Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2020

Or

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

For the transition period from ______ to ______

Commission file number: 001-33033

LIMESTONE BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

(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	Nasdaq

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 provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

6,269,305 Common Shares and 1,220,000 Non-Voting Common Shares were outstanding at April 30, 2020.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The following consolidated financial statements of Limestone Bancorp, Inc. and subsidiary, Limestone Bank, Inc. are submitted:

LIMESTONE BANCORP, INC.
Unaudited Consolidated Balance Sheets
(dollars in thousands except share data)

	March 31, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 9,509	$ 8,241
Interest bearing deposits in banks	23,639	21,962
Cash and cash equivalents	33,148	30,203
Securities available for sale	198,657	209,000
Loans, net of allowance of $9,150 and $8,376, respectively	952,411	917,895
Premises and equipment, net	19,282	19,658
Premises held for sale	1,185	900
Other real estate owned	3,225	3,225
Federal Home Loan Bank stock	6,837	6,237
Bank owned life insurance	16,128	16,037
Deferred taxes, net	28,208	27,765
Goodwill	6,252	6,252
Other intangible assets, net	2,436	2,500
Accrued interest receivable and other assets	6,441	6,107
Total assets	$ 1,274,210	$ 1,245,779
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$ 185,658	$ 187,551
Interest bearing	872,242	839,424
Total deposits	1,057,900	1,026,975
Federal Home Loan Bank advances	61,349	61,389
Accrued interest payable and other liabilities	7,450	8,665
Junior subordinated debentures	21,000	21,000
Subordinated capital note	17,000	17,000
Senior debt	5,000	5,000
Total liabilities	1,169,699	1,140,029
Commitments and contingent liabilities (Note 15)	—	—
Stockholders' equity		
Common stock, no par, 39,000,000 shares authorized, 6,269,305 and 6,251,975 voting, and 1,220,000 and 1,220,000 non-voting issued and outstanding, respectively	140,639	140,639
Additional paid-in capital	24,577	24,508
Retained deficit	(53,843)	(55,683)
Accumulated other comprehensive loss	(6,862)	(3,714)
Total stockholders' equity	104,511	105,750
Total liabilities and stockholders' equity	$ 1,274,210	$ 1,245,779

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Income
(dollars in thousands, except per share data)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Interest income		
Loans, including fees	$ 11,611	$ 10,254
Taxable securities	1,467	1,573
Tax exempt securities	70	93
Federal funds sold and other	119	266
	13,267	12,186
Interest expense		
Deposits	2,772	2,587
Federal Home Loan Bank advances	220	281
Senior debt	56	96
Junior subordinated debentures	215	263
Subordinated capital note	242	—
	3,505	3,227
Net interest income	9,762	8,959
Provision for loan losses	1,050	—
Net interest income after provision for loan losses	8,712	8,959
Non-interest income		
Service charges on deposit accounts	668	496
Bank card interchange fees	750	508
Income from bank owned life insurance	96	99
Other	210	181
	1,724	1,284
Non-interest expense		
Salaries and employee benefits	4,538	3,915
Occupancy and equipment	999	898
Professional fees	208	165
Marketing expense	214	227
FDIC insurance	—	108
Data processing expense	359	313
State franchise and deposit tax	360	315
Deposit account related expense	451	281
Other real estate owned expense	16	166
Litigation and loan collection expense	65	46
Communications expense	218	190
Insurance expense	103	114
Postage and delivery	168	141
Other	536	402
	8,235	7,281
Income before income taxes	2,201	2,962
Income tax expense	361	123
Net income	1,840	2,839
Basic and diluted income per common share	$ 0.25	$ 0.38

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net income	$ 1,840	$ 2,839
Other comprehensive income (loss):		
Unrealized gain (loss) on securities:		
Unrealized gain (loss) arising during the period	(4,126)	1,995
Reclassification adjustment for gains (losses) included in net income	—	—
Net unrealized gain (loss) recognized in comprehensive income (loss)	(4,126)	1,995
Tax effect	978	(418)
Other comprehensive income (loss)	(3,148)	1,577
Comprehensive income (loss)	$ (1,308)	$ 4,416

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Changes in Stockholders' Equity
For Three Months Ended March 31, 2020 and 2019
(Dollar amounts in thousands except share and per share data)

	Shares			Amount				
	Common			Common				
	Common	Non-Voting Common	Total Common	Common and Non-Voting Common	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balances, January 1, 2020	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 award	17,330	—	17,330	—	(37)	—	—	(37)
Forfeited unvested stock	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	106	—	—	106
Net income	—	—	—	—	—	1,840	—	1,840
Net change in accumulated other comprehensive loss, net of taxes	—	—	—	—	—	—	(3,148)	(3,148)
Balances, March 31, 2020	6,269,305	1,220,000	7,489,305	$ 140,639	$ 24,577	$ (53,843)	$ (6,862)	$ 104,511

	Shares			Amount				
	Common			Common				
	Common	Non-Voting Common	Total Common	Common and Non-Voting Common	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balances, January 1, 2019	6,242,720	1,220,000	7,462,720	$ 140,639	$ 24,287	$ (66,201)	$ (6,628)	$ 92,097
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	1,642	—	1,642	—	(276)	—	—	(276)
Forfeited unvested stock	(3,748)	—	(3,748)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	82	—	—	82
Net income	—	—	—	—	—	2,839	—	2,839
Net change in accumulated other comprehensive loss, net of taxes	—	—	—	—	—	—	1,577	1,577
Balances, March 31, 2019	6,240,614	1,220,000	7,460,614	$ 140,639	$ 24,093	$ (63,362)	$ (5,051)	$ 96,319

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Cash Flows
For Three Months Ended March 31, 2020 and 2019
(dollars in thousands)

	2020	2019
Cash flows from operating activities		
Net income	$ 1,840	$ 2,839
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	479	679
Provision for loan losses	1,050	—
Net amortization on securities	146	189
Stock-based compensation expense	106	82
Deferred taxes, net	535	295
Net write-down of other real estate owned	—	150
Impairment of premises held for sale	25	—
Increase in cash surrender value of life insurance, net of premium expense	(91)	(93)
Amortization of operating lease right-of-use assets	187	62
Net change in accrued interest receivable and other assets	(334)	(668)
Net change in accrued interest payable and other liabilities	(1,215)	(2,671)
Net cash from operating activities	2,728	864
Cash flows from investing activities		
Purchases of available for sale securities	(6,869)	(8,096)
Proceeds from sales and calls of available for sale securities	6,000	1,000
Proceeds from maturities and prepayments of available for sale securities	6,940	3,683
Purchases of Federal Home Loan Bank stock	(600)	—
Proceeds from mandatory redemptions of Federal Home Loan Bank stock	—	420
Net changes in loans	(35,712)	(22,002)
Purchases of premises and equipment	(390)	(37)
Net cash from investing activities	(30,631)	(25,032)
Cash flows from financing activities		
Net change in deposits	30,925	14,611
Repayment of Federal Home Loan Bank advances	(95,040)	(30,038)
Advances from Federal Home Loan Bank	95,000	35,000
Common shares withheld for taxes	(37)	(276)
Net cash from financing activities	30,848	19,297
Net change in cash and cash equivalents	2,945	(4,871)
Beginning cash and cash equivalents	30,203	35,361
Ending cash and cash equivalents	$ 33,148	$ 30,490
Supplemental cash flow information:		
Interest paid	$ 3,919	$ 3,193
Supplemental non-cash disclosure:		
Transfer from loans to other real estate	$ —	$ —
Transfer from premises and equipment to premises held for sale	310	—
Initial recognition of right-of-use lease assets	—	507

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation – The consolidated financial statements include Limestone Bancorp, Inc. (Company) and its subsidiary, Limestone Bank, Inc. (Bank). The Company owns a 100% interest in the Bank. All significant inter-company transactions and accounts have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the entire year. A description of other significant accounting policies is presented in the notes to the Consolidated Financial Statements for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K.

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.

In March 2020, the World Health Organization declared novel coronavirus disease 2019 ("COVID-19") as a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, including those in markets in which the Company is located or does business.

The extent to which the COVID-19 pandemic impacts the Company's business, liquidity, asset valuations, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Moreover, the effects of the COVID-19 pandemic may have a material adverse effect on all or a combination of valuation impairments on the Company's intangible assets, investments, loans, or deferred tax assets.

Reclassifications – Some items in the prior year financial statements were reclassified to conform to the current presentation. The reclassifications did not impact net income or stockholders' equity.

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 will change estimates for credit losses related to financial assets measured at amortized cost such as loans, held-to-maturity debt securities, and certain other contracts. For estimating credit losses, the FASB is replacing the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. Under the CECL model, certain financial assets that are carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, are required to be presented at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. The change could materially affect how the allowance for loan losses is determined. The impact of CECL model implementation is being evaluated, but it is expected that a one-time cumulative-effect adjustment to the allowance for loan losses will be recognized in retained earnings on the consolidated balance sheet as of the beginning of the first reporting period in which the new standard is effective, as is consistent with regulatory expectations set forth in interagency guidance. In December 2018, the OCC, The Board of Governors of the Federal Reserve System, and the FDIC approved a final rule to address changes to the credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from adoption of the new accounting standard. In October 2019, the FASB voted to delay implementation for smaller reporting companies, private companies, and not-for-profit entities. The Company currently qualifies as a smaller reporting company. Companies qualifying for the delay will be required to implement CECL for fiscal year and interim periods beginning after December 15, 2022.

Note 2 – Securities

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
March 31, 2020				
Available for sale				
U.S. Government and federal agency	$ 20,751	$ 353	$ —	$ 21,104
Agency mortgage-backed: residential	86,840	2,428	(167)	89,101
Collateralized loan obligations	44,732	—	(3,978)	40,754
State and municipal	28,301	346	(493)	28,154
Corporate bonds	20,831	199	(1,486)	19,544
Total available for sale	$ 201,455	$ 3,326	$ (6,124)	$ 198,657

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

Sales and calls of securities were as follows:

	Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Proceeds	$ 6,000	$ 1,000
Gross gains	—	—
Gross losses	—	—

The amortized cost and fair value of our 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.

	March 31, 2020	
	Amortized Cost	Fair Value
	(in thousands)	
Maturity		
Available for sale		
Within one year	$ 31,403	$ 30,003
One to five years	40,037	40,515
Five to ten years	23,970	22,852
Beyond ten years	19,205	16,186
Agency mortgage-backed: residential	86,840	89,101
Total	$ 201,455	$ 198,657

Securities pledged at March 31, 2020 and December 31, 2019 had carrying values of approximately $80.9 million and $75.8 million, respectively, and were pledged to secure public deposits.

At March 31, 2020 and December 31, 2019, the Bank held securities issued by the Commonwealth of Kentucky or Kentucky municipalities having a book value of $17.0 million and $14.5 million, respectively. At March 31, 2020 and December 31, 2019, there were no other holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders’ equity.

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

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

At March 31, 2020, $25.7 million and $15.0 million of our CLOs were AA and A rated, respectively. There were no CLOs rated below A and none of the CLOs were subject to ratings downgrade in the three months ended March 31, 2020. All of our CLOs are floating rate, with rates set on a quarterly basis at three-month LIBOR plus a spread. Stress testing was completed on each security in the CLO portfolio as of March 31, 2020. 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 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 March 31, 2020, management does not believe any securities in the portfolio with unrealized losses should be classified as other than temporarily impaired.

Securities with unrealized losses at March 31, 2020 and December 31, 2019, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
			(in thousands)			
March 31, 2020						
Available for sale						
U.S. Government and federal agency	$ —	$ —	$ —	$ —	$ —	$ —
Agency mortgage-backed: residential	10,843	(120)	1,617	(47)	12,460	(167)
Collateralized loan obligations	10,702	(843)	30,052	(3,135)	40,754	(3,978)
State and municipal	10,192	(493)	—	—	10,192	(493)
Corporate bonds	11,008	(1,486)	—	—	11,008	(1,486)
Total temporarily impaired	$ 42,745	$ (2,942)	$ 31,669	$ (3,182)	$ 74,414	$ (6,124)
December 31, 2019						
Available for sale						
U.S. Government and federal agency	$ 12,567	$ (147)	$ —	$ —	$ 12,567	$ (147)
Agency mortgage-backed: residential	18,457	(97)	10,665	(158)	29,122	(255)
Collateralized loan obligations	9,539	(46)	35,336	(366)	44,875	(412)
State and municipal	911	(3)	—	—	911	(3)
Corporate bonds	—	—	—	—	—	—
Total temporarily impaired	$ 41,474	$ (293)	$ 46,001	$ (524)	$ 87,475	$ (817)

Note 3 – Loans

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

	March 31, 2020	December 31, 2019
	(in thousands)	
Commercial	$ 169,176	$ 145,551
Commercial Real Estate:		
Construction	71,267	64,911
Farmland	80,579	79,118
Nonfarm nonresidential	261,807	255,459
Residential Real Estate:		
Multi-family	75,525	70,950
1-4 Family	220,701	226,629
Consumer	44,814	47,790
Agriculture	36,977	35,064
Other	715	799
Subtotal	961,561	926,271
Less: Allowance for loan losses	(9,150)	(8,376)
Loans, net	$ 952,411	$ 917,895

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2020 and 2019:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
				(in thousands)			
March 31, 2020:							
Beginning balance	$ 1,710	$ 4,080	$ 1,743	$ 485	$ 355	$ 3	$ 8,376
Provision (negative provision)	339	141	220	265	87	(2)	1,050
Loans charged off	(29)	(29)	(75)	(161)	(41)	–	(335)
Recoveries	5	20	21	4	8	1	59
Ending balance	$ 2,025	$ 4,212	$ 1,909	$ 593	$ 409	$ 2	$ 9,150
March 31, 2019:							
Beginning balance	$ 1,299	$ 4,676	$ 2,452	$ 130	$ 321	$ 2	$ 8,880
Provision (negative provision)	143	(165)	(204)	193	33	–	–
Loans charged off	–	(15)	(82)	(180)	(1)	–	(278)
Recoveries	5	2	61	16	–	–	84
Ending balance	$ 1,447	$ 4,498	$ 2,227	$ 159	$ 353	$ 2	$ 8,686

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 March 31, 2020:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
				(in thousands)			
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ –	$ 19	$ 1	$ –	$ –	$ –	$ 20
Collectively evaluated for impairment	2,025	4,193	1,908	593	409	2	9,130
Total ending allowance balance	$ 2,025	$ 4,212	$ 1,909	$ 593	$ 409	$ 2	$ 9,150
Loans:							
Loans individually evaluated for impairment	$ 158	$ 922	$ 921	$ 143	$ –	$ –	$ 2,144
Loans collectively evaluated for impairment	169,018	412,731	295,305	44,671	36,977	715	959,417
Total ending loans balance	$ 169,176	$ 413,653	$ 296,226	$ 44,814	$ 36,977	$ 715	$ 961,561

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

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

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 tables present information related to loans individually evaluated for impairment by class of loans as of March 31, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and 2019:

	As of March 31, 2020			Three Months Ended March 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	$ 265	$ 158	$ —	$ 104	$ —	$ —
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	414	299	—	296	10	10
Nonfarm nonresidential	1,043	480	—	485	8	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	1,862	846	—	795	3	3
Consumer	354	143	—	121	1	1
Agriculture	297	—	—	21	—	—
Other	—	—	—	—	—	—
Subtotal	4,235	1,926	—	1,822	22	14
With An Allowance Recorded:						
Commercial	—	—	—	12	—	—
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	143	143	19	212	2	—
Nonfarm nonresidential	—	—	—	—	—	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	75	75	1	111	2	—
Consumer	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	218	218	20	335	4	—
Total	$ 4,453	$ 2,144	$ 20	$ 2,157	$ 26	$ 14

	As of December 31, 2019			Three Months Ended March 31, 2019		
	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	$ 138	$ 50	$ —	$ 52	$ —	$ —
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	380	293	—	98	5	5
Nonfarm nonresidential	1,057	489	—	256	3	3
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	1,679	745	—	1,544	22	22
Consumer	309	98	—	14	—	—
Agriculture	304	42	—	32	—	—
Other	—	—	—	—	—	—
Subtotal	3,867	1,717	—	1,996	30	30
With An Allowance Recorded:						
Commercial	24	24	3	—	—	—
Commercial real estate:						
Construction	—	—	—	—	—	—
Farmland	282	282	37	158	—	—
Nonfarm nonresidential	—	—	—	—	—	—
Residential real estate:						
Multi-family	—	—	—	—	—	—
1-4 Family	183	147	2	719	11	—
Consumer	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	489	453	42	877	11	—
Total	$ 4,356	$ 2,170	$ 42	$ 2,873	$ 41	$ 30

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 types of TDR loan modifications by portfolio segment outstanding as of March 31, 2020 and December 31, 2019:

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
March 31, 2020			
Commercial Real Estate:			
Nonfarm nonresidential	$ 391	$ —	$ 391
Residential Real Estate:			
1-4 Family	75	—	75
Total TDRs	$ 466	$ —	$ 466

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

At March 31, 2020 and December 31, 2019, 100% of the Company's TDRs were performing according to their modified terms. The Company allocated $1,000 in reserves to borrowers whose loan terms have been modified in TDRs as of March 31, 2020 and December 31, 2019. The Company has committed to lend no additional amounts as of March 31, 2020 and December 31, 2019 to borrowers with outstanding loans classified as TDRs.

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

No TDR loan modifications occurred during the three months ended March 31, 2020 or March 31, 2019. During the first three months of 2020 and 2019, no TDRs defaulted on their restructured loan within the 12-month period following the loan modification. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual.

Non-performing Loans

Non-performing loans include impaired loans and smaller balance homogeneous loans, such as residential mortgage and consumer loans, that are collectively evaluated for impairment. The following table presents the recorded investment in nonaccrual and loans past due 90 days and still on accrual by class of loan as of March 31, 2020, and December 31, 2019:

	Nonaccrual		Loans Past Due 90 Days And Over Still Accruing	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
	(in thousands)			
Commercial	$ 158	$ 50	$ —	$ —
Commercial Real Estate:				
Construction	—	—	—	—
Farmland	298	431	—	—
Nonfarm nonresidential	89	90	—	—
Residential Real Estate:				
Multi-family	—	—	—	—
1-4 Family	812	817	—	—
Consumer	143	98	—	—
Agriculture	—	42	—	—
Other	—	—	—	—
Total	$ 1,500	$ 1,528	$ —	$ —

The following table presents the aging of the recorded investment in past due loans as of March 31, 2020 and December 31, 2019:

	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days And Over Past Due	Nonaccrual	Total Past Due And Nonaccrual
			(in thousands)		
March 31, 2020					
Commercial	$ —	$ 1	$ —	$ 158	$ 159
Commercial Real Estate:					
Construction	—	—	—	—	—
Farmland	81	—	—	298	379
Nonfarm nonresidential	19	41	—	89	149
Residential Real Estate:					
Multi-family	—	—	—	—	—
1-4 Family	961	147	—	812	1,920
Consumer	97	56	—	143	296
Agriculture	—	3	—	—	3
Other	—	—	—	—	—
Total	$ 1,158	$ 248	$ —	$ 1,500	$ 2,906

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

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. 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 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.

As of March 31, 2020, and December 31, 2019, 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)					
March 31, 2020						
Commercial	$ 146,310	$ 20,903	$ —	$ 1,963	$ —	$ 169,176
Commercial Real Estate:						
Construction	71,267	—	—	—	—	71,267
Farmland	73,202	6,568	—	809	—	80,579
Nonfarm nonresidential	252,982	7,152	—	1,673	—	261,807
Residential Real Estate:						
Multi-family	75,525	—	—	—	—	75,525
1-4 Family	214,559	3,683	—	2,459	—	220,701
Consumer	44,640	3	—	171	—	44,814
Agriculture	36,785	155	—	37	—	36,977
Other	715	—	—	—	—	715
Total	$ 915,985	$ 38,464	$ —	$ 7,112	$ —	$ 961,561

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

Note 4 – Leases

As of March 31, 2020, the Company leases real estate for six branch offices or offsite ATM machines under various operating lease agreements. The lease agreements have maturity dates ranging from 2021 to 2055, including all expected extension periods. The weighted average remaining life of the lease term for these leases was 22 years as of March 31, 2020.

In determining the present value of lease payments, the Bank uses the implicit lease rate when readily determinable. As most of the Bank's leases do not provide an implicit rate, the incremental borrowing rate based on the information available at commencement date is used. The incremental borrowing rate is the rate of interest that the Bank estimates it 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. This methodology will be continued for the commencement of any subsequent lease agreements. The weighted average discount rate for the leases was 5.47% as of March 31, 2020.

Total rental expense was $120,000 for the three months ended March 31, 2020 and $65,000 for the three months ended March 31, 2019. The right-of-use asset, included in premises and equipment, and lease liability, included in other liabilities, was $2.9 million as of March 31, 2020 and $445,000 as of March 31, 2019.

Total estimated rental commitments for the operating leases were as follows as of March 31, 2020 (in thousands):

	March 31, 2020
2020	$ 383
2021	260
2022	242
2023	246
2024	246
Thereafter	3,720
Total minimum lease payments	5,097
Discount effect of cash flows	(2,214)
Present value of lease liabilities	$ 2,883

Note 5 – Other Real Estate Owned

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

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

	March 31, 2020	December 31, 2019
	(in thousands)	
Commercial Real Estate:		
Construction, land development, and other land	$ 3,225	$ 3,225
	$ 3,225	$ 3,225

Residential loans secured by 1-4 family residential properties in the process of foreclosure totaled $156,000 and $172,000 at March 31, 2020 and December 31, 2019, respectively.

Activity relating to OREO during the three months ended March 31, 2020 and 2019 is as follows:

	For the Three Months Ended March 31,	
	2020	2019
	(in thousands)	
OREO Activity		
OREO as of January 1	$ 3,225	$ 3,485
Real estate acquired	—	—
Valuation adjustment write-downs	—	(150)
Net gain (loss) on sales	—	—
Proceeds from sales of properties	—	—
OREO as of March 31	$ 3,225	$ 3,335

Expenses related to OREO include:

	For the Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Net loss (gain) on sales	$ —	$ —
Valuation adjustment write-downs	—	150
Operating expense	16	16
Total	$ 16	$ 166

Note 6 – Goodwill and Intangible Assets

The following table summarizes the Company's acquired goodwill and intangible assets as of March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	$ 6,252	$ —	$ 6,252	$ —
Core deposit intangibles	2,500	64	2,500	—
Outstanding, ending	$ 8,752	$ 64	$ 8,752	$ —

The Company has $6.3 million of goodwill related to a branch acquisition transaction from 2019. 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. Based upon current economic conditions as a result of COVID-19, management assessed goodwill for impairment as of March 31, 2020 and concluded there was no impairment. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

The Company also has a core deposit intangible asset, which is amortized over a weighted average estimated life of the related deposits and is not estimated to have a significant residual value. During the three months ended March 31, 2020, the Company recorded intangible amortization expense totaling $64,000.

Amortization expense related to the core deposit intangible for the remainder of 2020 and beyond is estimated as follows (in thousands):

	March 31, 2020
April 2020 – December 2020	$ 192
2021	256
2022	256
2023	256
2024	256
Thereafter	1,220
	$ 2,436

Note 7 – Deposits

The following table details deposits by category:

	March 31, 2020	December 31, 2019
	(in thousands)	
Non-interest bearing	$ 185,658	$ 187,551
Interest checking	157,621	146,038
Money market	154,851	160,837
Savings	92,235	56,015
Certificates of deposit	467,535	476,534
Total	$ 1,057,900	$ 1,026,975

Time deposits of $250,000 or more were approximately $64.9 million and $51.2 million at March 31, 2020 and December 31, 2019, respectively.

Scheduled maturities of total time deposits at March 31, 2020 for each of the next five years are as follows (in thousands):

Year 1	$	383,049
Year 2		47,132
Year 3		10,719
Year 4		15,232
Year 5		10,854
Thereafter		549
	$	467,535

Note 8 – Advances from the Federal Home Loan Bank

Advances from the Federal Home Loan Bank were as follows:

		March 31, 2020		December 31, 2019
		(in thousands)		
Short term advances (fixed rates 0.13% to 0.22%) maturing April 2020	$	40,000	$	60,000
Long term advances (fixed rates 0.00% to 5.24%) maturing April 2020 to August 2033		21,349		1,389
Total advances from the Federal Home Loan Bank	$	61,349	$	61,389

FHLB advances had a weighted-average rate of 0.39% at March 31, 2020 and 1.70% at December 31, 2019. Each advance is payable per terms on agreement, with a prepayment penalty. No prepayment penalties were incurred during 2020 or 2019. The advances were collateralized by approximately $158.5 million and $166.0 million of first mortgage loans, under a blanket lien arrangement at March 31, 2020 and December 31, 2019, respectively. At March 31, 2020, the Bank's additional borrowing capacity with the FHLB was $53.6 million.

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

		Advances
Year 1	$	41,090
Year 2		98
Year 3		99
Year 4		42
Year 5		16
Thereafter		20,004
	$	61,349

Note 9 – 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. The Company has the option to defer interest payments on the junior subordinated debentures from time to time for a period not to exceed 20 consecutive quarters. A deferral period may begin at the Company's discretion so long as interest payments are current. The Company is prohibited from paying dividends on preferred and common shares when interest payments are in deferral. At March 31, 2020, the Company is current on all interest payments.

Subordinated Capital Note – The Company's $17.0 million subordinated note matures on July 31, 2029. The note carries interest at a fixed rate of 5.75% until July 30, 2024 and then converts to variable at three-month LIBOR plus 395 basis points until maturity. The subordinated capital note qualifies as Tier 2 regulatory capital.

Senior Debt - The Company's $5.0 million senior secured loan matures on June 30, 2022. Interest is payable quarterly at a rate of three-month LIBOR plus 250 basis points through June 30, 2020, at which time quarterly principal payments of $250,000 plus interest will commence. The loan is secured by a first priority pledge of 100% of the issued and outstanding stock of the Bank. The Company may prepay any amount due under the promissory note at any time without premium or penalty.

The loan agreement contains customary representations, warranties, covenants and events of default, including the following financial covenants: (i) the Company must maintain minimum cash on hand of not less than $2,500,000, (ii) the Company must maintain a total risk based capital ratio at least equal to 10% of risk-weighted assets, (iii) the Bank must maintain a total risk based capital ratio at least equal to 11% of risk-weighted assets, and (iv) non-performing assets of the Bank may not exceed 2.5% of the Bank's total assets. Both the Company and Bank were in compliance with the covenants as of March 31, 2020.

Note 10 – Fair Values Measurement

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

Management also 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. Discounts ranging from 10% to 33% have been utilized in our impairment evaluations when applicable.

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

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

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

Financial assets measured at fair value on a recurring basis at March 31, 2020 and December 31, 2019 are summarized below:

		Fair Value Measurements at March 31, 2020 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	$ 21,104	$ —	$ 21,104	$ —
Agency mortgage-backed: residential	89,101	—	89,101	—
Collateralized loan obligations	40,754	—	40,754	—
State and municipal	28,154	—	28,154	—
Corporate bonds	19,544	—	19,544	—
Total	$ 198,657	$ —	$ 198,657	$ —

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

There were no transfers between Level 1 and Level 2 during 2020 or 2019.

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

		Fair Value Measurements at March 31, 2020 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)**
Impaired loans:				
Commercial real estate:				
Farmland	$ 124	$ —	$ —	$ 124
Residential real estate:				
1-4 Family	74	—	—	74

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

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $218,000 at March 31, 2020 with a valuation allowance of $20,000, resulting in no additional provision for loan losses for the three months ended March 31, 2020. Impaired loans had a carrying amount of $873,000 with a valuation allowance of $193,000, resulting in no additional provision for loan losses for the three months ended March 31, 2019. At December 31, 2019, impaired loans had a carrying amount of $453,000, with a valuation allowance of $42,000.

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

	Carrying Amount	Fair Value Measurements at March 31, 2020 Using Level 1	Level 2 (in thousands)	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 33,148	$ 33,148	$ —	$ —	$ 33,148
Securities available for sale	198,657	—	198,657	—	198,657
Federal Home Loan Bank stock	6,837	N/A	N/A	N/A	N/A
Loans, net	952,411	—	—	903,898	903,898
Accrued interest receivable	4,219	—	993	3,226	4,219
Financial liabilities					
Deposits	$ 1,057,900	$ 185,658	$ 874,347	$ —	$ 1,060,005
Federal Home Loan Bank advances	61,349	—	61,357	—	61,357
Junior subordinated debentures	21,000	—	—	14,153	14,153
Subordinated capital note	17,000	—	—	16,095	16,095
Senior Debt	5,000	—	—	4,900	4,900
Accrued interest payable	715	—	509	206	715

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

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.

Note 11 – Income Taxes

Deferred tax assets and liabilities were due to the following as of:

	March 31, 2020	December 31, 2019
	(in thousands)	
Deferred tax assets:		
Net operating loss carry-forward	$ 22,403	$ 22,915
Allowance for loan losses	2,283	2,090
OREO write-down	2,665	2,665
Alternative minimum tax credit carry-forward	—	173
Net assets from acquisitions	188	228
Net unrealized loss on securities	646	—
New market tax credit carry-forward	208	208
Nonaccrual loan interest	310	303
Accrued expenses	99	102
Lease liability	719	766
Other	295	309
	29,816	29,759
Deferred tax liabilities:		
FHLB stock dividends	563	563
Fixed assets	49	57
Deferred loan costs	170	170
Net unrealized gain on securities	—	331
Lease right-of-use assets	719	766
Other	107	107
	1,608	1,994
Net deferred tax asset	$ 28,208	$ 27,765

At March 31, 2020, the Company had net federal operating loss carryforwards of $100.5 million, which will begin to expire in 2032, and state net operating loss carryforwards of $32.7 million, which begin to expire in 2025. As of March 31, 2020, a total of $173,000 in alternative minimum tax credit carryforward was reclassified to other assets as it is currently refundable for the 2019 tax year due to the enactment of the Coronavirus Aid Relief and Economic Security Act ("CARES Act").

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 three months ended March 31, 2020 or March 31, 2019 related to unrecognized tax benefits.

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

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

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

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

Note 12 – Stock Plans and Stock Based Compensation

Shares available for issuance under the 2018 Omnibus Equity Compensation Plan ("2018 Plan") total 273,329. Shares issued to employees under the plan vest annually on the anniversary date of the grant over three years. Shares issued annually to non-employee directors have a fair market value of $25,000 and vest on December 31 in the year of grant.

The fair value of the 2020 unvested shares issued was $349,000, or $17.03 per weighted-average share. The Company recorded $106,000 and $82,000 of stock-based compensation to salaries and employee benefits for the three months ended March 31, 2020 and 2019, respectively. Management expects substantially all of the unvested shares outstanding at the end of the period to vest according to the vesting schedule. A deferred tax benefit of $22,000 and $17,000 was recognized related to this expense during the three months ended March 31, 2020 and 2019, respectively.

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

	Three Months Ended March 31, 2020		Twelve Months Ended December 31, 2019	
	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding, beginning	57,774	$ 13.35	116,909	$ 8.69
Granted	20,507	17.03	34,501	14.81
Vested	(13,329)	11.85	(89,388)	7.83
Forfeited	—	—	(4,248)	13.07
Outstanding, ending	64,952	$ 14.82	57,774	$ 13.35

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

April 2020 – December 2020	$ 305
2021	311
2022	136
2023	14

Note 13 – Earnings per Share

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(in thousands, except share and per share data)	
Net income	$ 1,840	$ 2,839
Less:		
Earnings allocated to unvested shares	15	36
Net income available to common shareholders, basic and diluted	$ 1,825	$ 2,803
Basic		
Weighted average common shares including unvested common shares outstanding	7,481,884	7,469,912
Less:		
Weighted average unvested common shares	61,363	94,909
Weighted average common shares outstanding	7,420,521	7,375,003
Basic income per common share	$ 0.25	$ 0.38
Diluted		
Add: Dilutive effects of assumed exercises of common stock warrants	—	—
Weighted average common shares and potential common shares	7,420,521	7,375,003
Diluted income per common share	$ 0.25	$ 0.38

The Company had no outstanding stock options or warrants at March 31, 2020 or 2019.

Note 14 – Regulatory Capital Matters

Banks and bank holding companies are subject to regulatory capital requirements in accordance with Basel III, as 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. 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 March 31, 2020, Management believes the Company and Bank met all capital adequacy requirements to which they are subject. As of March 31, 2020, 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 March 31, 2020:						
Total risk-based capital (to risk-weighted assets)	$ 129,035	12.38	$ 83,378	8.00	$ 104,223	10.00%
Total common equity Tier 1 risk-based capital (to risk-weighted assets)	119,885	11.50	46,900	4.50	67,745	6.50
Tier 1 capital (to risk-weighted assets)	119,885	11.50	62,534	6.00	83,378	8.00
Tier 1 capital (to average assets)	119,885	9.67	49,607	4.00	62,008	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, 2019:						
Total risk-based capital (to risk-weighted assets)	$ 121,335	12.08%	$ 80,341	8.00%	$ 100,426	10.00%
Total common equity Tier 1 risk- based capital (to risk-weighted assets)	112,959	11.25	45,192	4.50	65,277	6.50
Tier 1 capital (to risk-weighted assets)	112,959	11.25	60,256	6.00	80,341	8.00
Tier 1 capital (to average assets)	112,959	9.99	45,208	4.00	56,510	5.00

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

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

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

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

	March 31, 2020		December 31, 2019	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to make loans	$ 12,403	$ 26,290	$ 11,577	$ 20,415
Unused lines of credit	8,684	96,982	7,916	111,230
Standby letters of credit	531	1,336	531	3,164

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

In connection with the purchase of loan participations, the Bank entered into risk participation agreements, which had notional amounts totaling $26.6 million at March 31, 2020 and December 31, 2019. 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.

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 – Revenue from Contracts with Customers

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

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

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

Gains/Losses on Sales of OREO: The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company 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. Gains and losses on sales of OREO are netted with OREO expense and reported in non-interest expense.

Other Non-interest Income: Other non-interest income includes revenue from several sources that are within the scope of ASC 606, including title insurance commissions, income from secondary market loan sales, and other transaction-based revenue that is individually immaterial. Other non-interest income included approximately $156,000 and $136,000 of revenue for three months ended March 31, 2020 and March 31, 2019, respectively, within the scope of ASC 606. The remaining other non-interest income for the three months is excluded from the scope of ASC 606.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This item analyzes the Company's financial condition, change in financial condition and results of operations. It should be read in conjunction with the unaudited consolidated financial statements and accompanying notes presented in Part I, Item 1 of this report.

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

Forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the expectations of future results we expressed or implied in any forward-looking statements. These risks and uncertainties can be difficult to predict and may be out of management's control. Factors that could contribute to differences in results include, but are not limited to the following:

- Changes in fiscal, monetary, regulatory and tax policies;
- Changes in political and economic conditions;
  - The magnitude and frequency of changes to the Federal Funds Target Rate implemented by the Federal Open Market Committee of the Federal Reserve Bank;
  - Long-term and short-term interest rate fluctuations as well as the overall steepness of the yield curve;
  - Competitive product and pricing pressures;
  - Equity and fixed income market fluctuations;
  - Client bankruptcies and loan defaults;
  - Inflation;
  - Recession;
  - Epidemics and pandemics
  - Natural disasters impacting Company operations;
- Future acquisitions;
- Integrations and performance of acquired businesses;
- Changes in technology and regulations or the interpretation and enforcement thereof;
- Changes in accounting standards;
- Changes to the Company's overall internal control environment;
- Success in gaining regulatory approvals when required;
- Information security breaches or cyber security attacks involving either the Company or one of the Company's third-party service providers; and
- Other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC"), including Part II Item 1A "*Risk Factors*" of this report, as well as Part I Item 1A "*Risk Factors*" of the Company's December 31, 2019 Annual Report on Form 10-K for the year ended December 31, 2019.

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.

Overview

The Company is a bank holding company headquartered in Louisville, Kentucky. The Company's common stock is traded on Nasdaq's Capital Market under the symbol LMST. The Company operates Limestone Bank (the Bank), its wholly owned subsidiary and the eighth largest bank domiciled in the Commonwealth of Kentucky based on total assets. The Bank operates banking offices in 14 counties in Kentucky. The Bank's markets include metropolitan Louisville in Jefferson County and the surrounding counties of Bullitt and Henry. The Bank serves south central, southern, and western Kentucky from banking centers in Barren, Butler, Daviess, Edmonson, Green, Hardin, Hart, Ohio, and Warren counties. The Bank also has banking centers in Lexington, Kentucky, the second largest city in the state, and Frankfort, Kentucky, the state capital. The Bank is a traditional community bank with a wide range of personal and business banking products and services. As of March 31, 2020, the Company had total assets of $1.27 billion, total loans of $961.6 million, total deposits of $1.06 billion and stockholders' equity of $104.5 million.

The coronavirus pandemic ("COVID-19") currently impacting the nation has caused a setback to the country's economy. Since early March, the Company and Bank have felt the impact alongside thousands of businesses across the nation. In response to the global pandemic, and the declarations of emergency at the state and national levels the pandemic has triggered, the Bank has implemented several temporary operational changes to serve customers during the COVID-19 health crisis. Lobby services have been amended to appointment only while drive thru, mobile, and online banking have become the Bank's primary channels of serving customers. Customer facing employees have been divided into two teams working separate 'ten day on' and 'ten day off' shifts to ensure a healthy workforce remains available to serve customers. Additionally, operational and support staff have been assigned to work from home where circumstances permit.

The Company reported net income of $1.8 million for the three months ended March 31, 2020, compared with $2.8 million for the first quarter of 2019. Net income before taxes and income tax expense was $2.2 million and $361,000, respectively for the first quarter of 2020, compared with $3.0 million and $123,000, respectively for the first quarter of 2019. Income tax expense for the first quarter of 2019 benefitted $341,000 or $0.05 per basic and diluted common share, from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter of 2019. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021.

Significant items for the three months ended March 31, 2020 are as follows:

- Loan growth outpaced paydowns during the period. Average loans receivable increased approximately $182.7 million or 23.8% to $949.2 million for the quarter ended March 31, 2020, compared with $766.5 million for the first quarter of 2019. This resulted in an increase in interest revenue volume of approximately $2.3 million for the quarter ended March 31, 2020, compared with the first quarter of 2019. Average loans were positively impacted from the branch purchase acquisition, which included approximately $126.8 million in loans at the time of the purchase, as well as loan growth during 2019 and the first quarter of 2020.

- Net interest margin was 3.31% for the first three months of 2020 compared with 3.61% for the first three months of 2019. The yield on earning assets decreased to 4.50% in the first quarter of 2020 as compared to 4.90% in the first quarter of 2019. The decline in yield on earning assets was driven by the impact of falling interest rates on the Bank's fed funds, certain floating rate investment securities, and loans with variable rate pricing features as the Federal Reserve lowered the federal funds target rate by 75 basis points in the latter half of 2019, 50 basis points on March 6, 2020, and 100 basis points on March 15, 2020. The cost of interest-bearing liabilities decreased from 1.57% in the first quarter of 2019 to 1.45% in the first quarter of 2020 as a result of decreases in short-term interest rates during 2019 and 2020.

- While the Company has experienced historically strong trends in asset quality over the last several quarters and management's assessment of risk within the portfolio has been low, the Company recorded provision for loan losses expense of $1.1 million in the first quarter of 2020, compared to no provision for loan losses expense in the first quarter of 2019. The first quarter 2020 loan loss provision was attributable to the level of net loan charge-offs for the quarter, to the impact of the increase in loan volume within the portfolio over the quarter, and to changes in the economic and business environment attributable to COVID-19 and the resultant risk it poses for business disruptions for the Bank's borrowers. Net loan charge-offs were $276,000 for the first quarter of 2020, compared to net loan charge-offs of $194,000 for the first quarter of 2019.

- Loans past due 30-59 days decreased from $1.7 million at December 31, 2019 to $1.2 million at March 31, 2020, and loans past due 60-89 days decreased from $670,000 at December 31, 2019 to $248,000 at March 31, 2020. Total loans past due and nonaccrual loans decreased to $2.9 million at March 31, 2020, from $3.9 million at December 31, 2019.

- In response to requests from borrowers who have been impacted by COVID-19 through business and cash flow interruption, the Bank made short-term loan modifications involving principal deferrals (interest only) and, in other cases, principal and interest deferrals. See the table under "COVID-19 Short-term Loan Concessions" section for detailed discussion.

- At March 31, 2020, foreclosed properties remained unchanged at $3.2 million compared to December 31, 2019, and declined from $3.3 million at March 31, 2019. Operating expenses totaled $16,000 in the first quarter of 2020 compared to operating expenses and fair value write-downs of $166,000 in the first quarter of 2019.

- The ratio of non-performing assets to total assets decreased to 0.41% at March 31, 2020, compared with 0.42% at December 31, 2019, and 0.57% at March 31, 2019.

- Deposits were $1.06 billion at March 31, 2020, compared with $1.03 billion at December 31, 2019. Certificate of deposit balances decreased $9.0 million during the first three months of 2020 to $467.5 million at March 31, 2020, from $476.5 million at December 31, 2019. Interest checking accounts increased $11.6 million, non-interest bearing accounts decreased $1.9 million, money market declined $6.0 million, and savings accounts increased $36.2 million during the quarter ended March 31, 2020.

Application of Critical Accounting Policies

Management continually reviews accounting policies and financial information disclosures. The Company's more significant accounting policies that require the use of estimates and judgments in preparing the financial statements are summarized in "Application of Critical Accounting Policies" in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation of our Annual Report on Form 10-K for the calendar year ended December 31, 2019. Management has discussed the development, selection, and application of our critical accounting policies with our Audit Committee. During the first three months of 2020, there were no material changes in the critical accounting policies and assumptions.

Results of Operations

The following table summarizes components of income and expense and the change in those components for the three months ended March 31, 2020, compared with the same period of 2019:

	For the Three Months Ended March 31,		Change from Prior Period	
	2020	2019	Amount	Percent
	(dollars in thousands)			
Gross interest income	$ 13,267	$ 12,186	$ 1,081	8.9%
Gross interest expense	3,505	3,227	278	8.6
Net interest income	9,762	8,959	803	9.0
Provision for loan losses	1,050	—	1,050	100
Non-interest income	1,724	1,284	440	34.3
Non-interest expense	8,235	7,281	954	13.1
Net income before taxes	2,201	2,962	(761)	(25.7)
Income tax expense	361	123	238	193.5
Net income	1,840	2,839	(999)	(35.2)

Net income for the three months ended March 31, 2020 totaled $1.8 million, compared with $2.8 million for the comparable period of 2019. Net interest income increased $803,000 from the 2019 first quarter as a result of an increase in earning assets from the branch transaction as well as loan growth. Provision expense of $1.1 million was recorded in the first quarter of 2020 as compared to no provision expense the first quarter of 2019 primarily in response to the level of net loan charge-offs for the quarter, to the impact of the increase in loan volume within the portfolio over the quarter, and to changes in the economic and business environment attributable to COVID-19. Non-interest income increased $440,000 from $1.3 million in the first quarter of 2019 to $1.7 million for the first quarter of 2020 primarily related to service charges on deposit accounts and interchange fee volume increases. Non-interest expense increased $954,000 from $7.3 million in the first quarter of 2019 to $8.2 million in the first quarter of 2020 primarily due to an increase in salaries and benefits connected to the addition of sales talent and associates acquired in the branch transaction.

Net income before taxes and income tax expense was $2.2 million and $361,000, respectively for the first quarter of 2020, compared with $3.0 million and $123,000, respectively for the first quarter of 2019. Income tax expense for the first quarter of 2019 benefitted $341,000 from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter of 2019. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021.

Net Interest Income – Net interest income was $9.8 million for the three months ended March 31, 2020, an increase of $803,000, or 9.0%, compared with $9.0 million for the same period in 2019. Net interest spread and margin were 3.05% and 3.31%, respectively, for the first quarter of 2020, compared with 3.33% and 3.61%, respectively, for the first quarter of 2019.

The interest rate environment remained challenging in the first quarter of 2020 as the Federal Reserve, after lowering rates 75 basis points in the latter half of 2019, lowered the federal funds target rate by 50 basis points on March 6, 2020 and 100 basis points on March 15, 2020. In particular, the Federal Reserve's actions served to lower rates on the short end of the yield curve impacting yields on fed funds, certain floating rate investment securities, and loans with variable rate pricing features.

The yield on earning assets decreased to 4.50% for the first quarter of 2020, as compared to 4.90% in the first quarter of 2019. Average interest-earning assets were $1.18 billion for the first quarter of 2020, compared with $1.01 billion for the first quarter of 2019, a 17.7% increase, primarily attributable to higher average loans. Average loans receivable increased approximately $182.7 million for the first quarter of 2020 compared with the first quarter of 2019. Average loans were positively impacted from the branch purchase transaction on November 15, 2019, which included approximately $126.8 million of loans at the time of purchase, as well as loan growth during 2019 and the first three months of 2020. The increase in average loans resulted in an increase in interest revenue volume of approximately $2.3 million for the quarter ended March 31, 2020, which was offset by a decrease in interest revenue to due declining rate of $933,000, as compared with the first quarter of 2019. Loan fee income can meaningfully impact net interest income, loan yields, and net interest income. The amount of loan fee income included in total interest income represents eight basis points and 22 basis points of yield on earning assets and net interest margin for the first quarter ended March 31, 2020 and 2019, respectively. Total interest income increased 8.9%, or $1.1 million, for the first quarter of 2020 compared to the first quarter of 2019.

The cost of interest-bearing liabilities decreased to 1.45% for the first quarter of 2020, as compared to 1.57% for the first quarter of 2019. Average interest-bearing liabilities increased by 16.4% to $971.6 million for the first quarter of 2020, as compared to $834.6 million for the first quarter of 2019 due to deposit growth and the completion of the branch acquisition on November 15, 2019, which included approximately $131.8 million in deposits at the time of purchase. Total interest expense increased by 8.6% to $3.5 million for the first quarter of 2020 as compared to the first quarter of 2019. The cost of interest-bearing liabilities for the first quarter of 2020 was also impacted by the subordinated debt issuance at a fixed rate of 5.75% in July 2019. As of March 31, 2020, time deposits comprise $467.5 million of the Company's liabilities with $311.6 million, or 67%, set to mature in 2020.

Average Balance Sheets

The following table presents the average balance sheets for the three-month periods ended March 31, 2020 and 2019, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

	Three Months Ended March 31,					
	2020			2019		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loan receivables (1)(2)	$ 949,204	$ 11,611	4.92%	$ 766,505	$ 10,254	5.43%
Securities						
Taxable	193,260	1,467	3.05	191,656	1,573	3.33
Tax-exempt (3)	9,989	70	3.57	13,512	93	3.53
FHLB stock	6,283	40	2.56	7,068	109	6.25
Federal funds sold and other	29,578	79	1.07	31,207	157	2.04
Total interest-earning assets	1,188,314	13,267	4.50%	1,009,948	12,186	4.90%
Less: Allowance for loan losses	(8,287)			(8,855)		
Non-interest earning assets	93,140			74,460		
Total assets	$ 1,273,167			$ 1,075,553		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	$ 481,797	$ 2,233	1.86%	$ 459,709	$ 2,048	1.81%
NOW and money market deposits	310,046	428	0.56	264,847	525	0.80
Savings accounts	74,304	111	0.60	33,557	14	0.17
FHLB advances	62,407	220	1.42	45,524	281	2.50
Junior subordinated debentures	21,000	215	4.12	21,000	263	5.08
Subordinated capital note	17,000	242	5.73	—	—	—
Senior debt	5,000	56	4.50	10,000	96	3.89
Total interest-bearing liabilities	971,554	3,505	1.45%	834,637	3,227	1.57%
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	186,797			142,716		
Other liabilities	7,184			4,709		
Total liabilities	1,165,535			982,062		
Stockholders' equity	107,632			93,491		
Total liabilities and stockholders' equity	$ 1,273,167			$ 1,075,553		
Net interest income		$ 9,762			$ 8,959	
Net interest spread			3.05%			3.33%
Net interest margin			3.31%			3.61%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans averaging $1.5 million and $2.1 million, respectively, in average loan amounts outstanding.
(3) Taxable equivalent yields are calculated assuming a federal income tax rate of 21%.

Rate/Volume Analysis

The table below sets forth certain 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.

	Three Months Ended March 31, 2020 vs. 2019		
	Increase (decrease) due to change in		
	Rate	Volume	Net Change
	(in thousands)		
Interest-earning assets:			
Loan receivables	$ (933)	$ 2,290	$ 1,357
Securities	(113)	(16)	(129)
FHLB stock	(58)	(11)	(69)
Federal funds sold and other	(70)	(8)	(78)
Total increase (decrease) in interest income	(1,174)	2,255	1,081
Interest-bearing liabilities:			
Certificates of deposit and other time deposits	85	100	185
NOW and money market accounts	(177)	80	(97)
Savings accounts	66	31	97
FHLB advances	(145)	84	(61)
Junior subordinated debentures	(48)	—	(48)
Subordinated capital note	—	242	242
Senior debt	14	(54)	(40)
Total decrease in interest expense	(205)	483	278
Increase (decrease) in net interest income	$ (969)	$ 1,772	$ 803

Non-Interest Income – The following table presents the major categories of non-interest income for the three months ended March 31, 2020 and 2019:

	For the Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Service charges on deposit accounts	$ 668	$ 496
Bank card interchange fees	750	508
Income from bank owned life insurance	96	99
Other	210	181
Total non-interest income	$ 1,724	$ 1,284

Non-interest income for the first quarter of 2020 increased by $440,000, or 34.3%, to $1.7 million compared with $1.3 million for the first quarter of 2019. The increase was primarily related to services charges on deposit accounts and bank card interchange fees. The service charges on deposit accounts and interchange fee volume increases are primarily attributable to the deposit accounts acquired in the branch acquisition transaction on November 15, 2019.

Non-interest Expense – The following table presents the major categories of non-interest expense for the three months ended March 31, 2020 and 2019:

	For the Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Salary and employee benefits	$ 4,538	$ 3,915
Occupancy and equipment	999	898
Professional fees	208	165
Marketing expense	214	227
FDIC insurance	—	108
Data processing expense	359	313
State franchise and deposit tax	360	315
Deposit account related expenses	451	281
Other real estate owned expense	16	166
Litigation and loan collection expense	65	46
Communications expense	218	190
Insurance expense	103	114
Postage and delivery	168	141
Other	536	402
Total non-interest expense	$ 8,235	$ 7,281

Non-interest expense for the first quarter ended March 31, 2020 increased $954,000, or 13.1%, to $8.2 million compared with $7.3 million for the first quarter of 2019. The increase from the first quarter of 2019 was primarily due to an increase in salaries and employee benefits of $623,000, as the Bank added sales talent and customer facing associates during the latter half of 2019 and branch staff added in connection with the branch purchase transaction. Deposit account related expense increased $170,000, which correlated to the growth in interchange fees. OREO expense decreased $150,000 as the first quarter of 2020 had no valuation write-downs as compared to write-downs of $150,000 in the first quarter of 2019. No FDIC insurance premium expense was recorded in the first quarter of 2020 as the Bank utilized assessment credits. FDIC insurance expense is expected to return to normalized levels in the second quarter of 2020.

Income Tax Expense – Effective tax rates differ from the federal statutory rate of 21% applied to income before income taxes due to the following:

	For the Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Federal statutory rate times financial statement income	$ 462	$ 622
Effect of:		
Tax-exempt income	(14)	(19)
Establish state deferred tax asset	(72)	(341)
Non-taxable life insurance income	(20)	(21)
Restricted stock vesting	(1)	(126)
Other, net	6	8
Total	$ 361	$ 123

Net income before taxes and income tax expense was $2.2 million and $361,000, respectively for the first quarter of 2020, compared with $3.0 million and $123,000, respectively for the first quarter of 2019. Income tax expense for the first quarter of 2019 benefitted $341,000 from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter of 2019. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021.

Analysis of Financial Condition

Total assets increased $28.4 million, or 2.3%, to $1.27 billion at March 31, 2020, from $1.25 billion at December 31, 2019. This increase was primarily attributable to an increase in loans receivable of $35.3 million, partially offset by a decrease in securities available for sale of $10.3 million.

Loans Receivable – Loans receivable increased $35.3 million, or 3.8%, during the three months ended March 31, 2020 to $961.6 million as loan growth outpaced paydowns. Our commercial and commercial real estate portfolios increased by an aggregate of $37.8 million, or 6.9% during the first quarter of 2020 and comprised 60.6% of the loan portfolio at March 31, 2020. Residential real estate and consumer portfolios decreased by an aggregate of $4.3 million, or 1.3% during the first quarter of 2020 and comprised 35.5% of the loan portfolio at March 31, 2020.

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

	As of March 31, 2020		As of December 31, 2019	
	Amount	**Percent**	**Amount**	**Percent**
		(dollars in thousands)		
Commercial	$ 169,176	17.59%	$ 145,551	15.71%
Commercial Real Estate				
Construction	71,267	7.41	64,911	7.01
Farmland	80,579	8.38	79,118	8.54
Nonfarm nonresidential	261,807	27.23	255,459	27.58
Residential Real Estate				
Multi-family	75,525	7.85	70,950	7.66
1-4 Family	220,701	22.95	226,629	24.47
Consumer	44,814	4.66	47,790	5.16
Agriculture	36,977	3.85	35,064	3.79
Other	715	0.08	799	0.08
Total loans	$ 961,561	100.00%	$ 926,271	100.00%

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

	March 31, 2020		December 31, 2019	
	Loans	**% to Total**	**Loans**	**% to Total**
		(dollars in thousands)		
Pass	$ 915,985	95.3%	$ 888,707	95.9%
Watch	38,464	4.0	27,522	3.0
Special Mention	—	—	—	—
Substandard	7,112	0.7	10,042	1.1
Doubtful	—	—	—	—
Total	$ 961,561	100.0%	$ 926,271	100.00%

Loans receivable increased $35.3 million, or 3.8%, during the three months ended March 31, 2020. Since December 31, 2019, the pass category increased approximately $27.3 million, the watch category increased approximately $10.9 million, and the substandard category decreased approximately $2.9 million. The increase in watch category primarily related to $9.6 million in commercial loans migrating during the first quarter of 2020. The $2.9 million decrease in loans classified as substandard was primarily driven by $3.2 million in payments, $305,000 in charge-offs, and $27,000 in loans upgraded from substandard offset by $563,000 in loans moved to substandard during the quarter.

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

	March 31, 2020	December 31, 2019
	(in thousands)	
Past Due Loans:		
30-59 Days	$ 1,158	$ 1,747
60-89 Days	248	670
90 Days and Over	—	—
Total Loans Past Due 30-90+ Days	1,406	2,417
Nonaccrual Loans	1,500	1,528
Total Past Due and Nonaccrual Loans	$ 2,906	$ 3,945

During the three months ended March 31, 2020, nonaccrual loans decreased by $28,000 to $1.5 million. During the three months ended March 31, 2020, loans past due 30-59 days decreased from $1.7 million at December 31, 2019 to $1.2 million at March 31, 2020. Loans past due 60-89 days decreased from $670,000 at December 31, 2019 to $248,000 at March 31, 2020. This represents a $1.0 million decrease from December 31, 2019 to March 31, 2020, in loans past due 30-89 days. This trend in delinquency levels is considered during the evaluation of qualitative trends in the portfolio when establishing the general component of the allowance for loan losses.

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

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

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

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

At March 31, 2020 and December 31, 2019, the Bank had three restructured loans totaling $466,000 and $475,000, respectively, with borrowers who experienced deterioration in financial condition. In general, these loans were granted interest rate reductions to provide cash flow relief to borrowers experiencing cash flow difficulties. The Bank had no restructured loans that had been granted principal payment deferrals until maturity at March 31, 2020 or December 31, 2019. There were no concessions made to forgive principal relative to these loans, although partial charge-offs have been recorded for certain restructured loans. In general, these loans are secured by first liens on 1-4 residential properties or commercial real estate properties. At March 31, 2020 and December 31, 2019, all TDRs were performing according to their modified terms.

There were no modifications granted during 2020 and two modifications granted during 2019 that resulted in loans being identified as TDRs. See "Note 3 – Loans," to the financial statements for additional disclosure related to troubled debt restructuring.

COVID-19 Short-term Loan Concessions - In response to requests from borrowers who have been impacted by COVID-19 through business and cash flow interruption, the Bank made short-term loan modifications as defined under section 4013 of the Coronavirus Aid Relief and Economic Security Act ("CARES Act") involving principal deferrals (interest only) and, in other cases, principal and interest deferrals. The following table details those modifications by loan category and type as of March 31, 2020 and April 29, 2020:

	March 31, 2020		April 29, 2020	
	Amount	Number	Amount	Number
	(dollars in thousands)			
Commercial:				
Interest only	$ 103	4	$ 392	7
Principal and interest deferral	413	6	10,578	25
Commercial Real Estate				
Construction:				
Interest only	—	—	—	—
Principal and interest deferral	—	—	7,052	4
Farmland:				
Interest only	—	—	9	1
Principal and interest deferral	498	4	2,296	14
Nonfarm nonresidential:				
Interest only	4,796	15	18,217	31
Principal and interest deferral	3,877	7	86,534	59
Residential Real Estate				
Multi-family:				
Interest only	—	—	1,740	2
Principal and interest deferral	188	1	619	2
1-4 Family:				
Interest only	143	2	4,450	17
Principal and interest deferral	2,046	11	11,291	66
Consumer:				
Interest only	50	5	74	8
Principal and interest deferral	7	2	41	5
Agriculture:				
Interest only	—	—	—	—
Principal and interest deferral	—	—	—	—
Other:				
Interest only	—	—	—	—
Principal and interest deferral	—	—	—	—
Total modified loans	$ 12,121	57	$ 143,293	241

Retail purpose commercial real estate operators, as well as hotel and restaurant operators, have been disproportionately impacted by COVID-19. As of March 31, 2020, the Bank had loans totaling $63.9 million secured by retail purpose commercial real estate, $50.4 million secured by hotel and lodging real estate, and $30.9 million secured by limited and full-service restaurant real estate, or 6.6%, 5.2%, and 3.2% of total loans, respectively. As of April 29, 2020, loans with outstanding principal balances of $22.9 million for retail purpose commercial real estate, $49.2 million for hotel and lodging real estate, and $21.9 million for limited and full-service restaurant real estate were granted principal and interest deferrals.

The Bank is also working with borrowers to secure SBA guaranteed financing for those who qualify through the SBA Paycheck Protection Program, which became available in early April through the CARES Act. As of April 29, 2020, the Bank had secured loan guarantees for 414 borrowers totaling approximately $40.5 million.

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. The following table sets forth information with respect to non-performing assets as of March 31, 2020 and December 31, 2019.

	March 31, 2020	December 31, 2019
	(dollars in thousands)	
Loans on nonaccrual status	$ 1,500	$ 1,528
Troubled debt restructurings on accrual	466	475
Past due 90 days or more still on accrual	—	—
Total non-performing loans	1,966	2,003
Real estate acquired through foreclosure	3,225	3,225
Other repossessed assets	—	—
Total non-performing assets	$ 5,191	$ 5,228
Non-performing loans to total loans	0.20%	0.22%
Non-performing assets to total assets	0.41%	0.42%
Allowance for non-performing loans	$ 33	$ 48
Allowance for non-performing loans to non-performing loans	1.68%	2.40%

Nonperforming loans at March 31, 2020, were $2.0 million, or 0.20% of total loans, compared with $2.0 million, or 0.22% of total loans at December 31, 2019, and $2.8 million, or 0.36% of total loans at March 31, 2019.

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

While the Company has experienced historically strong trends in asset quality over the last several quarters and management’s assessment of risk in the loan portfolio has been low, a provision of $1.05 million was recorded in the first quarter of 2020 compared to no provision for loan losses in the first quarter of 2019. The first quarter 2020 loan loss provision was attributable to the level of net loan charge-offs for the quarter, the impact of the increase in loan volume within the portfolio over the quarter, and to changes in the economic and business environment attributable to COVID-19, the state and national emergencies that have been declared and the resultant risk the pandemic poses for business disruptions for the Bank’s borrowers.

While the Company expects the U.S. Government’s economic response to the COVID-19 pandemic through monetary policy and fiscal stimulus will provide meaningful support to the economy, management deemed it prudent to increase the allowance for loan losses through its qualitative environmental factors to account for the pandemic risk.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Year Ended December 31, 2019
		(dollars in thousands)	
Balances at beginning of period	$ 8,376	$ 8,880	$ 8,880
Loans charged-off:			
Real estate	104	97	322
Commercial	29	—	37
Consumer	161	180	663
Agriculture	41	1	266
Other	—	—	—
Total charge-offs	335	278	1,288
Recoveries:			
Real estate	41	63	597
Commercial	5	5	106
Consumer	4	16	75
Agriculture	8	—	3
Other	1	—	3
Total recoveries	59	84	784
Net charge-offs (recoveries)	276	194	504
Provision (negative provision) for loan losses	1,050	—	—
Balance at end of period	$ 9,150	$ 8,686	$ 8,376
Allowance for loan losses to period-end loans	0.95%	1.10%	0.90%
Net charge-offs (recoveries) to average loans	0.12%	0.10%	0.06%
Allowance for loan losses to non-performing loans	465.41%	306.82%	418.17%

The allowance for loan losses to total loans was 0.95% at March 31, 2020, compared to 0.90% at December 31, 2019, and 1.10% at March 31, 2019. Loans acquired in the November 2019 branch transaction totaled $118.0 million at March 31, 2020 and $124.7 million at December 31, 2019. These loans were recorded at fair value as determined by an independent third party. The remaining discount associated with the fair value purchase accounting adjustments on the acquired loans was $427,000 at March 31, 2020, compared to $480,000 at December 31, 2019. Any subsequent deterioration of these acquired loans may require an adjustment through the allowance for loan loss. Excluding loans acquired in the November 2019 branch transaction, the allowance for loan losses to total loans was 1.08% and 1.04% at March 31, 2020 and December 31, 2019, respectively. Net loan charge-offs were $276,000 for the first quarter of 2020, compared to $194,000 for the first quarter of 2019. The allowance for loan losses to non-performing loans was 465.41% at March 31, 2020, compared with 418.17% at December 31, 2019, and 306.82% at March 31, 2019. Net charge-offs in the first three months of 2019 totaled $276,000 compared to net charge-offs of $194,000 in the first three months of 2019.

The majority of nonperforming loans are secured by real estate collateral, and the underlying collateral coverage for nonperforming loans supports the likelihood of collection of principal. Management has assessed these loans for collectability and considered, among other things, the borrower's ability to repay, the value of the underlying collateral, and other market conditions to ensure the allowance for loan losses is adequate to absorb probable incurred losses. Based on prior charge-offs, the current recorded investment in loans individually evaluated for impairment in the commercial real estate and residential real estate segments of the portfolio are significantly below the unpaid principal balance for those loans. The recorded investment net of the allocated allowance was 56.44% and 47.50% of the unpaid principal balance in the commercial real estate and residential real estate segments of the portfolio, respectively, at March 31, 2020.

Investment Securities – The securities portfolio serves as a source of liquidity and earnings and contributes to the management of interest rate risk. Investments are made in various types of liquid assets, including U.S. Treasury obligations and securities of various federal agencies, obligations of states and political subdivisions, corporate bonds, and collateralized loan obligations. The investment portfolio decreased by $10.3 million, or 4.9%, to $198.7 million at March 31, 2020, compared with $209.0 million at December 31, 2019.

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

	March 31, 2020				December 31, 2019			
	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 andfederal agencies	$ 20,751	$ 353	$ —	$ 21,104	$ 22,281	$ 196	$ (147)	$ 22,330
Agency mortgage-backed residential	86,840	2,428	(167)	89,101	91,269	1,186	(255)	92,200
Collateralized loan obligations	44,732	—	(3,978)	40,754	49,831	—	(412)	49,419
State and municipal	28,301	346	(493)	28,154	27,819	550	(3)	28,366
Corporate bonds	20,831	199	(1,486)	19,544	16,472	213	—	16,685
Total available for sale	$ 201,455	$ 3,326	$ (6,124)	$ 198,657	$ 207,672	$ 2,145	$ (817)	$ 209,000

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

The market value of CLOs may be affected by, among other things, changes in composition of the underlying loans, changes in the cash flows from the underlying loans, defaults and recoveries on the underlying loans, capital gains and losses on the underlying loans, prepayments on the underlying loans, and other conditions or economic factors. The fair value of the Bank's CLOs declined by approximately $3.6 million, or 8% of amortized cost, during the first quarter of 2020 as market liquidity within the CLO sector was disrupted by COVID-19.

Although the Bank attempts to mitigate the credit and liquidity risks associated with CLOs by purchasing CLOs with credit ratings of A or higher, completing pre-purchase due diligence, and through ongoing monitoring, no assurance can be given that these risk mitigation efforts will be successful. At March 31, 2020, $25.7 million and $15.0 million of our CLOs were AA and A rated, respectively. There were no CLOs rated below A and none of the CLOs were subject to ratings downgrade in 2019 or in the first quarter of 2020. Stress testing was completed on each security in the CLO portfolio as of quarter-end. 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. During the first quarter, one of the CLOs in the investment portfolio rated AA with a book value of $5.0 million was called and redeemed at par value or $5.0 million by the issuer. The Bank's CLOs are all floating rate with rates set on a quarterly basis at three-month LIBOR plus a spread.

The fair value of the Bank's corporate bond portfolio was also impacted by market disruption and declining rates, resulting in a fair value decline of approximately $1.5 million, or 7% of amortized cost, during the first quarter. The corporate bond portfolio consists of ten subordinated debt securities of U.S. banks and bank holding companies with maturities ranging from 2024 to 2037. The securities are either fixed for five years converting to floating at an index over LIBOR or floating at an index over LIBOR from inception. Management regularly monitors the financial condition of these corporate issuers by reviewing their regulatory and public filings.

The Bank has the intent and ability to hold its CLO and corporate debt securities to maturity and, at this juncture, has determined the value decline is temporary in nature.

Foreclosed Properties – Foreclosed properties at March 31, 2020 were $3.2 million compared with $3.3 million at March 31, 2019 and $3.2 million at December 31, 2019. See Note 5, "Other Real Estate Owned," to the financial statements. Management values foreclosed properties at fair value less estimated costs to sell when acquired and expects to liquidate these properties to recover the investment in the due course of business.

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

Operating expenses for OREO totaled $16,000 for the three months ended March 31, 2020, compared to write-downs and operating expenses of $166,000 for the three months ended March 31, 2019. There were no fair value write-downs recorded during the three months ended March 31, 2020, compared with write-downs of $150,000 for the three months ended March 31, 2019.

Liabilities – Total liabilities at March 31, 2020 were $1.2 billion compared with $1.1 billion at December 31, 2019, an increase of $29.7 million, or 2.6%. This increase was primarily attributable to an increase in total deposits of $30.9 million.

Deposits are the primary source of funds. The following table sets forth the average daily balances and weighted average rates paid for deposits for the periods indicated:

	For the Three Months Ended March 31, 2020		For the Year Ended December 31, 2019	
	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)			
Demand	$ 186,797		$ 151,299	
Interest checking	153,965	0.36%	104,077	0.30%
Money market	156,081	0.74	161,610	1.06
Savings	74,304	0.60	36,035	0.19
Certificates of deposit	481,797	1.86	483,222	1.98
Total deposits	$ 1,052,944	1.06%	$ 936,243	1.25%

The following table shows at March 31, 2020 the amount of time deposits of $250,000 or more by time remaining until maturity (in thousands):

Maturity Period (in thousands)	
Three months or less	$ 29,235
Three months through six months	13,076
Six months through twelve months	15,633
Over twelve months	6,956
Total	$ 64,900

Liquidity

Liquidity risk arises from the possibility the Company may not be able to satisfy current or future financial commitments or may become unduly reliant on alternative funding sources. The objective of liquidity risk management is to ensure that 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 our liquidity position.

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

The Bank also borrows from the FHLB to supplement funding requirements. At March 31, 2020, the Bank had an unused borrowing capacity with the FHLB of $53.6 million. Advances are collateralized by first mortgage residential loans and borrowing capacity is based on the underlying book value of eligible pledged loans.

The Bank also has available on an unsecured basis federal funds borrowing lines from a correspondent bank totaling $5.0 million. Management believes the sources of liquidity are adequate to meet expected cash needs for the foreseeable future. Historically, the Bank has also utilized brokered and wholesale deposits to supplement its funding strategy. At March 31, 2020, the Bank had no brokered deposits.

The Company uses cash on hand to service senior debt, the subordinated capital note, junior subordinated debentures, and to provide for operating cash flow needs. The Company also may issue common equity, preferred equity and debt to support cash flow needs and liquidity requirements. The senior debt loan agreement requires the Company to maintain a minimum of $2.5 million in cash on hand. At March 31, 2020, cash on hand totaled $3.8 million.

Capital

Stockholders' equity decreased $1.2 million to $104.5 million at March 31, 2020, compared with $105.8 million at December 31, 2019 primarily due to the other comprehensive loss for the quarter of $3.1 million, offset by current year net income of $1.8 million.

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

	Regulatory Minimums	Well-Capitalized Minimums	March 31, 2020	December 31, 2019
Tier 1 Capital	6.0%	8.0%	11.50%	11.25%
Common equity Tier 1 capital	4.5	6.5	11.50	11.25
Total risk-based capital	8.0	10.0	12.38	12.08
Tier 1 leverage ratio	4.0	5.0	9.67	9.99

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

The Basel III rules also established a "capital conservation buffer" of 2.5% above the regulatory minimum risk-based capital ratios. 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Given an instantaneous 100 basis point increase in interest rates, the base net interest income would decrease by an estimated 1.6% at March 31, 2020, compared with a decrease of 2.3% at December 31, 2019. Given a 200 basis point increase in interest rates, base net interest income would decrease by an estimated 2.4% at March 31, 2020, compared with a decrease of 5.1% at December 31, 2019.

The following table indicates the estimated impact on net interest income under various interest rate scenarios for the twelve months following March 31, 2020, as calculated using the static shock model approach:

	Change in Future Net Interest Income	
	Dollar Change	**Percentage Change**
	(dollars in thousands)	
+ 200 basis points	$ (1,026)	(2.44)%
+ 100 basis points	(680)	(1.62)
- 100 basis points	100	0.24
- 200 basis points	(943)	(2.24)

Item 4. Controls and Procedures

As of the end of the quarterly period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were, to the best of their knowledge, effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms as of such date.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

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

The Company is not currently involved in any material litigation.

Item 1A. Risk Factors

The following risk factor supplements the “Risk Factors” section in our 2019 Annual Report and Part I Item 1A of our 2019 Form 10-K.

The COVID-19 Pandemic Creates Significant Risks and Uncertainties for the Company’s Business.

In March 2020, the World Health Organization declared novel coronavirus disease 2019 ("COVID-19") as a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, including those in markets in which the Company is located or does business.

As a result, the demand for the Company’s products and services has been, and will continue to be, significantly impacted. Furthermore, the pandemic could influence the recognition of credit losses in the Company’s loan portfolio and increase its allowance for loan losses as both businesses and consumers are negatively impacted by the economic downturn. In addition, governmental actions are meaningfully influencing the interest-rate environment, which could adversely affect the Company’s results of operations and financial condition. The business operations of the Bank may also be disrupted if significant portions of its workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic, travel restrictions, technology limitations and/or disruptions. Furthermore, the business operations of the Company and Bank have been, and may again in the future be, disrupted due to vendors and third-party service providers being unable to work or provide services effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic.

In response to the pandemic, the Bank has made certain accommodations to customers, which may negatively impact revenue and other results of operations of the Company in the near term and, if not effective in mitigating the effect of COVID-19 on the Company’s customers, may adversely affect the Company’s business and results of operations more substantially over a longer period of time.

The extent to which the COVID-19 pandemic impacts the Company’s business, liquidity, asset valuations such as goodwill, loan collections, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Moreover, the effects of the COVID-19 pandemic may heighten many of the other risks described in the section entitled “Risk Factors” in our most recent Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following chart depicts information regarding the shares of restricted stock that were withheld to satisfy required tax withholdings upon vesting of restricted stock awarded under the Company’s equity compensation plan.

Period	Total Shares Purchased (Withheld)	Average Price Paid (Credited) Per Share
February 2020	1,339	$17.04
March 2020	1,838	$7.50

The Company does not have a publicly announced share plan or program.

Item 3. Default Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable

Item 6. Exhibits

(a) Exhibits

The following exhibits are filed or furnished as part of this report:

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation of the Company, restated to reflect amendments. Filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q filed August 2, 2019 and incorporated by reference.
3.3	Amended and Restated Bylaws of Limestone Bancorp, Inc. dated June 18, 2018. Exhibit 3.2 to Form 8-K filed June 6, 2018 is hereby incorporated by reference.
4.1	Tax Benefits Preservation Plan, dated as of June 25, 2015, between the Company and American Stock Transfer Company, as Rights Agent. Exhibit 3.1 to Form 8-K filed June 29, 2015 is incorporated by reference.
4.2	Amendment No. 1 to the Tax Benefits Preservation Plan, dated August 4, 2015. Exhibit 4.2 to the Quarterly Report on Form 10-Q filed August 5, 2015 is incorporated by reference.
4.3	Amendment No. 2 to the Tax Benefits Preservation Plan dated May 23, 2018. Exhibit 4 to the Form 8-K filed May 23, 2018 is incorporated by reference.
4.4	Amendment No. 3 to the Limestone Bancorp, Inc. Tax Benefits Preservation Plan, dated November 25, 2019. Exhibit 4.4 to the Form 8-K filed November 27, 2019 is incorporated herein by reference.
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a - 14(a).
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a - 14(a).
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from the Company's Quarterly Report on Form 10Q for the quarter ended March 31, 2020, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements.

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.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIMESTONE BANCORP, INC.
(Registrant)

May 1, 2020	By:	/s/ John T. Taylor John T. Taylor Chief Executive Officer
May 1, 2020	By:	/s/ Phillip W. Barnhouse Phillip W. Barnhouse Chief Financial Officer

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Section 2: EX-31.1 (EXHIBIT 31.1)

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 Quarterly Report on Form 10-Q 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)) 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: May 1, 2020

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

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Section 3: EX-31.2 (EXHIBIT 31.2)

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 Quarterly Report on Form 10-Q 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)) 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: May 1, 2020

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

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Limestone Bancorp, Inc. (the "Company") for the quarterly period ended March 31, 2020, 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: May 1, 2020

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

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Limestone Bancorp, Inc. (the "Company") for the quarterly period ended March 31, 2020, 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: May 1, 2020

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

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