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

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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 June 30, 2019

Or

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

For the transition period from ______ to ______

Commission file number: 001-33033

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

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

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

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 ☐

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 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.

6,250,593 Common Shares and 1,220,000 Non-Voting Common Shares were outstanding at July 31, 2019.

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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:

Unaudited Consolidated Balance Sheets for June 30, 2019 and December 31, 2018
Unaudited Consolidated Statements of Income for the three and six months ended June 30, 2019 and 2018
Unaudited Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2019 and 2018
Unaudited Consolidated Statement of Changes in Stockholders' Equity for the three and six months ended June 30, 2019 and 2018
Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2019 and 2018
Notes to Unaudited Consolidated Financial Statements

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

	June 30, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 6,860	$ 6,963
Interest bearing deposits in banks	40,755	28,398
Cash and cash equivalents	47,615	35,361
Securities available for sale	208,614	201,192
Loans, net of allowance of $8,832 and $8,880, respectively	794,282	756,364
Premises and equipment, net	14,827	14,655
Premises held for sale	995	1,050
Other real estate owned	3,225	3,485
Federal Home Loan Bank stock	6,693	7,233
Bank owned life insurance	15,853	15,646
Deferred taxes, net	28,708	29,282
Accrued interest receivable and other assets	5,976	5,424
Total assets	$ 1,126,788	$ 1,069,692
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$ 141,448	$ 142,618
Interest bearing	797,029	751,613
Total deposits	938,477	894,231
Federal Home Loan Bank advances	51,470	46,549
Accrued interest payable and other liabilities	4,419	5,815
Junior subordinated debentures	21,000	21,000
Senior debt	10,000	10,000
Total liabilities	1,025,366	977,595
Commitments and contingent liabilities (Note 13)	—	—
Stockholders' equity		
Common stock, no par, 39,000,000 shares authorized, 6,237,832 and 6,242,720 voting, and 1,220,000 and 1,220,000 non-voting issued and outstanding, respectively	140,639	140,639
Additional paid-in capital	24,147	24,287
Retained deficit	(59,729)	(66,201)
Accumulated other comprehensive loss	(3,635)	(6,628)
Total stockholders' equity	101,422	92,097
Total liabilities and stockholders' equity	$ 1,126,788	$ 1,069,692

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 June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Interest income				
Loans, including fees	$ 10,465	$ 9,094	$ 20,719	$ 17,884
Taxable securities	1,608	1,198	3,181	2,141
Tax exempt securities	88	96	181	192
Federal funds sold and other	215	197	481	383
	12,376	10,585	24,562	20,600
Interest expense				
Deposits	2,965	1,649	5,552	2,993
Federal Home Loan Bank advances	255	216	536	372
Senior debt	98	98	194	194
Junior subordinated debentures	258	236	521	447
Subordinated capital note	—	12	—	39
	3,576	2,211	6,803	4,045
Net interest income	8,800	8,374	17,759	16,555
Provision (negative provision) for loan losses	—	(150)	—	(150)
Net interest income after provision for loan losses	8,800	8,524	17,759	16,705
Non-interest income				
Service charges on deposit accounts	571	591	1,067	1,159
Bank card interchange fees	596	446	1,104	847
Income from bank owned life insurance	118	138	217	237
Net loss on sales and calls of investment securities	(5)	(6)	(5)	(6)
Other	166	178	347	361
	1,446	1,347	2,730	2,598
Non-interest expense				
Salaries and employee benefits	3,915	3,885	7,830	7,673
Occupancy and equipment	854	880	1,752	1,775
Professional fees	179	222	344	427
Marketing expense	212	308	439	608
FDIC Insurance	103	139	211	321
Data processing expense	315	307	628	631
State franchise and deposit tax	315	282	630	564
Deposit account related expense	310	221	591	440
Other real estate owned expense	142	237	308	319
Litigation and loan collection expense	34	48	80	101
Other	845	876	1,692	1,715
	7,224	7,405	14,505	14,574
Income before income taxes	3,022	2,466	5,984	4,729
Income tax expense (benefit)	(611)	483	(488)	812
Net income	3,633	1,983	6,472	3,917
Basic and diluted income per common share	$ 0.49	$ 0.27	$ 0.87	$ 0.57

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net income	$ 3,633	$ 1,983	$ 6,472	$ 3,917
Other comprehensive income (loss):				
Unrealized gain (loss) on securities:				
Unrealized gain (loss) arising during the period	1,882	(523)	3,877	(2,234)
Reclassification adjustment for gains (losses) included in net income	(5)	(6)	(5)	(6)
Net unrealized gain (loss) recognized in comprehensive income	1,887	(517)	3,882	(2,228)
Tax effect	(471)	109	(889)	469
Other comprehensive income (loss)	1,416	(408)	2,993	(1,759)
Comprehensive income	$ 5,049	$ 1,575	$ 9,465	$ 2,158

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Changes in Stockholders' Equity
For Three and Six Months Ended June 30, 2019 and 2018
(Dollar amounts in thousands except share and per share data)

	Shares					Amount						
	Preferred		Common			Preferred		Common				
	Series E	Series F	Common	Non-Voting Common	Total Common	Series E	Series F	Common and Non-Voting Common	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (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 income, 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
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	—	—	(2,532)	—	(2,532)	—	—	—	(39)	—	—	(39)
Forfeited unvested stock	—	—	(250)	—	(250)	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	93	—	—	93
Net income	—	—	—	—	—	—	—	—	—	3,633	—	3,633
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	—	—	1,416	1,416
Balances, June 30, 2019	—	—	6,237,832	1,220,000	7,457,832	$ —	$ —	$ 140,639	$ 24,147	$ (59,729)	$ (3,635)	$101,422

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Changes in Stockholders' Equity
For Three and Six Months Ended June 30, 2019 and 2018
(Dollar amounts in thousands except share and per share data)

	Shares					Amount						
	Preferred		Common			Preferred		Common				
	Series E	Series F	Common	Non-Voting Common	Total Common	Series E	Series F	Common and Non-Voting Common	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2018	6,198	4,304	6,039,864	220,000	6,259,864	$ 1,644	$ 1,127	$ 125,729	$ 24,497	$ (75,108)	$ (5,216)	$72,673
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	—	—	—	—	—	—	—	—	—	—	—	—
Forfeited unvested stock	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of stock	—	—	150,000	1,000,000	1,150,000	—	—	14,910	—	—	—	14,910
Stock-based compensation expense	—	—	—	—	—	—	—	—	64	—	—	64
Net income	—	—	—	—	—	—	—	—	—	1,934	—	1,934
Reclassification of disproportionate tax effect due to change in federal tax rate	—	—	—	—	—	—	—	—	—	113	(113)	—
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	—	—	(1,351)	(1,351)
Balances, March 31, 2018	6,198	4,304	6,189,864	1,220,000	7,409,864	$ 1,644	$ 1,127	$ 140,639	$ 24,561	$ (73,061)	$ (6,680)	$88,230
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	—	—	45,129	—	45,129	—	—	—	—	—	—	—
Forfeited unvested stock	—	—	—	—	—	—	—	—	—	—	—	—
Redemption and retirement of preferred shares	(6,198)	(4,304)	—	—	—	(1,644)	(1,127)	—	(734)	—	—	(3,505)
Stock-based compensation expense	—	—	—	—	—	—	—	—	99	—	—	99
Net income	—	—	—	—	—	—	—	—	—	1,983	—	1,983
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	—	—	(408)	(408)
Balances, June 30, 2018	—	—	6,234,993	1,220,000	7,454,993	$ —	$ —	$ 140,639	$ 23,926	$ (71,078)	$ (7,088)	$86,399

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Cash Flows
For Six Months Ended June 30, 2019 and 2018
(dollars in thousands)

	2019	2018
Cash flows from operating activities		
Net income	$ 6,472	$ 3,917
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	979	477
Provision (negative provision) for loan losses	—	(150)
Net amortization on securities	363	444
Stock-based compensation expense	175	163
Deferred taxes, net	(317)	1,158
Net gain on sales of loans held for sale	—	(1)
Proceeds from sales of loans held for sale	—	71
Net gain on sales of other real estate owned	—	(50)
Net write-down of other real estate owned	260	325
Net realized loss on sales and calls of investment securities	5	6
Net write-down on premises held for sale	55	—
Earnings on bank owned life insurance, net of premium expense	(207)	(227)
Net change in accrued interest receivable and other assets	(552)	(767)
Net change in accrued interest payable and other liabilities	(1,780)	(795)
Net cash from operating activities	5,453	4,571
Cash flows from investing activities		
Purchases of available for sale securities	(13,894)	(41,911)
Sales and calls of available for sale securities	2,452	6,054
Maturities and prepayments of available for sale securities	7,534	7,003
Proceeds from mandatory redemptions of FHLB stock	540	—
Proceeds from sale of other real estate owned	—	354
Loan originations and payments, net	(38,476)	(37,372)
Purchases of premises and equipment, net	(208)	(449)
Proceeds from sale of premises and equipment	1	—
Net cash from investing activities	(42,051)	(66,321)
Cash flows from financing activities		
Net change in deposits	44,246	(794)
Repayment of Federal Home Loan Bank advances	(65,079)	(40,167)
Advances from Federal Home Loan Bank	70,000	100,000
Repayment of subordinated capital note	—	(2,250)
Issuance of common stock	—	14,910
Common shares withheld for taxes	(315)	—
Redemption of preferred stock	—	(3,505)
Net cash from financing activities	48,852	68,194
Net change in cash and cash equivalents	12,254	6,444
Beginning cash and cash equivalents	35,361	34,103
Ending cash and cash equivalents	$ 47,615	$ 40,547
Supplemental cash flow information:		
Interest paid	$ 6,771	$ 4,973
Supplemental non-cash disclosure:		
Transfer from loans to other real estate	—	730
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 (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 and six months ended June 30, 2019 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, 2018 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.

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 February 2016, the FASB issued an update ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees are required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Based on the Company's existing lease agreements, the impact of adopting the new guidance on the consolidated financial statements was the recording of a $507,000 lease liability and a right of use asset, which is included in other liabilities and premises and equipment, respectively, on the consolidated balance sheet. The adoption of this ASU did not have a meaningful impact on the Company's performance metrics, including regulatory capital ratios and return on average assets. The Company's leases mature through 2024 and have a weighted average discount rate of 6%. The operating lease cost was approximately $65,000 and $130,000 for the three and six months ended June 30, 2019. At June 30, 2019, the Company had entered into one lease that has yet to commence. The right of use asset and lease liability for the lease yet to commence are estimated to be approximately $1.1 million.

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 standard is effective for public companies for fiscal years beginning after December 15, 2019. As previously disclosed, management has formed a cross functional committee that has overseen the enhancement of existing technology required to source and model data for the purpose of meeting this standard. The committee has selected a vendor to assist in generating loan level cash flows and disclosures. The project plan involved data and model validation during the first half of 2019, with parallel processing the existing model with the CECL model for two to three quarters prior to implementation, depending on how model completion and validation occurs. During 2019, management is focused on refining assumptions and continued review of the model. Additionally, management is researching and resolving interpretive accounting issues in the ASU, contemplating various accounting policies, developing processes and related controls, and considering various reporting disclosures. 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 July 2019, the FASB voted for a proposal to delay implementation for smaller reporting companies, private companies, and not-for-profit entities. The Company currently qualifies as a smaller reporting company. Companies benefiting from the delay will have to implement CECL for fiscal year and interim periods beginning after December 15, 2022. The proposal will undergo a 30-day public comment period in August 2019.

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

Note 2 – Securities

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
June 30, 2019				
Available for sale				
U.S. Government and federal agency	$ 23,920	$ 293	$ (118)	$ 24,095
Agency mortgage-backed: residential	93,238	1,008	(288)	93,958
Collateralized loan obligations	49,875	7	(200)	49,682
State and municipal	30,236	565	(4)	30,797
Corporate bonds	9,913	179	(10)	10,082
Total available for sale	$ 207,182	$ 2,052	$ (620)	$ 208,614

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

Sales and calls of securities were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Proceeds	$ 1,452	$ 6,054	$ 2,452	$ 6,054
Gross gains	1	—	1	—
Gross losses	6	6	6	6

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.

	June 30, 2019	
	Amortized Cost	Fair Value
	(in thousands)	
Maturity		
Available for sale		
Within one year	$ 49,728	$ 49,643
One to five years	39,779	40,287
Five to ten years	24,437	24,726
Agency mortgage-backed: residential	93,238	93,958
Total	$ 207,182	$ 208,614

Securities pledged at June 30, 2019 and December 31, 2018 had carrying values of approximately $69.9 million and $64.4 million, respectively, and were pledged to secure public deposits.

At June 30, 2019 and December 31, 2018, the Bank held securities issued by the Commonwealth of Kentucky or Kentucky municipalities having a book value of $14.9 million. At June 30, 2019 and December 31, 2018, there were no other holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

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

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

At June 30, 2019, $33.0 million and $16.7 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 six months ended June 30, 2019. All of our CLOs are floating rate, with rates set on a quarterly basis at three month LIBOR plus a spread.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, underlying credit quality of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the sector or industry trends and cycles affecting the issuer, and the results of reviews of the issuer's financial condition. As of June 30, 2019, management does not believe any securities in the portfolio with unrealized losses should be classified as other than temporarily impaired.

Securities with unrealized losses at June 30, 2019 and December 31, 2018, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows:

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
			(in thousands)			
June 30, 2019						
Available for sale						
U.S. Government and federal agency	$ —	$ —	$ 11,818	$ (118)	$ 11,818	$ (118)
Agency mortgage-backed: residential	—	—	26,788	(288)	26,788	(288)
Collateralized loan obligations	27,933	(161)	9,612	(39)	37,545	(200)
State and municipal	429	(1)	1,457	(3)	1,886	(4)
Corporate bonds	1,592	(10)	—	—	1,592	(10)
Total temporarily impaired	$ 29,954	$ (172)	$ 49,675	$ (448)	$ 79,629	$ (620)
December 31, 2018						
Available for sale						
U.S. Government and federal agency	$ 3,431	$ (57)	$ 17,212	$ (665)	$ 20,643	$ (722)
Agency mortgage-backed: residential	30,229	(343)	40,932	(1,548)	71,161	(1,891)
Collateralized loan obligations	48,294	(103)	—	—	48,294	(103)
State and municipal	6,133	(29)	7,252	(230)	13,385	(259)
Corporate Bonds	3,569	(26)	—	—	3,569	(26)
Total temporarily impaired	$ 91,656	$ (558)	$ 65,396	$ (2,443)	$ 157,052	$ (3,001)

Note 3 – Loans

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

	June 30, 2019	December 31, 2018
	(in thousands)	
Commercial	$ 140,666	$ 129,368
Commercial Real Estate:		
Construction	64,472	86,867
Farmland	78,634	77,937
Nonfarm nonresidential	187,217	172,177
Residential Real Estate:		
Multi-family	63,107	49,757
1-4 Family	171,687	175,761
Consumer	55,252	39,104
Agriculture	41,586	33,737
Other	493	536
Subtotal	803,114	765,244
Less: Allowance for loan losses	(8,832)	(8,880)
Loans, net	$ 794,282	$ 756,364

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2019 and 2018:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
			(in thousands)				
June 30, 2019:							
Beginning balance	$ 1,447	$ 4,498	$ 2,227	$ 159	$ 353	$ 2	$ 8,686
Provision (negative provision)	(45)	(46)	52	(16)	55	–	–
Loans charged off	–	–	(35)	(34)	(3)	–	(72)
Recoveries	90	1	83	44	–	–	218
Ending balance	$ 1,492	$ 4,453	$ 2,327	$ 153	$ 405	$ 2	$ 8,832
June 30, 2018:							
Beginning balance	$ 1,077	$ 4,112	$ 2,833	$ 84	$ 419	$ 1	$ 8,526
Provision (negative provision)	51	(83)	(48)	(27)	(40)	(3)	(150)
Loans charged off	–	(197)	(69)	(7)	(12)	(8)	(293)
Recoveries	5	402	62	16	–	12	497
Ending balance	$ 1,133	$ 4,234	$ 2,778	$ 66	$ 367	$ 2	$ 8,580

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2019 and 2018:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
			(in thousands)				
June 30, 2019:							
Beginning balance	$ 1,299	$ 4,676	$ 2,452	$ 130	$ 321	$ 2	$ 8,880
Provision (negative provision)	98	(211)	(152)	177	88	–	–
Loans charged off	–	(15)	(117)	(214)	(4)	–	(350)
Recoveries	95	3	144	60	–	–	302
Ending balance	$ 1,492	$ 4,453	$ 2,327	$ 153	$ 405	$ 2	$ 8,832
June 30, 2018:							
Beginning balance	$ 892	$ 4,032	$ 2,900	$ 64	$ 313	$ 1	$ 8,202
Provision (negative provision)	(4)	(20)	(164)	(14)	55	(3)	(150)
Loans charged off	–	(198)	(88)	(34)	(12)	(8)	(340)
Recoveries	245	420	130	50	11	12	868
Ending balance	$ 1,133	$ 4,234	$ 2,778	$ 66	$ 367	$ 2	$ 8,580

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 June 30, 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	$ 1	$ 37	$ 157	$ –	$ –	$ –	$ 195
Collectively evaluated for impairment	1,491	4,416	2,170	153	405	2	8,637
Total ending allowance balance	$ 1,492	$ 4,453	$ 2,327	$ 153	$ 405	$ 2	$ 8,832
Loans:							
Loans individually evaluated for impairment	$ 109	$ 738	$ 2,150	$ –	$ 65	$ –	$ 3,062
Loans collectively evaluated for impairment	140,557	329,585	232,644	55,252	41,521	493	800,052
Total ending loans balance	$ 140,666	$ 330,323	$ 234,794	$ 55,252	$ 41,586	$ 493	$ 803,114

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

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

Impaired Loans

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

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The following tables present information related to loans individually evaluated for impairment by class of loans as of June 30, 2019 and December 31, 2018 and for the three and six months ended June 30, 2019 and 2018:

	As of June 30, 2019			Three Months Ended June 30, 2019		Six Months Ended June 30, 2019	
	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
With No Related Allowance Recorded:							
Commercial	$ 171	$ 82	$ —	$ 66	$ —	$ 62	$ —
Commercial real estate:							
Construction	—	—	—	—	—	—	—
Farmland	346	205	—	156	3	134	8
Nonfarm nonresidential	701	240	—	246	4	251	7
Residential real estate:							
Multi-family	—	—	—	—	—	—	—
1-4 Family	2,605	1,437	—	1,448	28	1,508	50
Consumer	179	—	—	14	2	9	2
Agriculture	65	65	—	65	—	43	—
Other	—	—	—	—	—	—	—
Subtotal	4,067	2,029	—	1,995	37	2,007	67
With An Allowance Recorded:							
Commercial	27	27	1	13	1	9	1
Commercial real estate:							
Construction	—	—	—	—	—	—	—
Farmland	293	293	37	225	—	203	—
Nonfarm nonresidential	—	—	—	—	—	—	—
Residential real estate:							
Multi-family	—	—	—	—	—	—	—
1-4 Family	713	713	157	715	10	717	21
Consumer	—	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Subtotal	1,033	1,033	195	953	11	929	22
Total	$ 5,100	$ 3,062	$ 195	$ 2,948	$ 48	$ 2,936	$ 89

	As of December 31, 2018			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
With No Related Allowance Recorded:							
Commercial	$ 120	$ 53	$ —	$ 14	$ 1	$ 172	$ 1
Commercial real estate:							
Construction	—	—	—	—	—	—	—
Farmland	1,860	89	—	1,340	83	1,580	281
Nonfarm nonresidential	402	262	—	271	3	373	8
Residential real estate:							
Multi-family	—	—	—	—	—	—	—
1-4 Family	2,678	1,628	—	1,894	27	2,191	35
Consumer	12	—	—	1	—	1	—
Agriculture	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Subtotal	5,072	2,032	—	3,520	114	4,317	325
With An Allowance Recorded:							
Commercial	—	—	—	100	2	100	4
Commercial real estate:							
Construction	—	—	—	—	—	—	—
Farmland	—	—	—	86	—	57	—
Nonfarm nonresidential	159	159	35	—	—	—	—
Residential real estate:							
Multi-family	—	—	—	—	—	—	—

1-4 Family	720	720	168	1,460	16	1,361	32
Consumer	—	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Subtotal	879	879	203	1,646	18	1,518	36
Total	$ 5,951	$ 2,911	$ 203	$ 5,166	$ 132	$ 5,835	$ 361

Cash basis income recognized for the three and six months ended June 30, 2019 was $30,000 and $60,000, respectively, compared to $111,000 and $317,000 for the three and six months ended June 30, 2018, respectively.

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 may 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 June 30, 2019 and December 31, 2018:

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms (in thousands)	Total TDRs
June 30, 2019			
Commercial Real Estate:			
Nonfarm nonresidential			
Rate reduction	$ 190	—	$ 190
Residential Real Estate:			
1-4 Family			
Rate reduction	715	—	715
Total TDRs	$ 905	$ —	$ 905

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

At June 30, 2019 and December 31, 2018, 100% of the Company's TDRs were performing according to their modified terms. The Company allocated $157,000 and $168,000 in reserves to borrowers whose loan terms have been modified in TDRs as of June 30, 2019, and December 31, 2018, respectively. The Company has committed to lend no additional amounts as of June 30, 2019 and December 31, 2018 to borrowers with outstanding loans classified as TDRs.

No TDR loan modifications occurred during the three or six months ended June 30, 2019 or June 30, 2018. During the first six months of 2019 and 2018, 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 June 30, 2019, and December 31, 2018:

	Nonaccrual		Loans Past Due 90 Days And Over Still Accruing	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
	(in thousands)			
Commercial	$ 82	$ 53	$ —	$ —
Commercial Real Estate:				
Construction	—	—	—	—
Farmland	498	249	—	—
Nonfarm nonresidential	48	61	—	—
Residential Real Estate:				
Multi-family	—	—	—	—
1-4 Family	1,335	1,628	—	—
Consumer	—	—	—	—
Agriculture	65	—	—	—
Other	—	—	—	—
Total	$ 2,028	$ 1,991	$ —	$ —

The following table presents the aging of the recorded investment in past due loans as of June 30, 2019 and December 31, 2018:

	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days And Over Past Due	Nonaccrual	Total Past Due And Nonaccrual
			(in thousands)		
June 30, 2019					
Commercial	$ 19	$ —	$ —	$ 82	$ 101
Commercial Real Estate:					
Construction	—	—	—	—	—
Farmland	221	274	—	498	993
Nonfarm nonresidential	26	—	—	48	74
Residential Real Estate:					
Multi-family	—	—	—	—	—
1-4 Family	545	741	—	1,335	2,621
Consumer	40	—	—	—	40
Agriculture	7	—	—	65	72
Other	—	—	—	—	—
Total	$ 858	$ 1,015	$ —	$ 2,028	$ 3,901

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

Credit Quality Indicators

Management categorizes all loans into risk categories at origination based upon original underwriting. Thereafter, management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends. Additionally, loans are analyzed through internal and external loan review processes. Borrower relationships in excess of $500,000 are routinely analyzed through credit administration processes which classify the loans as to credit risk. The following definitions are used for risk ratings:

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be “Pass” rated loans. As of June 30, 2019, and December 31, 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(in thousands)			
June 30, 2019						
Commercial	$ 127,849	$ 8,339	$ —	$ 4,478	$ —	$ 140,666
Commercial Real Estate:						
Construction	64,472	—	—	—	—	64,472
Farmland	73,219	4,114	—	1,301	—	78,634
Nonfarm nonresidential	179,475	4,996	—	2,746	—	187,217
Residential Real Estate:						
Multi-family	60,869	2,034	—	204	—	63,107
1-4 Family	165,434	2,587	—	3,666	—	171,687
Consumer	55,182	8	—	62	—	55,252
Agriculture	40,669	851	—	66	—	41,586
Other	493	—	—	—	—	493
Total	$ 767,662	$ 22,929	$ —	$ 12,523	$ —	$ 803,114

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

Note 4 – 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.

Fair value of OREO is determined on an individual property basis. When foreclosed properties are acquired, management obtains a new appraisal of the subject property or has staff from the Bank's special assets group evaluate the latest in-file appraisal in connection with the transfer to OREO. Updated appraisals are typically obtained 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 marketing price is lowered below the appraised amount.

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

	June 30, 2019	December 31, 2018
	(in thousands)	
Commercial Real Estate:		
Construction, land development, and other land	$ 3,225	$ 3,485
	$ 3,225	$ 3,485

Residential loans secured by 1-4 family residential properties in the process of foreclosure totaled $401,000 and $771,000 at June 30, 2019 and December 31, 2018, respectively.

Activity relating to OREO during the six months ended June 30, 2019 and 2018 is as follows:

	For the Six Months Ended June 30, 2019	2018
	(in thousands)	
OREO Activity		
OREO as of January 1	$ 3,485	$ 4,409
Real estate acquired	—	730
Valuation adjustment write-downs	(260)	(325)
Net gain on sales	—	50
Proceeds from sales of properties	—	(354)
OREO as of June 30	$ 3,225	$ 4,510

Expenses related to other real estate owned include:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Net gain on sales	$ —	$ (54)	$ —	$ (50)
Valuation adjustment write-downs	110	265	260	325
Operating expense	32	26	48	44
Total	$ 142	$ 237	$ 308	$ 319

Note 5 – Deposits

The following table details deposits by category:

	June 30, 2019	December 31, 2018
	(in thousands)	
Non-interest bearing	$ 141,448	$ 142,618
Interest checking	95,296	94,269
Money market	162,917	171,924
Savings	33,553	34,534
Certificates of deposit	505,263	450,886
Total	$ 938,477	$ 894,231

Time deposits of $250,000 or more were $28.9 million and $28.1 million at June 30, 2019 and December 31, 2018, respectively.

Scheduled maturities of total time deposits at June 30, 2019 for each of the next five years are as follows (in thousands):

Year 1	$ 436,467
Year 2	43,768
Year 3	4,717
Year 4	10,710
Year 5	9,250
Thereafter	351
	$ 505,263

Note 6 – Advances from the Federal Home Loan Bank

Advances from the Federal Home Loan Bank were as follows:

	June 30, 2019	December 31, 2018
	(in thousands)	
Short term advances (fixed rates 2.37% to 2.41%) maturing July 2019	$ 50,000	$ 45,000
Long term advances (fixed rates 0.00% to 5.24%) maturing April 2021 to August 2033	1,470	1,549
Total advances from the Federal Home Loan Bank	$ 51,470	$ 46,549

FHLB advances had a weighted-average rate of 2.37% at June 30, 2019 and 2.45% at December 31, 2018. Each advance is payable per terms on agreement, with a prepayment penalty. No prepayment penalties were incurred during 2019 or 2018. The advances were collateralized by approximately $126.8 million and $130.4 million of first mortgage loans, under a blanket lien arrangement at June 30, 2019 and December 31, 2018, respectively. At June 30, 2019, our additional borrowing capacity with the FHLB was $38.3 million.

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

	Advances
Year 1	$ 50,495
Year 2	738
Year 3	99
Year 4	93
Year 5	30
Thereafter	15
	$ 51,470

Note 7 – Senior Debt

The Company's $10.0 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. Subsequent to quarter end, the Company made a $5.0 million principal reduction on this loan.

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 June 30, 2019.

Note 8 – 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 June 30, 2019 and December 31, 2018 are summarized below:

		Fair Value Measurements at June 30, 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	$ 24,095	$ —	$ 24,095	$ —
Agency mortgage-backed: residential	93,958	—	93,958	—
Collateralized loan obligations	49,682	—	49,682	—
State and municipal	30,797	—	30,797	—
Corporate bonds	10,082	—	10,082	—
Total	$ 208,614	$ —	$ 208,614	$ —

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

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

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

Description	Carrying Value	Fair Value Measurements at June 30, 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	$ 26	$ —	$ —	$ 26
Commercial real estate:				
Construction	—	—	—	—
Farmland	256	—	—	256
Nonfarm nonresidential	—	—	—	—
Residential real estate:				
Multi-family	—	—	—	—
1-4 Family	556	—	—	556
Consumer	—	—	—	—
Agriculture	—	—	—	—
Other	—	—	—	—
Other real estate owned:				
Commercial real estate:				
Construction, land development, and other land	3,225	—	—	3,225
Farmland	—	—	—	—
Nonfarm nonresidential	—	—	—	—
Residential real estate:				
Multi-family	—	—	—	—
1-4 Family	—	—	—	—

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

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1.0 million at June 30, 2019 with a valuation allowance of $195,000, resulting in $2,000 and no additional provision for loan losses for the three and six months ended June 30, 2019, respectively. Impaired loans had a carrying amount of $1.7 million with a valuation allowance of $319,000, resulting in additional provision for loan losses of $37,000 and $91,000, respectively, for the three and six months ended June 30, 2018. At December 31, 2018, impaired loans had a carrying amount of $879,000, with a valuation allowance of $203,000.

OREO, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of $3.2 million as of June 30, 2019, compared with $4.5 million at June 30, 2018 and $3.5 million at December 31, 2018. Write-downs of $110,000 and $260,000, respectively, were recorded on OREO for the three and six months ended June 30, 2019, compared to write-downs of $265,000 and $325,000 for the three and six months ended June 30, 2018.

The following table presents qualitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2019:

	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans – Residential real estate	$ 556	Sales comparison approach	Adjustment for differences between the comparable sales	0%-26% (11%)
Other real estate owned – Commercial real estate	$ 3,225	Sales comparison approach	Adjustment for differences between the comparable sales	0%-35% (18%)
		Income approach	Discount or capitalization rate	25% (25%)

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

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

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

	Carrying Amount	Fair Value Measurements at June 30, 2019 Using			
		Level 1	Level 2 (in thousands)	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 47,615	$ 47,615	$ —	$ —	$ 47,615
Securities available for sale	208,614	—	208,614	—	208,614
Federal Home Loan Bank stock	6,693	N/A	N/A	N/A	N/A
Loans, net	794,282	—	—	799,642	799,642
Accrued interest receivable	4,045	—	1,224	2,821	4,045
Financial liabilities					
Deposits	$ 938,477	$ 141,448	$ 795,928	$ —	$ 937,376
Federal Home Loan Bank advances	51,470	—	51,467	—	51,467
Junior subordinated debentures	21,000	—	—	16,933	16,933
Senior Debt	10,000	—	—	9,830	9,830
Accrued interest payable	690	—	636	54	690

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

In accordance with the Company’s adoption of ASU 2016-01 as of January 1, 2018, the methods utilized to measure the fair value of financial instruments at June 30, 2019 and December 31, 2018 represent an approximation of exit price; however, an actual exit price may differ.

Note 9 – Income Taxes

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

	June 30, 2019	December 31, 2018
	(in thousands)	
Deferred tax assets:		
Net operating loss carry-forward	$ 23,743	$ 23,390
Allowance for loan losses	2,204	1,865
OREO write-down	2,665	2,611
Alternative minimum tax credit carry-forward	173	346
Net assets from acquisitions	286	290
Net unrealized loss on securities	—	515
New market tax credit carry-forward	208	208
Nonaccrual loan interest	291	235
Accrued expenses	195	239
Deferred compensation	—	267
Other	385	241
	30,150	30,207
Deferred tax liabilities:		
FHLB stock dividends	605	557
Fixed assets	88	94
Deferred loan costs	159	136
Net unrealized gain on securities	357	—
Other	233	138
	1,442	925
Net deferred tax asset	$ 28,708	$ 29,282

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

In addition, the Company has state net operating loss carryforwards (“NOLs”) of $30.2 million, which were previously subject to a full valuation allowance and will begin to expire in 2025. In April 2019, tax legislation was enacted which allowed for certain Kentucky NOLs to be utilized in a combined filing return. Therefore, the Company will begin filing a Kentucky combined filing in 2021 and, as a result, a state NOL tax benefit, net of federal impact, of $1.2 million, or approximately $0.16 per basic and diluted share, was recognized in the second quarter of 2019.

At June 30, 2019, the Company had net federal operating loss carryforwards of $107.4 million, which will begin to expire in 2031. As of June 30, 2019, a total of $173,000 in alternative minimum tax credit carry-forward was reclassified to other assets as it is currently refundable for the 2019 tax year.

The Company does not have any beginning and ending unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. There were no interest and penalties recorded in the income statement or accrued for the three or six months ended June 30, 2019 or June 30, 2018 related to unrecognized tax benefits.

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

In 2015, the Company took two measures to preserve the value of its NOLs. First, the Company adopted a tax benefits preservation plan designed to reduce the likelihood of an "ownership change" occurring as a result of purchases and sales of the Company's common shares. Upon adoption of this plan, the Company declared a dividend of one preferred stock purchase right for each common share outstanding as of the close of business on July 10, 2015. Any shareholder or group that acquires beneficial ownership of 5% or more of the Company (an "acquiring person") could be subject to significant dilution in its holdings if the Company's Board of Directors does not approve such acquisition. Existing shareholders holding 5% or more of the Company will not be considered acquiring persons unless they acquire additional shares, subject to certain exceptions described in the plan. In addition, 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 2015.

Note 10 – Stock Plans and Stock Based Compensation

Shares available for issuance under the 2018 Omnibus Equity Compensation Plan ("2018 Plan") total 306,640. 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 2019 unvested shares issued was $292,000, or $14.53 per weighted-average share. The Company recorded $93,000 and $175,000 of stock-based compensation to salaries for the three and six months ended June 30, 2019, respectively, and $99,000 and $163,000 for the three and six months ended June 30, 2018, 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 $19,000 and $37,000 was recognized related to this expense during the three and six months ended June 30, 2019, respectively, and $21,000 and $34,000 for the three and six months ended June 30, 2018.

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

	Six Months Ended June 30, 2019		Twelve Months Ended December 31, 2018	
	Shares	**Weighted Average Grant Price**	**Shares**	**Weighted Average Grant Price**
Outstanding, beginning	116,909	$ 8.69	142,334	$ 5.67
Granted	20,108	14.53	52,856	13.94
Vested	(75,981)	6.57	(78,281)	6.75
Forfeited	(3,998)	13.04	—	—
Outstanding, ending	57,038	$ 13.26	116,909	$ 8.69

Unrecognized stock based compensation expense related to unvested shares for the remainder of 2019 and beyond is estimated as follows (in thousands):

July 2019 – December 2019	$ 180
2020	295
2021	181
2022	11

Note 11 – Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands, except share and per share data)			
Net income	$ 3,633	$ 1,983	$ 6,472	$ 3,917
Less:				
Earnings allocated to unvested shares	32	27	71	66
Net income available to common shareholders, basic and diluted	$ 3,601	$ 1,956	$ 6,401	$ 3,851
Basic				
Weighted average common shares including unvested common shares outstanding	7,459,631	7,424,742	7,464,743	6,858,228
Less:				
Weighted average unvested common shares	64,974	101,505	82,285	115,115
Weighted average common shares outstanding	7,394,657	7,323,237	7,382,458	6,743,113
Basic income per common share	$ 0.49	$ 0.27	$ 0.87	$ 0.57
Diluted				
Add: Dilutive effects of assumed exercises of common stock warrants	—	—	—	—
Weighted average common shares and potential common shares	7,394,657	7,323,237	7,382,458	6,743,113
Diluted income per common share	$ 0.49	$ 0.27	$ 0.87	$ 0.57

The Company had no outstanding stock options at June 30, 2019 or 2018. A warrant for the purchase of 66,113 shares of the Company's common stock at an exercise price of $79.41 was outstanding at June 30, 2018, but was not included in the diluted EPS computation as inclusion would have been anti-dilutive. The warrant expired on November 21, 2018.

Note 12 – Regulatory Capital Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can result in regulatory action.

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

As of June 30, 2019, Management believes the Company and Bank meet all capital adequacy requirements to which they are subject. As of June 30, 2019, 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 June 30, 2019:						
Total risk-based capital (to risk-weighted assets)	$ 116,730	13.26	$ 70,424	8.00	$ 88,030	10.00%
Total common equity Tier 1 risk-based capital (to risk-weighted assets)	107,898	12.26	39,613	4.50	57,219	6.50
Tier 1 capital (to risk-weighted assets)	107,898	12.26	52,818	6.00	70,424	8.00
Tier 1 capital (to average assets)	107,898	10.01	43,111	4.00	53,889	5.00

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

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

Note 13 – 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:

	June 30, 2019		December 31, 2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to make loans	$ 6,977	$ 14,850	$ 5,317	$ 11,236
Unused lines of credit	9,863	70,779	7,410	73,024
Standby letters of credit	377	1,752	541	1,752

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

In connection with the purchase of loan participations, the Bank entered into risk participation agreements, which had notional amounts totaling $26.6 million at June 30, 2019 and December 31, 2018. The risk participation agreements are not designated against specific assets or liabilities under ASC 815, Derivatives and Hedging, and, therefore, do not qualify for hedge accounting. The derivatives are recorded in other liabilities on the balance sheet at fair value and changes in fair value of both the borrower and the offsetting swap agreements are recorded (and essentially offset) in non-interest income.

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 14 – 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 $119,000 and $255,000 of revenue for the three and six months ended June 30, 2019, respectively, within the scope of ASC 606. Other non-interest income included approximately $115,000 and $245,000 of revenue for the three and six months ended June 30, 2018, respectively, within the scope of ASC 606. The remaining other non-interest income for the three and six months is excluded from the scope of ASC 606.

Note 15 – Subsequent Events

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

On July 24, 2019, the Bank entered into a Branch Purchase and Assumption Agreement to acquire four branch banking centers located in the Kentucky cities of Elizabethtown, Frankfort, and Owensboro from Louisville, Kentucky based Republic Bank and Trust. Under the terms of the agreement, the Bank will acquire the four branch offices, which includes $153 million in deposits and $112 million in loans. In addition, the Bank will acquire substantially all the fixed assets of these locations. The transaction has received approvals from each party's board of directors and is expected to close in the fourth quarter of 2019, subject to regulatory approvals and other customary closing conditions.

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;
  - Natural disasters impacting Company operations;
  - Future acquisitions;
  - Integrations 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 1 Item 1A "*Risk Factors*" of the Company's December 31, 2018 Annual Report on Form 10-K for the year ended December 31, 2018.

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.

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), our wholly owned subsidiary and the twelfth largest bank domiciled in the Commonwealth of Kentucky based on total assets. The Bank operates banking offices in twelve counties in Kentucky. The Bank's markets include metropolitan Louisville in Jefferson County and the surrounding counties of Henry and Bullitt. The Bank serves south central Kentucky and southern Kentucky from banking offices in Butler, Green, Hart, Edmonson, Barren, Warren, Ohio, and Daviess Counties. The Bank also has an office in Lexington, the second largest city in Kentucky. The Bank is a community bank with a wide range of commercial and personal banking products. As of June 30, 2019, the Company had total assets of $1.1 billion, total loans of $803.1 million, total deposits of $938.5 million and stockholders' equity of $101.4 million.

The Company reported net income of $3.6 million and $6.5 million for the three and six months ended June 30, 2019, compared with net income of $2.0 million and $3.9 million for the same periods of 2018. Income tax benefit was $611,000 and $488,000 for the second quarter of 2019 and for the first six months of 2019, respectively, compared to income tax expense of $483,000 and $812,000 for the second quarter of 2018 and for the first six months of 2018, respectively.

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

In addition, the Company has state net operating loss carryforwards ("NOLs") of $30.2 million, which were previously subject to a full valuation allowance and will begin to expire in 2025. In April 2019, tax legislation was enacted which allowed for certain Kentucky NOLs to be utilized in a combined filing return. Therefore, the Company will begin filing a Kentucky combined filing in 2021 and, as a result, a state NOL tax benefit, net of federal impact, of $1.2 million, or approximately $0.16 per basic and diluted share, was recognized in the second quarter of 2019.

Highlights for the six months ended June 30, 2019 are as follows:

- Loan growth outpaced paydowns during the period. Average loans receivable increased approximately $50.6 million or 6.9% to $780.1 million for the six months ended June 30, 2019, compared with $729.5 million for the first six months of 2018. This resulted in an increase in interest revenue volume of approximately $1.3 million for the six months June 30, 2019 compared with the six months of 2018.

- Net interest margin decreased nine basis points to 3.51% in the first six months of 2019 compared with 3.60% in the first six months of 2018. The yield on earning assets increased to 4.86% for the first six months of 2019, compared to 4.48% for the first six months of 2018. The cost of interest bearing liabilities increased from 1.05% in the first six months of 2018 to 1.62% in the first six months of 2019 as a result of increases in short-term interest rates during 2018.

- The Company recorded no provision for loan losses expense during the first six months of 2019, compared to a negative provision for loan losses of $150,000 during the first six months of 2018. Historical loss experience, risk grade classification metrics, charge-off levels, and past due trends remain at historically strong levels and were stable between periods. Net loan charge-offs were $48,000 for the first six months of 2019, compared to net recoveries of $528,000 for the first six months of 2018.

- Loans past due 30-59 days decreased from $1.6 million at December 31, 2018 to $858,000 at June 30, 2019, and loans past due 60-89 days increased from $331,000 at December 31, 2018 to $1.1 million at June 30, 2019. Total loans past due and nonaccrual loans remained unchanged at $3.9 million from December 31, 2018 to June 30, 2019.

- Foreclosed properties were $3.2 million at June 30, 2019, compared with $3.5 million at December 31, 2018, and $4.5 million at June 30, 2018. Operating expenses and fair value write downs totaled $308,000 for the first six months of 2019 compared to operating expenses, fair value write downs, and a net gain on sales of $319,000 for the first six months of 2018.

- The ratio of non-performing assets to total assets decreased to 0.55% at June 30, 2019, compared with 0.60% at December 31, 2018, and 0.83% at June 30, 2018.

- Deposits were $938.5 million at June 30, 2019, compared with $894.2 million at December 31, 2018. Certificate of deposit balances increased $54.4 million during the first six months of 2019 to $505.3 million at June 30, 2019, from $450.9 million at December 31, 2018. Interest checking accounts increased $1.0 million and money market declined $9.0 million during the first six months of 2019 compared with December 31, 2018.

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

- Subsequent to quarter end on July 24, 2019, the Bank entered into a Branch Purchase and Assumption Agreement to acquire four branch banking centers located in the Kentucky cities of Elizabethtown, Frankfort, and Owensboro from Louisville, Kentucky based Republic Bank and Trust. Under the terms of the agreement, the Bank will acquire the four branch offices, which includes $153 million in deposits and $112 million in loans. In addition, the Bank will acquire substantially all the fixed assets of these locations. The transaction has received approvals from each party's board of directors and is expected to close in the fourth quarter of 2019, subject to regulatory approvals and other customary closing conditions. The transaction includes an all-in blended deposit premium of approximately $9.3 million. This results in tangible book value dilution of approximately 9%. The tangible book value earn back period based upon preliminary earnings estimates for the acquired branches is expected to be less than three years. The final calculated premium will be primarily based on the trailing 10-day average amount of the deposits as of the closing date, as well as the branch location for the deposits.

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, 2018. Management has discussed the development, selection, and application of our critical accounting policies with our Audit Committee. During the first six months of 2019, 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 June 30, 2019, compared with the same period of 2018:

	For the Three Months Ended June 30,		Change from Prior Period	
	2019	2018	Amount	Percent
	(dollars in thousands)			
Gross interest income	$ 12,376	$ 10,585	$ 1,791	16.9%
Gross interest expense	3,576	2,211	1,365	61.7
Net interest income	8,800	8,374	426	5.1
Provision (negative provision) for loan losses	—	(150)	150	100.0
Non-interest income	1,446	1,347	99	7.3
Non-interest expense	7,224	7,405	(181)	(2.4)
Net income before taxes	3,022	2,466	556	22.5
Income tax (benefit) expense	(611)	483	(1,094)	(226.5)
Net income	3,633	1,983	1,650	83.2

Net income for the three months ended June 30, 2019 totaled $3.6 million, compared with $2.0 million for the comparable period of 2018. Net income before taxes and income tax benefit was $3.0 million and $611,000, respectively for the second quarter of 2019, compared with $2.5 million and income tax expense of $483,000, respectively for the second quarter of 2018. The Company has state net operating loss carryforwards ("NOLs") of $30.2 million, which were previously subject to a full valuation allowance and will begin to expire in 2025. In April 2019, tax legislation was enacted which allowed for certain Kentucky NOLs to be utilized in a combined filing return. Therefore, the Company will begin filing a Kentucky combined filing in 2021 and, as a result, a state NOL tax benefit, net of federal impact, of $1.2 million, or approximately $0.16 per basic and diluted share, was recognized in the second quarter of 2019.

Net interest income increased $426,000 from the 2018 second quarter as a result of an increase in earning assets. Net interest margin decreased 15 basis points to 3.42% in the second quarter of 2019 compared with 3.57% in the second quarter of 2018. The cost of interest bearing liabilities increased from 1.13% for the second quarter of 2018 to 1.68% for the second quarter of 2019. Average earning assets increased from $943.0 million for the second quarter of 2018 to $1.0 billion for the second quarter of 2019. Non-interest income increased by $99,000 to $1.4 million from $1.3 million in the second quarter of 2018 primarily due to an increase in bankcard interchange fees of $150,000. Non-interest expense decreased from $7.4 million in the second quarter of 2018 to $7.2 million in the second quarter of 2019 primarily due to decreases in marketing expense of $96,000 and OREO expense of $95,000.

The following table summarizes components of income and expense and the change in those components for the six months ended June 30, 2019, compared with the same period of 2018:

	For the Six Months Ended June 30,		Change from Prior Period	
	2019	2018	Amount	Percent
	(dollars in thousands)			
Gross interest income	$ 24,562	$ 20,600	$ 3,962	19.2%
Gross interest expense	6,803	4,045	2,758	68.2
Net interest income	17,759	16,555	1,204	7.3
Provision (negative provision) for loan losses	—	(150)	150	100.0
Non-interest income	2,730	2,598	132	5.1
Non-interest expense	14,505	14,574	(69)	(0.5)
Net income before taxes	5,984	4,729	1,255	26.5
Income tax (benefit) expense	(488)	812	(1,300)	(160.1)
Net income	6,472	3,917	2,555	65.2

Net income for the six months ended June 30, 2019 totaled $6.5 million, compared with net income of $3.9 million for the comparable period of 2018. Net income before taxes and income tax benefit was $6.0 million and $488,000, respectively, for the six months ended June 30, 2019, compared with $4.7 million and income tax expense of $812,000, respectively, for the six months ended June 30, 2018. Income tax expense for the first six months of 2019 benefitted $1.2 million from the establishment of a state net deferred tax asset related to the April 2019 tax law enactment discussed previously. In addition, during the first quarter of 2019, the Company benefited $341,000, or approximately $0.05 per basic and diluted share, from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital, and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021.

Net interest income increased $1.2 million from the first six months of 2018 as a result of an increase in earning assets. Net interest margin decreased nine basis points to 3.51% in the first six months of 2019 compared with 3.60% in the first six months of 2018. The cost of interest bearing liabilities increased from 1.05% for the first six months of 2018 to 1.62% for the first six months of 2019. Average earning assets increased from $929.5 million for the first six months of 2018 to $1.0 billion for the first six months of 2019. Non-interest income increased by $132,000 to $2.7 million from $2.6 million in the first six months of 2018 primarily due to an increase in bankcard interchange fees of $257,000, partially offset by a decrease in service charges on deposit accounts of $92,000. Non-interest expense decreased from $14.6 million in the first six months of 2018 to $14.5 million in the first six months of 2019 primarily due to a decreases in marketing expense of $169,000 and in FDIC insurance of $110,000 reflecting the Bank's lower risk profile, partially offset by a $157,000 increase in salaries and employee benefits, as well as an increase in deposit account related expense of $151,000.

Net Interest Income – Net interest income was $8.8 million for the three months ended June 30, 2019, an increase of $426,000, or 5.1%, compared with $8.4 million for the same period in 2018. Net interest spread and margin were 3.13% and 3.42%, respectively, for the second quarter of 2019, compared with 3.38% and 3.57%, respectively, for the second quarter of 2018. Net average non-accrual loans were $2.1 million and $3.9 million for the second quarters of 2019 and 2018, respectively.

Average loans receivable increased approximately $58.8 million for the second quarter of 2019 compared with the second quarter of 2018. This resulted in an increase in interest revenue of approximately $753,000 attributable to volume and an increase of $618,000 attributable to increasing interest rates for the quarter ended June 30, 2019, compared with the second quarter of 2018. Interest foregone on non-accrual loans totaled $86,000 for the second quarter of 2019, compared with $74,000 for the second quarter of 2018.

Net interest margin decreased 15 basis points from 3.57% in the prior year second quarter to 3.42% for the second quarter of 2019. The yield on earning assets increased 30 basis points and rates paid on interest-bearing liabilities increased 55 basis points from the second quarter of 2018. Both the yield on earning assets and cost of interest-bearing liabilities were impacted by increases in short-term interest rates during 2018.

Net interest income was $17.8 million for the six months ended June 30, 2019, an increase of $1.2 million, or 7.3%, compared with $16.6 million for the same period in 2018. Net interest spread and margin were 3.24% and 3.51%, respectively, for the first six months of 2019, compared with 3.43% and 3.60%, respectively, for the first six months of 2018. Net average non-accrual loans were $2.1 million and $4.4 million for the first six months of 2019 and 2018, respectively.

Average loans receivable increased approximately $50.6 million for the six months ended June 30, 2019 compared with the first six months of 2018. This resulted in an increase in interest revenue of approximately $1.3 million attributable to volume and an increase of $1.5 million attributable to increasing in interest rates for the six months ended June 30, 2019 compared with the prior year period. Interest foregone on non-accrual loans totaled $164,000 for the six months ended June 30, 2019, compared with $162,000 for the six months ended June 30, 2018.

Net interest margin decreased nine basis points to 3.51% for the first six months of 2019 from 3.60% in the first six months of 2018. The yield on earning assets increased 38 basis points for the first six months of 2019 from the first six months of 2018, compared with an increase in rates paid on interest-bearing liabilities of 57 basis points between the two periods. Both the yield on earning assets and cost of interest-bearing liabilities were impacted by increases in short-term interest rates during 2018.

Average Balance Sheets

The following table presents the average balance sheets for the three month periods ended June 30, 2019 and 2018, 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 June 30,					
	2019			2018		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loan receivables (1)(2)	$ 793,460	$ 10,465	5.29%	$ 734,709	$ 9,094	4.96%
Securities						
Taxable	195,379	1,608	3.30	161,232	1,198	2.98
Tax-exempt (3)	12,710	88	3.52	14,183	96	3.44
FHLB stock	6,778	96	5.68	7,323	104	5.70
Federal funds sold and other	25,254	119	1.89	25,576	93	1.46
Total interest-earning assets	1,033,581	12,376	4.81%	943,023	10,585	4.51%
Less: Allowance for loan losses	(8,730)			(8,886)		
Non-interest earning assets	75,608			78,871		
Total assets	$ 1,100,459			$ 1,013,008		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	$ 487,651	$ 2,416	1.99%	$ 429,123	$ 1,308	1.22%
NOW and money market deposits	261,579	536	0.82	241,826	327	0.54
Savings accounts	33,881	13	0.15	35,965	14	0.16
FHLB advances	40,989	255	2.50	44,252	216	1.96
Junior subordinated debentures	21,000	258	4.93	21,957	248	4.53
Senior debt	10,000	98	3.93	10,000	98	3.93
Total interest-bearing liabilities	855,100	3,576	1.68%	783,123	2,211	1.13%
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	143,619			135,843		
Other liabilities	4,010			5,341		
Total liabilities	1,002,729			924,307		
Stockholders' equity	97,730			88,701		
Total liabilities and stockholders' equity	$ 1,100,459			$ 1,013,008		
Net interest income		$ 8,800			$ 8,374	
Net interest spread			3.13%			3.38%
Net interest margin			3.42%			3.57%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans averaging $2.1 million and $3.9 million, respectively, in average loan amounts outstanding.
(3) Taxable equivalent yields are calculated assuming a federal income tax rate of 21%.

The following table presents the average balance sheets for the six month periods ended June 30, 2019 and 2018, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

	Six Months Ended June 30,					
	2019			2018		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loan receivables (1)(2)	$ 780,057	$ 20,719	5.36%	$ 729,485	$ 17,884	4.94%
Securities						
Taxable	193,528	3,181	3.31	152,585	2,141	2.83
Tax-exempt (3)	13,109	181	3.52	14,203	192	3.45
FHLB stock	6,922	205	5.97	7,323	210	5.78
Federal funds sold and other	28,214	276	1.97	25,872	173	1.35
Total interest-earning assets	1,021,830	24,562	4.86%	929,468	20,600	4.48%
Less: Allowance for loan losses	(8,792)			(8,611)		
Non-interest earning assets	75,037			79,413		
Total assets	$ 1,088,075			$ 1,000,270		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	$ 473,757	$ 4,464	1.90%	$ 425,703	$ 2,370	1.12%
NOW and money market deposits	263,204	1,061	0.81	243,857	595	0.49
Savings accounts	33,720	27	0.16	35,446	28	0.16
FHLB advances	43,244	536	2.50	42,547	372	1.76
Junior subordinated debentures	21,000	521	5.00	22,595	486	4.34
Senior debt	10,000	194	3.91	10,000	194	3.91
Total interest-bearing liabilities	844,925	6,803	1.62%	780,148	4,045	1.05%
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	143,170			133,742		
Other liabilities	4,358			5,384		
Total liabilities	992,453			919,274		
Stockholders' equity	95,622			80,996		
Total liabilities and stockholders' equity	$ 1,088,075			$ 1,000,270		
Net interest income		$ 17,759			$ 16,555	
Net interest spread			3.24%			3.43%
Net interest margin			3.51%			3.60%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans averaging $2.1 million and $4.4 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 June 30, 2019 vs. 2018			Six Months Ended June 30, 2019 vs. 2018		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	Rate	Volume	Net Change	Rate	Volume	Net Change
	(in thousands)					
Interest-earning assets:						
Loan receivables	$ 618	$ 753	$ 1,371	$ 1,548	$ 1,287	$ 2,835
Securities	145	257	402	418	611	1,029
FHLB stock	—	(8)	(8)	7	(12)	(5)
Federal funds sold and other	27	(1)	26	86	17	103
Total increase (decrease) in interest income	790	1,001	1,791	2,059	1,903	3,962
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	910	198	1,108	1,800	294	2,094
NOW and money market accounts	180	29	209	416	50	466
Savings accounts	—	(1)	(1)	—	(1)	(1)
FHLB advances	56	(17)	39	158	6	164
Junior subordinated debentures	21	(11)	10	71	(36)	35
Senior debt	—	—	—	—	—	—
Total increase (decrease) in interest expense	1,167	198	1,365	2,445	313	2,758
Increase (decrease) in net interest income	$ (377)	$ 803	$ 426	$ (386)	$ 1,590	$ 1,204

Non-Interest Income – The following table presents the major categories of non-interest income for the three and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	(dollars in thousands)			
Service charges on deposit accounts	$ 571	$ 591	$ 1,067	$ 1,159
Bank card interchange fees	596	446	1,104	847
Income from bank owned life insurance	118	138	217	237
Net gain (loss) on sales and calls of securities	(5)	(6)	(5)	(6)
Other	166	178	347	361
Total non-interest income	$ 1,446	$ 1,347	$ 2,730	$ 2,598

Non-interest income for the second quarter of 2019 increased by $99,000, or 7.3%, compared with the second quarter of 2018. The increase in non-interest income for the second quarter of 2019 compared to the second quarter of 2018 was primarily driven by an increase in bankcard interchange fees of $150,000 due to an increase in transaction volume. For the six months ended June 30, 2019, non-interest income increased by $132,000, or 5.1% to $2.7 million compared with $2.6 million for the same period of 2018. The increase in non-interest income between the six month comparative periods was primarily due to a $257,000 increase in bankcard interchange fees partially offset by a decrease in service charges on deposit accounts of $92,000.

Non-interest Expense – The following table presents the major categories of non-interest expense for the three and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
	(dollars in thousands)			
Salary and employee benefits	$ 3,915	$ 3,885	$ 7,830	$ 7,673
Occupancy and equipment	854	880	1,752	1,775
Professional fees	179	222	344	427
Marketing expense	212	308	439	608
FDIC insurance	103	139	211	321
Data processing expense	315	307	628	631
State franchise and deposit tax	315	282	630	564
Deposit account related expenses	310	221	591	440
Other real estate owned expense	142	237	308	319
Litigation and loan collection expense	34	48	80	101
Other	845	876	1,692	1,715
Total non-interest expense	$ 7,224	$ 7,405	$ 14,505	$ 14,574

Non-interest expense for the second quarter ended June 30, 2019 decreased $181,000, or 2.4%, compared with the second quarter of 2018. This decrease was primarily due to decreases in marketing expense of $96,000 and OREO expense of $95,000. For the six months ended June 30, 2019, non-interest expense decreased $69,000, or 0.5% to $14.5 million compared with $14.6 million for the first six months of 2018. The decrease in non-interest expense for the six months ended June 30, 2019 was primarily attributable to a decrease in marketing expense of $169,000 and a decrease in FDIC insurance of $110,000 reflecting the Bank's lower risk profile, partially offset by a $157,000 increase in salaries and employee benefits, as well as, an increase of $151,000 in deposit account related expense.

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 June 30,		For the Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
	(dollars in thousands)			
Federal statutory rate times financial statement income	$ 634	$ 518	$ 1,256	$ 993
Effect of:				
Tax-exempt income	(18)	(20)	(37)	(40)
Establish state deferred tax asset	(1,209)	—	(1,550)	—
Non-taxable life insurance income	(25)	(29)	(46)	(50)
Restricted stock vesting	(2)	(5)	(128)	(116)
Other, net	9	19	17	25
Total	$ (611)	$ 483	$ (488)	$ 812

Net income before taxes and income tax benefit was $3.0 million and $611,000, respectively for the three months ended June 30, 2019, compared with $2.5 million and income tax expense of $483,000, respectively for the three months ended June 30, 2018.

The Company had state net operating loss carryforwards ("NOLs") of $30.2 million, which were previously subject to a full valuation allowance and will begin to expire in 2025. In April 2019, tax legislation was enacted which allowed for certain Kentucky NOLs to be utilized in a combined filing return. Therefore, the Company will begin filing a Kentucky combined filing in 2021 and, as a result, a state NOL tax benefit, net of federal impact, of $1.2 million, or $0.16 per basic and diluted share, was recognized in the second quarter of 2019.

Net income before taxes and income tax benefit was $6.0 million and $488,000, respectively for the six months ended June 30, 2019, compared with $4.7 million and income tax expense of $812,000, respectively for the six months ended June 30, 2018. Income tax expense for the first six months of 2019 benefitted $1.2 million from the establishment of a state net deferred tax asset related to the April 2019 tax law enactment discussed above. In addition, during the first quarter of 2019, the Company benefited $341,000, or approximately $0.05 per basic and diluted share, from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital, and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021.

Analysis of Financial Condition

Total assets increased $57.1 million, or 5.3%, to $1.13 billion at June 30, 2019, from $1.07 billion at December 31, 2018. This increase was primarily attributable to an increase in net loans of $37.9 million, as well as an increase in cash and cash equivalents of $12.3 million.

Loans Receivable – Loans receivable increased $37.9 million, or 4.9%, during the six months ended June 30, 2019 to $803.1 million as loan growth outpaced paydowns. Our commercial and commercial real estate portfolios increased by an aggregate of $4.6 million, or 1.0% during the first six months of 2019 and comprised 58.7% of the loan portfolio at June 30, 2019. Residential real estate and consumer portfolios increased by an aggregate of $25.4 million, or 9.6% during the first six months of 2019 and comprised 36.1% of the loan portfolio at June 30, 2019. Construction loans decreased $22.4 million as several commercial construction projects were completed and sold or migrated to permanent financing.

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 June 30, 2019		As of December 31, 2018	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial	$ 140,666	17.52%	$ 129,368	16.91%
Commercial Real Estate				
Construction	64,472	8.03	86,867	11.35
Farmland	78,634	9.79	77,937	10.18
Nonfarm nonresidential	187,217	23.31	172,177	22.50
Residential Real Estate				
Multi-family	63,107	7.86	49,757	6.50
1-4 Family	171,687	21.38	175,761	22.97
Consumer	55,252	6.88	39,104	5.11
Agriculture	41,586	5.18	33,737	4.41
Other	493	0.05	536	0.07
Total loans	$ 803,114	100.00%	$ 765,244	100.00%

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

	June 30, 2019		December 31, 2018	
	Loans	% to Total	Loans	% to Total
	(dollars in thousands)			
Pass	$ 767,662	95.6%	$ 745,604	97.4%
Watch	22,929	2.9	13,164	1.8
Special Mention	—	—	113	—
Substandard	12,523	1.5	6,363	0.8
Doubtful	—	—	—	—
Total	$ 803,114	100.0%	$ 765,244	100.00%

Loans receivable increased $37.9 million, or 4.9%, during the six months ended June 30, 2019. Since December 31, 2018, the pass category increased approximately $22.1 million, the watch category increased approximately $9.8 million, and the substandard category increased approximately $6.2 million. The $6.2 million increase in loans classified as substandard was primarily driven by $8.3 million in loans moved to substandard, offset by $473,000 in loans upgraded from substandard, $1.3 million in payments, and $328,000 in charge-offs during the first six months of 2019.

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

	June 30, 2019		December 31, 2018	
	(in thousands)			
Past Due Loans:				
30-59 Days	$	858	$	1,593
60-89 Days		1,015		331
90 Days and Over		—		—
Total Loans Past Due 30-90+ Days		1,873		1,924
Nonaccrual Loans		2,028		1,991
Total Past Due and Nonaccrual Loans	$	3,901	$	3,915

During the six months ended June 30, 2019, nonaccrual loans increased by $37,000 to $2.0 million. During the six months ended June 30, 2019, loans past due 30-59 days decreased from $1.6 million at December 31, 2018 to $858,000 at June 30, 2019. Loans past due 60-89 days increased from $331,000 at December 31, 2018 to $1.0 million at June 30, 2019. This represents a $51,000 decrease from December 31, 2018 to June 30, 2019 in loans past due 30-89 days. This trend in delinquency levels is considered during the evaluation of qualitative trends in the portfolio when establishing the general component of our allowance for loan losses.

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 may 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.

At June 30, 2019 and December 31, 2018, the Bank had two restructured loans totaling $905,000 and $910,000, 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 June 30, 2019 or December 31, 2018. There were no concessions made to forgive principal relative to these loans, although partial charge-offs have been recorded for certain restructured loans. In general, these loans are secured by first liens on 1-4 residential properties, commercial real estate properties, or farmland. Both TDRs were performing according to their modified terms at June 30, 2019 and December 31, 2018.

There were no modifications granted during 2019 or 2018 that resulted in loans being identified as TDRs. See "Note 3 – Loans," to the financial statements for additional disclosure related to troubled debt restructuring.

Non-Performing Assets – Non-performing assets consist of certain restructured loans for which interest rate or other terms have been renegotiated, loans past due 90 days or more still on accrual, loans on which interest is no longer accrued, real estate acquired through foreclosure and repossessed assets. The following table sets forth information with respect to non-performing assets as of June 30, 2019 and December 31, 2018.

	June 30, 2019		December 31, 2018	
	(dollars in thousands)			
Loans on nonaccrual status	$	2,028	$	1,991
Troubled debt restructurings on accrual		905		910
Past due 90 days or more still on accrual		—		—
Total non-performing loans		2,933		2,901
Real estate acquired through foreclosure		3,225		3,485
Other repossessed assets		—		—
Total non-performing assets	$	6,158	$	6,386
Non-performing loans to total loans		0.37%		0.38%
Non-performing assets to total assets		0.55%		0.60%
Allowance for non-performing loans	$	76	$	83
Allowance for non-performing loans to non-performing loans		2.59%		2.86%

Nonperforming loans at June 30, 2019, were $2.9 million, or 0.37% of total loans, compared with $2.9 million, or 0.38% of total loans at December 31, 2018, and $3.2 million, or 0.42% of total loans at June 30, 2018.

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

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

An analysis of changes in the allowance for loan losses and selected ratios for the three and six month periods ended June 30, 2019 and 2018, and for the year ended December 31, 2018 follows:

	Three Months Ended June 30,		Six Months Ended June 30,		December 31,
	2019	2018	2019	2018	2018
			(in thousands)		
Balance at beginning of period	$ 8,686	$ 8,526	$ 8,880	$ 8,202	$ 8,202
Loans charged-off:					
Real estate	35	266	132	286	450
Commercial	—	—	—	—	50
Consumer	34	7	214	34	95
Agriculture	3	12	4	12	13
Other	—	8	—	8	8
Total charge-offs	72	293	350	340	616
Recoveries					
Real estate	84	464	147	550	1,437
Commercial	90	5	95	245	261
Consumer	44	16	60	50	69
Agriculture	—	—	—	11	15
Other	—	12	—	12	12
Total recoveries	218	497	302	868	1,794
Net charge-offs (recoveries)	(146)	(204)	48	(528)	(1,178)
Provision (negative provision) for loan losses	—	(150)	—	(150)	(500)
Balance at end of period	$ 8,832	$ 8,580	$ 8,832	$ 8,580	$ 8,880
Allowance for loan losses to period-end loans	1.10%	1.15%	1.10%	1.15%	1.16%
Net charge-offs (recoveries) to average loans	(0.07)%	(0.11)%	0.01%	(0.16)%	(0.16)%
Allowance for loan losses to non-performing loans	301.13%	209.99%	301.13%	209.99%	306.10%

The allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The allowance for loan losses is comprised of general reserves and specific reserves. The loan loss reserve, as a percentage of total loans at June 30, 2019, decreased to 1.10% from 1.16% at December 31, 2018 and from 1.15% at June 30, 2018. New loans continue to be underwritten with lower loss expectations. Historical loss experience, risk grade classification metrics, charge-off levels, and past due trends remain at historically strong levels and were stable between periods. The allowance for loan losses to non-performing loans was 301.13% at June 30, 2019, compared with 306.10% at December 31, 2018, and 209.99% at June 30, 2018. Net loan charge-offs in the first six months of 2019 totaled $48,000 compared to net recoveries of $528,000 in the first six months of 2018.

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. The allowance for loan losses to non-performing loans and TDRs on accrual was 301.13% at June 30, 2019 compared with 306.10% at December 31, 2018, and 270.66% at June 30, 2018. The decrease in this ratio from December 31, 2018 to June 30, 2019 was primarily attributable to the improving non-performing loan trends during the period.

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 52.31% and 60.07% of the unpaid principal balance in the commercial real estate and residential real estate segments of the portfolio, respectively, at June 30, 2019.

Provision for Loan Losses – Based upon historically strong trends in asset quality and management's assessment of risk in the loan portfolio, no provision for loan losses was recorded for the second quarter or the first six months of 2019. A negative provision for loan losses of $150,000 was recorded for the second quarter and first six months of 2018. The pass category increased approximately $22.1 million, the watch category increased approximately $9.8 million, and the substandard category increased approximately $6.2 million. Net loan charge-offs were $48,000 for the six months ended June 30, 2019, compared with net recoveries of $528,000 for the six months ended June 30, 2018. Management considers the size and volume of our portfolio as well as the credit quality of the loan portfolio based upon risk category classification when determining the loan loss provision for each period and the allowance for loan losses at period end.

Foreclosed Properties – Foreclosed properties at June 30, 2019 were $3.2 million compared with $4.5 million at June 30, 2018 and $3.5 million at December 31, 2018. See Note 4 – "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.

Write-downs and operating expenses for OREO totaled $308,000 for the six months ended June 30, 2019, compared to net gain (loss) on sales, write-downs, and operating expenses of $319,000 for the six months ending June 30, 2018. During the six months ended June 30, 2019, fair value write-downs of $260,000 were recorded due to changing marketing strategies compared with write-downs of $325,000 for the six months ended June 30, 2018.

Liabilities **–** Total liabilities at June 30, 2019 were $1.0 billion compared with $977.6 million at December 31, 2018, an increase of $47.8 million, or 4.9%. This increase was primarily attributable to an increase in certificate of deposits of $54.4 million, offset by a decrease in money market accounts of $9.0 million.

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

	For the Six Months Ended June 30, 2019		For the Year Ended December 31, 2018	
	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)			
Demand	$ 143,170		$ 136,947	
Interest checking	96,368	0.23%	90,583	0.13%
Money market	166,836	1.15	158,832	0.90
Savings	33,720	0.16	34,866	0.16
Certificates of deposit	473,757	1.90	439,597	1.35
Total deposits	$ 913,851	1.23%	$ 860,825	0.88%

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

	For the Six Months Ended June 30, 2019		For the Year Ended December 31, 2018	
	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)			
Less than $250,000	$ 445,109	1.89%	$ 410,942	1.34%
$250,000 or more	28,648	2.09%	28,655	1.51%
Total	$ 473,757	1.90%	$ 439,597	1.35%

The following table shows at June 30, 2019 the amount of our time deposits of $250,000 or more by time remaining until maturity (in thousands):

Maturity Period	
Three months or less	$ 2,732
Three months through six months	6,315
Six months through twelve months	15,808
Over twelve months	4,023
Total	$ 28,878

Liquidity

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

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

The Bank also borrows from the FHLB to supplement funding requirements. At June 30, 2019, the Bank had an unused borrowing capacity with the FHLB of $38.3 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. The Bank has also in the past utilized brokered and wholesale deposits to supplement its funding strategy. At June 30, 2019, the Bank had no brokered deposits.

The Company uses cash on hand to service senior debt, junior subordinated debentures, and to provide for operating cash flow needs. The Company also may issue common equity, preferred equity and debt to support cash flow needs and liquidity requirements. At June 30, 2019, cash on hand totaled $4.1 million, of which, $223,000 is held in escrow by the Company’s senior debt holder to service interest payments.

Capital

Stockholders’ equity increased $9.3 million to $101.4 million at June 30, 2019, compared with $92.1 million at December 31, 2018 primarily due to current year net income of $6.5 million and other comprehensive income for the first six months of 2019 of $3.0 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	June 30, 2019	December 31, 2018
Tier 1 Capital	6.0%	8.0%	12.26%	11.83%
Common equity Tier 1 capital	4.5	6.5	12.26	11.83
Total risk-based capital	8.0	10.0	13.26	12.88
Tier 1 leverage ratio	4.0	5.0	10.01	9.60

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.

Each of the federal bank regulatory agencies has established risk-based capital requirements for banking organizations. The Basel III regulatory capital reforms became effective for the Company and Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. These rules refine the definition of what constitutes “capital” for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The final rules allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. The Company and the Bank opted out of this requirement. The rules also establish a “capital conservation buffer” of 2.5%, to be phased in over three years, above the regulatory minimum risk-based capital ratios. With the capital conservation buffer as fully phased in effective January 1, 2019, the minimum ratios are a common equity Tier 1 risk-based capital ratio of 7.0%, a Tier 1 risk-based capital ratio of 8.5%, and a total capital to total risk-weighted assets (“total risk-based capital ratio”) of 10.5%. The capital conservation buffer for 2019 is 2.50% and was 1.875% for 2018. An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

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 increase by an estimated 1.5% at June 30, 2019, compared with an increase of 2.0% at December 31, 2018. Given a 200 basis point increase in interest rates, base net interest income would increase by an estimated 2.6% at June 30, 2019, compared with an increase of 3.9% at December 31, 2018.

The following table indicates the estimated impact on net interest income under various interest rate scenarios for the twelve months following June 30, 2019, as calculated using the static shock model approach:

	Change in Future Net Interest Income	
	Dollar Change	**Percentage Change**
	(dollars in thousands)	
+ 200 basis points	$ 918	2.64%
+ 100 basis points	510	1.47
- 100 basis points	(1,100)	(3.17)
- 200 basis points	(1,632)	(4.70)

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

Refer to the detailed cautionary statements and discussion of risks that affect the Company and its business in "Item 1A – Risk Factors" of the Annual Report on Form 10-K, for the year ended December 31, 2018. There have been no material changes from the risk factors previously discussed in those reports.

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
March 2019	18,466	$14.95
June 2019	2,532	$14.98

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. Exhibit 3.1 to Form 10-Q filed August 2, 2018 is 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.
10.1	Employment Agreement with John T. Taylor. Exhibit 10.1 to Form 8-K filed April 26, 2019 is incorporated by reference.
10.2	Employment Agreement with Phillip W. Barnhouse. Exhibit 10.2 to Form 8-K filed April 26, 2019 is incorporated by reference.
10.3	Employment Agreement with John R. Davis. Exhibit 10.3 to Form 8-K filed April 26, 2019 is incorporated by reference.
10.4	Employment Agreement with Joseph C. Seiler. Exhibit 10.4 to Form 8-K filed April 26, 2019 is incorporated by reference.
10.5	Branch Purchase and Assumption Agreement between Republic Bank & Trust Company and Limestone Bank, Inc. dated July 24, 2019. Exhibit 2.1 to Form 8-K filed July 25, 2019 is incorporated by reference.
10.6	Indenture, dated July 23, 2019, by and between Limestone Bancorp, Inc. and Wilmington Trust National Association, as trustee. Exhibit 4.1 to Form 8-K filed July 25, 2019 is incorporated by reference.
10.7	Form of 5.75% Fixed-to-Floating Subordinated Notes due 2029 of Limestone Bancorp, Inc. Exhibit 4.2 to Form 8-K filed July 25, 2019 is incorporated by reference.
10.8	Form of Subordinated Note Purchase Agreement, dated July 23, 2019, by and among Limestone Bancorp, Inc. and the Purchasers. Exhibit 10.1 to Form 8-K filed July 25, 2019 is incorporated by reference.
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 June 30, 2019, 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.

SIGNATURES

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

	LIMESTONE BANCORP, INC. (Registrant)
August 2, 2019	By: /s/ John T. Taylor John T. Taylor Chief Executive Officer
August 2, 2019	By: /s/ Phillip W. Barnhouse Phillip W. Barnhouse Chief Financial Officer

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Section 2: EX-3.1 (EXHIBIT 3.1)

Exhibit 3.1

The following is a complete copy of the Articles of Incorporation of Limestone Bancorp, Inc., as restated to incorporate all amendments:

ARTICLES OF INCORPORATION
OF
LIMESTONE BANCORP, INC.

ARTICLE I - NAME

The Corporation's name shall be Limestone Bancorp, Inc.

ARTICLE II - PURPOSE

The Corporation's purpose shall be to engage in any lawful business for which corporations may be incorporated under the Kentucky Business Corporation Act ("KBCA").

ARTICLE III - AUTHORIZED CAPITAL STOCK

The aggregate number of shares which the Corporation shall have the authority to issue shall be 39,000,000 shares, without par value, which shall be comprised of: (a) 28,000,000 Common Shares; (b) 10,000,000 Non-Voting Common Shares; and (c) 1,000,000 Preferred Shares with such preferences, limitations and relative rights as may be determined by the Corporation's board of directors (the "Board of Directors") pursuant to Article IV and which may be divided into and issued in series.

Of the 1,000,000 authorized Preferred Shares, 38,000 shares have been designated as Series G Participating Preferred Shares.

ARTICLE IV - RELATIVE RIGHTS AND PREFERENCES

The preferences, limitations and relative rights in respect of the Corporation's shares shall be as follows:

A. Common Shares.

1. Voting. Subject to the voting rights of any series of Preferred Shares or as otherwise required by law, the Common Shares shall have the exclusive right to vote for the election of directors and on all other matters in which shareholders are generally entitled to vote. Each Common Share shall have one vote per share on matters on which holders of Common Shares are entitled to vote.

2. Dividends.
   a. Subject to the preferential dividend rights, if any, of any Preferred Shares and after the Corporation has complied with any requirements for setting aside sums as sinking funds or as redemption or purchase accounts and subject further to subpart (b) of this paragraph and any other conditions that may be established in accordance with the provisions of Paragraph C of this Article IV, the holders of Common Shares shall be entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors.

   b. No dividend will be paid or authorized and set apart for payment on any Common Shares for any period unless the

Corporation has paid or authorized and set aside for payment in the same period, or contemporaneously pays or authorizes and sets aside for payment, an equal amount to be paid as a dividend on Non-Voting Common Shares.

3. Distributions. After distribution in full of any preferential amount to be distributed to the holders of Preferred Shares, and subject to any other rights of the holders of Preferred Shares to further participate in a liquidation, distribution or sale of assets, dissolution or winding-up of the Corporation, the holders of Common Shares and Non-Voting Common Shares shall be entitled to receive, upon the voluntary or involuntary liquidation, distribution or sale of assets, dissolution or winding-up of the Corporation, all of its remaining assets, tangible and intangible, of whatever kind available for distribution to the shareholders, ratably in proportion to the number of Common Shares and Non-Voting Common Shares held by each, with each share being proportionally equal in relation to the sum total of the two classes.

4. Issuance. Common Shares may be issued from time to time on such terms and for such consideration as shall be determined by the Board of Directors.

B. Non-Voting Common Shares

1. Same Rights As Common Shares. Except with respect to voting rights and as otherwise specifically provided in these Articles of Incorporation, Non-Voting Common Shares shall have the same preferences, limitations, and relative rights as, and shall be identical in all respects to, the Common Shares.

2. No Voting Rights. Except as required by the KBCA or these Articles of Incorporation, Non-Voting Common Shares shall not have the right to vote on any matter submitted to a vote at a meeting of shareholders of the Corporation.

3. Dividends.

   a. Subject to the preferential dividend rights, if any, of any Preferred Shares and after the Corporation has complied with any requirements for setting aside sums as sinking funds or as redemption or purchase accounts and subject further to subpart (b) of this paragraph and any other conditions that may be established in accordance with the provisions of Paragraph C, D or E of this Article IV, the holders of Non-Voting Common Shares shall be entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors.

   b. No dividend will be paid or authorized and set apart for payment on any Non-Voting Common Shares for any period unless the Corporation has paid or authorized and set aside for payment in the same period, or contemporaneously pays or authorizes and sets aside for payment, an equal amount to be paid as a dividend on Common Shares.

4. Distributions. After distribution in full of any preferential amount to be distributed to the holders of Preferred Shares, and subject to any other rights of the holders of Preferred Shares to further participate in a liquidation, distribution or sale of assets, dissolution or winding-up of the Corporation, the holders of Non-Voting Common Shares and Common Shares shall be entitled to receive, upon the voluntary or involuntary liquidation, distribution or sale of assets, dissolution or winding-up of the Corporation, all of its remaining assets, tangible and intangible, of whatever kind available for distribution to the shareholders, ratably in proportion to the number of Common Shares and Non-Voting Common Shares held by each, with each share being proportionally equal in relation to the sum total of the two classes.

5. Automatic Conversion. Each issued and outstanding Non-Voting Common Share shall automatically be converted into one (1) Common Share (the "Conversion Rate") upon the transfer of such Non-Voting Common Share (or any security convertible to or exercisable for such Non-Voting Common Share) in (a) a widespread public distribution, including pursuant to a registration statement filed with and declared effective by the SEC or pursuant to Rule 144 under the Securities Act, (b) a transfer in which no transferee (or group of associated transferees) would receive more than 2% of any class of Voting Securities or (c) a transfer to a transferee that controls more than 50% of the Voting Securities without any transfer from the transferor. The foregoing automatic conversion may occur as to some or all of the Non-Voting Common Shares held by any holder.

6. Adjustments. The one-to-one conversion ratio for the conversion of the Non-Voting Common Shares into Common Shares in accordance with item (4) of this Article IV(B) shall in all events be equitably adjusted in the event of (a) any recapitalization of the Corporation by means of a stock dividend on, or a stock split or combination of, outstanding Common Shares and Non-Voting Common Shares, or (b) any merger, consolidation or other reorganization of the Corporation with another corporation.

7. Reservation. The Corporation shall at all times reserve and keep available out of its authorized but unissued Common Shares, solely for the purpose of effecting the conversion of the Non-Voting Common Shares, such number of Common Shares as shall from time to time be sufficient to effect the conversion of all outstanding Non-Voting Common Shares.

8. Retirement. If any Non-Voting Common Shares shall be converted pursuant to this Article IV, the Shares so converted shall be retired and may not be reissued as Non-Voting Common Shares.

9. Redesignation. Upon the conversion of all of the outstanding Non-Voting Common Shares into Common Shares, the Non-Voting Common Shares shall be automatically redesignated as "Common Shares."

C. Preferred Stock

The Board of Directors is expressly vested with authority to determine, in whole or in part, the preferences, limitations, and relative rights of the Preferred Shares, or one or more series of Preferred Shares, before the issuance of any such Shares. All shares of a series of Preferred Shares shall have preferences, limitations and relative rights identical with those of other Preferred Shares of the same series. The preferences, limitations, and relative rights of the Preferred Shares shall be specified in a subsequent amendment to these Articles of Incorporation adopted by the Board of Directors and may include, without limitation:

1. Special, conditional, or limited voting rights, or no right to vote, except to the extent prohibited by the KBCA;

2. That the Preferred Shares be redeemable or convertible (a) at the option of the Corporation, the shareholder, or another person or upon the occurrence of a designated event; (b) for cash, indebtedness, securities, or other property; or (c) in a designated amount or in an amount determined in accordance with a designated formula or by reference to extrinsic data or events;

3. Rights entitling the holders to distributions calculated in any manner, including dividends that may be cumulative, noncumulative, or partially cumulative;

4. Preferences over any other class of shares with respect to distributions, including dividends and distributions upon the dissolution of the Corporation; and

5. Other preferences, limitations, or relative rights not prohibited by law.

D. **Series G Participating Preferred Shares**

Section 1. Designation and Number of Shares. The shares of such series shall be designated as “Series G Participating Preferred Shares” (the “Series G Preferred Shares”), and the number of shares constituting such series shall be 38,000. Such number of shares of the Series G Preferred Shares may be increased or decreased by resolution of the Board of Directors; provided that no decrease shall reduce the number of Series G Preferred Shares to a number less than the number of shares then outstanding plus the number of shares issuable upon exercise or conversion of outstanding rights, options or other securities issued by the Corporation.

Section 2. Dividends and Distributions.

a. Subject to the prior and superior rights of the holders of any shares of any class or series of stock of the Corporation ranking prior and superior to the Series G Preferred Shares with respect to dividends, the holders of Series G Preferred Shares shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, regular quarterly dividends payable on such dates each year as designated by the Board of Directors (each such date being referred to herein as a “Quarterly Dividend Payment Date”), commencing on the first Quarterly Dividend Payment Date after the first issuance of any share or fraction of a Series G Preferred Share, in an amount per share (rounded to the nearest cent) equal to the Multiplier Number times the aggregate per share amount of all cash dividends or other distributions and the Multiplier Number times the aggregate per share amount of all non-cash dividends or other distributions (other than (i) a dividend payable in Common Shares or Non-Voting Common Shares, or (ii) a subdivision of the outstanding Common Shares or Non-Voting Common Shares (by reclassification or otherwise)), declared on the Common Shares or Non-Voting Common Shares since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a Series G Preferred Share. As used herein, the “Multiplier Number” shall be 1,000; provided that if, at any time after June 29, 2015, there shall be any change in the Common Shares or Non-Voting Common Shares, whether by reason of stock dividends, stock splits, reverse stock splits, recapitalization, mergers, consolidations, combinations or exchanges of securities, split-ups, split-offs, spin-offs, liquidations or other similar changes in capitalization, or any distribution or issuance of shares of its capital stock in a merger, share exchange, reclassification, or change of the outstanding Common Shares or Non-Voting Common Shares, then in each such event the Board of Directors shall adjust the Multiplier Number to the extent appropriate such that following such adjustment each Series G Preferred Share shall be in the same economic position as prior to such event.
b. The Corporation shall declare a dividend or distribution on the Series G Preferred Shares as provided in Section 2(a) immediately after it declares a dividend or distribution on the Common Shares or Non-Voting Common Shares (other than as described in Sections 2(a)(i) and 2(a)(ii)).
c. Dividends, to the extent payable as provided in Sections 2,(a) and 2(b), shall begin to accrue and be cumulative on outstanding Series G Preferred Shares from the Quarterly Dividend Payment Date immediately preceding the date of issuance of such Series G Preferred Shares, unless the date of issuance of such shares is on or before the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue and be cumulative from the date of issue of such shares, or unless the date of issue is a date after the record date for the determination of holders of Series G Preferred Shares entitled to receive a quarterly dividend and on or before such Quarterly Dividend Payment Date, in which case dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on Series G Preferred Shares in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of Series G Preferred Shares entitled to receive payment of a dividend or distribution declared thereon, which record date shall not be more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. In addition to any other voting rights required by law, the holders of Series G Preferred Shares shall have the following voting rights:

a. Each Series G Preferred Share shall entitle the holder thereof to a number of votes equal to the Multiplier Number on all matters submitted to a vote of shareholders of the Corporation.
b. Except as otherwise provided herein or by law, the holders of Series G Preferred Shares and the holders of Common Shares

shall vote together as a single class on all matters submitted to a vote of shareholders of the Corporation.

c. The Articles of Incorporation of the Corporation shall not be amended in any manner (whether by merger or otherwise) so as to adversely affect the powers, preferences or special rights of the Series G Preferred Shares without the affirmative vote of the holders of a majority of the outstanding Series G Preferred Shares, voting separately as a class.

d. Except as otherwise expressly provided herein, holders of Series G Preferred Shares shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Shares as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions. (a) Whenever quarterly dividends or other dividends or distributions payable on the Series G Preferred Shares as provided in 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on outstanding Series G Preferred Shares shall have been paid in full, the Corporation shall not:

i. declare or pay dividends on, or make any other distributions on, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding-up) to the Series G Preferred Shares;

ii. declare or pay dividends on, or make any other distributions on, any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series G Preferred Shares, except dividends paid ratably on the Series G Preferred Shares and all such other parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

iii. redeem, purchase or otherwise acquire for value any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding-up) to the Series G Preferred Shares; provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of stock of the Corporation ranking junior (as to dividends and upon dissolution, liquidation or winding-up) to the Series G Preferred Shares; or

iv. redeem, purchase or otherwise acquire for value any Series G Preferred Shares, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding-up) with the Series G Preferred Shares, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of Series G Preferred Shares and all such other parity stock upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

b. The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for value any shares of stock of the Corporation unless the Corporation could, under Section 4(a), purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any Series G Preferred Shares purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired promptly after the acquisition thereof. All such shares shall upon their retirement become authorized but unissued shares of Preferred Stock without designation as to series and may be reissued as part of a new series of Preferred Stock to be created by the Board of Directors as permitted by the certificate of incorporation of the Corporation or as otherwise permitted under Kentucky law.

Section 6. Liquidation, Dissolution and Winding-up. Upon any liquidation, dissolution or winding-up of the Corporation, no distribution shall be made (a) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding-up) to the Series G Preferred Shares unless, prior thereto, the holders of Series G Preferred Shares shall have received $1.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment; provided that the holders of Series G Preferred Shares shall be entitled to receive an aggregate amount per share equal to (x) the Multiplier Number times (y) the aggregate amount to be distributed per share to holders of Common Shares or Non-Voting Common Shares, or (b) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding-up) with the Series G Preferred Shares, except distributions made ratably on the Series G Preferred Shares and all such other parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding-up.

Section 7. Consolidation, Merger, etc. If the Corporation shall enter into any consolidation, merger, combination or other transaction in which the Common Shares or NonVoting Common Shares are exchanged for or changed into other stock or securities, cash or any other property, then in any such case the Series G Preferred Shares shall at the same time be similarly exchanged for or changed into an amount per share equal to (x) the Multiplier Number times (y) the aggregate amount of stock, securities, cash or any other property, as the case may be, into which or for which each Common Share or Non-Voting Common Shares is changed or exchanged.

Section 8. No Redemption. The Series G Preferred Shares shall not be redeemable.

Section 9. Rank. The Series G Preferred Shares shall rank junior to all other series of the Preferred Shares as to the payment of dividends and the distribution of assets upon liquidation, dissolution and winding-up, unless the terms of such series shall specifically provide otherwise, and shall rank senior to the Common Shares and Non-Voting Common Shares as to such matters.

Section Fractional Shares. Series G Preferred Shares may be issued in fractions of a share which shall entitle the holder, in

10. proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series G Preferred Shares."

ARTICLE V - BOARD OF DIRECTORS

The number of directors of the Corporation shall be such number, not less than two (2) nor more than fifteen (15), the exact number from time to time to be fixed by the Board of Directors. The number of directors may be fixed or changed from time to time, within the minimum and maximum by the shareholders or the Board of Directors.

ARTICLE VI - LIMITATION OF LIABILITY

No director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director; provided, however, that the foregoing shall not eliminate or limit the liability of a director (a) for any breach of the director's duty of loyalty to the Corporation or its shareholders; (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law; (c) under KRS 271B.8-330; or (d) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of this Article VI by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omission occurring prior to, such repeal or modification.

ARTICLE VII - INDEMNIFICATION

Each person who is or becomes an executive officer or director of the Corporation shall be indemnified and advanced expenses by the Corporation with respect to all threatened, pending or completed actions, suits or proceedings in which that person was, is or is threatened to be made a named defendant or respondent because he is or was a director or executive officer of the Corporation. This Article obligates the Corporation to indemnify and advance expenses to its executive officers or directors only in connection with proceedings arising from that person's conduct in his official capacity with the Corporation and to the extent permitted by the KBCA, as amended from time to time, when the determination and authorization of such indemnification and advancement has been made in accordance with the KBCA. The indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which directors and executive officers may be entitled under any agreement, vote of shareholders or disinterested directors, or otherwise.

ARTICLE VIII - RESTRICTIONS ON TRANSFERS OF SHARES

Section 1. Definitions. As used in this Article VIII, the following capitalized terms have the following meanings when used herein with initial capital letters (and any references to any portions of Treasury Regulation §§ l.382-2T, 1-383 and 1-384 shall include any successor provisions):

a. "*5.0 percent Transaction*" means any Transfer described in clause or of Section 2 of this Article VIII.
b. "5.0 percent Stockholder" a Person who owns a Percentage Stock Ownership equal to or exceeding 5.0 of the Corporation's then-outstanding Stock, whether directly or indirectly, and including Stock such Person would be deemed to constructively own or which otherwise would be aggregated with shares owned by such Person pursuant to Section 382 of the Code, or any successor provision or replacement provision and the applicable Treasury Regulations and Internal Revenue Service guidance thereunder.
c. "Agent" has the meaning set forth in Section 5 of this Article VIII.
d. "*Board of Directors*" or "*Board*" means the board of directors of the Corporation.
e. "*Code*" means the United States Internal Revenue Code of 1986, as amended from time to time.
f. "*Corporation Security*" or "*Corporation Securities*" means (i) any Stock, (ii) shares of Preferred Stock issued by the Corporation (other than Preferred Stock described in Section 1504(a) (4) of the Code), and (iii) warrants, rights, or options (including options within the meaning of Treasury Regulation § l.382-2T(h)(4)(v)) to purchase Securities of the Corporation.
g. "*Effective Date*" means the date of filing of these Articles of Amendment to the Amended and Restated Articles of Incorporation of the Corporation with the Secretary of State of the Commonwealth of Kentucky.
h. "*Excess Securities*" has the meaning given such term in Section 4 of this Article VIII.
i. "*Expiration Date*" means the earlier of the close of business on May 23, 2021, (ii) the repeal of Section 382 of the Code or any successor statute if the Board of Directors determines that this Article VIII is no longer necessary or desirable for the preservation of Tax Benefits, (iii) the close of business on the first day of a taxable year of the Corporation as to which the Board of Directors determines that no Tax Benefits may be carried forward or (iv) such date as the Board of Directors shall fix in accordance with Section 12 of this Article VIII.
j. "*Percentage Stock Ownership*" means the percentage Stock Ownership interest of any Person or group (as the context may require) for purposes of Section 382 of the Code as determined in accordance with the Treasury Regulation § l .382-2T(g), (h), and (k) or any successor provision and other pertinent Internal Revenue Service guidance.
k. "*Person*" means any individual, firm, corporation or other legal entity, including persons treated as an entity pursuant to Treasury Regulation § l.382-3(a)(l)(i); and includes any successor (by merger or otherwise) of such entity.
l. "*Prohibited Distributions*" means any and all dividends or other distributions paid by the Corporation with respect to any Excess Securities received by a Purported Transferee.
m. "*Prohibited Transfer*" means any Transfer or purported Transfer of Corporation Securities to the extent that such Transfer is prohibited and/or void under this Article VIII.
n. "*Public Group*" has the meaning set forth in Treasury Regulation § 1.382-2T(f)(13).
o. "*Purported Transferee*" has the meaning set forth in Section 4 of this Article VIII.
p. "*Securities*" and "*Security*" each has the meaning set forth in Section 7 of this Article VIII.
q. "*Stock*" means any interest that would be treated as "stock" of the Corporation pursuant to Treasury Regulation § 1.382-2T (f)(18).
r. "Stock Ownership" means any direct or indirect ownership of Stock, including any ownership by virtue of application of constructive ownership rules, with such direct, indirect, and constructive ownership determined under the provisions of

Section 382 of the Code and the regulations thereunder.

s. "*Tax Benefits*" means the net operating loss carryforwards, capital loss carryforwards, general business credit carryforwards, alternative minimum tax credit carryforwards and foreign tax credit carryforwards, as well as any loss or deduction attributable to a "net unrealized built-in loss" of the Corporation or any direct or indirect subsidiary thereof, within the meaning of Section 382 of the Code.

t. "Transfer" means, any direct or indirect sale, transfer, assignment, conveyance, pledge or other disposition or other action taken by a Person, other than the Corporation, that alters the Percentage Stock Ownership of any Person or group. A Transfer also shall include the creation or grant of an option (including an option within the meaning of Treasury Regulation § l. 382-4(d)). For the avoidance of doubt, a Transfer shall not include the creation or grant of an option by the Corporation, nor shall a Transfer include the issuance of Stock by the Corporation.

u. "*Transferee*" means any Person to whom Corporation Securities are Transferred.

v. "*Treasury Regulations*" means the regulations, including temporary regulations or any successor regulations promulgated under the Code, as amended from time to time.

Section 2. Transfer and Ownership Restrictions. In order to preserve the Tax Benefits, from and after the Effective Date of this Article VIII, any attempted Transfer of Corporation Securities prior to the Expiration Date and any attempted Transfer of Corporation Securities pursuant to an agreement entered into prior to the Expiration Date shall be prohibited and void ab initio to the extent that, as a result of such Transfer (or any series of Transfers of which such Transfer is a part), either (a) any Person or Persons would become a 5.0-percent Stockholder or the Percentage Stock Ownership in the Corporation of any 5.0-percent Stockholder would be increased.

Section 3. Exceptions.

a. Notwithstanding anything to the contrary herein, Transfers to a Public Group (including a new Public Group created under Treasury Regulation § l .382-2T(j)(3)(i)) shall be permitted.

b. The restrictions set forth in Section 2 of this Article VIII shall not apply to an attempted Transfer that is a 5.0-percent Transaction if the transferor or the Transferee obtains the written approval of the Board of Directors or a duly authorized committee thereof. As a condition to granting its approval pursuant to this Section 3 of Article VIII, the Board of Directors, may, in its discretion, require (at the expense of the transferor and/or Transferee) an opinion of counsel selected by the Board of Directors that the Transfer shall not result in a limitation on the use of the Tax Benefits as a result of the application of Section 382 of the Code; provided that the Board may grant such approval notwithstanding the effect of such approval on the Tax Benefits if it determines that the approval is in the best interests of the Corporation. The Board of Directors may grant its approval in whole or in part with respect to such Transfer and may impose any conditions that it deems reasonable and appropriate in connection with such approval, including, without limitation, restrictions on the ability of any Transferee to Transfer Stock acquired through a Transfer. Approvals of the Board of Directors hereunder may be given prospectively or retroactively. The Board of Directors, to the fullest extent permitted by law, may exercise the authority granted by this Article VIII through duly authorized officers or agents of the Corporation. Nothing in this Section 3 of this Article VIII shall be construed to limit or restrict the Board of Directors in the exercise of its fiduciary duties under applicable law.

Section 4. Excess Securities.

a. No employee or agent of the Corporation shall record any Prohibited Transfer, and the purported transferee of such a Prohibited Transfer (the "*Purported Transferee*") shall not be recognized as a shareholder of the Corporation for any purpose whatsoever in respect of the Corporation Securities which are the subject of the Prohibited Transfer (the "*Excess Securities*"). Until the Excess Securities are acquired by another person in a Transfer that is not a Prohibited Transfer, the Purported Transferee shall not be entitled, with respect to such Excess Securities, to any rights of shareholders of the Corporation, including, without limitation, the right to vote such Excess Securities and to receive dividends or distributions, whether liquidating or otherwise, in respect thereof, if any, and the Excess Securities shall be deemed to remain with the transferor unless and until. the Excess Securities are transferred to the Agent pursuant to Section 5 of this Article VIII or until an approval is obtained under Section 3 of this Article VIII. After the Excess Securities have been acquired in a Transfer that is not a Prohibited Transfer, the Corporation Securities shall cease to be Excess Securities. For this purpose, any Transfer of Excess Securities not in accordance with the provisions of Section 4 or 15.5 of this Article VIII shall also be a Prohibited Transfer.

b. The Corporation may require as a condition to the registration of the Transfer of any Corporation Securities or the payment of any distribution on any Corporation Securities that the proposed Transferee or payee furnish to the Corporation all information reasonably requested by the Corporation with respect to its direct or indirect ownership interests in such Corporation Securities. The Corporation may make such arrangements or issue such instructions to its stock transfer agent as may be determined by the Board of Directors to be necessary or advisable to implement this Article VIII, including, without limitation, authorizing such transfer agent to require an affidavit from a Purported Transferee regarding such Person's actual and constructive ownership of Stock and other evidence that a Transfer will not be prohibited by this Article VIII as a condition to registering any transfer.

Section 5. Transfer to Agent. If the Board of Directors determines that a Transfer of Corporation Securities constitutes a Prohibited Transfer then, upon written demand by the Corporation sent within thirty days of the date on which the Board of Directors determines that the attempted Transfer would result in Excess Securities, the Purported Transferee shall transferor cause to be transferred any certificate or other evidence of ownership of the Excess Securities within the Purported Transferee's possession or control, together with any Prohibited Distributions, to an agent designated by the Board of Directors (the "*Agent*"). The Agent shall thereupon sell to a buyer or buyers, which may include the Corporation, the Excess Securities transferred to it in one or more arm's-length transactions (on the public securities market on which such Excess Securities are traded, if possible, or otherwise privately); provided, however, that any such sale must not constitute a Prohibited Transfer and provided, farther, that the Agent shall effect such sale or sales in an orderly fashion and shall not be required to effect any such sale within any specific time frame if, in the Agent's discretion, such sale or sales would disrupt the market for the Corporation Securities or otherwise would adversely affect the value of the Corporation Securities. If the Purported Transferee has resold the Excess Securities before receiving the Corporation's demand to surrender Excess Securities to the Agent, the Purported Transferee shall be deemed to have sold the Excess Securities for the Agent, and shall be required to transfer to the Agent any Prohibited Distributions and proceeds of such sale, except to the extent that the Corporation grants written permission to the Purported Transferee to retain a portion of such sales proceeds not exceeding the amount that the Purported Transferee would have received from the Agent pursuant to 6 of this Article VIII if the Agent rather than the Purported Transferee had resold the Excess Securities.

Section 6. Application of Proceeds and Prohibited Distributions. The Agent shall apply any proceeds of a sale by it of Excess Securities and, if the Purported Transferee has previously resold the Excess Securities, any amounts received by it from a Purported Transferee, together, in either case, with any Prohibited Distributions, as follows: (a) first, such amounts shall be paid to the Agent to the extent necessary to cover its costs and expenses incurred in connection with its duties hereunder; (b) second, any remaining amounts shall be paid to the Purported Transferee, up to the amount paid by the Purported Transferee for the Excess Securities (or the fair market value at the time of the Transfer, in the event the purported Transfer of the Excess Securities was, in whole or in part, a gift, inheritance or similar Transfer) which amount shall be determined at the discretion of the Board of Directors; and (c) third, any remaining amounts shall be paid to one or more organizations qualifying under section 50l(c)(3) of the Code (or any comparable successor provision) selected by the Board of Directors. The Purported Transferee of Excess Securities shall have no claim, cause of action or any other recourse whatsoever against any transferor of Excess Securities. The Purported Transferee's sole right with respect to such shares shall be limited to the amount payable to the Purported Transferee pursuant to this 6 of Article VII. In no event shall the proceeds of any sale of Excess Securities pursuant to this 6 of Article VIII inure to the benefit of the Corporation or the Agent, except to the extent used to cover costs and expenses incurred by Agent in performing its duties hereunder.

Section 7. Modification of Remedies for Certain Indirect Transfers. If any Transfer which does not involve a transfer of securities of the Corporation within the meaning of Kentucky law ("*Securities*," and individually, a "*Security*") but which would cause a 5.0-percent Stockholder to violate a restriction on Transfers provided for in this Article VIII, the application of s 15.5 and 15.6 of this Article VIII shall be modified as described in this Section 7 of this Article VIII. In such case, no such 5.0-percent Stockholder shall be required to dispose of any interest that is not a Security, but such 5.0-percent Stockholder and/or any Person whose ownership of Securities is attributed to such 5.0-percent Stockholder shall be deemed to have disposed of and shall be required to dispose of sufficient Securities (which Securities shall be disposed of in the inverse order in which they were acquired) to cause such 5.0-percent Stockholder, following such disposition, not to be in violation of this Article VIII. Such disposition shall be deemed to occur simultaneously with the Transfer giving rise to the application of this provision, and such number of Securities that are deemed to be disposed of shall be considered Excess Securities and shall be disposed of through the Agent as provided in Sections 15.5 and 15.6 of this Article VIII, except that the maximum aggregate amount payable either to such 5.0-percent Stockholder, or to such other Person that was the direct holder of such Excess Securities, in connection with such sale shall be the fair market value of such Excess Securities at the time of the purported Transfer. All expenses incurred by the Agent in disposing of such Excess Stock shall be paid out of any amounts due such 5.0-percent Stockholder or such other Person. The purpose of this 7 of Article VIII is to extend the restrictions in Sections 15.2 and 15.5 of this Article VIII to situations in which there is a 5.0-percent Transaction without a direct Transfer of Securities, and this Section 7 of Article VIII, along with the other provisions of this Article VIII, shall be interpreted to produce the same results, with differences as the context requires, as a direct Transfer of Corporation Securities.

Section 8. Legal Proceedings; Prompt Enforcement. If the Purported Transferee fails to surrender the Excess Securities or the proceeds of a sale thereof to the Agent within thirty days from the date on which the Corporation makes a written demand pursuant to 5 of this Article VIII (whether or not made within the time specified in Section 5 of this Article VIII), then the Corporation may take such actions as it deems appropriate to enforce the provisions hereof, including the institution of legal proceedings to compel the surrender. Nothing in this 8 of Article VIII shall (a) be deemed inconsistent with any Transfer of the Excess Securities provided in this Article VIII being void *ab initio*, (b) preclude the Corporation in its discretion from immediately bringing legal proceedings without a prior demand or (c) cause any failure of the Corporation to act within the time periods set forth in 5 of this Article VIII to constitute a waiver or loss of any right of the Corporation under this Article VIII. The Board of Directors may authorize such additional actions as it deems advisable to give effect to the provisions of this Article VIII.

Section 9. Liability. To the fullest extent permitted by law, any shareholder subject to the provisions of this Article VIII who knowingly violates the provisions of this Article VIII and any Persons controlling, controlled by or under common control with such shareholder shall be jointly and severally liable to the Corporation for, and shall indemnify and hold the Corporation harmless against any and all damages suffered as a result of such violation, including but not limited to damages resulting from a reduction in, or elimination of, the Corporation's ability to utilize its Tax Benefits, and attorneys' and auditors' fees incurred in connection with such violation.

Section 10. Obligation to Provide Information. As a condition to the registration of the Transfer of any Stock, any Person who is a beneficial, legal or record holder of Stock, and any proposed Transferee and any Person controlling, controlled by or under common control with the proposed Transferee, shall provide such information as the Corporation may request from time to time in order to determine compliance with this Article VIII or the status of the Tax Benefits of the Corporation.

Section 11. Legends. The Board of Directors may require that any certificates issued by the Corporation evidencing ownership of shares of Stock that are subject to the restrictions on transfer and ownership contained in this Article VIII bear the following legend:

"THE ARTICLES OF INCORPORATION OF THE CORPORATION CONTAIN RESTRICTIONS PROHIBITING THE TRANSFER (AS DEFINED IN THE ARTICLES OF INCORPORATION) OF STOCK OF THE CORPORATION (INCLUDING THE CREATION OR GRANT OF CERTAIN OPTIONS, RIGHTS AND WARRANTS) WITHOUT THE PRIOR AUTHORIZATION OF THE BOARD OF DIRECTORS OF THE CORPORATION IF SUCH TRANSFER AFFECTS THE PERCENTAGE OF STOCK OF THE CORPORATION (WITHIN THE MEANING OF SECTION 382 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") AND THE TREASURY REGULATIONS PROMULGATED THEREUNDER), THAT IS TREATED AS OWNED BY A 5.0 PERCENT STOCKHOLDER (AS DEFINED IN THE ARTICLES OF INCORPORATION). IF THE TRANSFER RESTRICTIONS ARE VIOLATED, THEN THE TRANSFER WILL BE VOID *AB INITIO*, AND THE PURPORTED TRANSFEREE OF THE STOCK WILL BE REQUIRED TO TRANSFER EXCESS SECURITIES (AS DEFINED IN THE ARTICLES OF INCORPORATION) TO THE CORPORATION'S AGENT. IF A TRANSFER WHICH DOES NOT INVOLVE SECURITIES OF THE CORPORATION WITHIN THE MEANING OF KENTUCKY LAW ("*SECURITIES*") BUT WHICH WOULD VIOLATE THE TRANSFER RESTRICTIONS, THE PURPORTED TRANSFEREE (OR THE RECORD OWNER) OF THE SECURITIES WILL BE REQUIRED TO TRANSFER SUFFICIENT SECURITIES PURSUANT TO THE TERMS PROVIDED FOR IN THE CORPORATION'S ARTICLES OF INCORPORATION TO CAUSE THE 5.0 PERCENT STOCKHOLDER TO NO LONGER BE IN VIOLATION OF THE TRANSFER RESTRICTIONS. THE CORPORATION WILL FURNISH WITHOUT CHARGE TO THE HOLDER OF RECORD OF THIS CERTIFICATE A COPY OF THE ARTICLES OF INCORPORATION, CONTAINING THE ABOVE-REFERENCED TRANSFER RESTRICTIONS, UPON WRITTEN REQUEST TO THE CORPORATION AT ITS PRINCIPAL PLACE OF BUSINESS."

The Board of Directors may also require that any certificates issued by the Corporation evidencing ownership of shares of Stock that are subject to conditions imposed by the Board of Directors under Section 3 of this Article VIII also bear a conspicuous legend referencing the applicable restrictions.

Section 12. <u>Authority of Board of Directors</u>.

a. The Board of Directors shall have the power to determine all matters necessary for assessing compliance with this Article VIII, including, without limitation, (i) the identification of 5.0-percent Stockholders, (ii) whether a Transfer is a 5.0-percent Transaction or a Prohibited Transfer, (iii) the Percentage Stock Ownership in the Corporation of any 5.0-percent Stockholder, (iv) whether an instrument constitutes a Corporation Security, (v) the amount (or fair market value) due to a Purported Transferee pursuant to Section 6 of this Article VIII, and (vi) any other matters which the Board of Directors determines to be relevant; and the good faith determination of the Board of Directors on such matters shall be conclusive and binding for all the purposes of this Article VIII. In addition, the Board of Directors may, to the extent permitted by law, from time to time establish, modify, amend or rescind Bylaws, regulations and procedures of the Corporation not inconsistent with the provisions of this Article VIII for purposes of determining whether any Transfer of Corporation Securities would jeopardize or endanger the Corporation's ability to preserve and use the Tax Benefits and for the orderly application, administration and implementation of this Article VIII.

b. Nothing contained in this Article VIII shall limit the authority of the Board of Directors to take such other action to the extent permitted by law as it deems necessary or advisable to protect the Corporation and its shareholders in preserving the Tax Benefits. Without limiting the generality of the foregoing, in the event of a change in law making one or more of the following actions necessary or desirable, the Board of Directors may, by adopting a written resolution, (i) accelerate or extend the Expiration Date, (ii) modify the ownership interest percentage in the Corporation or the Persons or groups covered by this Article VIII, (iii) modify the definitions of any terms set forth in this Article VIII or (iv) modify the terms of this Article VIII as appropriate, in each case, in order to prevent an ownership change for purposes of Section 382 of the Code as a result of any changes in applicable Treasury Regulations or otherwise; provided, however, that the Board of Directors shall not cause there to be such acceleration, extension or modification unless it determines, by adopting a written resolution, that such action is reasonably necessary or advisable to preserve the Tax Benefits or that the continuation of these restrictions is no longer reasonably necessary for the preservation of the Tax Benefits. Shareholders of the Corporation shall be notified of such determination through a filing with the Securities and Exchange Commission or such other method of notice as the Secretary of the Corporation shall deem appropriate.

c. In the case of an ambiguity in the application of any of the provisions of this Article VIII, including any definition used herein, the Board of Directors shall have the power to determine the application of such provisions with respect to any situation based on its reasonable belief, understanding or knowledge of the circumstances. If this Article VIII requires an action by the Board of Directors but fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of this Article VIII. All such actions, calculations, interpretations and determinations which are done or made by the Board of Directors in good faith shall be conclusive and binding on the Corporation, the Agent, and all other parties for all other purposes of this Article VIII. The Board of Directors may delegate all or any portion of its duties and powers under this Article VIII to a committee of the Board of Directors as it deems necessary or advisable and, to the fullest extent permitted by law, may exercise the authority granted by this Article VIII through duly authorized officers or agents of the Corporation. Nothing in this Article VIII shall be construed to limit or restrict the Board of Directors in the exercise of its fiduciary duties under applicable law.

Section 13. <u>Reliance</u>. To the fullest extent permitted by law, the Corporation and the members of the Board of Directors shall be fully protected in relying in good faith upon the information, opinions, reports or statements of the chief executive officer, the chief financial officer, the chief accounting officer or the corporate controller of the Corporation and the Corporation's legal counsel, independent auditors, transfer agent, investment bankers or other employees and agents in making the determinations and findings contemplated by this Article VIII. The members of the Board of Directors shall not be responsible for any good faith errors made in connection therewith. For purposes of determining the existence and identity of, and the amount of any Corporation Securities owned by any shareholder, the Corporation is entitled to rely on the existence and absence of filings of Schedule 13D or 13G under the Securities and Exchange Act of 1934, as amended (or similar filings), as of any date, subject to its actual knowledge of the ownership of Corporation Securities.

Section 14. Benefits of This Article VIII. Nothing in this Article VIII shall be construed to give to any Person other than the Corporation or the Agent any legal or equitable right, remedy or claim under this Article VIII. This Article VIII shall be for the sole and exclusive benefit of the Corporation and the Agent.

Section 15. Severability. The purpose of this Article VIII is to facilitate the Corporation's ability to maintain or preserve its Tax Benefits. If any provision of this Article VIII or the application of any such provision to any Person or under any circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Article VIII.

Section 16. Waiver. With regard to any power, remedy or right provided herein or otherwise available to the Corporation or the Agent under this Article VIII, (a) no waiver will be effective unless expressly contained in a writing signed by the waiving party; and (b) no alteration, modification or impairment will be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

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Section 3: 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: August 2, 2019

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

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Section 4: 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: August 2, 2019

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

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Section 5: 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 June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John T. Taylor, Chief Executive Officer of the Company, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

LIMESTONE BANCORP, INC.

Dated: August 2, 2019

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

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Section 6: 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 June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip W. Barnhouse, Chief Financial Officer of the Company, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

LIMESTONE BANCORP, INC.

Dated: August 2, 2019

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

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