

Allocation of Allowance for Credit Losses

	As of December 31,			
	2022		2021	
	Amount of Allowance	Percent of Loans to Total Loans	Amount of Allowance	Percent of Loans to Total Loans
	(dollars in thousands)			
Commercial	$ 2,827	20.71%	$ 2,888	22.04%
Commercial Real Estate:				
Construction	1,843	12.16	1,011	7.47
Farmland	782	5.87	840	6.83
Nonfarm nonresidential	4,981	35.23	4,328	34.53
Residential Real Estate:				
Multi-family	360	4.07	381	5.01
1-4 Family	1,039	15.02	1,062	16.86
Consumer	591	3.17	538	3.64
Agriculture	604	3.73	480	3.59
Other	3	0.04	3	0.03
Total	$ 13,030	100.0%	$ 11,531	100.0%

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.

The Bank primarily relies on its banking office network to attract and retain deposits in its local markets, as well as deposit listing services, brokered deposits, deposit gathering networks, and the online channel to attract both in and out-of-market deposits. Market interest rates and rates on deposit products offered by competing financial institutions can significantly affect the Bank's ability to attract and retain deposits.

During 2022, total deposits decreased $7.9 million compared with 2021. The decrease in deposits for 2022 was primarily in money market and savings accounts, offset by increases in interest-bearing demand deposit accounts and certificate of deposits. At December 31, 2022, the Bank had $75.1 million in brokered deposits. The Bank had no brokered deposits as of December 31, 2021. During 2021, total deposits increased $89.1 million compared with 2020. The increase in deposits for 2021 was primarily in interest-bearing demand deposit account balances, as well as money market and non-interest demand deposit accounts.

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 at acceptable rates 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,					
	2022		2021		2020	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Demand	$ 277,981		$ 271,994		$ 215,145	
Interest Checking	288,480	0.54%	233,844	0.27%	169,808	0.32%
Money Market	209,331	0.55	190,094	0.34	166,788	0.55
Savings	159,422	0.35	157,283	0.28	111,559	0.48
Certificates of Deposit	262,692	0.73	311,140	0.57	436,083	1.33
Total Deposits	$ 1,197,906		$ 1,164,355		$ 1,099,383	
Weighted Average Rate		0.43%		0.30%		0.71%

The following table shows at December 31, 2022 the amount of the Bank's time deposits of $250,000 or more by time remaining until maturity:

Maturity Period	
(in thousands)	
Three months or less	$ 11,772
Three months through six months	69,705
Six months through twelve months	17,655
Over twelve months	7,391
Total	$ 106,523

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

Borrowing – Deposits are the primary source of funds for lending activities, 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, as well as the commercial real estate and first mortgage residential loans under a blanket lien arrangement. At December 31, 2022, the Bank had $70.0 million in outstanding borrowings from the FHLB and the capacity to increase borrowings by an additional $91.0 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 its 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 the Bank's FHLB borrowings as of and for the periods indicated:

	December 31,		
	2022	2021	2020
	(dollars in thousands)		
Average balance outstanding	$ 50,274	$ 20,152	$ 34,101
Maximum amount outstanding at any month-end during the period	90,000	20,620	71,376
End of period balance	70,000	20,000	20,623
Weighted average interest rate:			
At end of period	4.25%	0.77%	0.75%
During the period	2.31%	0.76%	1.09%

Junior Subordinated Debentures – At December 31, 2022, 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	3/01/2037
	$ 21,000			$ 21,776	

(1) As of December 31, 2022, 3-month LIBOR was 4.77%.

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 the Company's option at their principal amount plus accrued interest. At December 31, 2022, 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 the Company's Tier 1 capital can consist of trust preferred securities and qualifying perpetual preferred stock. To the extent the amount of the Company's trust preferred securities exceeds the 25% limit, the excess would be includable in Tier 2 capital. As of December 31, 2022, all of the Company's trust preferred securities were included in and comprised 14% of Tier 1 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 Notes – The Company's subordinated notes mature on July 31, 2029 with an optional prepayment date of July 31, 2025. The notes carry interest at a fixed rate of 5.75% until July 30, 2024 and then convert to variable at three-month LIBOR plus 395 basis points until maturity. The subordinated capital notes qualify as Tier 2 regulatory capital.

Capital

Stockholders' equity increased $2.9 million to $133.9 million at December 31, 2022, compared with $131.0 million at December 31, 2021. The increase was due primarily to current year net income of $18.3 million, offset by the other comprehensive loss for the year of $14.6 million attributable to the fair value decline in the available for sale investment portfolio driven by rising interest rates and changing credit spreads, and $1.5 million in dividends paid to common shareholders.

The following table shows the ratios of common equity Tier 1, Tier 1 capital, total capital to risk-adjusted assets, and Tier 1 leverage for the Bank at December 31, 2022:

	Regulatory Minimums	Well-Capitalized Minimums	Basel III Plus Conservation Buffer	Limestone Bank
Common equity Tier 1 capital	4.5%	6.5%	7.0%	13.01%
Tier 1 capital	6.0	8.0	8.5	13.01
Total risk-based capital	8.0	10.0	10.5	14.01
Tier 1 leverage ratio	4.0	5.0	—	11.59

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

The Basel III rules require a "capital conservation buffer" of 2.5% above the regulatory minimum risk-based capital ratios. An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum Basel III 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.

Liquidity and Capital Resource Management

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 the Company meets 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 the Company's 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, 2022, the Bank had an unused borrowing capacity with the FHLB of $91.0 million. Advances are collateralized by commercial real estate and first mortgage residential loans under a blanket lien arrangement. 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. Additionally, the Bank may utilize brokered and wholesale deposits to supplement its funding strategy.

The Company uses cash on hand to service the subordinated capital notes, junior subordinated debentures, pay dividends to common shareholders, and to provide for operating cash flow needs. The Company's primary source of funding to meet its obligations is dividends from the Bank. At December 31, 2022, the Bank was eligible to pay $20.4 million of dividends. The Bank paid the Company $7.5 million of dividends during 2022.

Under the terms of the Merger Agreement, the Company is precluded from issuing additional common equity, preferred equity, or debt to support cash flow needs and liquidity requirements.

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. Inflation can also impact core non-interest expenses associated with delivering the Bank's services.

Material Cash Requirements and Obligations

The following table summarizes key obligations by maturity date or scheduled payment date and other commitments to make future payments as of December 31, 2022:

	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	$ 233,016	$ 51,132	$ 5,311	$ 702	$ 290,161
FHLB borrowing (1)	70,000	—	—	—	70,000
Operating leases	457	899	873	8,434	10,660
Junior subordinated debentures	—	—	—	21,000	21,000
Subordinated capital notes	—	—	—	25,000	25,000
Total	$ 303,473	$ 52,028	$ 6,184	$ 55,136	$ 416,821

(1) Fixed rate borrowings with rates ranging from 4.02% to 4.38%, and maturing in 2023.

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, 2022 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 the Bank's 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	$ 59,632	$ 63,018	$ 30,369	$ 48,679	$ 201,698
Standby letters of credit	1,087	4	—	—	1,091
Total	$ 60,719	$ 63,022	$ 30,369	$ 48,679	$ 202,789

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 its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

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.

Risk Participation Agreements – In connection with the purchase of loan participations, the Bank has entered into risk participation agreements, which had notional amounts totaling $12.1 million at December 31, 2022 and 2021.

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 the Bank's 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 the Company's 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 2.1% at December 31, 2022 compared with a decrease of 1.3% at December 31, 2021. Given an instantaneous 100 basis point decrease in interest rates, the base net interest income would increase by an estimated 0.3% at December 31, 2022 compared with a decrease of 0.8% at December 31, 2021.

The following table indicates the estimated impact on net interest income under various interest rate scenarios for the year ended December 31, 2022, as calculated using the static shock model approach:

	Change in Future Net Interest Income	
	Dollar Change	**Percentage Change**
	(dollars in thousands)	
+ 200 basis points	$ (1,952)	(3.6)%
+ 100 basis points	(1,172)	(2.1)
- 100 basis points	145	0.3
- 200 basis points	(950)	(1.7)

Implementation of strategies to mitigate the risk of changing interest rates in the future, could lessen the Company's 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.

Item 8. Financial Statements and Supplementary Data

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

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Limestone Bancorp, Inc. (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

Allowance for Loan Losses – Qualitative Risk Factors
As described in Notes 1 and 3 to the consolidated financial statements, the Company's allowance for loan losses represents management's best estimate of probable incurred credit losses inherent in the held for investment loan portfolio as of the balance sheet date. Management assesses the risk inherent in the loan portfolio based on qualitative and quantitative risk factors. The allowance for loan losses consists of two components: the valuation allowance for loans that are individually classified as impaired and separately identified for impairment ("specific component"), totaling $0 as of December 31, 2022 and the valuation allowance for loans not considered impaired and collectively evaluated for impairment ("general component"), totaling $13,030,000 as of December 31, 2022.

The general component covers non-impaired loans and is based on historical loss rates adjusted for current factors. The historical loss rates are determined by loan portfolio segment and based on actual loss history realized over the most recent five years with equal weighting. This actual loss experience is supplemented with other qualitative risk factors based on the risks present for each portfolio segment. The qualitative risk factor identification and analysis requires significant judgment and allows management to adjust the estimate of losses based on the most recent information available and to address other limitations in the historical loss rates. The Company's qualitative risk factors include the 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. The evaluation of these qualitative risk factors contributes significantly to the general component of the estimate of the allowance for loan losses.

We identified auditing the qualitative risk factors of the allowance for loan losses of the general component as a critical audit matter because of the necessary judment applied by us to evaluate management's significant estimates and subjective assumptions related to the following:

- Adjustments to the historical loss rates using qualitative risk factors including the selection of qualitative risk factors and the magnitude of each adjustment based on management's judgments regarding factors which impact asset quality.

Testing management's process, including evaluating their judgments and assumptions for developing the qualitative risk factors which included:

- Evaluation of the reasonableness of management's judgments and assumptions related to the qualitative risk factors. Our evaluation considered the weight of evidence from internal and external sources and loan portfolio performance.
- Evaluation of the relevance and reliability of data, including completeness and accuracy of data used to develop the qualitative risk factors.
- Evaluation of management's methodology to ensure it was consistently applied year over year.

[*Signature*]

Crowe LLP

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

Louisville, Kentucky
February 28, 2023

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

	2022	2021
Assets		
Cash and due from banks	$ 7,159	$ 10,493
Interest bearing deposits in banks	37,476	67,110
Cash and cash equivalents	44,635	77,603
Securities available for sale	180,173	214,213
Securities held to maturity (fair value of $34,896 and $46,280, respectively)	43,282	46,460
Loans, net of allowance of $13,030 and $11,531, respectively	1,098,824	990,309
Premises and equipment, net	22,103	21,575
Premises held for sale	—	310
Federal Home Loan Bank stock	5,176	5,116
Bank owned life insurance	31,132	23,946
Deferred taxes, net	21,283	21,583
Goodwill	6,252	6,252
Other intangible assets, net	1,733	1,989
Accrued interest receivable and other assets	7,862	6,336
Total assets	$ 1,462,455	$ 1,415,692
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$ 268,954	$ 274,083
Interest bearing	931,830	934,585
Total deposits	1,200,784	1,208,668
Federal Home Loan Bank advances	70,000	20,000
Accrued interest payable and other liabilities	11,813	10,065
Junior subordinated debentures	21,000	21,000
Subordinated capital notes	25,000	25,000
Total liabilities	1,328,597	1,284,733
Commitments and contingent liabilities (Note 15)	—	—
Stockholders' equity		
Common stock, no par, 39,000,000 shares authorized, 6,638,633 and 6,594,749 voting, and 1,000,000 and 1,000,000 non-voting shares issued and outstanding, respectively	140,639	140,639
Additional paid-in capital	26,312	25,625
Retained deficit	(14,954)	(31,769)
Accumulated other comprehensive loss	(18,139)	(3,536)
Total common stockholders' equity	133,858	130,959
Total liabilities and stockholders' equity	$ 1,462,455	$ 1,415,692

See accompanying notes.

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

	2022	2021	2020
Interest income			
Loans, including fees	$ 50,332	$ 44,445	$ 45,093
Taxable securities	6,165	4,612	5,042
Tax exempt securities	660	643	370
Federal funds sold and other	653	215	248
	57,810	49,915	50,753
Interest expense			
Deposits	5,202	3,518	7,796
Federal Home Loan Bank advances	1,162	154	371
Senior debt	—	—	119
Junior subordinated debentures	867	521	660
Subordinated capital notes	1,501	1,500	1,206
	8,732	5,693	10,152
Net interest income	49,078	44,222	40,601
Provision for loan losses	80	1,150	4,400
Net interest income after provision for loan losses	48,998	43,072	36,201
Non-interest income			
Service charges on deposit accounts	2,775	2,256	2,268
Bank card interchange fees	4,278	4,116	3,376
Income from bank owned life insurance	706	526	424
Gain on sale of other real estate owned	—	191	—
Gain (loss) on sales and calls of securities, net	(3)	460	(5)
Gain on sale of premises held for sale	163	—	—
Other	958	890	781
	8,877	8,439	6,844
Non-interest expense			
Salaries and employee benefits	19,021	18,132	17,751
Occupancy and equipment	4,201	4,041	4,001
Deposit account related expense	2,249	2,158	1,890
Data processing expense	1,591	1,512	1,502
Professional fees	818	952	937
Marketing expense	605	727	629
FDIC insurance	360	405	229
Deposit and state franchise tax	396	375	1,475
Communications expense	419	681	856
Insurance expense	420	415	428
Postage and delivery	622	605	627
Merger expenses	691	—	—
Other	2,364	1,968	2,091
	33,757	31,971	32,416
Income before income taxes	24,118	19,540	10,629
Income tax expense	5,776	4,631	1,624
Net income	18,342	14,909	9,005
Basic and diluted income per common share	$ 2.40	$ 1.96	$ 1.20

See accompanying notes.

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

	2022	2021	2020
Net income	$ 18,342	$ 14,909	$ 9,005
Other comprehensive income (loss):			
Unrealized gain (loss) on securities:			
Unrealized gain (loss) arising during the period	(19,197)	25	1,012
Amortization during period of net unrealized gain transferred to held to maturity	(264)	(346)	—
Less reclassification adjustment for gains (losses) included in net income	(3)	460	(5)
Net unrealized gain (loss) recognized in comprehensive income	(19,458)	(781)	1,017
Tax effect	4,855	195	(253)
Other comprehensive income (loss)	(14,603)	(586)	764
Comprehensive income	$ 3,739	$ 14,323	$ 9,769

See accompanying notes.

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

	Shares			Amount				
	Common	Non-Voting Common	Total Common	Common and Non-Voting Common	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balances, December 31, 2019	6,251,975	1,220,000	7,471,975	$ 140,639	$ 24,508	$ (55,683)	$ (3,714)	$ 105,750
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon vesting	28,248	—	28,248	—	(75)	—	—	(75)
Forfeited unvested stock	(1,358)	—	(1,358)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	580	—	—	580
Non-voting shares converted to voting	220,000	(220,000)	—	—	—	—	—	—
Net income	—	—	—	—	—	9,005	—	9,005
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	764	764
Balances, December 31, 2020	6,498,865	1,000,000	7,498,865	$ 140,639	$ 25,013	$ (46,678)	$ (2,950)	$ 116,024
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon vesting	104,220	—	104,220	—	(87)	—	—	(87)
Forfeited unvested stock	(8,336)	—	(8,336)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	699	—	—	699
Net income	—	—	—	—	—	14,909	—	14,909
Net change in accumulated other comprehensive loss, net of taxes	—	—	—	—	—	—	(586)	(586)
Balances, December 31, 2021	6,594,749	1,000,000	7,594,749	$ 140,639	$ 25,625	$ (31,769)	$ (3,536)	$ 130,959
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon vesting	54,393	—	54,393	—	(197)	—	—	(197)
Forfeited unvested stock	(10,509)	—	(10,509)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	884	—	—	884
Net income	—	—	—	—	—	18,342	—	18,342
Dividends declared on common stock ($0.20 per share)	—	—	—	—	—	(1,527)	—	(1,527)
Net change in accumulated other comprehensive loss, net of taxes	—	—	—	—	—	—	(14,603)	(14,603)
Balances, December 31, 2022	6,638,633	1,000,000	7,638,633	$ 140,639	$ 26,312	$ (14,954)	$ (18,139)	$ 133,858

See accompanying notes to unaudited consolidated financial statements.

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

	2022	2021	2020
Cash flows from operating activities			
Net income	$ 18,342	$ 14,909	$ 9,005
Adjustments to reconcile net income (loss) to net cash from operating activities			
Depreciation, amortization and accretion, net	1,873	4,677	2,986
Provision for loan losses	80	1,150	4,400
Net amortization on securities	338	594	655
Stock-based compensation expense	884	699	580
Deferred taxes, net	5,155	4,326	1,798
Net realized gain on sales of other real estate owned	—	(191)	—
Net realized (gain) loss on sales and calls of investment securities	3	(460)	5
Net realized (gain) loss on disposal of premises and equipment	37	1	—
Net write-down on premises held for sale	—	45	150
Net gain on sale of premises held for sale	(163)	—	—
Increase in cash surrender value of life insurance, net of premium expense	(686)	(505)	(404)
Amortization of operating lease right-of-use assets	406	374	593
Net change in accrued interest receivable and other assets	(2,923)	(3,346)	(106)
Net change in accrued interest payable and other liabilities	1,748	17	1,383
Net cash from operating activities	25,094	22,290	21,045
Cash flows from investing activities			
Purchases of available for sale securities	(9,924)	(91,189)	(38,416)
Proceeds from sales and calls of available for sale securities	—	7,500	9,030
Proceeds from maturities and prepayments of available for sale securities	24,492	37,038	34,881
Purchases of held to maturity securities	(658)	(16,444)	—
Proceeds from calls of held to maturity securities	1,314	1,704	—
Proceeds from maturities and prepayments of held to maturity securities	2,195	3,665	—
Proceeds from sale of other real estate owned	—	1,956	1,600
Improvements to other real estate owned	—	—	(140)
Purchases of Federal Home Loan Bank stock	(727)	—	(600)
Proceeds from mandatory redemption of Federal Home Loan Bank stock	667	771	950
Net changes in loans	(109,099)	(45,164)	(37,772)
Proceeds from sale of premises and equipment	—	1	—
Proceeds from sale of premises held for sale	473	705	—
Purchases of premises and equipment	(687)	(1,274)	(879)
Purchase of bank owned life insurance	(6,500)	—	(7,000)
Net cash from investing activities	(98,454)	(100,731)	(38,346)
Cash flows from financing activities			
Net change in deposits	(7,884)	89,061	92,632
Repayment of Federal Home Loan Bank advances	(120,000)	(623)	(145,766)
Advances from Federal Home Loan Bank	170,000	—	105,000
Proceeds from issuance of subordinated capital notes	—	—	8,000
Repayment of senior debt	—	—	(5,000)
Common shares withheld for taxes	(197)	(87)	(75)
Cash dividends paid on common stock	(1,527)	—	—
Net cash from financing activities	40,392	88,351	54,791
Net change in cash and cash equivalents	(32,968)	9,910	37,490
Beginning cash and cash equivalents	77,603	67,693	30,203
Ending cash and cash equivalents	$ 44,635	$ 77,603	$ 67,693
Supplemental cash flow information:			
Interest paid	$ 7,925	$ 5,788	$ 10,422
Income taxes paid (refunded)	530	370	(346)
Supplemental non-cash disclosure:			
Transfer from premises and equipment to premises held for sale	—	—	310
Transfer of available for sale to held to maturity securities	—	34,741	—
AOCI component of transfer from available for sale to held to maturity	—	1,081	—
Financed sales of other real estate owned	—	—	1,360

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations – The consolidated financial statements include Limestone Bancorp, Inc. (Company) and its wholly-owned subsidiary, Limestone Bank, Inc. (Bank). All significant intercompany transactions and accounts have been eliminated in consolidation.

The Bank, established in 1902, is a state chartered non-member financial institution providing financial services through its banking center locations in south central, southern, and western Kentucky, as well as Lexington, Louisville, and Frankfort.

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.

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, net of tax.

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.

In evaluating securities for other-than-temporary impairment ("OTTI"), management considers the length of time and extent to which fair value has been less than cost, 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 are also 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 unsecured or 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 flow 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 flow sufficiency to service the debt. Appraisals are obtained to support the determination of collateral value.
- 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 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 unless the expenditure is for a recoverable improvement, which may be capitalized. There was no OREO as of December 31, 2022 or 2021. Residential loans secured by 1-4 family residential properties in the process of foreclosure totaled $73,000 and $47,000 at December 31, 2022 and December 31, 2021, respectively.

Premises and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and are depreciated using the straight-line method with useful lives generally ranging from 3 to 40 years. Leasehold improvements are amortized using the straight-line or accelerated method over terms of the related leases, including expected renewals, or over the useful lives of the improvements, whichever is shorter. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

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 written down to 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 stock based on its 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 owns life insurance policies on certain key executives and associates. 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 utilizes 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 core deposit intangible assets arising from a branch acquisition, which were initially measured at fair value and then amortized on an accelerated method over the estimated useful life.

Benefit Plans – Employee 401(k) plan expense is the amount of matching contributions.

Stock-Based Compensation – Compensation cost is recognized for 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 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 upon funding.

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 is 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 its equity compensation 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.

Derivatives – Derivative financial 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.

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 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 changes the method for estimating 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, held-to-maturity debt securities, and off-balance sheet credit exposures 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. In December 2018, federal banking regulators 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.

Management continues to refine assumptions, analyze forecast scenarios, and stress test the volatility of the model. Additionally, management is finalizing various accounting processes, and related controls. This estimate and the ongoing impact of adopting CECL are dependent on various factors, including credit quality, macroeconomic forecasts and conditions, composition of the loan and securities portfolios, and other management judgments, all of which remain subject to further review and analysis by the Company's management team.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The final standard affects all entities after adoption of ASU 2016-13 (Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments) and eliminates the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The Company will be required to implement CECL and ASU 2022-02 for fiscal year and interim periods beginning after December 15, 2022.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this update provide optional guidance to ease the potential burden in accounting for reference rate reform on financial reporting. The new guidance provides optional expedients and exceptions for applying GAAP to contracts and hedging relationships, if certain criteria are met, that reference LIBOR or another reference rate expected to be discontinued. In December 2022, the FASB voted to delay the sunset date for Topic 848 until December 31, 2024 effective immediately. Adoption of this new guidance will not have a material impact on the consolidated financial statements.

NOTE 2 – PENDING MERGER

On October 24, 2022, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") with Peoples Bancorp Inc. ("Peoples"). The Merger Agreement provides for a business combination whereby the Company will merge with and into Peoples (the "Merger"), with Peoples as the surviving corporation in the Merger. Under the terms and subject to the conditions of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of the Company's common stock, issued and outstanding immediately prior to the Effective Time (except for Dissenting Shares, as provided for in the Merger Agreement), will be converted, in accordance with the procedures set forth in the Merger Agreement, into 0.90 of common shares, no par value, of Peoples. The Merger Agreement contains certain termination rights for both Peoples and the Company, and further provides that, upon termination of the Merger Agreement under specified circumstances, the Company may be required to pay Peoples a termination fee of $8.3 million.

The Merger Agreement was approved by the shareholders of both the Company and Peoples at Special Shareholders' Meetings held on February 23, 2023. Additionally, the registration statement on Form S-4 for the Peoples Common Shares to be issued in the Merger became effective with the Securities and Exchange Commission on January 10, 2023.

The Merger is expected to close in the second quarter of 2023, pending satisfaction of various remaining closing conditions, including, but not limited to: (1) authorization for listing on Nasdaq of the Peoples Common Shares to be issued in the Merger; (2) the receipt of required regulatory approvals, including the approval of the Board of Governors of the Federal Reserve System, the Ohio Division of Financial Institutions, and the Kentucky Department of Financial Institutions; (3)

the absence of any order, injunction or other legal restraint preventing or making illegal the completion of the Merger or any of the other transactions contemplated by the Merger Agreement.

Merger expenses totaling $691,000 have been expensed by the Company through December 31, 2022. Additional merger costs will be expensed in future periods as incurred.

NOTE 3 – SECURITIES

Securities are classified as available for sale ("AFS") or held to maturity ("HTM"). AFS securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax. HTM securities are reported at amortized cost.

The following table summarizes the amortized cost and fair value of AFS and HTM securities at December 31, 2022 and December 31, 2021 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
Available for sale				
U.S. Government and federal agency	$ 24,541	$ —	$ (2,784)	$ 21,757
Agency mortgage-backed: residential	80,283	9	(10,387)	69,905
Collateralized loan obligations	48,202	—	(2,161)	46,041
Corporate bonds	45,512	—	(3,042)	42,470
Total available for sale	$ 198,538	$ 9	$ (18,374)	$ 180,173

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity				
State and municipal	$ 43,282	$ —	$ (8,386)	$ 34,896
Total held to maturity	$ 43,282	$ —	$ (8,386)	$ 34,896

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Available for sale				
U.S. Government and federal agency	$ 26,075	$ 301	$ (133)	$ 26,243
Agency mortgage-backed: residential	93,650	1,339	(970)	94,019
Collateralized loan obligations	50,227	—	(78)	50,149
Corporate bonds	43,432	572	(202)	43,802
Total available for sale	$ 213,384	$ 2,212	$ (1,383)	$ 214,213

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity				
State and municipal	$ 46,460	$ 158	$ (338)	$ 46,280
Total held to maturity	$ 46,460	$ 158	$ (338)	$ 46,280

Sales and calls of securities were as follows:

	2022	2021	2020
		(in thousands)	
Proceeds	$ 1,314	$ 9,204	$ 9,030
Gross gains	—	465	—
Gross losses	3	5	5

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, 2022	
	Amortized Cost	**Fair Value**
	(in thousands)	
Maturity		
Available for sale		
Within one year	$ —	$ —
One to five years	4,661	4,483
Five to ten years	84,946	79,679
Beyond ten years	28,648	26,106
Agency mortgage-backed: residential	80,283	69,905
Total	$ 198,538	$ 180,173
Held to maturity		
Within one year	$ 3,265	3,204
One to five years	5,571	$ 5,324
Five to ten years	4,713	4,100
Beyond ten years	29,733	22,268
Total	$ 43,282	$ 34,896

Securities pledged at year-end 2022 and 2021 had carrying values of approximately $122.1 million and $155.4 million, respectively, and were pledged to secure public deposits.

At December 31, 2022 and 2021, the Bank held securities issued by the Commonwealth of Kentucky or Kentucky municipalities having a book value of $35.2 million and $35.7 million, respectively. At year-end 2022, 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 Company evaluates securities for other-than-temporary impairment at least on a quarterly basis. 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, 2022, management does not believe any securities in the portfolio with unrealized losses should be classified as other than temporarily impaired.

The Bank owns Collateralized Loan Obligations (CLOs), which are debt securities secured by professionally managed portfolios of senior-secured loans to corporations. CLOs are typically $300 million to $1 billion in size, contain one hundred or more loans, have five to six credit tranches with credit ratings 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, prepayments on the underlying loans, and other conditions or economic factors. At December 31, 2022, $27.0 million and $19.0 million of the Bank's CLOs were risk rated AA and A rated, respectively. None of the CLOs were subject to ratings downgrade during the year ended December 31, 2022.

Stress testing was completed on each security in the CLO portfolio as of December 31, 2022. Each security in the portfolio passed, without dollar loss, a stress scenario characterized as severe, which assumed a ten percent per annum constant prepayment rate, a twelve percent per annum constant default rate for four years followed by a four percent rate thereafter, and a forty-five percent recovery rate on a one-year lag.

The corporate bond portfolio consists of 16 subordinated debt securities and two senior debt securities of U.S. banks and bank holding companies with maturities ranging from 2024 to 2037. The securities are either initially fixed rate for five years converting to floating rate at an index over LIBOR or SOFR, or floating rate at an index over LIBOR or SOFR from inception. Management regularly monitors the financial condition of these corporate issuers by reviewing their regulatory and public filings.

Securities with unrealized and unrecognized losses at December 31, 2022 and December 31, 2021, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
2022						
Available for sale						
U.S. Government and federal agency	$ 12,234	$ (1,022)	$ 9,523	$ (1,762)	$ 21,757	$ (2,784)
Agency mortgage-backed: residential	26,917	(1,916)	41,992	(8,471)	68,909	(10,387)
Collateralized loan obligations	20,816	(784)	25,225	(1,377)	46,041	(2,161)
Corporate bonds	22,537	(1,352)	19,934	(1,690)	42,471	(3,042)
Total temporarily impaired	$ 82,504	$ (5,074)	$ 96,674	$ (13,300)	$ 179,178	$ (18,374)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	**Unrecognized Loss**	**Fair Value**	**Unrecognized Loss**	**Fair Value**	**Unrecognized Loss**
Held to maturity						
State and municipal	$ 13,897	$ (3,328)	$ 19,179	$ (5,058)	$ 33,076	$ (8,386)
Total temporarily impaired	$ 13,897	$ (3,328)	$ 19,179	$ (5,058)	$ 33,076	$ (8,386)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
2021						
Available for sale						
U.S. Government and federal agency	$ 11,645	$ (133)	$ —	$ —	$ 11,645	$ (133)
Agency mortgage-backed: residential	53,733	(960)	642	(10)	54,375	(970)
Collateralized loan obligations	10,036	(7)	16,514	(71)	26,550	(78)
Corporate bonds	22,548	(202)	—	—	22,548	(202)
Total temporarily impaired	$ 97,962	$ (1,302)	$ 17,156	$ (81)	$ 115,118	$ (1,383)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	**Unrecognized Loss**	**Fair Value**	**Unrecognized Loss**	**Fair Value**	**Unrecognized Loss**
Held to maturity						
State and municipal	$ 26,829	$ (338)	$ —	$ —	$ 26,829	$ (338)
Total temporarily impaired	$ 26,829	$ (338)	$ —	$ —	$ 26,829	$ (338)

NOTE 4 – LOANS

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

	2022	2021
	(in thousands)	
Commercial (1)	$ 230,262	$ 220,826
Commercial Real Estate:		
Construction	135,159	74,806
Farmland	65,256	68,388
Nonfarm nonresidential	391,701	345,893
Residential Real Estate:		
Multi-family	45,222	50,224
1-4 Family	166,988	168,873
Consumer	35,277	36,440
Agriculture	41,498	35,924
Other	491	466
Subtotal	1,111,854	1,001,840
Less: Allowance for loan losses	(13,030)	(11,531)
Loans, net	$ 1,098,824	$ 990,309

(1) Includes PPP loans of $141,000 and $1.2 million at December 31, 2022 and 2021, respectively.

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2022, 2021, and 2020:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
December 31, 2022:				(in thousands)			
Beginning balance	$ 2,888	$ 6,179	$ 1,443	$ 538	$ 480	$ 3	$ 11,531
Provision (negative provision)	(68)	(131)	(27)	227	79	–	80
Loans charged off	(31)	(158)	(400)	(249)	–	–	(838)
Recoveries	38	1,716	383	75	45	–	2,257
Ending balance	$ 2,827	$ 7,606	$ 1,399	$ 591	$ 604	$ 3	$ 13,030

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
December 31, 2021:				(in thousands)			
Beginning balance	$ 2,529	$ 7,050	$ 1,899	$ 361	$ 600	$ 4	$ 12,443
Provision (negative provision)	206	1,314	(537)	259	(91)	(1)	1,150
Loans charged off	(19)	(2,302)	(30)	(131)	(44)	–	(2,526)
Recoveries	172	117	111	49	15	–	464
Ending balance	$ 2,888	$ 6,179	$ 1,443	$ 538	$ 480	$ 3	$ 11,531

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
December 31, 2020:				(in thousands)			
Beginning balance	$ 1,710	$ 4,080	$ 1,743	$ 485	$ 355	$ 3	$ 8,376
Provision (negative provision)	822	2,870	135	324	261	(12)	4,400
Loans charged off	(32)	(101)	(130)	(493)	(46)	–	(802)
Recoveries	29	201	151	45	30	13	469
Ending balance	$ 2,529	$ 7,050	$ 1,899	$ 361	$ 600	$ 4	$ 12,443

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, 2022:

	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	$ –	$ –	$ 1	$ –	$ –	$ –	$ 1
Collectively evaluated for impairment	2,827	7,606	1,398	591	604	3	13,029
Total ending allowance balance	$ 2,827	$ 7,606	$ 1,399	$ 591	$ 604	$ 3	$ 13,030
Loans:							
Loans individually evaluated for impairment	$ –	$ 429	$ 441	$ 119	$ –	$ –	$ 989
Loans collectively evaluated for impairment	230,262	591,687	211,769	35,158	41,498	491	1,110,865
Total ending loans balance	$ 230,262	$ 592,116	$ 212,210	$ 35,277	$ 41,498	$ 491	$ 1,111,854

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, 2021:

	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	$ –	$ –	$ 2	$ –	$ –	$ –	$ 2
Collectively evaluated for impairment	2,888	6,179	1,441	538	480	3	11,529
Total ending allowance balance	$ 2,888	$ 6,179	$ 1,443	$ 538	$ 480	$ 3	$ 11,531
Loans:							
Loans individually evaluated for impairment	$ –	$ 2,878	$ 566	$ 12	$ 9	$ –	$ 3,465
Loans collectively evaluated for impairment	220,826	486,209	218,531	36,428	35,915	466	998,375
Total ending loans balance	$ 220,826	$ 489,087	$ 219,097	$ 36,440	$ 35,924	$ 466	$ 1,001,840

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, 2022:

	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	$ 257	$ —	$ —	$ —	$ 1	$ 1
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	80	29	—	95	53	53
Nonfarm nonresidential	1,001	400	—	1,783	202	189
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	1,181	388	—	479	161	161
Consumer	350	119	—	80	2	2
Agriculture	315	—	—	3	23	23
Other	—	—	—	—	—	—
Subtotal	3,184	936	—	2,440	442	429
With An Allowance Recorded:						
Commercial	—	—	—	—	—	—
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	—	—	—	—	—	—
Nonfarm nonresidential	—	—	—	—	—	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	53	53	1	78	—	—
Consumer	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	53	53	1	78	—	—
Total	$ 3,237	$ 989	$ 1	$ 2,518	$ 442	$ 429

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, 2021:

	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	$ 290	$ —	$ —	$ —	$ —	$ —
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	302	215	—	520	55	55
Nonfarm nonresidential	7,755	2,663	—	4,430	302	25
Residential real estate:						
Multi-family	—	—	—	—	1	1
1-4 Family	1,408	501	—	764	135	126
Consumer	272	12	—	19	1	1
Agriculture	366	9	—	81	7	7
Other	—	—	—	—	—	—
Subtotal	10,393	3,400	—	5,814	501	215
With An Allowance Recorded:						
Commercial	—	—	—	—	—	—
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	—	—	—	—	—	—
Nonfarm nonresidential	—	—	—	—	—	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	65	65	2	95	2	—
Consumer	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	65	65	2	95	2	—
Total	$ 10,458	$ 3,465	$ 2	$ 5,909	$ 503	$ 215

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, 2020:

	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	$ 308	$ —	$ —	$ 82	$ 16	$ 16
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	555	456	—	326	45	45
Nonfarm nonresidential	1,323	549	—	501	44	15
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	1,883	954	—	894	86	83
Consumer	259	—	—	55	3	3
Agriculture	393	91	—	27	—	—
Other	—	—	—	—	—	—
Subtotal	4,721	2,050	—	1,885	194	162
With An Allowance Recorded:						
Commercial	—	—	—	5	—	—
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	—	—	—	198	4	—
Nonfarm nonresidential	6,465	4,356	2,176	901	263	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	106	106	1	102	9	—
Consumer	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	6,571	4,462	2,177	1,206	276	—
Total	$ 11,292	$ 6,512	$ 2,177	$ 3,091	$ 470	$ 162

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, 2022 and 2021:

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
<u>December 31, 2022</u>			
Commercial Real Estate:			
Nonfarm nonresidential	$ 133	$ —	$ 133
Residential Real Estate:			
1-4 Family	—	53	53
Total TDRs	$ 133	$ 53	$ 186

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
December 31, 2021			
Commercial Real Estate:			
Nonfarm nonresidential	$ 340	$ —	$ 340
Residential Real Estate:			
1-4 Family	—	65	65
Total TDRs	$ 340	$ 65	$ 405

At December 31, 2022 and 2021, 72% and 84%, respectively, of the Company's TDRs were performing according to their modified terms. The Company allocated $1,000 and $2,000 as of December 31, 2022 and 2021, 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, 2022 or December 31, 2021 to customers with outstanding loans that are classified as TDRs.

During the years ended December 31, 2022, 2021, and 2020, 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.

No TDR modifications occurred during the year ended December 31, 2022. The following table presents a summary of the TDR loan modifications by portfolio segment that occurred during the year ended December 31, 2021:

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
December 31, 2021			
Residential Real Estate:			
1-4 Family	$ 180	$ —	$ 180
Total TDRs	$ 180	$ —	$ 180

The Company did not allocate any reserves to customers whose loan terms were modified during 2021. For modifications occurring during the year ended December 31, 2021, the post-modification balances approximate the pre-modification balances.

The following table presents the aging of the recorded investment in past due loans by class as of December 31, 2022 and 2021:

	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, 2022					
Commercial	$ 32	$ —	$ —	$ —	$ 32
Commercial Real Estate:					
Construction	—	—	—	—	—
Farmland	219	29	—	28	276
Nonfarm nonresidential	577	—	—	268	845
Residential Real Estate:					
Multi-family	—	—	—	—	—
1-4 Family	913	239	—	441	1,593
Consumer	178	—	—	119	297
Agriculture	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 1,919	$ 268	$ —	$ 856	$ 3,043

	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, 2021					
Commercial	$ 6	$ —	$ —	$ —	$ 6
Commercial Real Estate:					
Construction	—	—	—	—	—
Farmland	—	—	—	215	215
Nonfarm nonresidential	—	34	—	2,323	2,357
Residential Real Estate:					
Multi-family	—	—	—	—	—
1-4 Family	513	148	—	566	1,227
Consumer	37	28	—	12	77
Agriculture	—	—	—	8	8
Other	—	—	—	—	—
Total	$ 556	$ 210	$ —	$ 3,124	$ 3,890

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 and 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 experienced 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, 2022 and 2021, 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, 2022						
Commercial	$ 222,420	$ 3,503	$ —	$ 4,339	$ —	$ 230,262
Commercial Real Estate:						
Construction	132,618	2,541	—	—	—	135,159
Farmland	63,303	1,594	—	359	—	65,256
Nonfarm nonresidential	385,434	5,981	—	286	—	391,701
Residential Real Estate:						
Multi-family	45,222	—	—	—	—	45,222
1-4 Family	164,150	1,525	—	1,313	—	166,988
Consumer	35,032	20	—	225	—	35,277
Agriculture	40,660	25	—	813	—	41,498
Other	491	—	—	—	—	491
Total	$ 1,089,330	$ 15,189	$ —	$ 7,335	$ —	$ 1,111,854

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(in thousands)			
December 31, 2021						
Commercial	$ 207,729	$ 5,207	$ —	$ 7,890	$ —	$ 220,826
Commercial Real Estate:						
Construction	74,806	—	—	—	—	74,806
Farmland	65,836	170	—	2,382	—	68,388
Nonfarm nonresidential	341,780	413	—	3,700	—	345,893
Residential Real Estate:						
Multi-family	50,224	—	—	—	—	50,224
1-4 Family	164,850	2,038	—	1,985	—	168,873
Consumer	36,408	5	—	27	—	36,440
Agriculture	35,863	23	—	38	—	35,924
Other	466	—	—	—	—	466
Total	$ 977,962	$ 7,856	$ —	$ 16,022	$ —	$ 1,001,840

NOTE 5 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2022	2021
	(in thousands)	
Land and buildings	$ 22,033	$ 21,590
Furniture and equipment	8,439	9,395
Leased right-of-use asset	6,317	5,326
	36,789	36,311
Accumulated depreciation	(14,686)	(14,736)
	$ 22,103	$ 21,575

Depreciation expense was $1.1 million, $1.0 million and $1.1 million for 2022, 2021 and 2020, respectively.

NOTE 6 – LEASES

As of December 31, 2022, the Company had real estate leases for seven branch offices or offsite ATM machines under various operating lease agreements. The lease agreements have maturity dates ranging from 2024 to 2046, including all expected extension periods. The weighted average remaining life of the lease term for these leases was 20 years as of December 31, 2022.

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 estimated rate of interest that the Bank would pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment. The weighted average discount rate for the leases was 4.20% as of December 31, 2022.

Total rental expense was $499,000 and $503,000 for the years ended December 31, 2022 and December 31, 2021, respectively. The right-of-use asset, included in premises and equipment, and lease liability, included in other liabilities, was $6.3 million as of December 31, 2022 and $5.3 million as of December 31, 2021.

Total estimated rental commitments for the operating leases were as follows as of December 31, 2022 (in thousands):

	2022
2023	457
2024	458
2025	438
2026	408
2027	465
Thereafter	8,434
Total minimum lease payments	10,660
Discount effect of cash flows	(4,343)
Present value of lease liabilities	$ 6,317

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the Company's acquired goodwill and intangible assets as of December 31, 2022 and December 31, 2021:

	2022		2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Goodwill	$ 6,252	$ —	$ 6,252	$ —
Core deposit intangibles	2,500	767	2,500	511
Outstanding, ending	$ 8,752	$ 767	$ 8,752	$ 511

During 2019, the Company recorded $6.3 million of goodwill related to a branch purchase transaction. 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. At November 30, 2022, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment. Since the annual impairment test on November 30, 2022, there have been no events or circumstances that would indicate it was more likely than not goodwill impairment exists. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

The Company also has a core deposit intangible asset, which is amortized over the weighted average estimated life of the related deposits and is not estimated to have a significant residual value. Total amortization was $256,000 for the years ended December 31, 2022 and 2021.

The estimated amortization expense of the core deposit intangible for the next five years and thereafter is as follows (in thousands):

	Amortization Expense
2023	$ 256
2024	256
2025	256
2026	256
2027	256
Thereafter	453
	$ 1,733

NOTE 8 – DEPOSITS

The following table details deposits by category at year end:

	2022	2021
	(in thousands)	
Non-interest bearing	$ 268,954	$ 274,083
Interest checking	314,082	287,208
Money market	179,035	217,943
Savings	148,552	163,423
Certificates of deposit (1)	290,161	266,011
Total	$ 1,200,784	$ 1,208,668

(1) Includes brokered deposits of $75.1 million as of December 31, 2022. There were no brokered deposits at December 31, 2021.

Time deposits of $250,000 or more were approximately $106.5 million and $33.4 million at year-end 2022 and 2021, respectively.

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

	Total
2023	$ 233,016
2024	35,759
2025	15,373
2026	2,277
2027	3,034
Thereafter	702
	$ 290,161

NOTE 9 – ADVANCES FROM FEDERAL HOME LOAN BANK

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

	2022	2021
	(in thousands)	
Short term advance (fixed rates 4.02% to 4.38%) maturing January 2023	$ 70,000	$ —
Long term advance	—	20,000
Total advances from the Federal Home Loan Bank	$ 70,000	$ 20,000

FHLB advances had a weighted-average rate of 4.25% at December 31, 2022 and 0.77% at December 31, 2021. Each advance is payable per terms on agreement, with a prepayment penalty. The $20.0 million long-term advance outstanding at December 31, 2021 was called by the FHLB in May 2022. No prepayment penalties were incurred during 2022 or 2021. The advances were collateralized by approximately $339.5 million of commercial real estate and first mortgage residential loans, under a blanket lien arrangement at December 31, 2022. At December 31, 2021, the advances were collateralized by approximately $121.8 million of first mortgage loans under a blanket lien arrangement and loans originated under the SBA Payment Protection Plan. At December 31, 2022, the Bank's additional borrowing capacity with the FHLB was $91.0 million.

NOTE 10 – BORROWINGS

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. At December 31, 2022, 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, 2022, 3-month LIBOR was 4.77%.
(2) The debentures are callable at the Company's option at their principal amount plus accrued interest.

Subordinated Capital Notes - The Company's subordinated notes mature on July 31, 2029 with an optional prepayment date of July 31, 2025. The notes carry interest at a fixed rate of 5.75% until July 30, 2024 and then convert to variable at three-month LIBOR plus 395 basis points until maturity. The subordinated capital notes qualify as Tier 2 regulatory capital.

Federal Funds Line – At year-end 2022, the Company had an unused $5.0 million federal funds line of credit available on an unsecured basis from a correspondent institution.

NOTE 11 – 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, which is matched 100% of the first 1% of compensation contributed and 50% of the next 5% contributed by employees. The Company, at its discretion, may make additional contributions. Contributions made by the Company to the plan totaled approximately $372,000, $373,000 and $399,000 in 2022, 2021 and 2020, respectively.

NOTE 12 – INCOME TAXES

Income tax expense was as follows:

	2022	2021	2020
		(in thousands)	
Current	$ 621	$ 305	$ (173)
Deferred	(354)	1,649	1,372
Net operating loss	5,509	2,677	903
Establish state deferred tax asset	—	—	(478)
	$ 5,776	$ 4,631	$ 1,624

The Company recognized state income tax expense of $1.0 million for the year ended December 31, 2022 and state income tax expense of $939,000 for the year ended December 31, 2021. For the year ended December 31, 2020, the Company recognized a state income tax benefit of $478,000 due to the establishment of a net deferred tax asset. Effective January 1, 2021, the Commonwealth of Kentucky eliminated the bank franchise tax, which was previously recorded as non-interest expense, and implemented a state income tax at a statutory rate of 5%.

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

	2022	2021	2020
		(in thousands)	
Federal statutory tax rate	21%	21%	21%
Federal statutory rate times financial statement income	$ 5,065	$ 4,103	$ 2,232
Effect of:			
State income taxes	907	741	—
Tax-exempt interest income	(107)	(123)	(73)
Establish state deferred tax asset	—	—	(478)
Non-taxable life insurance income	(148)	(111)	(89)
Restricted stock vesting	(30)	(10)	7
Other, net	89	31	25
Total	$ 5,776	$ 4,631	$ 1,624

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

	2022	2021
	(in thousands)	
Deferred tax assets:		
Net operating loss carry-forward	$ 13,826	$ 19,335
Allowance for loan losses	3,250	2,877
Net unrealized loss on securities	4,465	—
New market tax credit carry-forward	208	208
Nonaccrual loan interest	317	321
Accrued expenses	97	138
Lease liability	1,577	1,328
Other	240	202
	23,980	24,409
Deferred tax liabilities:		
FHLB stock dividends	361	415
Fixed assets	117	133
Deferred loan costs	158	176
Net unrealized gain on securities	—	390
Lease right-of-use assets	1,577	1,328
Net assets from acquisitions	304	108
Other	180	276
	2,697	2,826
Net deferred tax assets	$ 21,283	$ 21,583

At December 31, 2022, the Company had federal net operating loss carryforwards of $62.0 million, which will begin to expire in 2033, and state net operating loss carryforwards of $20.5 million, which will begin to expire in 2031.

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, 2022 or December 31, 2021 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. Any shareholder or group acquiring 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 are not 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 2021 to expire upon the earlier of (i) June 30, 2024, (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 October 24, 2022, with the unanimous approval of the Company's Board of Directors, the Company amended the rights plan to accelerate its final expiration date to October 24, 2022, effectively terminating the tax benefits preservation plan as of that date.

Also in 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 the Company's common shares that could result in an ownership change under Section 382. The transfer restrictions were extended in May 2021 by shareholder vote and will expire on the earlier of (i) May 19, 2024, (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 the Board determines that the transfer restrictions are no longer needed to preserve the tax benefits of the 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 2019.

NOTE 13 – RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, significant shareholders, and their affiliates in 2022 were as follows (in thousands):

Beginning balance	$ 13,542
New loans and advances	12,851
Repayments	(8,880)
Ending balance	$ 17,513

Deposits from principal officers, directors, significant shareholders, and their affiliates at year-end 2022 and 2021 were $2.4 million and $876,000, respectively.

During 2021 and 2020, Hogan Development Company and Hogan Real Estate Company assisted the Bank in managing and selling the Bank's OREO. Both companies are owned by W. Glenn Hogan, a director of the Company and Bank. This arrangement was reviewed and evaluated by the Audit Committee in conjunction with the Board's annual assessment of director independence. The Bank paid real estate management and sales fees to these companies in the amount of $45,000 and $26,000 for the years ended December 31, 2021, and 2020, respectively. There were no payments to Hogan Development Company or Hogan Real Estate Company during 2022.

NOTE 14 – 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 Basel III rules established a "capital conservation buffer" of 2.5% above the regulatory minimum risk-based capital ratios. Including the capital conservation buffer, 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 without prior regulatory approval.

As of December 31, 2022, the Company and Bank meet all capital adequacy requirements to which they are subject. At year end 2022 and 2021, 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, 2022:						
Total risk-based capital (to risk-weighted assets)	$ 182,113	14.01%	$ 104,007	8.00%	$ 130,008	10.00%
Total common equity Tier 1 risk-based capital (to risk-weighted assets)	169,083	13.01	58,504	4.50	84,505	6.50
Tier 1 capital (to risk-weighted assets)	169,083	13.01	78,005	6.00	104,007	8.00
Tier 1 capital (to average assets)	169,083	11.59	58,379	4.00	72,974	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, 2021:						
Total risk-based capital (to risk-weighted assets)	$ 160,700	13.31%	$ 96,591	8.00%	$ 120,738	10.00%
Total common equity Tier 1 risk-based capital (to risk-weighted assets)	149,169	12.35	54,332	4.50	78,480	6.50
Tier 1 capital (to risk-weighted assets)	149,169	12.35	72,443	6.00	96,591	8.00
Tier 1 capital (to average assets)	149,169	10.84	55,057	4.00	68,822	5.00

Kentucky banking laws limit the amount of dividends that may be paid to a holding company by 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. Based on these regulations, the Bank was eligible to pay $20.4 million of dividends as of December 31, 2022. The Bank paid the Company $7.5 million of dividends during 2022.

NOTE 15 – 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 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 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 except for home equity loans, which generally have a term of 10 years.

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:

	2022		2021	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to make loans	$ 35,773	$ 35,781	$ 85,294	$ 60,683
Unused lines of credit	12,383	117,761	12,828	108,635
Standby letters of credit	444	647	566	326

In connection with the purchase of loan participations, the Bank entered into risk participation agreements, which had notional amounts totaling $12.1 million at December 31, 2022 and 2021. 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, 2022 and December 31, 2021, the fair value of the risk participation agreements were $1,000 and $67,000, 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 16 – 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 applies internal discounts to the value of appraisals used in the fair value evaluation of the Bank's 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 the Bank's appraisal date predates a likely change in market conditions. Management also applies 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.

Impaired loans are evaluated quarterly for additional impairment. Management obtains updated appraisals on properties securing the Bank's 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.

Financial assets measured at fair value on a recurring basis at December 31, 2022 and December 31, 2021 are summarized below:

		Fair Value Measurements at December 31, 2022 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	$ 21,757	$ —	$ 21,757	$ —
Agency mortgage-backed: residential	69,905	—	69,905	—
Collateralized loan obligations	46,041	—	46,041	—
Corporate bonds	42,470	—	20,223	22,247
Total	$ 180,173	$ —	$ 157,926	$ 22,247

Description	Carrying Value	Fair Value Measurements at December 31, 2021 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	$ 26,243	$ —	$ 26,243	$ —
Agency mortgage-backed: residential	94,019	—	94,019	—
Collateralized loan obligations	50,149	—	50,149	—
Corporate bonds	43,802	—	29,761	14,041
Total	$ 214,213	$ —	$ 200,172	$ 14,041

There were no transfers between Level 1 and Level 2 during 2022 or 2021.

The Company's policy is to transfer assets or liabilities from one level to another when the methodology to obtain the fair value changes such that there are more or fewer unobservable inputs as of the end of the reporting period. During the year ended December 31, 2022, the Company transferred five corporate bonds from Level 2 to Level 3. The Company's corporate bond valuations were supported by an analysis prepared by an independent third party and approved by management.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2022 and 2021:

	December 31, 2022 Corporate Bonds
	(in thousands)
Balance of recurring Level 3 assets at January 1, 2022	$ 14,041
Total gains or losses for the year:	
Included in other comprehensive income	(1,009)
Transfers into Level 2	(6,524)
Transfers into Level 3	15,739
Balance of recurring Level 3 assets at December 31, 2022	$ 22,247

	December 31, 2021	
	Collateralized Loan Obligations	Corporate Bonds
	(in thousands)	
Balance of recurring Level 3 assets at January 1, 2021	$ 2,388	$ 11,916
Total gains or losses for the year:		
Included in earnings	—	465
Included in other comprehensive income	108	1,532
Calls	—	(6,000)
Transfers into Level 2	(2,496)	(1,042)
Transfers into Level 3	—	7,170
Balance of recurring Level 3 assets at December 31, 2021	$ —	$ 14,041

The following table presents quantitative information about recurring level 3 fair value measurements are summarized below (in thousands):

	Fair Value Measurements at December 31, 2022				
	Fair Value (in thousands)		Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Corporate bonds	$	22,247	Discounted cash flow	Constant prepayment rate	0%
				Spread to benchmark yield	198% - 421% (299%)
				Indicative broker bid	78% - 97% (90%)

	Fair Value Measurements at December 31, 2021				
	Fair Value (in thousands)		Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Corporate bonds	$	14,041	Discounted cash flow	Constant prepayment rate	0%
				Spread to benchmark yield	200% - 298% (235%)
				Indicative broker bid	99% - 106% (103%)

Carrying amount and estimated fair values of financial instruments were as follows for the periods indicated:

	Carrying Amount	Fair Value Measurements at December 31, 2022 Using			
		Level 1	Level 2	Level 3	Total
			(in thousands)		
Financial assets					
Cash and cash equivalents	$ 44,635	$ 44,635	$ —	$ —	$ 44,635
Securities available for sale	180,173	—	157,926	22,247	180,173
Securities held to maturity	43,282	—	34,896	—	34,896
Federal Home Loan Bank stock	5,176	N/A	N/A	N/A	N/A
Loans, net	1,098,824	—	—	1,046,734	1,046,734
Accrued interest receivable	5,004	—	1,306	3,698	5,004
Financial liabilities					
Deposits	$ 1,200,784	$ 268,954	$ 926,725	$ —	$ 1,195,679
Federal Home Loan Bank advances	70,000	—	69,993	—	69,993
Junior subordinated debentures	21,000	—	—	19,084	19,084
Subordinated capital notes	25,000	—	—	24,212	24,212
Accrued interest payable	1,571	—	889	682	1,571

	Carrying Amount	Fair Value Measurements at December 31, 2021 Using			
		Level 1	Level 2	Level 3	Total
			(in thousands)		
Financial assets					
Cash and cash equivalents	$ 77,603	$ 77,603	$ —	$ —	$ 77,603
Securities available for sale	214,213	—	200,172	14,041	214,213
Securities held to maturity	46,460	—	46,280	—	46,280
Federal Home Loan Bank stock	5,116	N/A	N/A	N/A	N/A
Loans, net	990,309	—	—	981,995	981,995
Accrued interest receivable	3,870	—	1,022	2,848	3,870
Financial liabilities					
Deposits	$ 1,208,668	$ 274,083	$ 935,768	$ —	$ 1,209,851
Federal Home Loan Bank advances	20,000	—	20,046	—	20,046
Junior subordinated debentures	21,000	—	—	19,500	19,500
Subordinated capital notes	25,000	—	—	26,149	26,149
Accrued interest payable	764	—	136	628	764

In accordance with ASU 2016-01, the methods utilized to measure the fair value of financial instruments represent an approximation of exit price; however, an actual exit price may differ.

Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Therefore, calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. Changes in assumptions could significantly impact estimates.

NOTE 17 – STOCK PLANS AND STOCK BASED COMPENSATION

Shares available for issuance under the 2018 Omnibus Equity Compensation Plan total 122,603; however, the Company is precluded from issuing additional shares based on the terms of the Merger Agreement. Shares issued to employees under the plan vest over periods of up to seven years. Shares issued annually for the next year of service to each non-employee director on the first business day of the month following election have a fair market value of $25,000 and vest on December 31 in the year of grant.

The fair value of the 2022 shares issued was $1.3 million, or $19.61 per weighted-average share. The Company recorded $884,000, $699,000, and $580,000 of stock-based compensation during 2022, 2021, and 2020, 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 or upon the anticipated closing of the Merger transaction should all closing conditions be met. A deferred tax benefit of $221,000, $175,000, and $122,000 was recognized related to this expense in 2022, 2021, and 2020, respectively.

The following table summarizes stock plan share activity as of and for the periods indicated for the Company's equity compensation plan:

	Year Ended December 31, 2022		Year Ended December 31, 2021	
	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding, beginning	111,536	$ 13.73	47,438	$ 15.34
Granted	64,600	19.61	110,024	13.52
Vested	(40,137)	16.86	(37,590)	15.13
Forfeited	(10,509)	15.35	(8,336)	13.66
Outstanding, ending	125,490	$ 15.62	111,536	$ 13.73

Unrecognized stock based compensation expense related to unvested shares for 2023 and beyond is estimated as follows (in thousands):

2023	$ 466
2024	337
2025	195
2026	188
2027	149
Thereafter	25

NOTE 18 – EARNINGS PER SHARE

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

	2022	2021	2020
	(in thousands, except share and per share data)		
Net income	$ 18,342	$ 14,909	$ 9,005
Less:			
Earnings allocated to unvested shares	302	219	68
Net income attributable to common shareholders, basic and diluted	$ 18,040	$ 14,690	$ 8,937
Basic and Diluted			
Weighted average common shares including unvested common shares outstanding	7,631,243	7,593,176	7,492,190
Less:			
Weighted average unvested common shares	125,687	111,740	56,809
Weighted average common shares outstanding	7,505,556	7,481,436	7,435,381
Basic and diluted income per common share	$ 2.40	$ 1.96	$ 1.20

The Company had no outstanding stock options at December 31, 2022, 2021 or 2020.

NOTE 19 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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.

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 assesses 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.

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 $695,000, $623,000, and $558,000 of revenue for the years ended December 31, 2022, 2021, and 2020, 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 20 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS

	December 31, 2022	December 31, 2021
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 7,337	$ 4,759
Investment in banking subsidiary	164,811	165,481
Investment in and advances to other subsidiaries	776	776
Deferred taxes, net	6,921	6,532
Other assets	1,982	1,282
Total assets	$ 181,827	$ 178,830
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt	$ 46,775	$ 46,775
Accrued expenses and other liabilities	1,194	1,096
Shareholders' equity	133,858	130,959
Total liabilities and shareholders' equity	$ 181,827	$ 178,830

CONDENSED STATEMENTS OF OPERATIONS

	Years ended December 31, 2022	2021	2020
		(in thousands)	
Interest income	$ 37	$ 18	$ 37
Dividends from subsidiaries	7,530	2,019	23
Other income	21	20	20
Interest expense	(2,398)	(2,040)	(2,008)
Other expense	(1,827)	(1,501)	(1,357)
Income (loss) before income tax and undistributed subsidiary income	3,363	(1,484)	(3,285)
Income tax benefit	(1,047)	(885)	(815)
Equity in undistributed subsidiary income	13,932	15,508	11,475
Net income	$ 18,342	$ 14,909	$ 9,005

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2022	2021	2020
		(in thousands)	
Cash flows from operating activities			
Net income	$ 18,342	$ 14,909	$ 9,005
Adjustments:			
Equity in undistributed subsidiary income	(13,932)	(15,508)	(11,475)
Deferred taxes, net	(389)	(579)	(815)
Stock-based compensation expense	884	699	580
Net change in other assets	(700)	(102)	(97)
Net change in other liabilities	97	390	145
Net cash from operating activities	4,302	(191)	(2,657)
Cash flows from investing activities			
Investments in subsidiaries	—	—	—
Net cash from investing activities	—	—	—
Cash flows from financing activities			
Proceeds from issuance of subordinated capital notes	—	—	8,000
Repayment of senior debt	—	—	(5,000)
Common shares withheld for taxes	(197)	(87)	(75)
Cash dividends paid on common stock	(1,527)	—	—
Net cash from by financing activities	(1,724)	(87)	2,925
Net change in cash and cash equivalents	2,578	(278)	268
Beginning cash and cash equivalents	4,759	5,037	4,769
Ending cash and cash equivalents	$ 7,337	$ 4,759	$ 5,037

NOTE 21 – QUARTERLY FINANCIAL DATA (UNAUDITED)

Presented below is a summary of the consolidated quarterly financial data for the years ended December 31, 2022 and 2021.

	2022			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
		(in thousands)		
Interest income (1)	$ 17,140	$ 15,121	$ 13,122	$ 12,427
Interest expense	3,768	2,209	1,442	1,313
Net interest income	13,372	12,912	11,680	11,114
Provision (negative provision) for loan losses	130	(1,250)	450	750
Net interest income after provision	13,242	14,162	11,230	10,364
Non-interest income	2,155	2,228	2,256	2,238
Non-interest expense (2)	8,862	8,697	8,227	7,971
Income before income taxes	6,535	7,693	5,259	4,631
Income tax expense (3)	1,621	1,880	1,223	1,052
Net income	$ 4,914	$ 5,813	$ 4,036	$ 3,579
Basic and diluted earnings per common share (4)	$ 0.64	$ 0.76	$ 0.53	$ 0.47
Cash dividends declared per common share	$ 0.05	$ 0.05	$ 0.05	$ 0.05

	2021			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands)			
Interest income (1)	$ 12,314	$ 12,975	$ 12,376	$ 12,250
Interest expense	1,307	1,354	1,462	1,570
Net interest income	11,007	11,621	10,914	10,680
Provision for loan losses	500	300	—	350
Net interest income after provision	10,507	11,321	10,914	10,330
Non-interest income	1,984	2,436	2,135	1,884
Non-interest expense	7,983	8,050	7,954	7,984
Income before income taxes	4,508	5,707	5,095	4,230
Income tax expense (3)	1,063	1,366	1,194	1,008
Net income	$ 3,445	$ 4,341	$ 3,901	$ 3,222
Basic and diluted earnings per common share (4)	$ 0.45	$ 0.57	$ 0.51	$ 0.43
Cash dividends declared per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00

(1) Interest income included PPP loan origination fees as detailed below:

	2022	2021
	(in thousands)	
First quarter	$ 45	$ 436
Second quarter	—	692
Third quarter	—	1,368
Fourth quarter	—	261

(2) Non-interest expense for the fourth quarter of 2022 included $691,000 in merger expenses.

(3) See Footnote 12 for more information on the Company's income taxes for 2022 and 2021.

(4) 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.

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. The Company's management, under the supervision and with the participation of its Chief Executive Officer and its Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2022. Based on that evaluation, management believes that the Company's 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.

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.

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, 2022, 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, 2022, the Company's internal control over financial reporting was effective in achieving the objectives stated above.

This annual report does not include an attestation report of our registered public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B. Other Information

None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

The table below identifies each of the members of the Company's Board of Directors. None of the Directors currently serves as a director of any other public or registered investment company, nor have they held any such directorship, except as described in each director's biography below.

Director	Age	Position
W. Glenn Hogan	61	Chairman of the Board of Directors
Celia P. Catlett	46	Director
Kevin J. Kooman	53	Director
Michael T. Levy	54	Director
James M. Parsons	66	Director
Bradford T. Ray	65	Director
Dr. Edmond J. Seifried	76	Director
John T. Taylor	63	President, CEO and Director of Limestone Bancorp President, CEO and Chairman of the Board of Limestone Bank, Inc.

Board Diversity Matrix (As of February 28, 2023 and as of April 15, 2022)*				
Board Size:				
Total Number of Directors	8			
	Female	**Male**	**Non-Binary**	**Did Not Disclose Gender**
Gender:				
Directors	1	7	-	-
Number of Directors who identify in Any of the Categories Below:				
African American or Black	-	-	-	-
Alaskan Native or Native American	-	-	-	-
Asian	-	-	-	-
Hispanic or Latinx	-	-	-	-
Native Hawaiian or Pacific Islander	-	-	-	-
White	1	7	-	-
Two or More Races or Ethnicities	-	-	-	-
LGBTQ+	-			
Persons with Disabilities	-			

* There have been no changes in the Board Diversity Matrix during the past year.

Each Director is independent under the applicable listing standards of the Nasdaq corporate governance rules, with the exception of Mr. Taylor.

W. Glenn Hogan, a director since 2006, is founder, President and Chief Executive Officer of Hogan Real Estate, a full service commercial real estate development company headquartered in Louisville, Kentucky. Mr. Hogan has more than thirty years of real estate development experience and has developed millions of square feet of retail space in the Midwest and Southeast. He is a Certified Commercial Investment Member and a past president of the Kentucky State CCIM Chapter. Mr. Hogan brings executive decision making skills and his commercial real estate background strengthens our risk assessment function. He also is familiar with the banking industry from previous service on the Board of Directors of two other Louisville community banks. Mr. Hogan served as a director of US Wireless Online, Inc. from August 2005 until May 2006.

Celia P. Catlett, a director since 2018, is General Counsel at the TurnPoint Services Group, a rapidly growing commercial services company. Ms. Catlett also serves as a director and officer of Mothers Esquire, Inc., a 501(c)(3) dedicated to achieving gender equity in the legal profession. Ms. Catlett previously served as the General Counsel of Texas Roadhouse, a Nasdaq listed company, from 2013 through 2019. She joined Texas Roadhouse in 2005 and served as its Corporate Secretary from 2011 through 2019. Prior to joining Texas Roadhouse, Ms. Catlett practiced law in New York City. She graduated magna cum laude from the University of Alabama with a Bachelor's Degree in communications, and earned her Juris Doctor Degree from Vanderbilt University Law School. In 2014, Ms. Catlett was named one of Louisville Business First's Forty Under 40 and recognized by the Kentucky Governor's office as an Outstanding Kentuckian. In 2016, Ms. Catlett was named as the Enterprising Woman to Watch by Louisville Business First. Ms. Catlett brings her public company experience, legal background, and experience in the customer-focused hospitality industry.

Kevin J. Kooman, a director since 2019, is a Partner with Patriot Financial Partners, L.P., a private equity investment fund focused on investments in the community bank and financial services sectors. Mr. Kooman joined Patriot Financial Partners in 2007 and has over 25 years of private equity, investment banking and corporate finance experience. Prior to joining Patriot Financial Partners, he served as a Vice President of Investment Banking at Janney Montgomery Scott LLC in the firm's Financial Institutions Group. Prior to joining Janney, Mr. Kooman held the positions of divisional Controller and Manager of Financial Operations at CIGNA Corporation and ACE Limited. Mr. Kooman began his career in the Philadelphia office of Arthur Andersen LLP. He currently serves on the board of Freedom Financial Holdings, Inc., the holding company for The Freedom Bank of Virginia. Mr. Kooman received a Bachelor's Degree in Accounting from Villanova University and received an M.B.A. in Finance from Temple University. He is a Certified Public Accountant (currently inactive). Mr. Kooman brings extensive leadership and community banking experience to our Board of Directors, including merger and acquisition experience, public company expertise and risk assessment skills.

Mr. Kooman is serving on the Board of Directors as a representative of Patriot Financial Partners III, L.P. ("Patriot"). Pursuant to the Securities Purchase Agreement the Company entered into with Patriot in connection with its private purchase of 150,000 common shares and 1,000,000 non-voting common shares of the Company on March 30, 2018, Patriot has the right to nominate a director to the Board of Directors of both the Company and Limestone Bank for so long as it beneficially owns at least 50% or more of all the securities purchased under the agreement or 4.9% of the Company's outstanding common shares. The Securities Purchase Agreement requires the Company to recommend to the shareholders the election of the board representative of Patriot to the Board, subject to all legal and governance requirements regarding service as a director of the Company and the reasonable approval of the Nominating and Governance Committee.

Michael T. Levy, a director since 2014, is President of Muirfield Insurance LLC of Kentucky, a Lexington, Kentucky insurance brokerage firm. An owner of Bluewater Farm, LLC, Mr. Levy is active in breeding and selling Thoroughbreds and has served in the past as a board member of the Thoroughbred Owners and Breeders Association and Breeders Cup, Ltd. He is a graduate of the University of Pennsylvania. The lead producer in an insurance agency, Mr. Levy has intimate knowledge of the Lexington market, which has been identified as a target growth market in our strategic planning. He also has extensive experience in the equine industry, a niche market also identified in the strategic plan of our banking subsidiary, Limestone Bank, Inc.

James M. Parsons, a director since 2015, is the Chief Financial Officer of Ball Homes, LLC, a residential real estate development firm headquartered in Lexington, Kentucky with operations in Kentucky and Tennessee. Mr. Parsons has served with Ball Homes since 2005. Mr. Parsons previously served as President and CEO of ONB Insurance Group. His background in accounting and real estate development finance strengthen the Board's depth of experience in those areas. Mr. Parsons earned his Bachelor's Degree in Business Administration and Accounting from West Virginia University.

Bradford T. Ray, a director since 2014, served in various leadership roles at Steel Technologies, Inc., a steel processor, from 1981 to 2010, serving as CEO beginning in 1999 and as Chairman beginning in 2002. He served as an advisor to Steel Technologies, Inc. from 2010 to 2012. He has been a consultant with BTR Advisory Services since 2012 and served as an independent director of Global Brass and Copper Holdings, Inc. from 2014 through 2019. Mr. Ray also previously served on the Board of Trustees of Bellarmine University in Louisville, Kentucky. He provides the experience and perspective of a former chief executive of a publicly traded manufacturing business.

Dr. Edmond J. Seifried, a director since 2015, is a principal in S&B West LLC, a community bank consulting center in Easton, Pennsylvania. In addition, Dr. Seifried is Professor Emeritus of Economics and Business at Lafayette College in Easton, Pennsylvania. He also serves as Executive Consultant and Chief Economist for Sheshunoff Affiliation Programs, a national bank consulting organization. Dr. Seifried serves as the dean of the Virginia and West Virginia Banking Schools and has served on the faculty of numerous banking schools including Stonier Graduate School of Banking and the Graduate School of Banking at Louisiana State University. Dr. Seifried provides experience and insight with respect to trends and developments affecting community banks nationally.

John T. Taylor has served as President and a director of Limestone Bancorp, and as President and Chief Executive Officer of the Bank since July 2012. He became Chief Executive Officer of Limestone Bancorp in 2013. Mr. Taylor serves as an executive officer and is nominated as a director in accordance with his employment agreement with the Company and the Bank. Prior to joining Limestone, Mr. Taylor served as President and CEO of American Founders Bank, Inc. and American Founders Bancorp, Inc. of Lexington, Kentucky since 2007. Prior to joining American Founders, he served in senior management positions with increasing responsibility for PNC Bank, N.A., including as President of its Ohio/Northern Kentucky region for six years. Mr. Taylor has over 30 years of banking experience in Kentucky and Ohio. Mr. Taylor has been actively involved in a number of civic and professional organizations. He has a solid history of building organizations with a clear vision and strategy to build long-term enterprise value. Mr. Taylor also has strong roots in Kentucky with significant experience in our key markets. He is a graduate of the University of Kentucky where he earned a Master's and a Bachelor's Degree in Business Administration.

Other Executive Officers

Name	Age	Position
Phillip W. Barnhouse	52	Chief Financial Officer Limestone Bancorp and Limestone Bank
John R. Davis	60	Chief Credit Officer of Limestone Bank
Joseph C. Seiler	56	Executive Vice President of Limestone Bank

Phillip W. Barnhouse has served as Executive Vice President and Chief Financial Officer since 2012 and has served as Chief Financial Officer of the Bank since 2006. He served as the Bank's Chief Operating Officer from 2013 to 2018. Mr. Barnhouse served as Chief Financial Officer of Ascencia Bank from 1998 to 2005. Prior to joining the Bank, Mr. Barnhouse worked with Arthur Andersen LLP, where he managed the audits of public and private companies. He is a member of the American Institute of Certified Public Accountants and the Kentucky Society of CPAs. Mr. Barnhouse earned a Bachelor's Degree in Accounting from Western Kentucky University and a diploma from The Graduate School of Banking at Louisiana State University. Mr. Barnhouse serves as an executive officer in accordance with his employment agreement with the Company and the Bank.

John R. Davis has served as Executive Vice President and Chief Credit Officer of the Bank since September 2012. Mr. Davis has the responsibility for establishing and executing credit quality policies and overseeing credit administration. He previously served as Executive Vice President and Chief Credit Officer of American Founders Bank, Inc. and American Founders Bancorp, Inc. of Lexington, Kentucky. Before joining American Founders in 2005, he served for 17 years in various commercial lending and credit administration positions of increasing authority with National City Bank. Mr. Davis earned his Bachelor's Degree in Business from the University of Louisville, an MBA from Bellarmine University and is a graduate of the Stonier Graduate School of Banking. Mr. Davis serves as an executive officer in accordance with his employment agreement with the Company and the Bank.

Joseph C. Seiler has served as Executive Vice President and head of the Bank's commercial banking business since August 2013. Mr. Seiler previously served as Executive Vice President, Asset Resolution Team, of PNC Bank, N.A. in Louisville, Kentucky. Before joining PNC Bank in 2009, he served as Executive Vice President and Managing Director, Investment Real Estate Group, for National City Bank of Louisville, Kentucky. Mr. Seiler earned his Bachelor's Degree in Economics from Centre College in Danville, Kentucky and an MBA from the University of Louisville. Mr. Seiler serves as an executive officer in accordance with his employment agreement with the Company and the Bank.

Director Nominating Procedures

There have not been any material changes to the procedures by which shareholders may recommend nominees to the Company's Board of Directors during the past year.

Board Committees

The Company's Board of Directors has established standing committees in connection with the discharge of its responsibilities. These committees include an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each of which has a separate charter. Our committee charters are available on our website at www.limestonebank.com under "Investor Relations" and "Governance Documents."

Audit Committee

The Company has a separately designated standing Audit Committee established by the Board of Directors for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company.

During the past year, the Audit Committee was comprised of Ms. Catlett, Mr. Kooman, Mr. Levy, Mr. Parsons, and Mr. Ray. The Board of Directors determined that each of the members of the Audit Committee met the independence requirements of the Nasdaq corporate governance rules and relevant federal securities laws and regulations, and that Mr. Parsons qualified as an audit committee financial expert.

Code of Ethics and Conflict of Interest Policy

The Board has adopted a Code of Ethics and a Conflict of Interest Policy that set forth important policies and procedures in conducting our business in a legal, ethical and responsible manner. The Code of Ethics is applicable to our CEO, CFO, and all Senior Financial Officers. The Conflict of Interest Policy is applicable to all employees and directors.

The Code of Ethics Policy and the Conflict of Interest Policy are each available on our website at www.limestonebank.com under "About Us - Investor Relations" and "Governance Documents." 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 this website. The Company will provide to any person without charge, upon request, a copy of its 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.

Delinquent Section 16(a) Reports

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers, and persons who own more than 10 percent of our common shares, to file reports of ownership and changes in ownership with the SEC. Directors, executive officers, and greater than 10 percent beneficial owners, referred to as "reporting persons," are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to us, we believe that during 2022 all reporting persons complied with the filing requirements of Section 16(a).

Item 11. Executive Compensation

The Compensation Committee of the Board of Directors is responsible for developing specific policies regarding compensation of our executive officers, as well as evaluating and approving our executive officer incentive compensation, benefit, severance, equity-based or other compensation plans, policies and programs, and implementing and administering all aspects of our benefit and compensation plans and programs. The Compensation Committee is currently comprised of Mr. Levy, Ms. Catlett, Mr. Kooman, Mr. Ray, and Dr. Seifried.

Compensation Discussion and Analysis

Executive Compensation Philosophy and Objectives

Our philosophy for executive compensation is to attract, retain and reward excellent executives and align their interests with the interests of our shareholders. To promote this philosophy, we have established the following objectives:

- provide fair and competitive compensation to executives, based on their performance and contributions to the Company, that will attract, motivate and retain individuals who will enable the Company to successfully compete with other financial institutions in our markets;
- provide incentives that reward executives for attaining predetermined objectives that promote and reward individual performance, Company financial performance, achievement of strategic goals and Company stock performance;
- instill in our executives a long-term commitment and a sense of ownership through the use of equity-based compensation; and
- ensure that the interests of our executives are aligned with our shareholders' interests.

Overview

The Company has employment agreements with each of its four named executive officers, which were updated in April 2019. The agreements provide for severance and take into account each executive's cash incentive compensation, in addition to base salary, and provide for continued health care coverage in the case of employment termination concurrently with or within 24 months following a change in control of the Company or the Bank (as defined under Section 409A of the Internal Revenue Code and the regulations thereunder). The current employment agreements are described after the Summary Compensation Table under "Executive Compensation" below.

To induce talented and capable individuals to join our organization, we must offer a competitive compensation package including incentive compensation. To that end, we provide an incentive compensation program for our executive officers that provides for cash and stock incentive awards to be earned upon on the attainment of annual targeted performance goals. Stock awards vest in some cases when granted and in others for periods up to seven years.

Executive Compensation Components

The compensation program is comprised of three components:

- A base salary that is competitive with levels paid by comparable financial institutions;
- Annual incentive cash payments based on the attainment of targeted performance goals; and
- Equity-based compensation, generally in the form of restricted stock awards, based on the attainment of targeted performance goals.

The Company provides a compensation package that is driven by our overall financial performance and is intended to be competitive with the public and non-public financial institutions in our market, thereby enabling us to attract and retain executives who we believe are critical to our future success. The compensation strategy includes base salary compensation along with the opportunity for our CEO to earn cash incentive compensation of up to 50% of base salary and equity incentive compensation of up to 50% of base salary and the opportunity for our other named executives to earn cash incentive compensation of up to 35% of base salary and equity incentive compensation of up to 35% of base salary. The Committee establishes the target percentage of compensation for each of the three components at the beginning of each year.

Base Salary. When establishing base salaries for our executives, we consider the scope of executive responsibilities and publicly available information concerning the compensation paid to executives with similar levels of responsibility by other comparable public and non-public financial institutions in our market. Although we do not attempt to set the salaries of our executives to fall within a certain percentage range compared to the salaries paid by other comparable institutions, we consider compensation data from comparable institutions to satisfy ourselves that the compensation we pay is competitive and sufficient to recruit and retain the talented employees our business depends upon to be successful.

In the first quarter of 2022, the Committee reviewed 2020 publicly available national peer group data as compiled by SNL Financial in its 2021 Executive Compensation Review, the most recent data available, to ensure that our base salaries, and our incentive compensation that is determined as a percentage of base salary, were competitive with comparable financial institutions. The publicly available data showed base salary and total compensation, which included base salary, annual bonus, other annual compensation, restricted stock awards, performance units, and other compensation paid due to long-term incentive plans. The peer groups were: (i) the seven financial institutions in the Midwest with assets of $500 million to $1 billion, and (ii) the 49 financial institutions in the Midwest with assets of $1 billion to $5 billion. As of December 31, 2021, the Company had total assets of approximately $1.416 billion. Average assets for 2021 were approximately $1.363 billion and average assets for 2020 were approximately $1.295 billion.

The following table shows the **median base salary** for 2020 paid to chief executive officers, chief financial officers, chief credit officers, and senior lending officers of the two peer groups described above:

Position	Median Base Salary of Midwest Financial Institutions with Assets of $500 million to $1 billion	Median Base Salary of Midwest Financial Institutions with Assets of $1 billion to $5 billion
CEO	$339,414	$444,231
CFO	192,868	246,242
CCO	n/a	250,371
SLO	188,156	254,642

The following table shows the **median total compensation** for 2020 paid to chief executive officers, chief financial officers, chief operating officers, chief credit officers, and senior lending officers of the two peer groups described above:

Position	Median Total Compensation of Midwest Financial Institutions with Assets of $500 million to $1 billion	Median Total Compensation of Midwest Financial Institutions with Assets of $1 billion to $5 billion
CEO	$574,329	$772,057
CFO	364,612	433,531
CCO	n/a	457,235
SLO	354,748	429,392

Incentive Compensation Bonus Plan. The cash and equity incentive plan awards cash and equity bonuses based on a weighted scoring of Company performance metrics across a range of pre-determined targets. The five metrics are financial ratios customarily used to evaluate the performance of banks: earnings per share, loan growth, efficiency ratio, core deposit growth, and asset quality. Equity incentive awards are generally granted between January and March each year when our financial results are final and we have all the data necessary to make the calculations. The Compensation Committee retains the discretion to assess our performance results and make adjustments it deems appropriate.

For 2022, the Compensation Committee set the maximum incentive compensation for our CEO at a maximum cash bonus of 50% of base salary and a maximum equity bonus at 50% of base salary. The Committee set the maximum incentive compensation for our other named executive officers at a maximum cash bonus at 35% of base salary and a maximum equity bonus at 35% of base salary.

The incentive compensation earned under our incentive plan is a function of the weighted percentage allocated to each of five financial metrics for the Bank's performance. The weighted percentages for 2022 were as follows: (i) earnings per share – 30%; (ii) loan growth – 25%; (iii) efficiency ratio – 15%; (iv) core deposit growth – 20%; and (v) the ratio of classified assets to capital – 10%. For each metric, a range of results is established, with a threshold level required to earn a minimum weighted percentage and a maximum level at which the entire weighted percentage would be earned. The sum of the resulting percentages is then multiplied against the maximum cash and equity bonus amounts. The following table shows the performance range from threshold to maximum incentive for each of the five metrics for 2022, as well as the results attained in 2022.

Metric *(dollar amounts in millions)(1)*	Threshold	Maximum	2022 Results
Earnings per share	$1.51	$1.85	$2.40
Loans	$1,025.0	$1,105.0	$1,111.9
Efficiency ratio	62.0%	58.0%	53.0%
Core deposits	$852.0	$972.0	$919.0
Classified assets to capital	18%	5%	6.6%

(1) Excludes gain on sale of securities, other than temporary impairment charges and non-recurring items as determined at the discretion of the Compensation Committee.

For 2022, the Compensation Committee determined, based upon the performance results and metrics of the plan, that the CEO qualified to receive cash and equity incentive compensation equal to 46.2% and 46.2% of base salary, respectively, and that the three named executive officers qualified to receive cash and equity incentive compensation equal to 31.6% and 31.6% of base salary, respectively. In determining the incentive compensation payout for the plan year, the Committee exercised its discretion given that earnings per share performance exceeded the maximum goal by approximately $0.55 per share representing additional net income of $4.2 million for the Company. In view of this outsized performance, the Committee exercised its discretion and awarded our CEO cash and equity incentive compensation of 50.0% and 50.0%, respectively, as well as cash and equity incentive of 35.0% and 35.0%, respectively, for Mr. Davis, Mr. Seiler, and Mr. Barnhouse.

Due to the restriction against issuing shares contained in the Merger Agreement, on January 18, 2023, the Board of Directors, at the recommendation of the Compensation Committee, amended the executive officer incentive bonus plan for the 2022 calendar year to provide for the payment of awards thereunder to its executive officers 100% in cash.

At the recommendation of the Compensation Committee, the Incentive Compensation Bonus Plan is not in place for the CEO or the named executive officers for 2023 given the Company's pending Merger Agreement.

Other Benefits

401(k) Plan. All full and part-time employees, including our named executive officers, are eligible to participate in the 401(k) Plan after 90 days of employment. Employees may contribute a portion of their compensation up to the limitations imposed by federal tax laws. In 2022, the Company matched 100% of the first 1% of compensation and 50% of the next 5% contributed by employees. The Company has the discretion to make an additional contribution each plan year. No discretionary contributions were made in 2022.

Compensation Risk Assessment

The Compensation Committee evaluates annually whether the Company's compensation policies and practices could create risks that are reasonably likely to have a material adverse effect on the Company. As part of its assessment, the Committee reviews its previously established compensation objectives, which are:

- Incentive compensation must be sufficiently competitive to attract and retain talented employees who can contribute to the Company's future success;
- Compensation should be allocated among equity and cash incentives based on the specific role of the employee. A significant portion of compensation should be performance-based for higher levels of responsibility;
- A significant portion of senior level compensation should be equity grants with appropriate vesting or holding periods that align the interests of our senior officers with the interests of shareholders;
- Performance measures should not be so difficult to achieve that they fail to provide an adequate incentive for the employee to perform, and the metrics should be measurable and enforceable; and
- Performance measures should be tailored to encompass performance of both individuals and business units, considering business objectives and other factors such as revenue production, expertise, compliance with corporate policies, and leadership.

The Compensation Committee then identifies and evaluates possible risks that might arise from the Company's current compensation policies and practices. These considerations include:

- Whether incentive features could encourage the manipulation of reported earnings to increase compensation;
- Whether incentive features could encourage a lender to promote a loan transaction that is not in the Company's best interest and could result in the borrower subsequently becoming insolvent or otherwise unable to meet its financial obligations;
- Whether compensation policies appropriately encourage the identification and correction of possible weaknesses in operations, data security and, internal controls or systems;
- Whether compensation policies appropriately emphasize compliance with legal rules, regulations or guidelines issued by banking regulators;
- Whether compensation practices could expose the Company and the Board to criticism from regulators, shareholders, or the public and risk opposition to proposals regarding executive compensation and/or share availability; and;

- Whether compensation policies create risks that could endanger the Company's existence as an ongoing enterprise.

In its most recent review, the Compensation Committee concluded that the Company's current compensation policies and practices did not create undue risks for a community bank of its size whose principal source of revenue is net interest income. The performance measures used for senior management include incentives to encourage growth in core deposits and quality loan production, as well as incentives which consider classified assets to encourage prudent banking practices. The Compensation Committee also reviews and adjusts the performance measures and their relative weighting annually, based on the Company's financial condition and the past year's results, strategic planning, market conditions, and trends in the current banking environment.

Compensation Committee Report

The Company's Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, has recommended to the Board of Directors that the foregoing Compensation Discussion and Analysis disclosure be included in this report.

The Compensation Committee
Michael T. Levy, Chairman
Celia P. Catlett
Kevin J. Kooman
Bradford T. Ray
Dr. Edmond J. Seifried

Executive Compensation

The following table discloses the compensation received by the Company's Chief Executive Officer, Chief Financial Officer, and the other most highly paid executive officers (these four individuals are referred to as the "named executive officers") during the year ended December 31, 2022.

Summary Compensation Table

Name and Principal Position	Year	Salary	Stock Award(1)	Non-Equity Incentive Plan Compensation(2)	Change in Nonqualified Deferred Compensation Earnings	All Other Compensation(3)	Total
John T. Taylor President and CEO	2022	$465,000	$ -	$465,000	$ -	$16,526	$946,526
	2021	450,000	172,125	172,125	-	17,732	811,982
	2020	431,021	71,802	143,597	-	15,185	661,605
John R. Davis Chief Credit Officer	2022	269,000	-	188,300	-	16,279	473,579
	2021	260,000	68,900	68,900	-	15,975	413,775
	2020	258,542	198,565	33,313	-	14,638	505,058
Joseph C. Seiler Head of Commercial Banking	2022	259,000	-	181,300	-	15,652	455,952
	2021	250,000	66,250	66,250	-	13,279	395,779
	2020	248,483	187,156	41,406	-	10,967	488,012
Phillip W. Barnhouse Chief Financial Officer	2022	259,000	-	181,300	-	16,042	456,342
	2021	250,000	66,250	66,250	-	13,579	396,079
	2020	248,483	196,537	32,301	-	11,910	489,231

(1) Includes restricted stock granted as equity incentive compensation on January 20, 2021 and January 19, 2022, based on prior year financial results. Additionally, on January 20, 2021, Mr. Davis, Mr. Seiler, and Mr. Barnhouse received 11,000 long-term incentive shares vesting pro-ratably over the third through seventh anniversary dates of grant. The grant date fair value for the stock awards was $13.25 per share for January 20, 2021, and $19.45 per share for January 19, 2022. Due to the restriction against issuing shares contained in the Merger Agreement, on January 18, 2023, the Company amended its executive officer incentive bonus plan for the 2022 calendar year to provide for the payment of awards thereunder to its executive officers 100% in cash. Awards were paid February 8, 2023 based on results attained in 2022.

(2) Our cash and equity incentive plan is discussed in further detail under "Compensation Discussion and Analysis -- Executive Compensation Components -- Cash and Equity Incentives."

(3) All other compensation for the named executive officers is set forth below:

Name	Vehicle Allowance	401(k) Matching Contribution	H S A Matching Contribution	Life & LTD Premiums Paid for Benefit of Employee	Total Other Compensation
John T. Taylor	$ -	$10,675	$1,250	$4,601	$16,526
John R. Davis	-	10,675	1,000	4,604	16,279
Joseph C. Seiler	-	10,675	750	4,227	15,652
Phillip W. Barnhouse	-	10,675	1,250	4,117	16,042

Employment Agreements

The Company entered into employment agreements with our named executive officers on April 24, 2019. The terms of the employment agreements with the named executive officers are summarized below.

Term. Each of the employment agreements has an initial three-year term, subject to extension and early termination. On each anniversary of the date of the agreement, the term of the agreement will be extended for an additional one year unless we or the executive elect not to extend the term by providing written notice not less than 30 days before the anniversary date. If notice of election not to renew is provided, the agreement will terminate at the conclusion of its remaining term.

Base salary. The Board of Directors may increase an executive's base salary from time to time but may only decrease it with his express written consent. At its January 2020 meeting, the Compensation Committee approved increases in the annual base salary to $433,500 for Mr. Taylor, to $260,000 for Mr. Davis, and to $250,000 for Mr. Seiler and Mr. Barnhouse. At its March 2021 meeting, the Compensation Committee increased Mr. Taylor's base salary to $450,000. At its January 2022 meeting, the Compensation Committee approved increases in the annual base salary to $465,000 for Mr. Taylor, to $269,000 for Mr. Davis, and to $259,000 for Mr. Seiler and Mr. Barnhouse. At its January 2023 meeting, base salaries were not adjusted.

Incentive Compensation. The named executives are eligible to receive cash and equity incentive compensation as described in "*Compensation Discussion and Analysis -- Executive Compensation Components – Incentive Compensation Bonus Plan*." Mr. Taylor's employment agreement assures him of the opportunity to earn annual cash incentive compensation of up 50% of his base salary.

Termination of employment. The employment agreements provide that if the executive's employment is terminated for one of the following reasons, he will have no right to compensation or other benefits for any period after the date of termination:

- for "Cause;"
- as a result of disability, retirement or death; or
- by the executive other than for "Good Reason."

The executive will be entitled to a cash severance payment and payment of the premiums for up to 12 months of continued health insurance coverage for the executive and his dependents if the executive's employment is terminated for one of the following reasons:

- by the Company other than for Cause, disability, retirement or death;
- by the executive for Good Reason; or
- by the Company for other than Cause, disability, retirement or death within six months following the expiration of the term of the agreement.

The amount of the cash severance payment is based on the executive's average annual base salary for the calendar year in which his employment is terminated and the 2 preceding years and his average cash incentive compensation for the 3 calendar years immediately preceding termination of employment. For Mr. Seiler, the cash severance payment would equal one times the executive's average annual base salary and cash incentive compensation. For Messrs. Taylor, Davis and Barnhouse, the amount of the cash severance would be one times his average base salary and cash incentive compensation if the termination is not concurrent with or within 24 months after a Change in Control. If the termination were concurrent with or within 24 months after a Change in Control, then Mr. Taylor's severance payment would be 2.99 times his average annual base salary and cash incentive compensation, and Messrs. Davis's and Barnhouse's severance payment would be 2 times his average base salary and cash incentive compensation.

The employment agreements define "Change in Control" as a change in the ownership of the Company or the Bank, a change in the effective control of the Company or the Bank or a change in the ownership of a substantial portion of the assets of the Company or the Bank, in each case as provided under Section 409A of the Internal Revenue Code and the regulations thereunder, except that a change in ownership of less than 50% of the assets of the Company or the Bank will not constitute a "Change in Control" under the employment agreements. The Merger of the Company with Peoples as provided for in the Merger Agreement will constitute a Change in Control as defined in the employment agreements.

The obligation of the Company and the Bank to pay the severance amount is subject to several conditions, including the executive's execution of a general release of claims, and the Company and the Bank have the right to claw-back compensation which is subject to recovery under any law, government regulation or stock exchange listing requirement.

In the event that any of the payments or benefits provided under the employment agreement or otherwise would constitute an "excess parachute payment" as defined in Section 280G of the Internal Revenue Code, the payments or benefits under the employment agreements will be reduced by the amount necessary to avoid treatment as an "excess parachute payment."

The employment agreements define "Cause" as termination because of personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final consent or cease-and-desist order or material breach of any provision of the agreement.

"Good Reason" is defined as any material change in the Metro Louisville or Metro Lexington, Kentucky location at which the executive must perform his services or any material breach of the employment agreement by the Company and the Bank, including:

- a material diminution in the executive's base salary or opportunity to earn cash incentive compensation (as a percentage of base salary),
- a material diminution in his authority, duties or responsibilities (including, in the case of Mr. Taylor, his position as Chairman of the Board of the Bank), or
- any change in the executive's reporting duties.

Prior to any termination for Good Reason, the executive must provide written notice within 90 days of the initial existence of the condition, and the Company and the Bank will have the right to remedy the condition within 30 days of receipt.

Restrictive covenants. The employment agreements include covenants not to solicit the employees and customers of the Company or the Bank and, in the case of Messrs. Taylor, Davis and Barnhouse, covenants not to compete with the Company and the Bank for a period of 12 months after termination of employment. The agreements also include covenants to maintain the confidentiality of the confidential information of the Company and the Bank other than in the course of performing services for them.

Grants of Plan-Based Awards

The following table details all non-equity and equity awards granted in 2022 under our incentive compensation plan to each of the officers named in the *"Summary Compensation Table"*.

Equity grants are issued under the Limestone Bancorp, Inc. 2018 Omnibus Equity Compensation Plan. Although the Plan authorizes both stock options and restricted stock grants, the Company currently awards only restricted stock. The criteria for earning cash and restricted stock awards are more fully described in "*Compensation Discussion and Analysis*."

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)		Estimated Possible Payouts Under Equity Incentive Plan Awards (1,2)		All Other Stock Awards: Number of Shares of Stock	Grant Date Fair Value of Stock
Name	Grant Date	Threshold	Maximum	Threshold	Maximum	or Units	Awards (2)
John T. Taylor	1/19/22	$6,975	$232,500	359	11,954	n/a	$172,125
John R. Davis	1/19/22	2,690	94,150	138	4,841	n/a	68,900
Joseph C. Seiler	1/19/22	2,590	90,650	133	4,661	n/a	66,250
Phillip W. Barnhouse	1/19/22	2,590	90,650	133	4,661	n/a	66,250

(1) Under our incentive plan for 2022, the maximum cash incentive award and the maximum equity incentive award that the named executive officers (other than Mr. Taylor) can earn are each 35% of base salary based upon the attainment of the highest level for all five financial metrics. Mr. Taylor can earn a maximum cash incentive award of 50% of base salary and the maximum equity incentive award of 50% of base salary. The threshold cash and equity incentive awards represent attainment of only the minimum level for the lowest weighted financial metric. Due to the restriction against issuing shares contained in the Merger Agreement, on January 18, 2023, the Company amended its executive officer incentive bonus plan for the 2022 calendar year to provide for the payment of awards thereunder to its executive officers 100% in cash.

(2) The grant date fair value for the January 19, 2022, stock awards was $19.45 per share.

Outstanding Equity Awards at Fiscal Year-End

The following table shows outstanding stock awards at December 31, 2022. None of our named executive officers had outstanding options as of that date.

	Stock Awards			
Name	Number of Shares or Units of Stock that Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (5)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (5)
John T. Taylor	n/a	n/a	1,247 (1)	$30,452
			3,612 (2)	88,205
John R. Davis	11,000 (4)	$268,620	978 (1)	23,883
			2,657 (2)	64,884
			3,542 (3)	86,496
Joseph C. Seiler	11,000 (4)	268,620	724 (1)	17,680
			2,083 (2)	50,867
			3,406 (3)	83,175
Phillip W. Barnhouse	11,000 (4)	268,620	724 (1)	17,680
			2,555 (2)	62,393
			3,406 (3)	83,175

(1) Restricted shares granted on February 13, 2020. One-third of the shares vest over three years on each anniversary date of the grant.
(2) Restricted shares granted on January 20, 2021. One-third of the shares vest over three years on each anniversary date of the grant.
(3) Restricted shares granted on January 19, 2022. One-third of the shares vest over three years on each anniversary date of grant.
(4) Long-term restricted shares granted on January 20, 2021. One-fifth of the shares vest on January 20, 2024 and each year thereafter.
(5) Based on the $24.42 per share closing price of Limestone Bancorp, Inc. common shares on December 31, 2022.

Stock Vested and Options Exercised

The following table shows stock awards that vested during 2022. None of our named executive officers hold stock options.

	Stock Awards	
Name	Number of Shares Acquired on Vesting (1)	Value Realized on Vesting (2)
John T. Taylor	12,911	$250,329
John R. Davis	2,911	$56,049
Joseph C. Seiler	2,345	$45,154
Phillip W. Barnhouse	2,581	$49,686

(1) One-third of the restricted shares awarded in each of 2019, 2020, and 2021 vested on the anniversary date of grant in 2022.
(2) Value realized on vesting is based on the Nasdaq closing price per share of LMST common stock on each vesting date in 2022.

Pension Benefits

The Company currently does not provide pension benefits.

Potential Payments upon Termination or Change-in-Control

The employment agreements with each of our executive officers provide that the executive would currently be entitled to receive a lump sum cash severance payment upon termination of employment other than for Cause or due to retirement, death or disability, as described above under *Employment Agreements – Termination of Employment*.

The market value of unvested restricted shares held by our executive officers as of December 31, 2022, which shares would vest upon a change-in-control of the Company, is shown in the table under "*Outstanding Equity Awards at Fiscal Year-End*," above.

Except for the benefits described in this section and as described above under *Employment Agreements – Termination of Employment*, and the automatic vesting of outstanding restricted stock upon a change of control, we have no agreements or understandings with our executive officers that provide for payments upon termination of employment or a change-in-control of our Company.

Director Compensation

The Compensation Committee reviews Board compensation at least every two years. For 2022, each non-employee director received an annual retainer of $35,000, each committee chair received an additional $5,000, and the Chairman of the Board received an additional $25,000. Cash compensation is paid quarterly. In addition, each non-employee director received a grant of restricted shares having a market value of $25,000, based on the trading price of our common shares at the closing of trading on the grant date. Shares are issued annually on the first day of the month following the election of directors for the next year of service.

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 our business or the business of 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 our 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 our directors 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 following table shows the compensation paid to non-employee directors in 2022.

Name	Fees Earned or Paid in Cash	Stock Awards [1]	Option Awards	All Other Compensation	Total
W. Glenn Hogan	$60,000	$25,000	$ -	$ -	$85,000
Celia P. Catlett	35,000	25,000	-	-	60,000
Kevin J. Kooman [2]	35,000	25,000	-	-	60,000
Michael T. Levy	40,000	25,000	-	-	65,000
James M. Parsons	40,000	25,000	-	-	65,000
Bradford T. Ray	40,000	25,000	-	-	65,000
Edmond J. Seifried	35,000	25,000	-	-	60,000

(1) On June 1, 2022, each non-employee director received an award of 1,253 restricted shares with a grant date fair value of $19.96 per share. The restricted shares are granted to each non-employee director on the first business day of the month following election. The shares have a fair market value of $25,000 on the date of grant and vest on December 31 in the year of grant. The amounts in the Stock Awards column reflect the grant date fair value for the restricted stock awards for the fiscal year ended December 31, 2022. The assumptions used in the calculation of these amounts for awards granted in 2022 are included in Note 17 "Stock Plans and Stock-Based Compensation" in the "Notes to Consolidated Financial Statements" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

(2) Mr. Kooman's fees and restricted stock award are for the benefit of Patriot Financial Manager LP.

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

As of February 28, 2023, the Company had 6,629,402 common shares and 1,000,000 non-voting common shares issued and outstanding. The Company has no outstanding stock options or stock warrants. The information provided below is based on our records, information filed with the SEC, and information provided to us, except where otherwise noted.

Security Ownership of Directors and Management

The following table shows, as of February 28, 2023, the number and percentage of our shares held by (1) the Company's directors, (2) each of the named executive officers set forth in the Summary Compensation Table and (3) current directors and named executive officers as a group. Unless otherwise indicated, each person has sole voting and investment power (or shares these powers with his or her spouse) with respect to the shares set forth in the following table.

Name and Address of Beneficial Owner(1)	Common Shares Beneficially Owned	% of Class	Non-Voting Common Shares Beneficially Owned	% of Class
Directors				
John T. Taylor	146,256	2.2%	-	-%
W. Glenn Hogan	488,314	7.4	-	-
Celia P. Catlett	7,730	*	-	-
Kevin J. Kooman (2)	-	*	-	-
Michael T. Levy	81,677	1.2	-	-
James M. Parsons	46,008	*	-	-
Bradford T. Ray	74,068	1.1	-	-
Dr. Edmond J. Seifried	84,152	1.3	-	-
Other Named Executive Officers				
John R. Davis	46,948	*	-	-
Phillip W. Barnhouse	44,994	*	-	-
Joseph C. Seiler	34,830	*	-	-
Named Executive Officers and Directors as a Group (11 persons)	1,054,977	15.9%	-	-

* Represents beneficial ownership of less than 1%.

(1) The business address for these individuals is c/o Limestone Bancorp, Inc., 2500 Eastpoint Parkway, Louisville, Kentucky 40223.

(2) Mr. Kooman does not have direct ownership of LMST shares. This total does not include 17,433 common shares beneficially owned by Patriot Financial Manager, L.P. of which Mr. Kooman is a partner, or the 319,118 common shares and 1.0 million non-voting common shares held by Patriot Financial Partners III, L.P. Mr. Kooman disclaims beneficial ownership of the 336,551 common shares and the 1.0 million non-voting common shares, except to the extent of his pecuniary interest therein. See footnote 5 to the share ownership table on the following page.

Security Ownership of Certain Beneficial Owners

The following table sets forth beneficial ownership information for each shareholder who is not a director and is known to us to own 5% or more of the outstanding shares of our common shares, based on public filings made with the SEC, except as noted below.

	Common Shares		Non-Voting Common Shares	
Name and Address of Beneficial Owner	**Beneficially Owned**	**Percent of Class**	**Beneficially Owned**	**Percent of Class**
J. Chester Porter Trust Funds (1) 318 S. Buckman Street Shepherdsville, Kentucky 40165	614,999	9.3%	–	–
Banc Funds Company LLC (2) 200 North Wacker Drive, Suite 300 Chicago, IL 60606	385,678	5.9%	–	–
Maria L. Bouvette (3) c/o Limestone Bancorp, Inc. 2500 Eastpoint Parkway Louisville, Kentucky 40223	388,672	5.9%	–	–
FJ Capital Management, LLC. (4) 29525 Chagrin Boulevard, Suite 318 Pepper Pike, OH 44122	384,204	5.8%	–	–
Patriot Financial Group (5) Four Radnor Corporate Center 100 Matsonford Road, Suite 210 Radnor, PA 19087	336,551	5.1%	1,000,000	100%

(1) The information is included in reliance upon information provided by the J. Chester Porter Trust Funds as of February 14, 2023 and a Form 4 filed with the SEC by Jack C. Porter, Jr and Jennifer E. Porter, Co-Trustees on October 3, 2019. J. Chester Porter Trust Fund A and J. Chester Porter Trust Fund B (together the "J. Chester Porter Trust Funds") are the beneficial owners of 266,879 and 342,857 common shares, respectively. Shared voting power of these funds is held by Jack C. Porter, Jr. and Jennifer E. Porter. Mr. Porter and Ms. Porter disclaim beneficial ownership of these shares except to the extent of his or her pecuniary interest therein. In addition, Mr. Porter is the beneficial owner with sole voting power of 4,131 common shares and Ms. Porter is the beneficial owner with sole voting power of 1,132 common shares.

(2) This information is included in reliance upon Form 13G filed with the SEC by Banc Funds Company, LLC on February 6, 2023.

(3) The information is included in reliance upon information provided by Maria L. Bouvette to the Company as of February 14, 2023.

(4) This information is included in reliance upon Form 13G filed with the SEC by FJ Capital Management, LLC on February 8, 2023.

(5) This information is included in reliance upon Form 13F filed with the SEC by Patriot Financial Partners GP, LP on February 13, 2023 and Mr. Kooman's Form 4 filed with the SEC on June 2, 2022. Includes 319,118 common shares and 1.0 million non-voting common shares beneficially owned directly by Patriot Financial Partners III, L.P.; 17,433 common shares beneficially owned directly by Patriot Financial Manager, L.P. Securities owned by Patriot Financial Partners III, L.P. may be regarded as being beneficially owned by Patriot Financial Partners GP III, L.P, and Patriot Financial GP III, LLC. Mr. Kooman disclaims beneficial ownership of the shares that Patriot beneficially owns, except to the extent of his pecuniary interest therein.

Pending Merger Transaction

As discussed in this report, the Company is a party to a Merger Agreement with Peoples Bancorp Inc. (Peoples) that provides for the merger of the Company with and into Peoples, with Peoples as the surviving corporation in the Merger. Under the terms and subject to the satisfaction and completion of the conditions of the Merger Agreement, at the Effective Time of the Merger each share of the Company's common stock, issued and outstanding immediately prior to the Effective

Time (except for Dissenting Shares), will be converted, in accordance with the procedures set forth in the Merger Agreement, into 0.90 common shares of Peoples,

Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2022:

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	—	—	122,603
Equity compensation plans not approved by shareholders	—	—	—
Total	—	—	122,603

At December 31, 2022, 122,603 common shares remain available for issuance under the Company's 2018 Omnibus Equity Compensation Plan; however, the Company is precluded from issuing additional shares based on the terms of the Merger Agreement.

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

Transactions with Related Parties

The Audit Committee of the Board of Directors has the responsibility to review and approve or ratify all transactions, other than loans and extensions of credit, between the Company and related parties, including without limitation, fees and commissions for services, purchases or sales of assets, rental arrangements and any other financial arrangement.

As a banking institution, the Bank is not subject to Section 402 of the Sarbanes-Oxley Act of 2002, which prohibits any issuer to extend, renew or arrange for the extension of credit in the form of a personal loan to or for any director or executive officer of that issuer. However, any such loans we make must be:

- made in the ordinary course of our consumer credit business;
- of a type we generally make available to the public; and
- made on market terms, or terms that are no more favorable than those offered by the issuer to the general public.

We have long-standing policies and procedures governing our extension of credit to related parties in compliance with the insider lending restrictions of Section 22(h) of the Federal Reserve Act or the Federal Reserve's Regulation O. All loans to directors and executive officers or their affiliates are approved by the Board of Directors of Limestone Bank. As of December 31, 2022 and 2021, we had loans to our executive officers and directors, the executive officers and directors of Limestone Bank, or the firms and corporations in which they have at least a ten percent beneficial interest totaling \$17.5 million and \$13.5 million, respectively. All such loans were made in the ordinary course of business of the Bank, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Bank and did not involve more than the normal risk of collectability or present other unfavorable features.

The Company's officers, directors and principal shareholders and their affiliates, as well as certain of the officers and directors of the Bank and their affiliates, have conducted banking transactions with the Bank from time to time, including investments in certificates of deposit. All such investments have been made, and will continue to be made, only in the ordinary course of business of the Bank on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons.

Transactions in Which Related Parties Have an Interest

Hogan Development Company and Hogan Real Estate Company periodically assist the Bank in managing and selling the Bank's OREO. Both companies are owned by W. Glenn Hogan, a director of the Company and Bank. This arrangement was reviewed and evaluated by the Audit Committee in conjunction with the Board's annual assessment of director independence. The Bank paid real estate management and sales fees to these companies of \$45,000 and \$26,000 for the years ended December 31, 2021, and 2020, respectively. There were no payments to Hogan Development Company or Hogan Real Estate Company during 2022.

Director Independence

The Company's corporate governance principles provide that a majority of the members of the Board of Directors must be independent from management. For this purpose, the Board has adopted director independence standards that meet the listing standards of the Nasdaq corporate governance rules. In accordance with our corporate governance guidelines, the Nominating and Corporate Governance Committee of the Board of Directors undertakes an annual review of director independence during the first quarter of each year. During this review, the Board considers any and all commercial and charitable relationships of directors, including transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries, including those described above. In its 2022 review, the Board affirmatively determined that directors Celia P. Catlett, W. Glenn Hogan, Kevin J. Kooman, Michael T. Levy, James M. Parsons, Bradford T. Ray, and Dr. Edmond J. Seifried are each independent of the Company and its management in that none have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, in accordance with the Nasdaq corporate governance rules.

Each Director of the Company also meets the independence requirements of the Nasdaq corporate governance rules and relevant federal securities laws and regulations applicable to each committee of the Board of Directors on which he or she serves. During the past year:

- The Audit Committee of the Board of Directors was comprised of Ms. Catlett, Mr. Kooman, Mr. Levy, Mr. Parsons, and Mr. Ray. The Board of Directors determined that each of the members of the Audit

Committee met the independence requirements of the Nasdaq corporate governance rules and relevant federal securities laws and regulations.

- The Compensation Committee of the Board of Directors was comprised of Ms. Catlett, Mr. Kooman, Mr. Levy, Mr. Ray, and Dr. Seifried. Our Board of Directors determined that each member of the Compensation Committee met the independence requirements of the Nasdaq corporate governance rules.

- The Nominating and Corporate Governance Committee of the Board of Directors was comprised of Ms. Catlett, Mr. Levy, Mr. Ray, and Mr. Kooman. The Board of Directors determined that each member of the Nominating and Corporate Governance Committee met the independence requirements of the Nasdaq corporate governance rules.

Item 14. Principal Accounting Fees and Services

At its meeting held on April 20, 2022, the Audit Committee selected Crowe LLP to serve as Limestone Bancorp's independent registered public accounting firm and auditors for the fiscal year ending December 31, 2022. Crowe LLP or its predecessor has served as Limestone Bancorp's independent registered public accounting firm since 1998.

Fees Incurred by Limestone Bancorp for Crowe LLP

The following table presents fees for professional services rendered by Crowe LLP for the audit of the Company's annual financial statements for 2022 and 2021 and fees billed for audit-related services, tax services, and all other services rendered by Crowe LLP for 2022 and 2021.

	2022	2021
Audit Fees	$280,000	$265,000
Audit-Related Fees	27,819	17,862
Tax Fees	50,838	38,825
All Other Fees	--	--

As defined by the SEC, (i) "audit fees" are fees for professional services rendered by the Company's principal accountant for the audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-Q, or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years; (ii) "audit-related fees" are fees for assurance and related services by the Company's principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "audit fees" including the audit of the Company's 401k Plan; (iii) "tax fees" are fees for professional services rendered by the Company's principal accountant for tax compliance, tax advice, and tax planning; and (iv) "all other fees" are fees for products purchased from the Company's principal accountant, other than the services reported under "audit fees," "audit-related fees," and "tax fees." The Audit Committee approved all (100%) of the services provided by the Company's principal accountant in each of the categories shown in the above table.

Under applicable SEC rules, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditors in order to ensure that they do not impair the auditors' independence. The SEC's rules specify the types of non-audit services that an independent auditor may not provide to its audit client and establish the Audit Committee's responsibility for administration of the engagement of the independent auditors.

Consistent with the SEC's rules, the Audit Committee Charter requires that the Audit Committee review and pre-approve all audit services and permitted non-audit services provided by the independent auditors to us or any of our subsidiaries. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee and if it does, the decisions of that member must be presented to the full Audit Committee at its next scheduled meeting.

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, 2022 and 2021
Consolidated Statements of Operations for the Years Ended December 31, 2022, 2021, and 2020
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2022, 2021, and 2020
Consolidated Statements of Change in Stockholders' Equity for the Years Ended December 31, 2022, 2021, and 2020
Consolidated Statements of Cash Flows for the Years Ended December 31, 2022, 2021, and 2020
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^	Agreement and Plan of Merger by and between Peoples Bancorp Inc. and Limestone Bancorp, Inc. dated October 24, 2022. Exhibit 2.1 to the Form 8-K filed October 25, 2022 is incorporated by reference.
3.1	Articles of Incorporation of the Company, restated to reflect amendments. Exhibit 3.1 to the Quarterly Report on Form 10-Q filed July 30, 2021 is incorporated by reference.
3.2	Amended and Restated Bylaws of Limestone Bancorp, Inc. dated June 18, 2018. Exhibit 3.2 to Form 8-K filed June 18, 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 5, 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 by reference.
4.5	Amendment No. 4 to the Limestone Bancorp, Inc. Tax Benefits Preservation Plan, dated May 19, 2021. Exhibit 4 to the Form 8-K filed May 19, 2021 is incorporated by reference.
4.6	Amendment No. 5 to the Limestone Bancorp, Inc. Tax Benefits Preservation Plan, dated October 24, 2022. Exhibit 4.6 to the Form 8-K filed October 25, 2022 is incorporated by reference.
4.7	Indenture, dated July 23, 2019, by and between Limestone Bancorp, Inc. and Wilmington Trust National Association, as trustee. Exhibit 4.1 to the Form 8-K filed July 25, 2019 is incorporated by reference.
4.8	Form of 5.75% Fixed-to-Floating Subordinated Notes due 2029 of Limestone Bancorp, Inc. Exhibit 4.2 to the Form 8-K filed July 25, 2019 is incorporated by reference.
4.9	Company Order of Limestone Bancorp, Inc. dated July 21, 2020. Exhibit 4.2 to the Form 8-K filed July 24, 2020 is incorporated by reference.
4.10	Form of 5.75% Fixed-to-Floating Subordinated Notes due 2029 of Limestone Bancorp, Inc. issued July 31, 2020. Exhibit 4.7 to the Quarterly Report on Form 10-Q filed July 31, 2020 is incorporated by reference.
4.11	Description of Securities of Limestone Bancorp, Inc. registered under Section 12 of the Securities Exchange Act of 1934, as amended. Exhibit 99.1 to the Form 8-K filed December 6, 2022 is incorporated by reference.
10.1	Form of Subordinated Note Purchase Agreement, dated July 23, 2019, by and among Limestone Bancorp, Inc. and the Purchasers. Exhibit 10.1 to the Form 8-K filed July 25, 2019 is incorporated by reference.

Exhibit No. (1)	Description
10.2	Form of Subordinated Note Purchase Agreement dated July 21, 2020 by and among Limestone Bancorp, Inc. and the Purchasers. Exhibit 10.1 to the Form 8-K filed July 24, 2020 is incorporated by reference.
10.3*	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.
10.4*	Form of Restricted Stock Award Agreement. Exhibit 10.11 to the Form 10-K filed March 8, 2019 is incorporated by reference.
10.5*	Employment Agreement, dated April 24, 2019, with John T. Taylor. Exhibit 10.1 to the Form 8-K filed April 26, 2019 is incorporated by reference.
10.6*	Employment Agreement, dated April 24, 2019, with John R. Davis. Exhibit 10.3 to the Form 8-K filed April 26, 2019 is incorporated by reference.
10.7*	Employment Agreement, dated April 24, 2019, with Joseph C. Seiler. Exhibit 10.4 to the Form 8-K filed April 26, 2019 is incorporated by reference.
10.8*	Employment Agreement, dated April 24, 2019, with Phillip W. Barnhouse. Exhibit 10.2 to the Form 8-K filed April 26, 2019 is incorporated by reference.
10.9	Securities Purchase Agreement, dated March 30, 2018, between Limestone Bancorp, Inc. and Patriot Financial Partners III, L.P. Exhibit 10.1 to the Form 8-K dated March 30, 2018 is incorporated by reference.
10.10	Registration Rights Agreement, dated March 30, 2018, between Limestone Bancorp, Inc. and Patriot Financial Partners III, L.P. Exhibit 10.2 to the Form 8-K dated March 30, 2018 is incorporated by reference.
10.11*	Description of Non-employee Director Restricted Stock Awards. Exhibit 10.19 to the Form 10-K filed February 28, 2020 is incorporated herein by reference.
10.12*	Incentive Compensation Bonus Plan. The description of the incentive compensation bonus plan in Item 11 of this Form 10-K for the year ended December 31, 2022 is incorporated by reference.
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, 2022, formatted in Inline 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.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

^ Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K but Limestone Bancorp, Inc. will provide them to the Securities and Exchange Commission upon request.

* 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.

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, 2023

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 (principal executive officer)	February 28, 2023
/s/ Phillip W. Barnhouse Phillip W. Barnhouse	Chief Financial Officer (principal financial officer)	February 28, 2023
/s/ John M. Koehler John M. Koehler	Chief Accounting Officer (principal accounting officer)	February 28, 2023
/s/ Celia P. Catlett Celia P. Catlett	Director	February 28, 2023
/s/ W. Glenn Hogan W. Glenn Hogan	Director	February 28, 2023
/s/ Kevin J. Kooman Kevin J. Kooman	Director	February 28, 2023
/s/ Michael T. Levy Michael T. Levy	Director	February 28, 2023
/s/ James M. Parsons James M. Parsons	Director	February 28, 2023
/s/ Bradford T. Ray Bradford T. Ray	Director	February 28, 2023
/s/ Dr. Edmond J. Seifried Dr. Edmond J. Seifried	Director	February 28, 2023

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.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-225384 on Form S-8 of Limestone Bancorp, Inc. of our report dated February 28, 2023 with respect to the consolidated financial statements 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, 2022.

/s/ Crowe LLP

Louisville, Kentucky
February 28, 2023

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, 2023

/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, 2023

/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, 2022, 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, 2023

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, 2022, 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, 2023

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

LIMESTONE
BANCORP

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