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 September 30, 2020

Or

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

For the transition period from ______ to ______

Commission file number: 001-33033

LIMESTONE BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares	LMST	Nasdaq

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

6,500,157 Common Shares and 1,000,000 Non-Voting Common Shares were outstanding at October 30, 2020.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

Unaudited Consolidated Balance Sheets for September 30, 2020 and December 31, 2019
Unaudited Consolidated Statements of Income for the three and nine months ended September 30, 2020 and 2019
Unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2020 and 2019
Unaudited Consolidated Statement of Changes in Stockholders' Equity for the three and nine months ended September 30, 2020 and 2019
Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019
Notes to Unaudited Consolidated Financial Statements

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

	September 30, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 7,593	$ 8,241
Interest bearing deposits in banks	24,358	21,962
Cash and cash equivalents	31,951	30,203
Securities available for sale	203,544	209,000
Loans, net of allowance of $11,481 and $8,376, respectively	962,987	917,895
Premises and equipment, net	18,572	19,658
Premises held for sale	1,110	900
Other real estate owned	1,625	3,225
Federal Home Loan Bank stock	5,962	6,237
Bank owned life insurance	23,347	16,037
Deferred taxes, net	26,540	27,765
Goodwill	6,252	6,252
Other intangible assets, net	2,308	2,500
Accrued interest receivable and other assets	7,426	6,107
Total assets	$ 1,291,624	$ 1,245,779
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$ 217,675	$ 187,551
Interest bearing	876,714	839,424
Total deposits	1,094,389	1,026,975
Federal Home Loan Bank advances	30,634	61,389
Accrued interest payable and other liabilities	8,315	8,665
Junior subordinated debentures	21,000	21,000
Subordinated capital notes	25,000	17,000
Senior debt	—	5,000
Total liabilities	1,179,338	1,140,029
Commitments and contingent liabilities (Note 15)	—	—
Stockholders' equity		
Common stock, no par, 39,000,000 shares authorized, 6,499,183 and 6,251,975 voting, and 1,000,000 and 1,220,000 non-voting issued and outstanding, respectively	140,639	140,639

Additional paid-in capital	24,831	24,508
Retained deficit	(49,795)	(55,683)
Accumulated other comprehensive loss	(3,389)	(3,714)
Total stockholders' equity	112,286	105,750
Total liabilities and stockholders' equity	$ 1,291,624	$ 1,245,779

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest income				
Loans, including fees	$ 10,805	$ 10,671	$ 33,772	$ 31,390
Taxable securities	1,139	1,553	3,913	4,734
Tax exempt securities	108	76	255	257
Interest-bearing deposits and other	42	185	207	666
	12,094	12,485	38,147	37,047
Interest expense				
Deposits	1,627	3,105	6,526	8,657
Federal Home Loan Bank advances	39	132	332	668
Junior subordinated debentures	138	251	525	772
Subordinated capital notes	335	190	830	190
Senior debt	12	77	119	271
	2,151	3,755	8,332	10,558
Net interest income	9,943	8,730	29,815	26,489
Provision for loan losses	1,350	—	3,500	—
Net interest income after provision for loan losses	8,593	8,730	26,315	26,489
Non-interest income				
Service charges on deposit accounts	565	633	1,674	1,700
Bank card interchange fees	881	623	2,494	1,727
Income from bank owned life insurance	113	97	325	314
Net loss on sales and calls of investment securities	—	—	(5)	(5)
Other	183	181	579	528
	1,742	1,534	5,067	4,264
Non-interest expense				
Salaries and employee benefits	4,413	4,202	13,584	12,032
Occupancy and equipment	1,008	880	2,990	2,632
Professional fees	261	254	704	598
Marketing expense	134	251	452	690
FDIC Insurance	81	—	148	211
Data processing expense	382	315	1,121	943
State franchise and deposit tax	360	315	1,080	945
Deposit account related expense	487	300	1,398	891
Other real estate owned expense	20	25	58	333
Litigation and loan collection expense	54	32	178	112
Communications expense	201	193	666	572
Insurance expense	102	109	316	335
Postage and delivery	156	129	476	404
Other	420	446	1,379	1,258
	8,079	7,451	24,550	21,956
Income before income taxes	2,256	2,813	6,832	8,797
Income tax expense	190	531	944	43
Net income	2,066	2,282	5,888	8,754
Basic and diluted income per common share	$ 0.28	$ 0.31	$ 0.79	$ 1.17

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	$ 2,066	$ 2,282	$ 5,888	$ 8,754
Other comprehensive income (loss):				
Unrealized gain on securities:				
Unrealized gain arising during the period	1,300	588	428	4,465

Less reclassification adjustment for gains (losses) included in net income	—	—	(5)	(5)
Net unrealized gain recognized in comprehensive income	1,300	588	433	4,470
Tax effect	(324)	(146)	(108)	(1,035)
Other comprehensive income	976	442	325	3,435
Comprehensive income	$ 3,042	$ 2,724	$ 6,213	$ 12,189

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Changes in Stockholders' Equity
For Three and Nine Months Ended September 30, 2020 and 2019
(Dollar amounts in thousands except share and per share data)

	Shares			Amount				
	Common			Common				
	Common	**Non-Voting Common**	**Total Common**	**Common and Non-Voting Common**	**Additional Paid-In Capital**	**Retained Deficit**	**Accumulated Other Comprehensive Loss**	**Total**
Balances, January 1, 2020	6,251,975	1,220,000	7,471,975	$ 140,639	$ 24,508	$ (55,683)	$ (3,714)	$ 105,750
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	17,330	—	17,330	—	(37)	—	—	(37)
Forfeited unvested stock	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	106	—	—	106
Net income	—	—	—	—	—	1,840	—	1,840
Net change in accumulated other comprehensive loss, net of taxes	—	—	—	—	—	—	(3,148)	(3,148)
Balances, March 31, 2020	6,269,305	1,220,000	7,489,305	$ 140,639	$ 24,577	$ (53,843)	$ (6,862)	$ 104,511
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	(3,433)	—	(3,433)	—	(38)	—	—	(38)
Forfeited unvested stock	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	104	—	—	104
Net income	—	—	—	—	—	1,982	—	1,982
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	2,497	2,497
Balances, June 30, 2020	6,265,872	1,220,000	7,485,872	$ 140,639	$ 24,643	$ (51,861)	$ (4,365)	$ 109,056
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	13,377	—	13,377	—	—	—	—	—
Forfeited unvested stock	(66)	—	(66)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	188	—	—	188
Non-voting shares converted to voting	220,000	(220,000)	—	—	—	—	—	—
Net income	—	—	—	—	—	2,066	—	2,066
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	976	976
Balances, September 30, 2020	6,499,183	1,000,000	7,499,183	$ 140,639	$ 24,831	$ (49,795)	$ (3,389)	$ 112,286

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Changes in Stockholders' Equity
For Three and Nine Months Ended September 30, 2020 and 2019
(Dollar amounts in thousands except share and per share data)

	Shares			Amount				
	Common			Common				
	Common	**Non-Voting Common**	**Total Common**	**Common and Non-Voting Common**	**Additional Paid-In Capital**	**Retained Deficit**	**Accumulated Other Comprehensive Loss**	**Total**
Balances, January 1, 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
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	13,750	—	13,750	—	—	—	—	—
Forfeited unvested stock	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	181	—	—	181
Net income	—	—	—	—	—	2,282	—	2,282
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	442	442
Balances, September 30, 2019	6,251,582	1,220,000	7,471,582	$ 140,639	$ 24,328	$ (57,447)	$ (3,193)	$ 104,327

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Unaudited Consolidated Statements of Cash Flows
For Nine Months Ended September 30, 2020 and 2019
(dollars in thousands)

	2020	2019
Cash flows from operating activities		
Net income	$ 5,888	$ 8,754
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	1,760	1,310
Provision for loan losses	3,500	—
Net amortization on securities	500	530
Stock-based compensation expense	398	356
Deferred taxes, net	1,117	215
Net write-down of other real estate owned	—	260
Net gain on sales of premises and equipment	—	(1)
Net realized loss on sales and calls of investment securities	5	5
Net write-down on premises held for sale	100	115
Increase in cash surrender value of life insurance, net of premium expense	(310)	(300)
Amortization of operating lease right-of-use assets	562	184
Net change in accrued interest receivable and other assets	(1,319)	(987)
Net change in accrued interest payable and other liabilities	(350)	(1,349)
Net cash from operating activities	11,851	9,092
Cash flows from investing activities		
Purchases of available for sale securities	(28,931)	(14,894)
Proceeds from sales and calls of available for sale securities	8,530	3,452
Proceeds from maturities and prepayments of available for sale securities	25,785	13,190
Purchases of Federal Home Loan Bank stock	(600)	—
Proceeds from mandatory redemptions of Federal Home Loan Bank stock	875	766
Proceeds from sale of other real estate owned	1,600	—
Net change in loans	(49,362)	(38,986)
Purchases of premises and equipment	(584)	(744)
Proceeds from sale of premises and equipment	—	1
Purchase of bank owned life insurance	(7,000)	—
Net cash from investing activities	(49,687)	(37,215)
Cash flows from financing activities		
Net change in deposits	67,414	29,203
Repayment of Federal Home Loan Bank advances	(135,755)	(105,119)
Advances from Federal Home Loan Bank	105,000	115,000
Proceeds from issuance of subordinated capital note	8,000	17,000
Repayment of senior debt	(5,000)	(5,000)
Common shares withheld for taxes	(75)	(315)
Net cash from financing activities	39,584	50,769
Net change in cash and cash equivalents	1,748	22,646
Beginning cash and cash equivalents	30,203	35,361
Ending cash and cash equivalents	$ 31,951	$ 58,007
Supplemental cash flow information:		
Interest paid	$ 8,924	$ 10,364
Income tax refund	346	—
Supplemental non-cash disclosure:		

Transfer from loans to other real estate	—	—
Transfer from premises and equipment to premises held for sale	310	—
Financed sales of other real estate owned	1,360	—
Initial recognition of right-of-use lease assets	—	507

See accompanying notes to unaudited consolidated financial statements.

LIMESTONE BANCORP, INC.
Notes to Unaudited Consolidated Financial Statements

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form *10*-Q and Rule *10-01* of Regulation S-*X.* Accordingly, the financial statements do *not* include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the *nine* months ended *September 30, 2020* are *not* necessarily indicative of the results that *may* be expected for the entire year. A description of other significant accounting policies is presented in the notes to the Consolidated Financial Statements for the year ended *December 31, 2019* included in the Company's Annual Report on Form *10*-K.

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

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

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

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

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

Note *2* – Securities

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

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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)			
September 30, 2020				
Available for sale				
U.S. Government and federal agency	$ 19,158	$ 931	$ —	$ 20,089
Agency mortgage-backed: residential	76,388	2,974	(13)	79,349
Collateralized loan obligations	44,730	—	(1,905)	42,825
State and municipal	34,391	1,076	(32)	35,435
Corporate bonds	27,116	373	(1,643)	25,846
Total available for sale	$ 201,783	$ 5,354	$ (3,593)	$ 203,544

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

Sales and calls of securities were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Proceeds	$ —	$ 1,000	$ 8,530	$ 3,452
Gross gains	—	—	—	1
Gross losses	—	—	5	6

The amortized cost and fair value of the 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.

	September 30, 2020	
	Amortized Cost	Fair Value
	(in thousands)	
Maturity		
Available for sale		
Within one year	$ 19,534	$ 18,381
One to five years	36,469	37,996
Five to ten years	46,194	45,894
Beyond ten years	23,198	21,924
Agency mortgage-backed: residential	76,388	79,349
Total	$ 201,783	$ 203,544

Securities pledged at *September 30, 2020* and *December 31, 2019* had carrying values of approximately $73.6 million and $75.8 million, respectively, and were pledged to secure public deposits.

At *September 30, 2020* and *December 31, 2019,* the Bank held securities issued by the Commonwealth of Kentucky or Kentucky municipalities having a book value of $22.3 million and $14.5 million, respectively. At *September 30, 2020* and *December 31, 2019,* there were no other holdings of securities of any *one* issuer, other than the U.S. Government and its agencies, in an amount greater than *10%* of stockholders' equity.

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

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

At *September 30, 2020,* $27.0 million, $13.5 million, and $2.4 million of the Bank's CLOs were AA, A, and BBB rated, respectively. There was *one* CLO rated below A at BBB, which was downgraded during the *third* quarter of *2020.* All of the Bank's CLOs are floating rate, with rates set on a quarterly basis at *three*-month LIBOR plus a spread. Stress testing was completed on each security in the CLO portfolio as of *September 30, 2020.* Each security in the portfolio passed, without dollar loss, a stress scenario characterized as severe, which assumed a ten percent per annum constant prepayment rate, a twelve percent per annum constant default rate for *four* years followed by a four percent rate thereafter, and a forty-five percent recovery rate on a *one*-year lag.

The fair value of the Bank's corporate bond portfolio has also been impacted by market disruption and declining rates. The corporate bond portfolio consists of *12* subordinated debt securities of U.S. banks and bank holding companies with maturities ranging from *2024* to *2037.* The securities are either fixed for *five* years converting to floating at an index over LIBOR or floating at an index over LIBOR from inception. Management regularly monitors the financial condition of these corporate issuers by reviewing their regulatory and public filings.

The 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 *September 30, 2020,* management does *not* believe any securities in the portfolio with unrealized losses should be classified as other than temporarily impaired.

Securities with unrealized losses at *September 30, 2020* and *December 31, 2019,* aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
			(in thousands)			
September 30, 2020						
Available for sale						
U.S. Government and federal agency	$ —	$ —	$ —	$ —	$ —	$ —
Agency mortgage-backed: residential	3,567	(13)	—	—	3,567	(13)
Collateralized loan obligations	11,102	(443)	31,723	(1,462)	42,825	(1,905)
State and municipal	2,436	(32)	—	—	2,436	(32)
Corporate bonds	13,710	(1,643)	—	—	13,710	(1,643)
Total temporarily impaired	$ 30,815	$ (2,131)	$ 31,723	$ (1,462)	$ 62,538	$ (3,593)

December 31, 2019						
Available for sale						
U.S. Government and federal agency	$ 12,567	$ (147)	$ —	$ —	$ 12,567	$ (147)
Agency mortgage-backed: residential	18,457	(97)	10,665	(158)	29,122	(255)
Collateralized loan obligations	9,539	(46)	35,336	(366)	44,875	(412)
State and municipal	911	(3)	—	—	911	(3)
Corporate bonds	—	—	—	—	—	—
Total temporarily impaired	$ 41,474	$ (293)	$ 46,001	$ (524)	$ 87,475	$ (817)

Note *3* – Loans

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

	September 30, 2020	December 31, 2019
	(in thousands)	
Commercial (1)	$ 218,762	$ 145,551
Commercial Real Estate:		
Construction	83,977	64,911
Farmland	69,017	79,118
Nonfarm nonresidential	266,477	255,459
Residential Real Estate:		
Multi-family	63,757	70,950
1-4 Family	194,829	226,629
Consumer	35,289	47,790
Agriculture	41,749	35,064
Other	611	799
Subtotal	974,468	926,271
Less: Allowance for loan losses	(11,481)	(8,376)
Loans, net	$ 962,987	$ 917,895

(*1*) Includes PPP loans of $42.3 million at *September 30, 2020.*

The following table presents the activity in the allowance for loan losses by portfolio segment for the *three* months ended *September 30, 2020* and *2019:*

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer (in thousands)	Agriculture	Other	Total
September 30, 2020:							
Beginning balance	$ 2,532	$ 4,494	$ 2,146	$ 581	$ 472	$ 3	$ 10,228
Provision (negative provision)	494	665	13	104	76	(2)	1,350
Loans charged off	–	–	(17)	(131)	(2)	–	(150)
Recoveries	5	6	13	13	14	2	53
Ending balance	$ 3,031	$ 5,165	$ 2,155	$ 567	$ 560	$ 3	$ 11,481
September 30, 2019:							
Beginning balance	$ 1,492	$ 4,453	$ 2,327	$ 153	$ 405	$ 2	$ 8,832
Provision (negative provision)	(68)	341	(686)	354	60	(1)	–
Loans charged off	(10)	(32)	(73)	(184)	–	–	(299)
Recoveries	6	7	345	9	3	1	371
Ending balance	$ 1,420	$ 4,769	$ 1,913	$ 332	$ 468	$ 2	$ 8,904

The following table presents the activity in the allowance for loan losses by portfolio segment for the *nine* months ended *September 30, 2020* and *2019:*

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
				(in thousands)			
September 30, 2020:							
Beginning balance	$ 1,710	$ 4,080	$ 1,743	$ 485	$ 355	$ 3	$ 8,376
Provision (negative provision)	1,337	1,016	422	503	228	(6)	3,500
Loans charged off	(32)	(57)	(99)	(444)	(46)	–	(678)
Recoveries	16	126	89	23	23	6	283
Ending balance	$ 3,031	$ 5,165	$ 2,155	$ 567	$ 560	$ 3	$ 11,481
September 30, 2019:							
Beginning balance	$ 1,299	$ 4,676	$ 2,452	$ 130	$ 321	$ 2	$ 8,880
Provision (negative provision)	30	130	(838)	531	148	(1)	–
Loans charged off	(10)	(47)	(190)	(398)	(4)	–	(649)
Recoveries	101	10	489	69	3	1	673
Ending balance	$ 1,420	$ 4,769	$ 1,913	$ 332	$ 468	$ 2	$ 8,904

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 *September 30, 2020:*

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
				(in thousands)			
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ –	$ 170	$ 1	$ –	$ –	$ –	$ 171
Collectively evaluated for impairment	3,031	4,995	2,154	567	560	3	11,310
Total ending allowance balance	$ 3,031	$ 5,165	$ 2,155	$ 567	$ 560	$ 3	$ 11,481
Loans:							
Loans individually evaluated for impairment	$ 99	$ 1,273	$ 1,165	$ 18	$ 1	$ –	$ 2,556
Loans collectively evaluated for impairment	218,663	418,198	257,421	35,271	41,748	611	971,912
Total ending loans balance	$ 218,762	$ 419,471	$ 258,586	$ 35,289	$ 41,749	$ 611	$ 974,468

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

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

Impaired Loans

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

The following tables present information related to loans individually evaluated for impairment by class of loans as of *September 30, 2020* and *December 31, 2019* and for the *three* and *nine* months ended *September 30, 2020* and *2019:*

	As of September 30, 2020			Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	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	$ 230	$ 99	$ —	$ 101	$ —	$ 103	$ —
Commercial real estate:							
Construction	—	—	—	—	—	—	—
Farmland	418	290	—	292	1	294	14
Nonfarm nonresidential	1,133	562	—	494	13	489	31
Residential real estate:							
Multi-family	—	—	—	—	—	—	—
1-4 Family	2,025	1,059	—	963	10	879	64
Consumer	288	18	—	16	2	68	3
Agriculture	306	1	—	—	—	11	—
Other	—	—	—	—	—	—	—
Subtotal	4,400	2,029	—	1,866	26	1,844	112
With An Allowance Recorded:							
Commercial	—	—	—	—	—	6	—
Commercial real estate:							
Construction	—	—	—	—	—	—	—
Farmland	421	421	170	282	—	247	4
Nonfarm nonresidential	—	—	—	75	—	38	—
Residential real estate:							
Multi-family	—	—	—	—	—	—	—
1-4 Family	106	106	1	91	4	100	7
Consumer	—	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Subtotal	527	527	171	448	4	391	11
Total	$ 4,927	$ 2,556	$ 171	$ 2,314	$ 30	$ 2,235	$ 123

	As of December 31, 2019			Three Months Ended September 30, 2019		Nine Months Ended September 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	$ 138	$ 50	$ —	$ 66	$ 2	$ 59	$ 2
Commercial real estate:							
Construction	—	—	—	—	—	—	—
Farmland	380	293	—	202	2	150	10
Nonfarm nonresidential	1,057	489	—	237	2	247	9
Residential real estate:							
Multi-family	—	—	—	—	—	—	—
1-4 Family	1,679	745	—	1,588	132	1,566	182
Consumer	309	98	—	76	2	45	4
Agriculture	304	42	—	65	—	49	—
Other	—	—	—	—	—	—	—
Subtotal	3,867	1,717	—	2,234	140	2,116	207
With An Allowance Recorded:							
Commercial	24	24	3	26	1	13	2
Commercial real estate:							
Construction	—	—	—	—	—	—	—
Farmland	282	282	37	292	7	225	7
Nonfarm nonresidential	—	—	—	—	—	—	—
Residential real estate:							
Multi-family	—	—	—	—	—	—	—
1-4 Family	183	147	2	356	7	537	28
Consumer	—	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Subtotal	489	453	42	674	15	775	37
Total	$ 4,356	$ 2,170	$ 42	$ 2,908	$ 155	$ 2,891	$ 244

Cash basis income recognized on impaired loans for the *three* and *nine* months ended *September 30, 2020* was $19,000 and $87,000, respectively, compared to $137,000 and $197,000 for the *three* and *nine* months ended *September 30, 2019,* respectively.

Troubled Debt Restructuring

A troubled debt restructuring (TDR) occurs when the Bank has agreed to an other than short-term 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 *September 30, 2020* and *December 31, 2019:*

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
September 30, 2020			
Commercial Real Estate:			
Nonfarm nonresidential	$ 382	$ —	$ 382
Residential Real Estate:			
1-4 Family	107	—	107
Total TDRs	$ 489	$ —	$ 489

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

At *September 30, 2020* and *December 31, 2019,* 100% of the Company's TDRs were performing according to their modified terms. The Company allocated $1,000 in reserves to borrowers whose loan terms have been modified in TDRs as of *September 30, 2020* and *December 31, 2019.* The Company has no commitment to lend additional amounts as of *September 30, 2020* and *December 31, 2019* to borrowers with outstanding loans classified as TDRs. During the *three* and *nine* months ended *September 30, 2020* and *September 30, 2019,* no TDRs defaulted on their restructured loan within the *12*-month period following the loan modification. A default is considered to have occurred once the TDR is past due *90* days or more or it has been placed on nonaccrual.

The following table presents a summary of the TDR loan modifications by portfolio segment that occurred during the *three* and *nine* months ended *September 30, 2020:*

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms (in thousands)	Total TDRs
September 30, 2020			
Residential Real Estate:			
1-4 Family	33	—	33
Total TDRs	$ 33	$ —	$ 33

As of *September 30, 2020, 100%* of the Company's TDRs that occurred during *2020* were performing in accordance with their modified terms. The Company has *not* allocated any reserves to customers whose loan terms have been modified during *2020.* For modifications occurring during the *three* and *nine* months ended *September 30, 2020,* the post-modification balances approximate the pre-modification balances. There were no TDR loan modifications during the *three* or *nine* months ended *September 30, 2019.*

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

Non-TDR Loan Modifications due to COVID-*19*

The Company has elected to account for eligible loan modifications under Section *4013* of the CARES Act. To be an eligible loan under Section *4013* of the CARES Act, a loan modification must be (*1*) related to the COVID *19* pandemic; (*2*) executed on a loan that was *not* more than *30* days past due as of *December 31, 2019;* and (*3*) executed between *March 1, 2020* and the earlier of (A) *60* days after the date of termination of the national emergency declared by the President on *March 13, 2020* concerning the COVID-*19* outbreak (the "national emergency") or (B) *December 31, 2020.* Eligible loan modifications are *not* required to be classified as TDRs and will *not* be reported as past due provided that they are performing in accordance with the modified terms. Interest income will continue to be recognized in accordance with GAAP unless the loan is placed on nonaccrual status.

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 *September 30, 2020,* and *December 31, 2019:*

	Nonaccrual		Loans Past Due 90 Days And Over Still Accruing	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
	(in thousands)			
Commercial	$ 99	$ 50	$ —	$ —
Commercial Real Estate:				
Construction	—	—	—	—
Farmland	711	431	—	—
Nonfarm nonresidential	180	90	—	—
Residential Real Estate:				
Multi-family	—	—	—	—
1-4 Family	1,029	817	—	—
Consumer	18	98	—	—
Agriculture	1	42	—	—
Other	—	—	—	—
Total	$ 2,038	$ 1,528	$ —	$ —

The following table presents the aging of the recorded investment in past due loans as of *September 30, 2020* and *December 31, 2019:*

	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days And Over Past Due	Nonaccrual	Total Past Due And Nonaccrual
			(in thousands)		
September 30, 2020					
Commercial	$ 12	$ —	$ —	$ 99	$ 111
Commercial Real Estate:					
Construction	—	—	—	—	—
Farmland	76	—	—	711	787
Nonfarm nonresidential	—	39	—	180	219
Residential Real Estate:					
Multi-family	—	—	—	—	—
1-4 Family	365	196	—	1,029	1,590
Consumer	29	30	—	18	77
Agriculture	—	—	—	1	1
Other	—	—	—	—	—
Total	$ 482	$ 265	$ —	$ 2,038	$ 2,785

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

Credit Quality Indicators

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

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

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

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

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

As of *September 30, 2020,* and *December 31, 2019,* and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(in thousands)			
September 30, 2020						
Commercial	$ 201,009	$ 3,568	$ —	$ 14,185	$ —	$ 218,762
Commercial Real Estate:						
Construction	83,977	—	—	—	—	83,977
Farmland	61,919	5,617	273	1,208	—	69,017
Nonfarm nonresidential	258,116	4,578	—	3,783	—	266,477
Residential Real Estate:						
Multi-family	53,309	10,448	—	—	—	63,757
1-4 Family	188,519	3,474	—	2,836	—	194,829
Consumer	35,236	6	—	47	—	35,289
Agriculture	41,199	91	91	368	—	41,749
Other	611	—	—	—	—	611
Total	$ 923,895	$ 27,782	$ 364	$ 22,427	$ —	$ 974,468

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

Note *4* – Leases

As of *September 30, 2020,* the Company leases real estate for *six* branch offices or offsite ATM machines under various operating lease agreements. The lease agreements have maturity dates ranging from *2021* to *2055,* including all expected extension periods. The weighted average remaining life of the lease term for these leases was 22 years as of *September 30, 2020.*

In determining the present value of lease payments, the Bank uses the implicit lease rate when readily determinable. As most of the Bank's leases do *not* provide an implicit rate, the incremental borrowing rate based on the information available at commencement date is used. The incremental borrowing rate is the rate of interest that the Bank estimates it would pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment. The weighted average discount rate for the leases was 5.47% as of *September 30, 2020.*

Total rental expense was $133,000 and $389,000, respectively, for the *three* and *nine* months ended *September 30, 2020,* compared to $66,000 and $196,000, respectively, for the *three* and *nine* months ended *September 30, 2019.* The right-of-use asset, included in premises and equipment, and lease liability, included in other liabilities, was $2.5 million as of *September 30, 2020* and $323,000 as of *September 30, 2019.*

Total estimated rental commitments for the operating leases were as follows as of *September 30, 2020* (in thousands):

	September 30, 2020
October – December 2020	$ 128
2021	222
2022	203
2023	206
2024	205
Thereafter	3,720
Total minimum lease payments	4,684
Discount effect of cash flows	(2,176)
Present value of lease liabilities	$ 2,508

At *September 30, 2020,* the Company has entered into *two* additional leases for new branch offices that have yet to commence. The right of use asset and lease liability for the leases yet to commence are estimated to be approximately $3.3 million and are expected to be recorded in the *first* quarter of *2021*.

Note *5* – Other Real Estate Owned

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

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

	September 30, 2020	December 31, 2019
	(in thousands)	
Commercial Real Estate:		
Construction, land development, and other land	$ 1,625	$ 3,225
	$ 1,625	$ 3,225

Residential loans secured by *1-4* family residential properties in the process of foreclosure totaled $154,000 and $172,000 at *September 30, 2020* and *December 31, 2019*, respectively.

Activity relating to OREO during the *nine* months ended *September 30, 2020* and *2019* is as follows:

	For the Nine Months Ended September 30, 2020	2019
	(in thousands)	
OREO Activity		
OREO as of January 1	$ 3,225	$ 3,485
Real estate acquired	—	—
Valuation adjustment write-downs	—	(260)
Net gain on sales	—	—
Proceeds from sales of properties	(1,600)	—
OREO as of September 30	$ 1,625	$ 3,225

Expenses related to other real estate owned include:

	Three Months Ended September 30, 2020	2019	Nine Months Ended September 30, 2020	2019
	(in thousands)		(in thousands)	
Net gain on sales	$ —	$ —	$ —	$ —
Valuation adjustment write-downs	—	—	—	260
Operating expense	20	25	58	73
Total	$ 20	$ 25	$ 58	$ 333

Note *6* – Goodwill and Intangible Assets

The following table summarizes the Company's acquired goodwill and intangible assets as of *September 30, 2020* and *December 31, 2019* (in thousands):

	September 30, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	$ 6,252	$ —	$ 6,252	$ —
Core deposit intangibles	2,500	192	2,500	—
Outstanding, ending	$ 8,752	$ 192	$ 8,752	$ —

The Company has $6.3 million of goodwill related to a *2019* branch acquisition transaction. Goodwill represents the excess of the total purchase price paid over the fair value of the identifiable assets acquired, net of the fair value of the liabilities assumed. Goodwill is *not* amortized but is evaluated for impairment on an annual basis or whenever events or changes in circumstances *may* indicate the carrying value of goodwill exceeds fair value and *may not* be recoverable.

Based upon current economic conditions as a result of COVID-*19,* management performed a qualitative goodwill impairment assessment as of *September 30, 2020.* After evaluating certain qualitative assessment assumptions, which are subject to risk and uncertainties, such as forecasted revenues, expenses and cash flows, current discount rates, the Company's market capitalization, observable market transactions and multiples, changes to the regulatory environment, and the nature and amount of government support that has been and is expected to be provided in the future, management concluded it was more likely than *not* that the fair value of goodwill exceeds its carrying amount and thus, no impairment was identified. Goodwill is the Company's sole intangible asset with an indefinite life.

The Company also has a core deposit intangible asset, which is amortized over the weighted average estimated life of the related deposits and is *not* estimated to have a significant residual value. During the *three* and *nine* months ended *September 30, 2020,* the Company recorded intangible amortization expense totaling $64,000 and $192,000, respectively.

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

		September 30, 2020
October 2020 – December 2020	$	64
2021		256
2022		256
2023		256
2024		256
Thereafter		1,220
	$	2,308

Note *7* – Deposits

The following table details deposits by category:

		September 30, 2020		December 31, 2019
		(in thousands)		
Non-interest bearing	$	217,675	$	187,551
Interest checking		168,735		146,038
Money market		174,588		160,837
Savings		134,962		56,015
Certificates of deposit		398,429		476,534
Total	$	1,094,389	$	1,026,975

Time deposits of *$250,000* or more were $56.8 million and $51.2 million at *September 30, 2020* and *December 31, 2019,* respectively.

Scheduled maturities of total time deposits at *September 30, 2020* for each of the next *five* years and thereafter are as follows (in thousands):

Year 1	$	303,986
Year 2		40,954
Year 3		16,327
Year 4		12,747
Year 5		23,993
Thereafter		422
	$	398,429

Note *8* – Advances from the Federal Home Loan Bank

Advances from the Federal Home Loan Bank were as follows:

		September 30, 2020		December 31, 2019
		(in thousands)		
Short-term advances (fixed rates 0.19%)	$	10,000	$	60,000
Long-term advances (fixed rates 0.00% to 0.77%) maturing April 2021 to February 2030		20,634		1,389
Total advances from the Federal Home Loan Bank	$	30,634	$	61,389

FHLB advances had a weighted-average rate of 0.56% at *September 30, 2020* and 1.70% at *December 31, 2019.* Each advance is payable per terms on agreement, with a prepayment penalty. No prepayment penalties were incurred during *2020* or *2019.* The advances were collateralized by approximately $137.9 million and $166.0 million of *first* mortgage loans, under a blanket lien arrangement at *September 30, 2020* and *December 31, 2019,* respectively, and $42.3 million of loans originated under the SBA Payment Protection Plan at *September 30, 2020.* At *September 30, 2020,* the Bank's additional borrowing capacity with the FHLB was $106.6 million.

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

		Advances
Year 1	$	10,634
Year 2		—
Year 3		—
Year 4		—
Year 5		—
Thereafter		20,000
	$	30,634

Note *9* – Borrowings

Junior Subordinated Debentures – The junior subordinated debentures are redeemable at par prior to maturity at the option of the Company as defined within the trust indenture. The Company has the option to defer interest payments on the junior subordinated debentures from time to time for a period *not* to exceed *20* consecutive quarters. A deferral period *may* begin at the Company's discretion so long as interest payments are current. The Company is prohibited from paying dividends on preferred and common shares when interest payments are in deferral. At *September 30, 2020,* the Company is current on all interest payments.

Subordinated Capital Notes – The Company's subordinated notes mature on *July 31, 2029.* The notes carry interest at a fixed rate of 5.75% until *July 30, 2024* and then convert to variable at *three*-month LIBOR plus 395 basis points until maturity. The subordinated capital notes qualify as Tier *2* regulatory capital. On *July 31, 2020,* the Company completed the issuance of an additional $8.0 million in subordinated notes under the *July 23, 2019* indenture with the same terms and with the additional commitment by the Company to extend the optional prepayment date to *July 31, 2025* so long as the additional notes qualify as Tier *2* regulatory capital. The Company used the net proceeds from the issuance of the additional notes to retire its senior debt and retained the remaining balance for general corporate purposes. The subordinated capital notes qualify as Tier *2* regulatory capital.

Note *10* – Fair Values Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Various valuation techniques are used to determine fair value, including market, income and cost approaches. There are *three* levels of inputs that *may* be used to measure fair values:

Level *1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level *2:* Significant other observable inputs other than Level *1* prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are *not* active, and other inputs that are observable or can be corroborated by observable market data.

Level *3:* Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges, if available. This valuation method is classified as Level *1* in the fair value hierarchy. For securities where quoted prices are *not* available, fair values are calculated on market prices of similar securities, or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Matrix pricing relies on the securities' relationship to similarly traded securities, benchmark curves, and the benchmarking of like securities. Matrix pricing utilizes observable market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, *two*-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. In instances where broker quotes are used, these quotes are obtained from market makers or broker-dealers recognized to be market participants. This valuation method is classified as Level *2* in the fair value hierarchy. For securities where quoted prices or market prices of similar securities are *not* available, fair values are calculated using discounted cash flows or other market indicators. This valuation method is classified as Level *3* in the fair value hierarchy. Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Impaired Loans: An impaired loan is evaluated at the time the loan is identified as impaired and is recorded at fair value less costs to sell. Fair value is measured based on the value of the collateral securing the loan and is classified as Level *3* in the fair value hierarchy. Fair value is determined using several methods. Generally, the fair value of real estate is determined based on appraisals by qualified licensed appraisers. These appraisals *may* utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.

Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. These routine adjustments are made to adjust the value of a specific property relative to comparable properties for variations in qualities such as location, size, and income production capacity relative to the subject property of the appraisal. Such adjustments are typically significant and result in a Level *3* classification of the inputs for determining fair value.

Management routinely applies internal discounts to the value of appraisals used in the fair value evaluation of impaired loans. The deductions to the appraisal take into account changing business factors and market conditions, as well as potential value impairment in cases where the 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 the impairment evaluations when applicable.

Impaired loans are evaluated quarterly for additional impairment. Management obtains updated appraisals on properties securing 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 *September 30, 2020* and *December 31, 2019* are summarized below:

		Fair Value Measurements at September 30, 2020 Using (in thousands)		
Description	***Carrying Value***	**Quoted Prices In Active Markets for *Identical Assets (Level 1)***	**Significant Other *Observable Inputs (Level 2)***	**Significant Unobservable *Inputs (Level 3)***
Available for sale securities				
U.S. Government and federal agency	$ 20,089	$ —	$ 20,089	$ —
Agency mortgage-backed: residential	79,349	—	79,349	—
Collateralized loan obligations	42,825	—	42,825	—
State and municipal	35,435	—	35,435	—
Corporate bonds	25,846	—	25,846	—
Total	$ 203,544	$ —	$ 203,544	$ —

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

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

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

Description	Carrying Value	Fair Value Measurements at September 30, 2020 Using (in thousands) Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial real estate:				
Farmland	$ 251	$ —	$ —	$ 251
Residential real estate:				
1-4 Family	105	—	—	105

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

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $527,000 at *September 30, 2020* with a valuation allowance of $171,000, resulting in $147,000 and $129,000 provision for loan losses for the *three* and *nine* months ended *September 30, 2020*, respectively. Impaired loans had a carrying amount of $316,000 with a valuation allowance of $33,000, resulting in no additional provision for loan losses for the *three* and *nine* months ended *September 30, 2019*, respectively. At *December 31, 2019*, impaired loans had a carrying amount of $453,000, with a valuation allowance of $42,000.

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

	Carrying Amount	Fair Value Measurements at September 30, 2020 Using Level 1	Level 2 (in thousands)	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 31,951	$ 31,951	$ —	$ —	$ 31,951
Securities available for sale	203,544	—	203,544	—	203,544
Federal Home Loan Bank stock	5,962	*N/A*	*N/A*	*N/A*	*N/A*
Loans, net	962,987	—	—	943,495	943,495
Accrued interest receivable	5,351	—	906	4,445	5,351
Financial liabilities					
Deposits	$ 1,094,389	$ 217,675	$ 878,723	$ —	$ 1,096,398
Federal Home Loan Bank advances	30,634	—	30,666	—	30,666
Junior subordinated debentures	21,000	—	—	15,432	15,432
Subordinated capital notes	25,000	—	—	24,720	24,720
Senior Debt	—	—	—	—	—
Accrued interest payable	537	—	269	268	537

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

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

Note *11* – Income Taxes

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

	September 30, 2020	December 31, 2019
	(in thousands)	
Deferred tax assets:		
Net operating loss carry-forward	$ 22,970	$ 22,915
Allowance for loan losses	2,864	2,090
OREO write-down	914	2,665
Alternative minimum tax credit carry-forward	—	173
Net assets from acquisitions	111	228
New market tax credit carry-forward	208	208
Nonaccrual loan interest	313	303
Accrued expenses	102	102
Lease liability	626	766
Other	342	309
	28,450	29,759
Deferred tax liabilities:		
FHLB stock dividends	485	563
Fixed assets	73	57
Deferred loan costs	181	170
Net unrealized gain on securities	439	331
Lease right-of-use assets	626	766
Other	106	107
	1,910	1,994
Net deferred tax asset	$ 26,540	$ 27,765

At *September 30, 2020,* the Company had net federal operating loss carryforwards of $102.9 million, which will begin to expire in *2032,* and state net operating loss carryforwards of $34.3 million, which begin to expire in *2025.* During *2020,* the $173,000 alternative minimum tax credit carryforward was refunded due to the enactment of the Coronavirus Aid Relief and Economic Security Act ("CARES Act").

The Company does not have any beginning and ending unrecognized tax benefits. The Company does *not* expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next *twelve* months. There were no interest and penalties recorded in the income statement or accrued for the *three* or *nine* months ended *September 30, 2020* or *September 30, 2019* related to unrecognized tax benefits.

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

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

On *September 23, 2015,* the Company's shareholders approved an amendment to its articles of incorporation to further help protect the long-term value of the Company's NOLs. The amendment provides a means to block transfers of the Company's 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 the Board determines that the transfer restrictions are *no* longer needed to preserve the tax benefits of the NOLs, or (iv) such date as the Board otherwise determines that the transfer restrictions are *no* longer necessary.

The Company and its subsidiaries are subject to U.S. federal income tax and the Company is subject to income tax in the Commonwealth of Kentucky. The Company is *no* longer subject to examination by taxing authorities for years before *2017*.

Note *12* – Stock Plans and Stock Based Compensation

Shares available for issuance under the *2018* Omnibus Equity Compensation Plan ("*2018* Plan") total 262,056. Shares issued to employees under the plan vest annually on the anniversary date of the grant over three years. Shares issued annually to non-employee directors have a fair market value of $25,000 and vest on *December 31* in the year of grant.

The fair value of the *2020* unvested shares issued was $524,000, or $15.47 per weighted-average share. The Company recorded $188,000 and $398,000 of stock-based compensation to salaries for the *three* and *nine* months ended *September 30, 2020,* respectively, and $181,000 and $356,000 for the *three* and *nine* months ended *September 30, 2019,* respectively. Management expects substantially all of the unvested shares outstanding at the end of the period to vest according to the vesting schedule. A deferred tax benefit of $39,000 and $84,000 was recognized related to this expense during the *three* and *nine* months ended *September 30, 2020,* respectively, and $38,000 and $75,000 for the *three* and *nine* months ended *September 30, 2019,* respectively.

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

	Nine Months Ended September 30, 2020			Twelve Months Ended December 31, 2019		
	Shares		Weighted Average Grant Price	Shares		Weighted Average Grant Price
Outstanding, beginning	57,774	$	13.35	116,909	$	8.69
Granted	33,884		15.47	34,501		14.81
Vested	(28,371)		12.43	(89,388)		7.83
Forfeited	(66)		13.93	(4,248)		13.07
Outstanding, ending	63,221	$	14.90	57,774	$	13.35

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

October 2020 – December 2020	$	188
2021		310
2022		136
2023		14

Note *13* – Earnings per Share

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	(in thousands, except share and per share data)							
Net income	$	2,066	$	2,282	$	5,888	$	8,754
Less:								
Earnings allocated to unvested shares		16		20		47		93
Net income available to common shareholders, basic and diluted	$	2,050	$	2,262	$	5,841	$	8,661
Basic								
Weighted average common shares including unvested common shares outstanding		7,499,223		7,471,582		7,489,795		7,467,048
Less:								
Weighted average unvested common shares		56,938		63,913		59,151		79,411
Weighted average common shares outstanding		7,442,285		7,407,669		7,430,644		7,387,637
Basic income per common share	$	0.28	$	0.31	$	0.79	$	1.17

Diluted				
Add: Dilutive effects of assumed exercises of common stock warrants	—	—	—	—
Weighted average common shares and potential common shares	7,442,285	7,407,669	7,430,644	7,387,637
Diluted income per common share	$ 0.28	$ 0.31	$ 0.79	$ 1.17

The Company had no outstanding stock options or warrants at *September 30, 2020* or *2019.*

Note *14* – Regulatory Capital Matters

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

The Basel III rules established a "capital conservation buffer" of 2.5% above the regulatory minimum risk-based capital ratios. The minimum ratios are a common equity Tier *1* risk-based capital ratio of 7.0%, a Tier *1* risk-based capital ratio of 8.5%, and a total risk-based capital ratio of 10.5%. An institution is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions without prior regulatory approval.

The Company's capital ratios were positively impacted by the additional $8.0 million of subordinated notes issued on *July 21, 2020,* as the subordinated notes meet the requirements to qualify as Tier *2* capital.

As of *September 30, 2020,* Management believes the Company and Bank met all capital adequacy requirements to which they are subject. As of *September 30, 2020,* the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are *no* conditions or events since the notification that management believes have changed the institution's category.

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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 September 30, 2020:						
Total risk-based capital (to risk- weighted assets)	$ 136,629	12.97%	$ 84,298	8.00%	$ 105,372	10.00%
Total common equity Tier 1 risk- based capital (to risk-weighted assets)	125,148	11.88	47,417	4.50	68,492	6.50
Tier 1 capital (to risk-weighted assets)	125,148	11.88	63,223	6.00	84,298	8.00
Tier 1 capital (to average assets)	125,148	9.90	50,540	4.00	63,175	5.00

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

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

Note *15* – Off Balance Sheet Risks, Commitments, and Contingent Liabilities

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

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

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

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

	September 30, 2020		December 31, 2019	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to make loans	$ 14,369	$ 17,439	$ 11,577	$ 20,415
Unused lines of credit	6,431	134,512	7,916	111,230
Standby letters of credit	531	1,336	531	3,164

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

In connection with the purchase of loan participations, the Bank entered into risk participation agreements, which had notional amounts totaling $26.6 million at *September 30, 2020* and *December 31, 2019.* The risk participation agreements are *not* designated against specific assets or liabilities under ASC *815,* Derivatives and Hedging, and, therefore, do *not* qualify for hedge accounting. The derivatives are recorded in other liabilities on the balance sheet at fair value and changes in fair value of both the borrower and the offsetting swap agreements are recorded (and essentially offset) in non-interest income.

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

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

Note *16* – Revenue from Contracts with Customers

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

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

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

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

Other Non-interest Income: Other non-interest income includes revenue from several sources that are within the scope of ASC *606,* including title insurance commissions, income from secondary market loan sales, and other transaction-based revenue that is individually immaterial. Other non-interest income included approximately $124,000 and $409,000 of revenue for the *three* and *nine* months ended *September 30, 2020,* respectively, within the scope of ASC *606.* Other non-interest income included approximately $133,000 and $388,000 of revenue for the *three* and *nine* months ended *September 30, 2019,* respectively, within the scope of ASC *606.* The remaining other non-interest income for the *three* and *nine* months is excluded from the scope of ASC *606.*

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

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

Preliminary Note Concerning Forward-Looking Statements

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

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

Forward-looking statements involve risks and uncertainties that may cause 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:

- Ability of borrowers to resume contractual payments upon expiration of COVID-19 short-term loan concessions;
- Changes in fiscal, monetary, regulatory and tax policies;
- Changes in political and economic conditions;
  - The magnitude and frequency of changes to the Federal Funds Target Rate implemented by the Federal Open Market Committee of the Federal Reserve Bank;
  - Long-term and short-term interest rate fluctuations as well as the overall steepness of the yield curve;
  - Competitive product and pricing pressures;
  - Equity and fixed income market fluctuations;
  - Client bankruptcies and loan defaults;
  - Inflation;
  - Recession;
  - Epidemics and pandemics;
  - Natural disasters impacting Company operations;
- Future acquisitions;
- Integrations and performance of acquired businesses;
- Changes in technology and regulations or the interpretation and enforcement thereof;
- Changes in accounting standards;
- Changes to the Company's overall internal control environment;
- Success in gaining regulatory approvals when required;
- Information security breaches or cyber security attacks involving either the Company or one of the Company's third-party service providers; and
- Other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC"), including Part II Item 1A "*Risk Factors*" of this report, as well as Part I Item 1A "*Risk Factors*" of the Company's December 31, 2019 Annual Report on Form 10-K for the year ended December 31, 2019.

Overview

The Company is a bank holding company headquartered in Louisville, Kentucky. The Company's common stock is traded on Nasdaq's Capital Market under the symbol LMST. The Company operates Limestone Bank (the Bank), its wholly owned subsidiary and the tenth largest bank domiciled in the Commonwealth of Kentucky based on total assets. The Bank operates banking offices in 14 counties in Kentucky. The Bank's markets include metropolitan Louisville in Jefferson County and the surrounding counties of Bullitt and Henry. The Bank serves south central, southern, and western Kentucky from banking centers in Barren, Butler, Daviess, Edmonson, Green, Hardin, Hart, Ohio, and Warren counties. The Bank also has banking centers in Lexington, Kentucky, the second largest city in the state, and Frankfort, Kentucky, the state capital. The Bank is a traditional community bank with a wide range of personal and business banking products and services. As of September 30, 2020, the Company had total assets of $1.29 billion, total loans of $974.5 million, total deposits of $1.09 billion and stockholders' equity of $112.3 million.

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The Company reported net income of $2.1 million and $5.9 million for the three and nine months ended September 30, 2020, compared with net income of $2.3 million and $8.8 million for the same periods of 2019. Income tax expense was $190,000 and $944,000 for the third quarter of 2020 and for the first nine months of 2020, respectively, compared to income tax expense of $531,000 and $43,000 for the third quarter of 2019 and for the first nine months of 2019, respectively. Income tax expense benefitted from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during 2019. Income tax expense benefitted $244,000 and $33,000 for the third quarter of 2020 and 2019, respectively. Income tax expense benefitted $395,000 and $1.6 million for the first nine months of 2020 and 2019, respectively. The new Kentucky income tax will go into effect on January 1, 2021.

Highlights for the nine months ended September 30, 2020 are as follows:

- Loan growth outpaced paydowns during the period. Average loans receivable increased approximately $176.8 million or 22.5% to $963.7 million for the nine months ended September 30, 2020, compared with $786.8 million for the first nine months of 2019. This resulted in an increase in interest revenue volume of approximately $6.5 million for the nine months ended September 30, 2020 compared with the nine months of 2019. Average loans were positively impacted from the branch purchase acquisition, which included approximately $126.8 million in loans at the time of the purchase, along with loan growth during 2019 and 2020, as well as $42.3 million loan originations under the SBA Paycheck Protection Program.

- Net interest margin decreased 16 basis points to 3.30% in the first nine months of 2020 compared with 3.46% in the first nine months of 2019. The yield on earning assets decreased to 4.23% for the first nine months of 2020, compared to 4.83% for the first nine months of 2019. The decline in yield on earning assets was driven by the impact of falling interest rates on the Bank's fed funds, certain floating rate investment securities, and loans with variable rate pricing features as the Federal Reserve lowered the federal funds target rate by 75 basis points in the latter half of 2019, 50 basis points on March 6, 2020, and 100 basis points on March 15, 2020. The cost of interest-bearing liabilities decreased from 1.67% in the first nine months of 2019 to 1.15% in the first nine months of 2020 as a result of decreases in short-term interest rates during 2019 and 2020.

- A provision of $1.4 million and $3.5 million was recorded in the third quarter and the first nine months of 2020, respectively, compared to no provision for loan losses in the third quarter and first nine months of 2019. The 2020 loan loss provisions were attributable to the net loan charge-offs during the period, trends within the portfolio over the period, and primarily to changes in the economic and business environment attributable to COVID-19, the state and national emergencies that have been declared and the resultant risk the pandemic poses for business disruptions for the Bank's borrowers which may lead to credit quality deterioration. Substandard loans increased $12.3 million during the first nine months of 2020. The increase in substandard loans was primarily attributable to the commercial and industrial loan segment, which increased $10.2 million during 2020. Net loan charge-offs were $395,000 for the first nine months of 2020, compared to net loan recoveries of $24,000 for the first nine months of 2019.

- Loans past due 30-59 days decreased from $1.7 million at December 31, 2019 to $482,000 at September 30, 2020, and loans past due 60-89 days decreased from $670,000 at December 31, 2019 to $265,000 at September 30, 2020. Total loans past due and nonaccrual loans decreased to $2.8 million at September 30, 2020, from $3.9 million at December 31, 2019.

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

- Foreclosed properties decreased from $3.2 million at December 31, 2019 and September 30, 2019 to $1.6 million at September 30, 2020. Operating expenses totaled $58,000 for the first nine months of 2020 compared to operating expenses and fair value write downs of $333,000 for the first nine months of 2019.

- The ratio of non-performing assets to total assets decreased to 0.32% at September 30, 2020, compared with 0.42% at December 31, 2019, and 0.51% at September 30, 2019.

- Deposits were $1.09 billion at September 30, 2020, compared with $1.03 billion at December 31, 2019. Certificate of deposit balances decreased $78.1 million during the first nine months of 2020 to $398.4 million at September 30, 2020, from $476.5 million at December 31, 2019. Interest checking accounts increased $22.7 million, non-interest bearing accounts increased $30.1 million, money market increased $13.8 million, and savings accounts increased $78.9 during the first nine months of 2020 compared with December 31, 2019.

- On July 31, 2020, the Company completed the issuance of an additional $8.0 million in subordinated notes pursuant to the July 23, 2019 indenture under which the Company's outstanding subordinated notes were previously issued. The Company used $5.0 million of the net proceeds from the offering to retire its senior debt and retained the remaining balance for general corporate purposes. The subordinated capital notes qualify as Tier 2 regulatory capital.

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 the Company's Annual Report on Form 10-K for the calendar year ended December 31, 2019. Management has discussed the development, selection, and application of critical accounting policies with the Audit Committee. During the first nine months of 2020, there were no material changes in the critical accounting policies and assumptions.

Results of Operations

The following table summarizes components of income and expense and the change in those components for the three months ended September 30, 2020, compared with the same period of 2019:

	For the Three Months Ended September 30,		Change from Prior Period	
	2020	**2019**	**Amount**	**Percent**
	(dollars in thousands)			
Gross interest income	$ 12,094	$ 12,485	$ (391)	(3.1)%
Gross interest expense	2,151	3,755	(1,604)	(42.7)
Net interest income	9,943	8,730	1,213	13.9
Provision for loan losses	1,350	—	1,350	100.0
Non-interest income	1,742	1,534	208	13.6
Non-interest expense	8,079	7,451	628	8.4
Net income before taxes	2,256	2,813	(557)	(19.8)
Income tax expense	190	531	(341)	(64.2)
Net income	2,066	2,282	(216)	(9.5)

Net income for the three months ended September 30, 2020 totaled $2.1 million, compared with $2.3 million for the comparable period of 2019. Net income before taxes and income tax expense was $2.3 million and $190,000, respectively for the third quarter of 2020, compared with $2.8 million and income tax expense of $531,000, respectively for the third quarter of 2019. Income tax expense benefitted $244,000 and $33,000 for the third quarter of 2020 and 2019, respectively, from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during the first quarter of 2019. The new law eliminates the Kentucky bank franchise tax, which is assessed at a rate of 1.1% of average capital and implements a state income tax for the Bank at a statutory rate of 5%. The new Kentucky income tax will go into effect on January 1, 2021.

Net interest income increased $1.2 million from the 2019 third quarter primarily as a result of an increase in earning assets from the branch transaction, as well as loan growth, and lower cost of interest-bearing liabilities given the current interest rate environment. Provision expense of $1.4 million was recorded in the third quarter of 2020 as compared to no provision expense the third quarter of 2019 primarily in response to the level of net loan charge-offs for the quarter, trends within the portfolio over the quarter, and to changes in the economic and business environment attributable to COVID-19. Non-interest income increased $208,000 from $1.5 million in the third quarter of 2019 to $1.7 million for the third quarter of 2020 primarily related to bank card interchange fees primarily as a result of the deposit accounts acquired in the branch acquisition transaction on November 15, 2019. Non-interest expense increased $628,000 from $7.5 million in the third quarter of 2019 to $8.1 million in the third quarter of 2020 primarily due to increase in salaries and employee benefits of $211,000 and $187,000 in deposit account related expense. The Bank added sales talent and customer facing associates during the latter half of 2019 and branch staff in connection with the branch purchase transaction. The increase in deposit account related expense is the result of the deposit accounts acquired in the branch acquisition transaction.

The following table summarizes components of income and expense and the change in those components for the nine months ended September 30, 2020, compared with the same period of 2019:

	For the Nine Months Ended September 30,		Change from Prior Period	
	2020	**2019**	**Amount**	**Percent**
	(dollars in thousands)			
Gross interest income	$ 38,147	$ 37,047	$ 1,100	3.0%
Gross interest expense	8,332	10,558	(2,226)	(21.1)
Net interest income	29,815	26,489	3,326	12.6
Provision for loan losses	3,500	—	3,500	100.0
Non-interest income	5,067	4,264	803	18.8
Non-interest expense	24,550	21,956	2,594	11.8
Net income before taxes	6,832	8,797	(1,965)	(22.3)
Income tax expense	944	43	901	NM
Net income	5,888	8,754	(2,866)	(32.7)

NM: Not Meaningful

Net income for the nine months ended September 30, 2020 totaled $5.9 million, compared with net income of $8.8 million for the comparable period of 2019. Net income before taxes and income tax expense was $6.8 million and $944,000, respectively, for the nine months ended September 30, 2020, compared with $8.8 million and income tax expense of $43,000, respectively, for the nine months ended September 30, 2019. Income tax expense benefitted $395,000 and $1.6 million for the first nine months of 2020 and 2019, respectively, from the establishment of a state net deferred tax asset related to the 2019 tax law enactments discussed previously.

Net interest income increased $3.3 million from the first nine months of 2019 as a result of an increase in earning assets from the branch transaction, along with loan growth during 2019 and 2020, as well as lower cost of interest-bearing liabilities given the current interest rate environment. Provision expense of $3.5 million was recorded in the first nine months of 2020 as compared to no provision expense the first nine months of 2019 primarily in response to the level of net loan charge-offs for the period, trends within the portfolio over the period, and to changes in the economic and business environment attributable to COVID-19. Non-interest income increased by $803,000 to $5.1 million from $4.3 million in the first nine months of 2019 primarily due to an increase in bank card interchange fees of $767,000. Non-interest expense increased from $22.0 million in the first nine months of 2019 to

$24.6 million in the first nine months of 2020 primarily due to increases of $1.6 million in salaries and employee benefits and $507,000 in deposit account related expense.

Net Interest Income – Net interest income was $9.9 million for the three months ended September 30, 2020, an increase of $1.2 million, or 13.9%, compared with $8.7 million for the same period in 2019. Net interest spread and margin were 3.08% and 3.27%, respectively, for the third quarter of 2020, compared with 3.04% and 3.35%, respectively, for the third quarter of 2019.

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

The yield on earning assets decreased to 3.98% for the third quarter of 2020, as compared to 4.79% in the third quarter of 2019. The yield on earning assets for the third quarter of 2020 was negatively impacted by falling interest rates on the Bank's fed funds, certain floating rate investment securities, and loans with variable rate repricing features. Average interest-earning assets were $1.21 billion for the third quarter of 2020, compared with $1.04 billion for the third quarter of 2019, a 17.1% increase, primarily attributable to higher average loans. Average loans increased approximately $163.3 million for the third quarter of 2020 compared with the third quarter of 2019. Average loans were positively impacted from the branch purchase transaction on November 15, 2019, which included approximately $126.8 million of loans at the time of purchase, as well as loan growth during 2019 and the first nine months of 2020. Average loans for the third quarter of 2020 were also positively impacted by $42.3 million in loan originations under the SBA Paycheck Protection Program. The increase in average loans resulted in an increase in interest revenue volume of approximately $2.0 million for the quarter ended September 30, 2020, which was offset by a decrease in interest revenue due to declining rates of $1.8 million, as compared with the third quarter of 2019. Loan fee income can meaningfully impact net interest income, loan yields, and net interest income. The amount of loan fee income included in total interest income represents 13 basis points and nine basis points of yield on earning assets and net interest margin for the third quarter ended September 30, 2020 and 2019, respectively. Total interest income decreased 3.1%, or $391,000, for the third quarter of 2020 compared to the third quarter of 2019.

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The cost of interest-bearing liabilities decreased to 0.90% for the third quarter of 2020, as compared to 1.75% for the third quarter of 2019. The cost of interest-bearing liabilities continued to decline primarily based on the downward repricing of time deposits. Time deposits declined $47.9 million during the third quarter of 2020 as approximately $127.3 million of time deposits with an average rate of 1.41% matured or repriced at lower interest rates. During the third quarter of 2020, newly originated or renewed time deposits had an average rate of 0.39% and an average term of approximately 23 months. Average interest-bearing liabilities increased by 12.1% to $955.7 million for the third quarter of 2020, as compared to $852.5 million for the third quarter of 2019 due to deposit growth and the completion of the branch acquisition on November 15, 2019, which included approximately $131.8 million in deposits at the time of purchase. Total interest expense decreased by 42.7% to $2.2 million for the third quarter of 2020 as compared to the third quarter of 2019. The cost of interest-bearing liabilities for the third quarter of 2020 was also impacted by the additional subordinated debt issuance in July 2020 and repayment of the senior debt. As of September 30, 2020, time deposits comprise $398.4 million of the Company's liabilities including $84.7 million with a current average rate of 1.01%, which reprice or mature in the fourth quarter of 2020.

Net interest income was $29.8 million for the nine months ended September 30, 2020, an increase of $3.3 million, or 12.6%, compared with $26.5 million for the same period in 2019. Net interest spread and margin were 3.08% and 3.30%, respectively, for the first nine months of 2020, compared with 3.16% and 3.46%, respectively, for the first nine months of 2019.

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The yield on earning assets decreased to 4.23% for the first nine months of 2020, as compared to 4.83% in the first nine months of 2019. The yield on earning assets for the nine months of 2020 was negatively impacted by falling interest rates on the Bank's fed funds, certain floating rate investment securities, and loans with variable rate repricing features. Average interest-earning assets increased approximately $181.6 for the nine months ended September 30, 2020 compared with the first nine months of 2019. Average loans increased approximately $176.8 million for the first nine months ended September 30, 2020 compared with the first nine months of 2019. Average loans were positively impacted from the branch purchase transaction on November 15, 2019, along with loan growth during 2019 and 2020, as well as loan originations under the SBA Paycheck Protection Program. The increase in average loans resulted in an increase in interest revenue volume of approximately $6.5 million for the nine months ended September 30, 2020, which was partially offset by a decrease in interest revenue to due declining rates of $4.1 million, as compared with the third quarter of 2019. Loan fee income can meaningfully impact net interest income, loan yields, and net interest income. The amount of loan fee income included in total interest income represents 13 basis points of yield on earning assets and net interest margin for the first nine months ended September 30, 2020 and 2019. Total interest income increased 3.0%, or $1.1 million, for the first nine months of 2020 compared to the first nine months of 2019.

The cost of interest-bearing liabilities decreased to 1.15% for the first nine months of 2020, as compared to 1.67% for the first nine months of 2019. Average interest-bearing liabilities increased by $118.8 for the nine months ended September 30, 2020 compared with the first nine months of 2019 due to deposit growth and the completion of the branch acquisition. Total interest expense decreased by 21.1% to $8.3 million for the nine months ended September 30, 2020 as compared to $10.6 million for the first nine months of 2019. The cost of interest-bearing liabilities for the first nine months of 2020 was also impacted by the subordinated debt issuance in July 2019 and July 2020, as well as the senior debt repayment in July 2020.

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Average Balance Sheets

The following table presents the average balance sheets for the three-month periods ended September 30, 2020 and 2019, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

	Three Months Ended September 30,					
	2020			2019		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loan receivables (1)(2)	$ 963,486	$ 10,805	4.46%	$ 800,194	$ 10,671	5.29%
Securities						
Taxable	186,114	1,139	2.43	193,133	1,553	3.19
Tax-exempt (3)	17,002	108	3.20	10,723	76	3.56
FHLB stock	6,057	33	2.17	6,593	76	4.57
Interest-bearing deposits and other	40,380	9	0.09	24,879	109	1.74
Total interest-earning assets	1,213,039	12,094	3.98%	1,035,522	12,485	4.79%
Less: Allowance for loan losses	(10,233)			(8,884)		
Non-interest earning assets	93,008			78,794		
Total assets	$ 1,295,814			$ 1,105,432		

LIABILITIES AND STOCKHOLDERS' EQUITY

	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	$ 423,739	$ 1,122	1.05%	$ 498,754	$ 2,571	2.05%
NOW and money market deposits	341,610	364	0.42	256,373	518	0.80
Savings accounts	124,543	141	0.45	34,043	16	0.19
FHLB advances	20,746	39	0.75	23,238	132	2.25
Junior subordinated debentures	21,000	138	2.61	21,000	251	4.74
Subordinated capital notes	22,391	335	5.95	12,935	190	5.83
Senior debt	1,632	12	2.93	6,196	77	4.93
Total interest-bearing liabilities	955,661	2,151	0.90%	852,539	3,755	1.75%
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	221,973			144,378		
Other liabilities	7,250			4,697		
Total liabilities	1,184,884			1,001,614		
Stockholders' equity	110,930			103,818		
Total liabilities and stockholders' equity	$ 1,295,814			$ 1,105,432		
Net interest income		$ 9,943			$ 8,730	
Net interest spread			3.08%			3.04%
Net interest margin			3.27%			3.35%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans averaging $1.8 million and $2.4 million, respectively, in average loan amounts outstanding.
(3) Taxable equivalent yields are calculated assuming a federal income tax rate of 21%.

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The following table presents the average balance sheets for the nine-month periods ended September 30, 2020 and 2019, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

	Nine Months Ended September 30,					
	2020			2019		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loan receivables (1)(2)	$ 963,668	$ 33,772	4.68%	$ 786,843	$ 31,390	5.33%
Securities						
Taxable	189,827	3,913	2.75	193,395	4,734	3.27
Tax-exempt (3)	12,670	255	3.40	12,305	257	3.53
FHLB stock	6,304	112	2.37	6,811	281	5.52
Interest-bearing deposits and other	35,587	95	0.36	27,090	385	1.90
Total interest-earning assets	1,208,056	38,147	4.23%	1,026,444	37,047	4.83%
Less: Allowance for loan losses	(9,248)			(8,823)		
Non-interest earning assets	92,842			76,303		
Total assets	$ 1,291,650			$ 1,093,924		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Certificates of deposit and other timedeposits	$ 454,279	$ 4,976	1.46%	$ 482,181	$ 7,035	1.95%
NOW and money market deposits	327,584	1,149	0.47	260,902	1,579	0.81
Savings accounts	102,341	401	0.52	33,829	43	0.17
FHLB advances	38,406	332	1.15	36,502	668	2.45
Junior subordinated debentures	21,000	525	3.34	21,000	772	4.92
Subordinated capital notes	18,810	830	5.89	4,359	190	5.83
Senior debt	3,869	119	4.11	8,718	271	4.16
Total interest-bearing liabilities	966,289	8,332	1.15%	847,491	10,558	1.67%
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	209,605			143,577		
Other liabilities	7,111			4,472		
Total liabilities	1,183,005			995,540		
Stockholders' equity	108,645			98,384		
Total liabilities and stockholders' equity	$ 1,291,650			$ 1,093,924		
Net interest income		$ 29,815			$ 26,489	
Net interest spread			3.08%			3.16%
Net interest margin			3.30%			3.46%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans averaging $1.6 million and $2.3 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 September 30, 2020 vs. 2019			Nine Months Ended September 30, 2020 vs. 2019		
	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	$ (1,849)	$ 1,983	$ 134	$ (4,116)	$ 6,498	$ 2,382
Securities	(376)	(6)	(382)	(746)	(77)	(823)
FHLB stock	(37)	(6)	(43)	(149)	(20)	(169)
Interest-bearing deposits and other	(142)	42	(100)	(384)	94	(290)
Total increase (decrease) in interest income	(2,404)	2,013	(391)	(5,395)	6,495	1,100
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	(1,106)	(343)	(1,449)	(1,671)	(388)	(2,059)
NOW and money market accounts	(293)	139	(154)	(770)	340	(430)
Savings accounts	44	81	125	182	176	358
FHLB advances	(80)	(13)	(93)	(369)	33	(336)
Junior subordinated debentures	(113)	—	(113)	(247)	—	(247)
Subordinated capital notes	4	141	145	2	638	640
Senior debt	(23)	(42)	(65)	(3)	(149)	(152)
Total increase (decrease) in interest expense	(1,567)	(37)	(1,604)	(2,876)	650	(2,226)
Increase (decrease) in net interest income	$ (837)	$ 2,050	$ 1,213	$ (2,519)	$ 5,845	$ 3,326

Non-Interest Income – The following table presents the major categories of non-interest income for the three and nine months ended September 30, 2020 and 2019:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Service charges on deposit accounts	$ 565	$ 633	$ 1,674	$ 1,700
Bank card interchange fees	881	623	2,494	1,727
Income from bank owned life insurance	113	97	325	314
Net gain (loss) on sales and calls of securities	—	—	(5)	(5)
Other	183	181	579	528
Total non-interest income	$ 1,742	$ 1,534	$ 5,067	$ 4,264

Non-interest income for the third quarter of 2020 increased by $208,000, or 13.6%, compared with the third quarter of 2019. The increase in non-interest income for the third quarter of 2020 compared to the third quarter of 2019 was primarily driven by an increase in bank card interchange fees of $258,000 primarily as a result of the deposit accounts acquired in the branch acquisition transaction on November 15, 2019. For the nine months ended September 30, 2020, non-interest income increased by $803,000, or 18.8% to $5.1 million compared with $4.3 million for the same period of 2019. The increase in non-interest income between the nine-month comparative periods was primarily due to an increase in bank card interchange fees of $767,000.

Non-interest Expense **–** The following table presents the major categories of non-interest expense for the three and nine months ended September 30, 2020 and 2019:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Salary and employee benefits	$ 4,413	$ 4,202	$ 13,584	$ 12,032
Occupancy and equipment	1,008	880	2,990	2,632
Professional fees	261	254	704	598
Marketing expense	134	251	452	690
FDIC insurance	81	—	148	211
Data processing expense	382	315	1,121	943
State franchise and deposit tax	360	315	1,080	945
Deposit account related expenses	487	300	1,398	891
Other real estate owned expense	20	25	58	333
Litigation and loan collection expense	54	32	178	112
Communications expense	201	193	666	572
Insurance expense	102	109	316	335
Postage and delivery	156	129	476	404
Other	420	446	1,379	1,258
Total non-interest expense	$ 8,079	$ 7,451	$ 24,550	$ 21,956

Non-interest expense for the third quarter ended September 30, 2020 increased $628,000, or 8.4%, compared with the third quarter of 2019. This increase was primarily due to an increase in salaries and employee benefits of $211,000 and $187,000 in deposit account related expense. The Bank added sales talent and customer facing associates during the latter half of 2019 and branch staff in connection with the branch purchase transaction. In response to COVID-19 and the change in customer branch usage patterns, the Bank realized a reduction of approximately 20 FTEs in the second quarter of 2020. Quarterly savings of approximately $150,000 is expected as a result of these position eliminations. The increase in deposit account related expense is the result of the deposit accounts acquired in the branch acquisition transaction. For the nine months ended September 30, 2020, non-interest expense increased $2.6 million, or 11.8% to $24.6 million compared with $22.0 million for the first nine months of 2019. The increase in non-interest expense for the nine months ended September 30, 2020 was primarily attributable to increases of $1.6 million in salaries and employee benefits and $507,000 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 September 30, 2020	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2020	For the Nine Months Ended September 30, 2019
	(dollars in thousands)			
Federal statutory rate times financial statement income	$ 474	$ 591	$ 1,435	$ 1,847
Effect of:				
Tax-exempt income	(21)	(15)	(50)	(52)
Establish state deferred tax asset	(244)	(33)	(395)	(1,583)
Non-taxable life insurance income	(24)	(20)	(68)	(66)
Restricted stock vesting	—	—	4	(128)
Other, net	5	8	18	25
Total	$ 190	$ 531	$ 944	$ 43

Net income before taxes was $2.3 million and $6.8 million for the third quarter of 2020 and for the first nine months of 2020, respectively, compared to $2.8 million and $8.8 million for the third quarter and first nine months of 2019, respectively. Income tax expense was $190,000 and $944,000 for the third quarter of 2020 and for the first nine months of 2020, respectively, compared to income tax expense of $531,000 and $43,000 for the third quarter of 2019 and for the first nine months of 2019, respectively.

For 2019 and 2020, income tax expense benefitted from the establishment of a net deferred tax asset related to a change in Kentucky tax law enacted during 2019. Income tax expense benefitted $244,000 and $33,000 for the third quarter of 2020 and 2019, respectively. Income tax expense benefitted $395,000 and $1.6 million for the first nine months of 2020 and 2019, respectively. The new Kentucky income tax will go into effect on January 1, 2021.

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Analysis of Financial Condition

Total assets increased $45.8 million, or 3.7%, to $1.29 billion at September 30, 2020, from $1.25 billion at December 31, 2019. This increase was primarily attributable to an increase in net loans of $45.1 million.

Loans Receivable – Loans receivable increased $48.2 million, or 5.2%, during the nine months ended September 30, 2020 to $974.5 million as loan growth outpaced paydowns. Loan originations included $42.3 million under the SBA Paycheck Protection Program which are classified as commercial loans. The commercial and commercial real estate portfolios increased by an aggregate of $93.2 million, or 17.1% during the first nine months of 2020 and comprised 65.5% of the loan portfolio at September 30, 2020. Residential real estate and consumer portfolios decreased by an aggregate of $51.5 million, or 14.9% during the first nine months of 2020 and comprised 30.2% of the loan portfolio at September 30, 2020.

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

	As of September 30, 2020 Amount	As of September 30, 2020 Percent	As of December 31, 2019 Amount	As of December 31, 2019 Percent
	(dollars in thousands)			
Commercial	$ 218,762	22.45%	$ 145,551	15.71%
Commercial Real Estate				
Construction	83,977	8.62	64,911	7.01
Farmland	69,017	7.08	79,118	8.54
Nonfarm nonresidential	266,477	27.35	255,459	27.58
Residential Real Estate				
Multi-family	63,757	6.54	70,950	7.66
1-4 Family	194,829	19.99	226,629	24.47
Consumer	35,289	3.62	47,790	5.16
Agriculture	41,749	4.28	35,064	3.79
Other	611	0.07	799	0.08
Total loans	$ 974,468	100.00%	$ 926,271	100.00%

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

	September 30, 2020 Loans	September 30, 2020 % to Total	December 31, 2019 Loans	December 31, 2019 % to Total
	(dollars in thousands)			
Pass	$ 923,895	94.8%	$ 888,707	95.9%
Watch	27,782	2.9	27,522	3.0
Special Mention	364	—	—	—
Substandard	22,427	2.3	10,042	1.1
Doubtful	—	—	—	—
Total	$ 974,468	100.0%	$ 926,271	100.00%

Loans receivable increased $48.2 million, or 5.2%, during the nine months ended September 30, 2020 primarily as a result of originations under the SBA Paycheck Protection Program. Since December 31, 2019, the pass category increased approximately $35.2 million, the watch category increased approximately $260,000, the special mention category increased approximately $364,000, and the substandard category increased approximately $12.4 million. The $12.4 million increase in loans classified as substandard was primarily driven by $16.5 million in loans moved to substandard offset by $3.6 million in payments, $551,000 in charge-offs, and $52,000 in loans upgraded from substandard during the first nine months of 2020. The increase in substandard loans was primarily within the commercial and industrial loan segment as $12.0 million in loans to two borrowers migrated from watch to substandard during the third quarter of 2020. The trend in risk categories is considered during the evaluation of qualitative trends in the portfolio when establishing the general component of the allowance for loan losses.

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

	September 30, 2020	December 31, 2019
	(in thousands)	
Past Due Loans:		
30-59 Days	$ 482	$ 1,747
60-89 Days	265	670
90 Days and Over	—	—
Total Loans Past Due 30-90+ Days	747	2,417
Nonaccrual Loans	2,038	1,528
Total Past Due and Nonaccrual Loans	$ 2,785	$ 3,945

During the nine months ended September 30, 2020, nonaccrual loans increased by $510,000 to $2.0 million. Loans past due 30-59 days decreased from $1.7 million at December 31, 2019 to $482,000 at September 30, 2020. Loans past due 60-89 days decreased from $670,000 at December 31, 2019 to $265,000 at September 30, 2020. This represents a $1.7 million decrease in accruing past due loans from December 31, 2019 to September 30, 2020 in loans past due 30-89 days. This trend in delinquency levels is considered during the evaluation of qualitative trends in the portfolio when establishing the general component of the allowance for loan losses.

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

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

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

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

At September 30, 2020 and December 31, 2019, the Bank had four and three restructured loans totaling $489,000 and $475,000, respectively, with borrowers who experienced deterioration in financial condition. In general, these loans were granted interest rate reductions to provide cash flow relief to borrowers experiencing cash flow difficulties. The Bank had no restructured loans that had been granted principal payment deferrals until maturity at September 30, 2020 or December 31, 2019. There were no concessions made to forgive principal relative to these loans, although partial charge-offs have been recorded for certain restructured loans. In general, these loans are secured by first liens on 1-4 residential properties or commercial real estate properties. At September 30, 2020 and December 31, 2019, all TDRs were performing according to their modified terms.

There was one modification granted during 2020 and two modifications granted during 2019 that resulted in loans being identified as TDRs. See "Note 3 – Loans," to the financial statements for additional disclosure related to troubled debt restructuring.

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COVID-19 Short-term Loan Concessions - The Bank has elected to account for eligible loan modifications under Section 4013 of the CARES Act. To be an eligible loan under Section 4013 of the CARES Act, a loan modification must be (1) related to the coronavirus pandemic ("COVID-19"); (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020 and the earlier of (A) 60 days after the date of termination of the national emergency declared by the President on March 13, 2020 concerning the COVID-19 outbreak (the "national emergency") or (B) December 31, 2020. Eligible loan modifications are not required to be classified as TDRs and will not be reported as past due provided they are performing in accordance with the modified terms. Interest income will continue to be recognized in accordance with GAAP unless the loan is placed on nonaccrual status.

Short-term loan modifications totaled $64.9 million as of September 30, 2020 compared to $161.5 million at June 30, 2020. The table below details the status of the Bank's short-term loan modifications by loan category or type as of September 30, 2020. First Modification Active includes loans within the terms of the original modification agreement. Subsequent Modification Active includes loans with a matured original modification that have been further modified within the short-term parameters. Modification Ended includes loans that have reached final deferred payment and have yet to make a payment in accordance with the loan's original terms or have yet to request a subsequent modification. Loans that returned to original contracted terms with a verified payment are considered cured and are no longer included as modified loans in the table below.

	First Modification Active	Subsequent Modification Active	Modification Ended	Total Modified Loans	Total Loan Portfolio	% Modified to Total Portfolio
			(in thousands)			
Hotel, Motel, & Lodging	$ —	$ 8,112	$ 22,818	$ 30,930	$ 51,435	60.1%
Retail Facility	3,087	6,764	—	9,851	62,707	15.7
Commercial Real Estate	5,228	76	107	5,411	161,524	3.3
1-4 Family Residential	2,306	450	225	2,981	194,829	1.5

Restaurant Full Service	2,184	6,307	2,872	11,363	19,966	56.9
Restaurant Limited Service	2,303	—	—	2,303	14,842	15.5
Multi-family	—	—	—	—	63,757	—
Construction and Development	—	—	—	—	39,980	—
Commercial & Industrial	345	—	1,239	1,584	218,762	0.7
Farmland	—	—	—	—	69,017	—
Consumer, Agriculture & Other	486	—	—	486	77,649	0.6
Total	$ 15,939	$ 21,709	$ 27,261	$ 64,909	$ 974,468	6.7%

Retail purpose commercial real estate operators, as well as hotel and restaurant operators, have been disproportionately impacted by COVID-19. As of September 30, 2020, 83.9% of the remaining short-term modifications under COVID-19 were related to these three industries.

As of October 19, 2020, $27.1 million of the loans categorized as Modification Ended in the table above have received a verified payment and are now considered cured.

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 September 30, 2020 and December 31, 2019:

	September 30, 2020	**December 31, 2019**
	(dollars in thousands)	
Loans on nonaccrual status	$ 2,038	$ 1,528
Troubled debt restructurings on accrual	489	475
Past due 90 days or more still on accrual	—	—
Total non-performing loans	2,527	2,003
Real estate acquired through foreclosure	1,625	3,225
Other repossessed assets	—	—
Total non-performing assets	$ 4,152	$ 5,228
Non-performing loans to total loans	0.26%	0.22%
Non-performing assets to total assets	0.32%	0.42%
Allowance for non-performing loans	$ 195	$ 48
Allowance for non-performing loans to non-performing loans	7.72%	2.40%

Nonperforming loans at September 30, 2020, were $2.5 million, or 0.26% of total loans, compared with $2.0 million, or 0.22% of total loans at December 31, 2019, and $2.6 million, or 0.32% of total loans at September 30, 2019.

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

A provision of $1.4 million and $3.5 million was recorded in the third quarter and first nine months of 2020, respectively, compared to no provision for loan losses in the first nine months of 2019. The 2020 loan loss provisions were attributable to the net loan charge-offs during the period, trends within the portfolio over the period, and primarily to changes in the economic and business environment attributable to COVID-19, the state and national emergencies that have been declared and the resultant risk the pandemic poses for business disruptions for the Bank's borrowers which may lead to credit quality deterioration. Substandard loans increased $12.3 million during the nine months of 2020. The increase in substandard loans was primarily within the commercial and industrial loan segment as $12.0 million in loans to two borrowers migrated from watch to substandard during the third quarter of 2020. The trend in risk categories is considered during the evaluation of qualitative trends in the portfolio when establishing the general component of the allowance for loan losses.

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

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**		**December 31,**
	2020	**2019**	**2020**	**2019**	**2019**
			(in thousands)		
Balance at beginning of period	$ 10,228	$ 8,832	$ 8,376	$ 8,880	$ 8,880
Loans charged-off:					
Real estate	17	105	156	237	322
Commercial	—	10	32	10	37
Consumer	131	184	444	398	663
Agriculture	2	—	46	4	266
Other	—	—	—	—	—
Total charge-offs	150	299	678	649	1,288
Recoveries					
Real estate	19	352	215	499	597
Commercial	5	6	16	101	106
Consumer	13	9	23	69	75
Agriculture	14	3	23	3	3

Other	2	1	6	1	3
Total recoveries	53	371	283	673	784
Net charge-offs (recoveries)	97	(72)	395	(24)	504
Provision for loan losses	1,350	—	3,500	—	—
Balance at end of period	$ 11,481	$ 8,904	$ 11,481	$ 8,904	$ 8,376
Allowance for loan losses to period-end loans	1.18%	1.11%	1.18%	1.11%	0.90%
Net charge-offs (recoveries) to average loans	0.04%	(0.04)%	0.05%	0.00%	0.06%
Allowance for loan losses to non-performing loans	454.33%	345.52%	454.33%	345.52%	418.17%

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The allowance for loan losses to total loans was 1.18% at September 30, 2020, compared to 0.90% at December 31, 2019, and 1.11% at September 30, 2019. Loans acquired in the November 2019 branch transaction totaled $100.3 million at September 30, 2020 and $124.7 million at December 31, 2019. These loans were recorded at fair value as determined by an independent third party. The remaining discount associated with the fair value purchase accounting adjustments on the acquired loans was $301,000 at September 30, 2020, compared to $480,000 at December 31, 2019. Additionally, management added a qualitative environmental adjustment for these loans as the fair value assessment at the time of purchase did not contemplate COVID-19. Any subsequent deterioration of these acquired loans may require an adjustment through the allowance for loan loss. Net loan charge-offs in the first nine months of 2020 totaled $395,000, compared to net loan recoveries of $24,000 in the first nine months of 2019. The allowance for loan losses to non-performing loans was 454.33% at September 30, 2020, compared with 418.17% at December 31, 2019, and 345.52% at September 30, 2019.

The majority of nonperforming loans are secured by real estate collateral, and the underlying collateral coverage for nonperforming loans supports the likelihood of collection of principal. Management has assessed these loans for collectability and considered, among other things, the borrower's ability to repay, the value of the underlying collateral, and other market conditions to ensure the allowance for loan losses is adequate to absorb probable incurred losses. Based on prior charge-offs, the current recorded investment in loans individually evaluated for impairment in the commercial real estate and residential real estate segments of the portfolio are significantly below the unpaid principal balance for those loans. The recorded investment net of the allocated allowance was 55.93% and 54.62% of the unpaid principal balance in the commercial real estate and residential real estate segments of the portfolio, respectively, at September 30, 2020.

Investment Securities – The securities portfolio serves as a source of liquidity and earnings and contributes to the management of interest rate risk. Investments are made in various types of liquid assets, including U.S. Treasury obligations and securities of various federal agencies, obligations of states and political subdivisions, corporate bonds, and collateralized loan obligations. The investment portfolio decreased by $5.5 million, or 2.6%, to $203.5 million at September 30, 2020, compared with $209.0 million at December 31, 2019.

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

	September 30, 2020				December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)							
Securities available for sale								
U.S. Government and federal agencies	$ 19,158	$ 931	$ —	$ 20,089	$ 22,281	$ 196	$ (147)	$ 22,330
Agency mortgage-backed residential	76,388	2,974	(13)	79,349	91,269	1,186	(255)	92,200
Collateralized loan obligations	44,730	—	(1,905)	42,825	49,831	—	(412)	49,419
State and municipal	34,391	1,076	(32)	35,435	27,819	550	(3)	28,366
Corporate bonds	27,116	373	(1,643)	25,846	16,472	213	—	16,685
Total available for sale	$ 201,783	$ 5,354	$ (3,593)	$ 203,544	$ 207,672	$ 2,145	$ (817)	$ 209,000

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

The market value of CLOs may be affected by, among other things, changes in composition of the underlying loans, changes in the cash flows from the underlying loans, defaults and recoveries on the underlying loans, capital gains and losses on the underlying loans, prepayments on the underlying loans, and other conditions or economic factors. During the first quarter of 2020, the fair value of the Bank's CLO portfolio declined as the market was disrupted by COVID-19. At March 31, 2020, the CLO portfolio had an unrealized loss of $4.0 million, or 9% of amortized cost. During the second and third quarters of 2020, the fair value improved as the market stabilized. At September 30, 2020, the portfolio had an unrealized loss of $1.9 million, or 4% of amortized cost.

Although the Bank attempts to mitigate the credit and liquidity risks associated with CLOs by purchasing CLOs with credit ratings of A or higher, completing pre-purchase due diligence, and through ongoing monitoring, no assurance can be given that these risk mitigation efforts will be successful. At September 30, 2020, $27.0 million, $13.5 million, and $2.4 million of the Bank's CLOs were AA, A, and BBB rated, respectively. There was one CLO rated below A at BBB, which was downgraded during the third quarter of 2020. Stress testing was completed on each security in the CLO portfolio as of quarter-end. Each security in the portfolio passed, without dollar loss, a stress scenario characterized as severe, which assumed a ten percent per annum constant prepayment rate, a twelve percent per annum constant default rate for four years followed by a four percent rate thereafter, and a forty-five percent recovery rate on a one-year lag. During the first quarter, one of the CLOs in the investment portfolio rated AA with a book value of $5.0 million was called and redeemed at par value or $5.0 million by the issuer. The Bank's CLOs are all floating rate with rates set on a quarterly basis at three-month LIBOR plus a spread.

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The fair value of the Bank's corporate bond portfolio has also been impacted by market disruption and declining rates. At March 31, 2020, the corporate bond portfolio had a net unrealized loss of $1.3 million, or 6% of amortized cost. At September 30, 2020, the portfolio had a net unrealized loss of $1.3 million, or 5% of amortized cost. The corporate bond portfolio consists of 12 subordinated debt securities of U.S. banks and bank holding companies with maturities ranging from 2024 to 2037. The securities are either initially fixed for five years converting to floating at an index over LIBOR or floating at an index over LIBOR from inception. Management regularly monitors the financial condition of these corporate issuers by reviewing their regulatory and public filings.

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

Foreclosed Properties – Foreclosed properties declined from $3.2 million at September 30, 2019 and December 31, 2019 to $1.6 million at September 30, 2020. See Note 5 – "Other Real Estate Owned," to the financial statements. Management values foreclosed properties at fair value less estimated costs to sell when acquired and expects to liquidate these properties to recover the investment in the due course of business.

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

There were no OREO sales during the third quarter of 2020 and $1.6 million for the first nine months of 2020, respectively, compared to no sales during the third quarter or nine months ended September 30, 2019. Operating expenses for OREO totaled $20,000 and $58,000 for the third quarter and nine months ended September 30, 2020, respectively, compared to operating expenses of $25,000 and write-downs and operating expenses of $333,000 for the third quarter and nine months ending September 30, 2019, respectively. There were no fair value write-downs recorded during the third quarter or nine months ended September 30, 2020, compared with no write-downs and $260,000 for the third quarter and nine months ended September 30, 2019, respectively.

Liabilities – Total liabilities at September 30, 2020 were $1.18 billion compared with $1.14 billion at December 31, 2019, an increase of $39.3 million, or 3.4%. This increase was primarily attributable to an increase in deposits of $67.4 million offset by a decrease of $30.8 million in FHLB advances.

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

	For the Nine Months Ended September 30, 2020		For the Year Ended December 31, 2019	
	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)			
Demand	$ 209,605		$ 151,299	
Interest checking	164,256	0.34%	104,077	0.30%
Money market	163,328	0.60	161,610	1.06
Savings	102,341	0.52	36,035	0.19
Certificates of deposit	454,279	1.46	483,222	1.98
Total deposits	$ 1,093,809	0.80%	$ 936,243	1.25%

The following table shows at September 30, 2020 the amount of time deposits of $250,000 or more by time remaining until maturity (in thousands):

Maturity Period	
Three months or less	$ 13,732
Three months through six months	11,759
Six months through twelve months	16,352
Over twelve months	14,950
Total	$ 56,793

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Liquidity

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

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

The Bank also borrows from the FHLB to supplement funding requirements. At September 30, 2020, the Bank had an unused borrowing capacity with the FHLB of $106.6 million. Advances are collateralized by first mortgage residential loans as well as loans originated under the SBA Payment Protection Plan loans and borrowing capacity is based on the underlying book value of eligible pledged loans.

The Bank also has available on an unsecured basis federal funds borrowing lines from a correspondent bank totaling $5.0 million. Management believes the sources of liquidity are adequate to meet expected cash needs for the foreseeable future. Historically, the Bank has also utilized brokered and wholesale deposits to supplement its funding strategy. At September 30, 2020, the Bank had no brokered deposits.

The Company uses cash on hand to service the subordinated capital notes, 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.

Capital

Stockholders' equity increased $6.5 million to $112.3 million at September 30, 2020, compared with $105.8 million at December 31, 2019 primarily due to current year net income of $5.9 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	September 30, 2020	December 31, 2019
Tier 1 Capital	6.0%	8.0%	11.88%	11.25%
Common equity Tier 1 capital	4.5	6.5	11.88	11.25
Total risk-based capital	8.0	10.0	12.97	12.08
Tier 1 leverage ratio	4.0	5.0	9.90	9.99

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

The Basel III rules established a “capital conservation buffer” of 2.5% above the regulatory minimum risk-based capital ratios. The minimum ratios are a common equity Tier 1 risk-based capital ratio of 7.0%, a Tier 1 risk-based capital ratio of 8.5%, and a total risk-based capital ratio of 10.5%. An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

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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 0.1% at September 30, 2020, compared with a decrease of 2.3% at December 31, 2019. Given a 200 basis point increase in interest rates, base net interest income would increase by an estimated 0.9% at September 30, 2020, compared with a decrease of 5.1% at December 31, 2019.

The following table indicates the estimated impact on net interest income under various interest rate scenarios for the twelve months following September 30, 2020, as calculated using the static shock model approach:

	Change in Future Net Interest Income	
	Dollar Change	Percentage Change
	(dollars in thousands)	
+ 200 basis points	$ 347	0.85%
+ 100 basis points	34	0.08
- 100 basis points	(570)	(1.40)
- 200 basis points	(1,547)	(3.80)

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.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

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

The Company is not currently involved in any material litigation.

Item 1A. Risk Factors

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

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

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

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

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

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

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

Not applicable.

Item 3. Default Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits

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

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation of the Company, restated to reflect amendments. Filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q filed August 2, 2019 and incorporated by reference.
3.3	Amended and Restated Bylaws of Limestone Bancorp, Inc. dated June 18, 2018. Exhibit 3.2 to Form 8-K filed June 6, 2018 is hereby incorporated by reference.
4.1	Tax Benefits Preservation Plan, dated as of June 25, 2015, between the Company and American Stock Transfer Company, as Rights Agent. Exhibit 4.1 to Form 8-K filed June 29, 2015 is incorporated by reference.
4.2	Amendment No. 1 to the Tax Benefits Preservation Plan, dated August 4, 2015. Exhibit 4.2 to the Quarterly Report on Form 10-Q filed August 5, 2015 is incorporated by reference.
4.3	Amendment No. 2 to the Tax Benefits Preservation Plan dated May 23, 2018. Exhibit 4 to the Form 8-K filed May 23, 2018 is incorporated by reference.
4.4	Amendment No. 3 to the Limestone Bancorp, Inc. Tax Benefits Preservation Plan, dated November 25, 2019. Exhibit 4.4 to the Form 8-K filed November 27, 2019 is incorporated herein by reference.
4.5	Indenture dated as of July 23, 2019 by and among Limestone Bancorp, Inc. and Wilmington Trust, National Association is incorporated by reference to the Company's Current Report on Form 8-K dated July 25, 2019.
4.6	Company Order of Limestone Bancorp, Inc. dated July 21, 2020. Exhibit 4.2 to Form 8-K filed July 24, 2020 is incorporated by reference.
4.7	Form of 5.75% Fixed-to-Floating Subordinated Notes due 2029 of Limestone Bancorp, Inc. issued July 31, 2020. Exhibit 4.7 to the Quarterly Report on Form 10-Q filed July 31, 2020 is incorporated by reference.
10.1	Form of Subordinated Note Purchase Agreement dated July 21, 2020 by and among Limestone Bancorp, Inc. and the Purchasers. Exhibit 10.1 to Form 8-K filed July 24, 2020 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 September 30, 2020, formatted in Inline 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.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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

LIMESTONE BANCORP, INC.
(Registrant)

October 30, 2020	By:	/s/ John T. Taylor John T. Taylor Chief Executive Officer
October 30, 2020	By:	/s/ Phillip W. Barnhouse Phillip W. Barnhouse Chief Financial Officer

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Limestone Bancorp, Inc.

Rule 13a-14(a) Certification

of Chief Executive Officer

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

1. I have reviewed this Quarterly Report on Form 10-Q of the Company;

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

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

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

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

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

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

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

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

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

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

Dated: October 30, 2020	/s/ John T. Taylor John T. Taylor Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Limestone Bancorp, Inc.

Rule 13a-14(a) Certification

of Chief Financial Officer

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

1. I have reviewed this Quarterly Report on Form 10-Q of the Company;

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

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

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

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

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

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

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

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

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

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

Dated: October 30, 2020

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

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Limestone Bancorp, Inc. (the "Company") for the quarterly period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John T. Taylor, Chief Executive Officer of the Company, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

LIMESTONE BANCORP, INC.

Dated: October 30, 2020

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

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Limestone Bancorp, Inc. (the “Company”) for the quarterly period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Phillip W. Barnhouse, Chief Financial Officer of the Company, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

LIMESTONE BANCORP, INC.

Dated: October 30, 2020

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

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