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2004 Annual Report

FIRST SECURITY BANCORP

Selected Financial Highlights

(In thousands, except ratios and per share amounts) **For the Year**	**2004**	2003	2002
Net Interest Income	$ 6,327	5,931	6,186
Provision for Loan Losses	297	669	1,472
Noninterest Income	1,497	2,766	2,099
Noninterest Expense	6,538	7,282	5,442
Income Taxes	305	126	322
Net Income	684	620	1,049
Basic Earnings Per Share	.44	.42	.72
Diluted Earnings Per Share	.44	.41	.69
Market Price Per Share	17.30	16.00	21.00
Full Time Equivalent Employees	49.50	62	57
At Year End			
Total Assets	$ 217,434	238,258	231,086
Deposits	178,862	190,640	188,955
Loans, Net of Allowance for Losses	150,856	158,733	164,999
Allowance for Loan Losses	1,720	2,379	2,459
Shareholders' Equity	20,608	20,112	18,464
Book Value Per Share	13.23	12.91	12.68
Common Shares Outstanding	1,558,690	1,558,690	1,456,250
Significant Ratios of the Year			
Return on Average Assets	.31%	.27%	.47%
Return on Average Common Equity	3.37	3.22	5.86
Allowance to Total Loans	1.13	1.48	1.47
Net Charge-Offs to Average Loans	.60	.46	.34
Equity to Assets (Averages)	9.16	8.36	8.05
Net Interest Margin (Tax Equivalent)	3.05	2.84	3.11
Operating Efficiency Ratio	84	84	66

Last year, in my first message to you, I talked about the many steps, big and small, we would be taking to position First Security for success in today's competitive environment. In 2004, we took many of those steps toward improvement.

Although much of the progress our steps are making has yet to be fully seen, positive trends have begun, as demonstrated by improvements in the following areas:

- Net Interest Income – Record Level Achieved
- Net Interest Margin – Significantly Improved
- Cost of Deposits – Lowered
- Loan Portfolio – Positioned for an Increasing Rate Environment
- Non-Accrual Loans – Reduced
- Operating Expenses – Reduced

In 2004, our net interest income increased to $6.3 million from the $5.9 million level earned in 2003. This was the highest in the history of the Company, and reflects the success of our efforts to improve profitability by better managing our interest income and expenses, while at the same time positioning us for continued improvement in 2005.

Our net interest margin showed substantial improvements during 2004, increasing from 2.65% for the first quarter, to 3.08% for the second quarter, 3.10% for the third quarter and 3.40% for the fourth quarter. For the month of December 2004, our net interest margin had increased to approximately 3.45%.

Early in 2004, we evaluated funding sources, and implemented a new funding strategy, shifting our emphasis to demand, savings and money market deposits, from generally higher cost sources, such as certificates of deposit. During 2004, these lower-cost funds increased 18%, and at year-end represented 44% of total deposits, up from 35% at year-end 2003. This was a significant contributor in reducing our average cost of funding for all deposits from 2.93% in 2003 to 2.41% in 2004.

Another key step was managing our loan portfolio by increasing the proportion of variable rate loans. This enabled us to take advantage of the widely anticipated increases in prime rate that began in July 2004 and are continuing in 2005. Variable rate loans comprised 67% of our loan portfolio at year-end 2004, as compared to 57% at year-end 2003. This element of our financial planning enhances the yield on our loan portfolio as interest rates increase.

Credit underwriting standards were maintained at high levels to assure strong credit quality. While this resulted in the loss of some comparatively lower quality existing and potential new credits, we believe this will better position First Security for the future. Further complementing asset quality has been the continuing reduction in our level of non-accrual loans, which declined by 18% during the year.

During 2004, operating expenses were reduced by 10%. Staffing levels in every area were carefully reviewed and reduced overall, even while we continued to promote existing, or hire new, client-focused associates dedicated to providing quality and timely financial services.

We also took steps to enhance our staff's focus on increased financial discipline and responsibility. Each component of our business is now a profit center with each manager having budget control and receiving balance sheets, along with revenue and expense statements, so they can better understand, control, and monitor the performance of their respective areas.

Each of these steps helped improve our profitability. Net interest income showed an improving trend throughout the year, with December 2004 having the highest monthly aggregate level ever achieved.

While the year 2004 was characterized by steady improvements, it was also a year that presented many challenges, as we aggressively compete for customers and quality employees. These challenges will continue.

In the coming year, we anticipate improvement in business loan demand, increases in our net interest margins and reductions in non-accrual loans, each continuing favorable trends. We also expect to benefit from additional increases in market interest rates. When these are combined with our on-going structural and strategic steps, we foresee further improvement in total profitability, our continuing primary focus.

We are very excited about 2005 and the opportunities it will afford us. Your continuing support, as a shareholder and, hopefully, as a client, is sincerely appreciated.

Doug Hutcherson

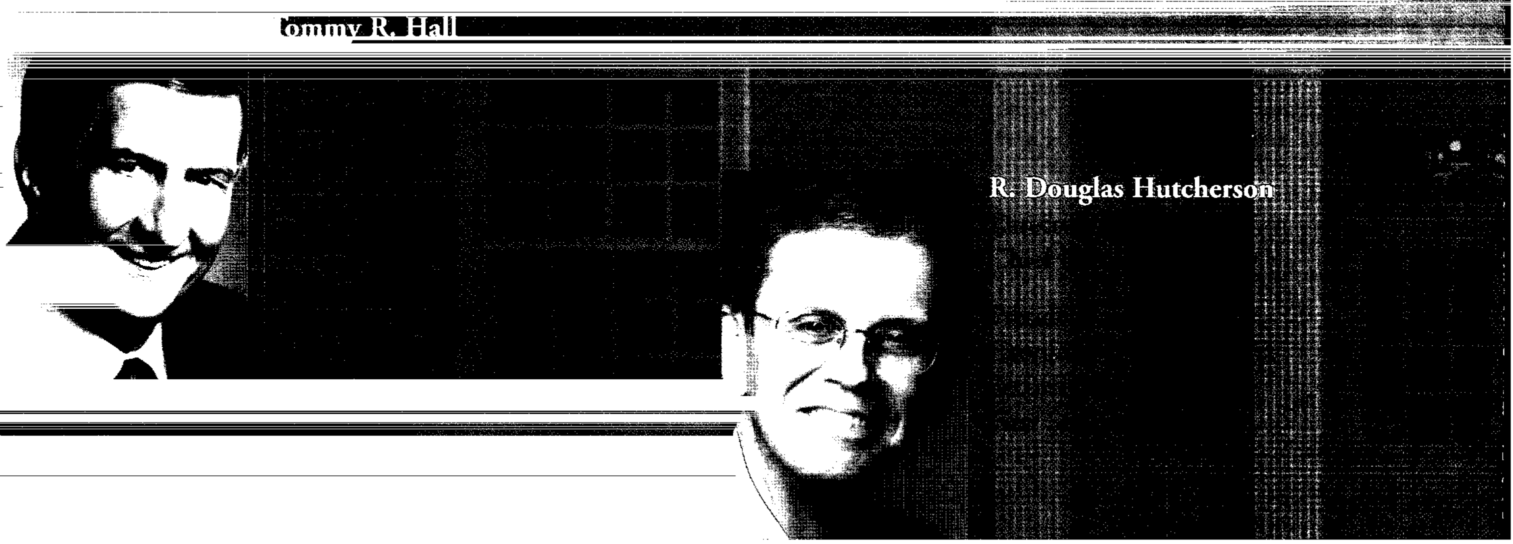
Doug Hutcherson

President and CEO

April 13, 2005


Julian E. Beard
Harold Glenn Campbell


A. F. Dawahare
Dr. Kenneth L. Gerson


Tommy R. Hall
R. Douglas Hutcherson

Erle L. Levy
Director and Board Vice Chairman

Owner,
Kentucky Lighting

Dr. Ira P. Mersack
Director

Robert J. Rosenstein

Richard S. Trontz
Director

William T. Vennes

Kathy E. Walker

D. Woodford Webb, Jr.

First Security Officers and Directors

First Security Bank Officers

Doug Hutcherson, President & Chief Executive Officer
Don Shannon, Executive Vice President & Senior Lending Officer
John Sullivan, Executive Vice President & Chief Financial Officer
David Chrisman, Senior Vice President & Chief Credit Officer
Dave Donaldson, Senior Vice President, Marketing & Retail Banking
Jack Witt, Jr., First Vice President & Manager, Southland
Donna Collins, Assistant Vice President & Bank Operations Manager
Sue Ezrine, Assistant Vice President & Marketing Director
Tamara Jarvis, Assistant Vice President & Manager, Main Office
Betty Lathram, Assistant Vice President & Acting Operations Head
Sallylyn Williams, Assistant Vice President & Human Resources Officer
Mike Carpenter, Commercial Lending Officer
Johnathon Davis, Lending Officer
Julie Meade, Manager, Palomar
Cortney Rich, Credit Officer

Board of Directors

Julian E. Beard, Chairman[1,2]
Harold Glenn Campbell[1]
A.F. Dawahare[1,2]
Kenneth L. Gerson, M.D.[1,2]
Tommy R. Hall[1,2]
R. Douglas Hutcherson[1,2]
Erle L. Levy, Vice Chairman[1,2]
Ira P. Mersack, M.D.[1,2]
Robert J. Rosenstein[1,2]
Richard S. Trontz[1]
William T. Vennes[1,2]
Kathy Walker[1]
Woodford Webb[1,2]

Advisory Directors

Don Poole
Irving Rosenstein
Sibu P. Saha, M.D.

[1] First Security Bancorp [2] First Security Bank

Shareholders Information

Common Stock Information

First Security Bancorp, Inc.'s Common Stock has been traded on the Over-the-Counter Bulletin Board (OTC-BB) under the symbol "FSLK". Trading in Common Stock is infrequent. For further information you may contact our market makers, Winebrenner Capital Partners at 877 671.0015 or Michael Hedrei at Howe Barnes Investments, Inc. at 800 800.4693.

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
Sales Prices	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
High	17.75	17.00	17.50	18.50	18.00	21.00	18.00	21.00
Low	16.75	14.75	17.00	17.00	17.00	17.05	15.90	16.25
Close	17.30	16.00	17.15	17.00	17.05	18.00	17.15	19.00

These price quotations are derived from data furnished by the National Association of Securities Dealers ("NASD") and, accordingly, Bancorp makes no guarantee of any nature as to the accuracy or reliability of such price quotations. These quotations relfect inter-dealer prices, without retail markup, markdown, or commission, and may not represent actual transactions. Some trades may occur which are not reported through the NASD.

As of March 1, 2005, Bancorp had 526 owners of record of its shares. Bancorp has not paid any cash dividends since inception and does not anitcipate that it will consider paying dividends until it has achieved a level of profitability appropriate to fund such dividends and support asset growth and until it extinguishes its debt. Information on dividend restrictions is included in Notes 8 and 14 to the accompanying financial statements of Bancorp.

Investor Contact

Sue Ezrine, Assistant Vice President
First Security Bank of Lexington
318 East Main Street
Lexington, KY 40507
859 367.3704

Stock Transfer Agent & Registrar

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
800 866.1340

Annual Meeting

The annual meeting of shareholders will be held on Tuesday, May 17, 2005
10:00 a.m.
SpringHill Suites
863 South Broadway
Lexington, Kentucky 40504.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 2004

OR

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

Commission File No: 000-49781

First Security Bancorp, Inc.

(Name of small business issuer in its charter)

Kentucky	61-1364206
(State of jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

318 East Main Street, Lexington, Kentucky 40507
(Address of principal executive offices)

(859) 367-3700
(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such 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 [X] No [ ]

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year: $12,235,000.

Aggregate market value of the voting stock held by non-affiliates (for purposes of this calculation, "affiliates" are considered to be the directors of the issuer) computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days: $18,259,000 as of March 1, 2005.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,560,290 shares of common stock as of March 23, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders, scheduled to be held May 17, 2005, are incorporated by reference into Part III of this Form 10-KSB.

Transitional Small Business Disclosure format (check one): Yes [ ] No[X]

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FORWARD-LOOKING STATEMENTS

First Security Bancorp, Inc. ("First Security") may from time to time make written or oral statements, including statements contained in this report, which may constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "may", "expect", "anticipate", "intend", "consider", "plan", "believe", "seek", "should", "estimate", and similar expressions are intended to identify such forward-looking statements, but other statements may constitute forward-looking statements. These statements should be considered subject to various risks and uncertainties. Such forward-looking statements are made based upon management's belief as well as assumptions made by, and information currently available to, management pursuant to "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. First Security Bancorp's actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors. Such factors are described below and include, without limitation, (i) unanticipated deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses, (ii) increased competition with other financial institutions, (iii) the inability of our bank subsidiary, First Security Bank of Lexington, Inc. ("FS Bank") to attract and retain key management personnel, (iv) the lack of sustained growth in the economy in the Lexington, Kentucky area, (v) rapid fluctuations or unanticipated changes in interest rates, (vi) the inability of FS Bank to satisfy regulatory requirements and (vii) changes in the legislative and regulatory environment. Many of such factors are beyond First Security's ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. First Security does not intend to update or reissue any forward-looking statements contained in this report as a result of new information or other circumstances that may become known to First Security.

Unless this Form 10-KSB indicates otherwise or the context otherwise requires, the terms "we," "our," "us," "First Security", "First Security Bancorp" or "Company" as used in this report refer to First Security Bancorp, Inc. and its subsidiary First Security Bank of Lexington, Inc., which we sometimes refer to as "FS Bank". References herein to the fiscal years 2004, 2003, 2002, 2001 and 2000 mean our fiscal years ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

OVERVIEW

First Security is a Kentucky corporation that was incorporated on February 11, 2000 to serve as the holding company for FS Bank, a state bank chartered under the laws of the Commonwealth of Kentucky. FS Bank commenced its banking operations on November 17, 1997, and operates as a community bank in an urban market emphasizing personalized banking relationships with individuals and businesses located within the Lexington metropolitan statistical area (MSA). We own 100% of the capital stock of FS Bank and other than FS Bank we have no material amounts of assets, liabilities or operations.

As a community bank, we serve the needs of a wide range of customers, from households to small and medium sized businesses. Our services and products include checking and savings accounts, certificates of deposit and loans to businesses and individuals, including residential mortgages. Our primary deposit customers are individuals, while our primary loan customers are small to medium sized businesses.

Between inception in 1997 and year end 2003, First Security recorded significant growth in its total assets, its primary earning assets (consisting of federal funds sold, loans and investment securities) and deposits, which grew to $238.3 million, $224.9 million and $190.6 million, respectively. Each of these amounts represents the levels achieved in our history. During 2004, the balances declined to $217.4 million, $204.9 million and $178.9 million, respectively, with the majority of the declines occurring in the last four months of the year. These declines were caused by the increasingly competitive market in which we operate and a loss of lending personnel. Although we experienced declines in these measurements, our net interest income was the highest in the history of the Company. The increase in this key profitability measurement was the result of significant changes in the management of our interest rate positions for our primary earning assets and deposits.

Market Area. FS Bank's primary service area is the Lexington MSA, which is composed of the contiguous counties of Fayette, Jessamine, Woodford, Clark, Bourbon and Scott in general, and specifically Lexington. Lexington is located approximately 70 miles south of Cincinnati, Ohio and 70 miles east of Louisville, Kentucky. Interstates 75 and 64 intersect in Lexington, making Lexington a central point for commerce. Lexington is also the center of the thoroughbred industry in Kentucky. A number of the most prominent horse farms in the country are located within the Lexington MSA, as is Keeneland Racetrack, one of the premier tracks in the nation and the home to a number of world prominent auctions of thoroughbred stock.

FS Bank's main office is located in Lexington's central business district in downtown Lexington. The downtown market consists of a variety of commercial establishments and entertainment venues. We believe that the downtown area is an important location for financial institutions requiring visibility within Lexington's prominent commercial and private banking markets. Accordingly, we believe that this location is well suited for FS Bank's business development efforts.

In January 1998, FS Bank opened a retail bank branch on Southview Drive. In May 2000, FS Bank opened a retail bank branch office on Tates Creek Road. In November 2001, FS Bank opened a retail branch office in the Palomar Centre. These offices were established to serve retail banking customers and are located in areas of high growth in Fayette County.

In May 2002, coincident with the acquisition of a mortgage origination company, we acquired two mortgage loan origination offices, one on Lowry Lane in Lexington and the other on Fourth Street in Danville, Kentucky, a city located approximately 45 miles to the southwest of Lexington. These office locations were sold in September 2004, coincident with a change in the manner in which we offer residential mortgages to our customers.

The economic success of FS Bank's primary service area depends heavily upon the economic viability of the metropolitan Lexington, Kentucky area. Our primary service area's economic strength comes from its large employer base, which includes several large enterprises, such as the University of Kentucky, Toyota Motor Manufacturing, USA (an automotive assembly plant located in Scott County, approximately 18 miles from Lexington), Lexmark International, the Lexington-Fayette Urban County Government and the Fayette County Public School System. Additionally, the market has benefited from strong growth in manufacturing employment in the last twenty years, particularly in manufacturing in automotive related industries.

Competition. The Lexington banking market is both concentrated and highly competitive. According to data released by the Federal Deposit Insurance Corporation ("FDIC"), there were 34 bank and thrift institutions with branch offices and deposits located in the Lexington MSA at June 30, 2004. These institutions include a large New York money center bank, three large regional banks and a large locally controlled community bank. These five institutions combined control approximately 54% of the total deposits in the market. These larger institutions have greater resources, higher lending limits and more banking offices. Of the remaining 29 financial institutions operating in this market, FS Bank ranks as the third largest in terms of total deposits according to the FDIC June 30, 2004 deposit data.

According to the FDIC June 30, 2004 deposit data, bank and thrift deposits in the Lexington MSA grew by $2.1 billion between June 1997 and June 2004, from $4.4 billion to $6.5 billion. This growth in deposits occurred primarily in locally controlled community banks, whose total deposits grew from $1.8 billion to $3.5 billion. Based on this data, at June 30, 2004, we held 2.68% of the total of bank and thrift deposits in the Lexington MSA, as compared to 3.25% at June 30, 2003.

Consequently, while large, multi-state institutions are well established in our market area, we believe the general trends indicate that a majority of the community banks in the Lexington MSA have been able to effectively compete with these larger, multi-state banks to increase their deposit market share in recent years. In addition, during this seven year period, a total of eight community banks have entered the market, thus further increasing competition.

While we compete against all financial institutions in this market, we believe that our primary competitors are the community banks that have offices in this market.

We believe that positioning FS Bank solely as a community bank will not be enough to compete in today's financial industry. In the wake of modern technology and the prosperity of the United States' financial markets over the past decade, banking clients have generally become more sophisticated in their approach to selecting financial services providers. We believe that the most important criteria to FS Bank's targeted clients when selecting a bank is their desire to receive exceptional customer service provided by local decision makers. Additionally, when presented with a choice, we believe that many of FS Bank's targeted clients would prefer to deal with a locally-owned institution headquartered in Lexington, like FS Bank, as opposed to a large, multi-state bank, where many important decisions regarding a client's financial affairs are made elsewhere.

Challenges. We have had a number of challenges to our continued success over the last three years. These challenges are the result of a number of factors, including the rapid decline in the interest rate environment that began in 2001, increased competition within our market as discussed above and turnover of key management personnel in 2003 and 2004. These factors have combined to result in a lowering of our historically high growth rates for loans and deposits and a decline in profitability from the record level achieved in 2000. See also Item 6 – "Management's Discussion and Analysis of Financial Condition and Results of Operation".

Our financing structure as a community bank is such that our deposits tend to reprice at a slower pace than do our loans, as our customers typically purchase certificates of deposit for periods of a year or longer. Conversely, our loan portfolio has historically been composed predominately of commercial loans whose interest rates are based on our prime lending rate.

The interest rate environment underwent abrupt changes beginning in 2001, with 12 declines in the prime rate, taking the prime rate from 9.50% in January 2001 to 4.00% by July 2003. The result of the rapid declines in the general interest rate environment has been that our cost of funds declined at a much slower pace than our loan portfolio in the period of 2001 through mid-2004, causing a compression in our net interest income. With the increases in interest rates that began in July 2004, the opposite has been true, that is, our yield on our loan portfolio has increased faster than our cost of deposits and other funding sources. The result is that our net interest income began a strong recovery during 2004, especially in the fourth quarter, and we expect that this recovery will continue for the immediate future as interest rates continue to increase. See also Item 6 – "Management's Discussion and Analysis of Financial Condition and Results of Operation".

In 2003, we experienced turnover of key personnel in the positions of president, chief financial officer and chief operating officer. In 2004, we experienced turnover in the position of senior lending officer and in other lending officer and branch manager positions. These changes reflect the intense competitive nature of our market and they have affected our ability to attract and retain new customers, thus adding to the slowdown in overall growth. These positions have been filled except for one lending officer position and we look forward to a resumption of our growth in all areas in 2005.

Lending Services. FS Bank offers a full range of lending products, including commercial, real estate and consumer loans to individuals and small to medium sized businesses and professional entities. It competes for these loans with competitors who are well established in the Lexington MSA.

FS Bank's loan approval policies provide for various levels of officer lending authority. When the amount of total loans to a single borrower exceeds that individual officer's lending authority, officers with a higher lending limit, a committee of FS Bank's Board of Directors or the Board of Directors will determine whether to approve the loan request.

FS Bank's lending activities are subject to a variety of lending limits imposed by state and federal law. Differing limits apply based on the type of loan or the nature of the borrower, including the borrower's relationship to FS Bank. In general, however, at December 31, 2004, FS Bank was able to loan any one borrower a maximum amount equal to approximately $4.3 million plus an additional $2.1 million, or a total of approximately $6.4 million, for loans that meet certain additional collateral guidelines. In addition to these regulatory limits, FS Bank imposes upon itself various internal lending limits based on the type of loan and collateral which are less than the prescribed legal lending limits, thus further reducing its exposure to any single borrower.

The principal economic risk associated with each category of loans that FS Bank expects to make is the creditworthiness of the borrower. General economic factors affecting a commercial or consumer borrower's ability to repay include interest, inflation and employment rates, as well as other factors affecting a borrower's assets, clients, suppliers and employees. Many of FS Bank's commercial loans are made to small-to medium-sized businesses that, during periods of economic weakness, may be more adversely affected than larger enterprises, resulting in increased levels of nonaccrual or other problem loans, loan charge-offs and higher provision for loan losses.

FS Bank's commercial loans vary by purpose and by type of any underlying collateral and include equipment loans and working capital loans. Commercial loans may be unsecured or secured by accounts receivable or by other business assets. FS Bank also makes a variety of commercial real estate loans, residential real estate loans and real estate construction and development loans. FS Bank also makes a variety of loans to individuals for personal, family, investment and household purposes, including secured and unsecured installment and term loans, residential first mortgage loans, home equity loans and home equity lines of credit.

FS Bank also originates residential mortgage loans with the expectation that they will be later sold into the secondary market. FS Bank acquired the assets of First Mortgage Company, Inc. in Lexington, Kentucky in March 2002, and conducted the mortgage banking operations as a department of the bank under the name of "First Security Mortgage Company". The assets used in this department were sold on September 10, 2004 to a newly formed company owned by Brady Ratliff and Allen Haggard, each former employees of FS Bank who were employed in this department. Thereafter, we implemented a plan to originate residential mortgage loans within our retail branch system, as opposed to separate offices, using our branch and retail staff. We believe that this revised structure will better enable us to take advantage of personal contact with our customers and by so doing, will lead to enhanced opportunities for offering increased products and services to our customers. See Note 17 to the Consolidated Financial Statements included in Item 7 of this report for additional information about our acquisition of First Mortgage Company, Inc.

Investment Securities. In addition to loans, FS Bank has other investments primarily in obligations of the United States government, obligations guaranteed as to principal and interest by the United States government and other securities. No investment in any of those instruments exceeds any applicable limitation imposed by law or regulation. The Asset Liability/Investment Committee and the Board of Directors review the investment portfolio on an ongoing basis in order to ensure that the investments conform to FS Bank's asset liability management policy as set by the Board of Directors.

Asset and Liability Management. Our Asset Liability/Investment Committee ("ALCO") is composed of members of the Board of Directors and executive management of FS Bank. The ALCO manages FS Bank's investments and assets and liabilities and strives to provide a stable, optimized net interest income and margin, adequate liquidity and ultimately a suitable after-tax return on assets and return on equity. The ALCO conducts these management functions within the framework of written policies that FS Bank's Board of Directors has adopted. The ALCO works to maintain a balancing position between rate sensitive assets and rate sensitive liabilities that is reflective of our expectations for changes in the general interest rate environment.

Deposit Services. FS Bank seeks to establish a broad base of core deposits, including savings, checking, interest-bearing checking, money market and certificate of deposit accounts. To attract deposits, FS Bank has employed a marketing plan in its overall service area and features a broad product line and competitive rates and services. The primary sources of deposits are residents of and businesses and their employees located in the Lexington MSA. FS Bank generally obtains these deposits through general marketing efforts and personal solicitation by its officers and directors.

Other Banking Services. Given client demand for increased convenience in accessing banking and investment services, FS Bank also offers other convenience-centered products and services, including 24 hour telephone and Internet banking, debit cards, direct deposit and cash management services for small-to medium-sized businesses. Additionally, FS Bank is associated with a nationwide network of automated teller machines that our clients are able to use throughout Kentucky and other regions. FS Bank does not plan to exercise trust powers, but may do so in the future subject to the approval of the Commonwealth of Kentucky and the Federal Deposit Insurance Corporation ("FDIC").

FS Bank also offers its targeted commercial clients courier service through a third party which picks up non-cash deposits from the client's place of business, which also enables us to demonstrate convenience greater than most of the larger regional competitors.

Employees. At March 1, 2005, FS Bank employed 53 employees of which 41 were full time. FS Bank considers its relationship with all employees to be excellent.

SUPERVISION AND REGULATION

Both First Security and FS Bank are subject to extensive state and federal banking laws and regulations that impose restrictions on and provide for general regulatory oversight of First Security's and FS Bank's operations. These laws and regulations are generally intended to protect depositors and not shareholders. The following discussion describes the material elements of the regulatory framework which apply.

First Security

We are a bank holding company under the federal Bank Holding Company Act of 1956. As a result, we are subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Federal Reserve.

Acquisition of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve's prior approval before:

- Acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;

- Acquiring all or substantially all of the assets of any bank; or

- Merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would substantially lessen competition or otherwise function as a restraint of trade, or result in or tend to create a monopoly, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the communities to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned, the convenience and needs of the communities to be served and the applicant's record of compliance with anti-money laundering regulations. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed below.

With the required regulatory approvals, we, or any other bank holding company located in Kentucky, may purchase a bank located outside of Kentucky. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Kentucky may purchase a bank located inside Kentucky. In each case, however, state law restrictions may be placed on the acquisition of a bank based on the existence of reciprocal state law in and based on limitations in specified concentrations of deposits.

Change in Bank Control. Subject to various exceptions, the Bank Holding Company Act and the Federal Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- The bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934; or

- No other person owns a greater percentage of that class of voting securities immediately after the transaction.

Our common stock is registered under the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

Permitted Activities. The Gramm-Leach-Bliley Act of 1999 amended the Bank Holding Company Act and expanded the activities in which bank holding companies and affiliates of banks are permitted to engage. The Gramm-Leach-Bliley Act eliminates many federal and state law barriers to affiliations among banks and securities firms, insurance companies, and other financial service providers. Generally, if we qualify and elect to become a financial holding company, which is described below, we may engage in activities that are:

- Financial in nature;
- Incidental to a financial activity; or
- Complementary to a financial activity and do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally.

The Gramm-Leach-Bliley Act expressly lists the following activities as financial in nature:

- Lending, trust and other banking activities;
- Insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;
- Providing financial, investment, or advisory services;
- Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;
- Underwriting, dealing in or making a market in securities;
- Activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident to banking or managing or controlling banks;
- Activities permitted outside of the United States that the Federal Reserve has determined to be usual in connection with banking or other financial operations abroad;
- Merchant banking through securities or insurance affiliates; and
- Insurance company portfolio investments.

The Gramm-Leach-Bliley Act also authorizes the Federal Reserve, in consultation with the Secretary of the Treasury, to determine activities in addition to those listed above that are financial in nature or incidental to such financial activity. In determining whether a particular activity is financial in nature or incidental or complementary to a financial activity, the Federal Reserve must consider (1) the purpose of the Bank Holding Company and Gramm-Leach-Bliley Acts, (2) changes or reasonably expected changes in the marketplace in which financial holding companies compete and in the technology for delivering financial services, and (3) whether the activity is necessary or appropriate to allow financial holding companies to effectively compete with other financial service providers and to efficiently deliver information and services.

To qualify to become a financial holding company, any of our depository institution subsidiaries must be well capitalized and well managed and must have a Community Reinvestment Act rating of at least "satisfactory." Additionally, we must file an election with the Federal Reserve to become a financial holding company and provide the Federal Reserve with 30 days written notice prior to engaging in a permitted financial activity. Although we do not have any immediate plans to file an election with the Federal Reserve to become a financial holding company, one of the primary reasons we selected the holding company structure was to have increased flexibility. Accordingly, if deemed appropriate, we may seek to become a financial holding company in the future.

Under the Bank Holding Company Act, a bank holding company, which has not qualified or elected to become a financial holding company, is generally prohibited from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in nonbanking activities unless, prior to the enactment of the Gramm-Leach-Bliley Act, the Federal Reserve found those activities to be so closely related to banking as to be a proper incident to the business of banking. Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- Factoring accounts receivable;
- Acquiring or servicing loans;
- Leasing personal property;
- Conducting discount securities brokerage activities;
- Performing selected data processing services;
- Acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- Performing selected insurance underwriting activities.

Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of any of its bank subsidiaries.

Support of Subsidiary Institutions. Under Federal Reserve policy, we are expected to act as a source of financial strength for our subsidiary, FS Bank, and to commit resources to support FS Bank. This support may be required at times when, without this Federal Reserve policy, we might not be inclined to provide it. In the unlikely event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of FS Bank would be assumed by the bankruptcy trustee and entitled to a priority of payment.

FS Bank

FS Bank is a state bank chartered under the banking laws of the Commonwealth of Kentucky. As a result, it is subject to the supervision, examination and reporting requirements of both the Kentucky Department of Financial Institutions ("KDFI") and the Federal Deposit Insurance Corporation ("FDIC"). KDFI and the FDIC regularly examine FS Bank's operations and have the authority to approve or disapprove mergers, act on the establishment of branches and similar corporate actions. KDFI and the FDIC also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Additionally, FS Bank's deposits are insured by the FDIC to the maximum extent provided by law. FS Bank also is subject to numerous state and federal statutes and regulations that will affect its business, activities and operations.

Branching. With prior regulatory approval and/or notices, as applicable, Kentucky law permits banks based in the state to either establish new or acquire existing branch offices throughout Kentucky. FS Bank and any other national or state-chartered bank generally may branch across state lines by merging with banks in other states if allowed by the applicable state's laws. Kentucky law (with limited exceptions) currently permits branching across state lines either through interstate merger or branch acquisition. Kentucky law does not currently permit an out-of-state bank to branch into Kentucky short of an interstate merger.

FDIC Insurance. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described below, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution's primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Capital Adequacy

Both First Security and FS Bank are required to comply with the capital adequacy standards established by the Federal Reserve in our case, and the FDIC, in the case of FS Bank. The Federal Reserve has established a risk-based and a leverage measure of capital adequacy for bank holding companies. FS Bank is also subject to risk-based and leverage capital requirements adopted by the FDIC, which are substantially similar to those adopted by the Federal Reserve for bank holding companies.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common stock, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less goodwill and other specified intangible assets. Tier 1 capital must equal at least 4% of risk-weighted assets. Tier 2 capital generally consists of subordinated debt, other preferred stock, and a limited amount of loan loss reserves. The total amount of Tier 2 capital is limited to 100% of Tier 1 capital. At December 31, 2004, our ratio of total capital to risk-weighted assets was 13.8% and our ratio of Tier 1 capital to risk-weighted assets was 12.9%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines have a dual structure for (i) bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk, and (ii) all other bank holding companies, which are typically smaller. We are subject to the latter, under which we are required to maintain a leverage ratio of at least 4%. At December 31, 2004, our leverage ratio was 10.8%. The guidelines also provide that bank holding companies experiencing high internal growth, or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels. Furthermore, the Federal Reserve has indicated that it will consider a bank holding company's Tier 1 capital leverage ratio, after deducting all intangibles, and other indicators of capital strength in evaluating proposals for expansion or new activities. See also the discussion of Financial Condition and Capital Resources in Item 6 – Management's Discussion and Analysis of Financial Condition and Results of Operation.

FS Bank experienced significant growth during our first five years of operations, from 1997 to 2001. While we experienced limited growth and some declines in measurements in 2003 and 2004, we plan to emphasize growth in 2005. If our growth rate returns to levels we experienced in 1997 through 2001, our assets will grow faster than our capital and our capital ratios will decline. In order to maintain capital at FS Bank at appropriate levels, we may be required to incur borrowings or issue additional equity securities. To prepare for potential growth, and to enable FS Bank to increase its lending limits, we borrowed $5 million and infused it into FS Bank on December 30, 2003. Although no regulatory consent was required for the borrowing and subsequent capital infusion, as a matter of courtesy, the matter was fully discussed with the regulatory agencies prior to its adoption.

In 2004, FS Bank paid a dividend of $2 million to First Security, which was used to reduce the debt to its present balance of $3 million. This dividend was paid from accumulated retained earnings and while it did reduce the regulatory capital ratios as discussed above, it did not reduce our legal lending limit, which is determined generally using the balances of capital stock and additional paid in capital only. No regulatory approval was required for the payment of this dividend, as the amount was less than the statutory and regulatory limitations, as discussed below.

Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and other restrictions on its business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) into one of which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution and a lower capital category based on supervisory factors other than capital. As of December 31, 2004, we believe FS Bank would be considered "well capitalized" by its primary regulator.

Payment of Dividends

We are a legal entity separate and distinct from FS Bank. The principal sources of our cash flow, including cash flow to repay our loan and to pay dividends to our shareholders, are dividends that FS Bank pays to us as its sole shareholder. Statutory and regulatory limitations apply to FS Bank's payment of dividends to us as well as to our payment of dividends to our shareholders.

In connection with our December 30, 2003 borrowing, we entered into a credit agreement that provides, among other things, an additional $1 million that can be used for capital infusion into FS Bank, which we do not expect to utilize. The credit agreement also prohibits the payment of dividends on our common shares until that debt is retired. In December 2004, we modified the credit agreement to reflect the $2 million principal reduction and reduced the amount available on the loan to $4 million through December 30, 2005 and $3 million thereafter to the maturity date of December 31, 2006. Since the loan has already been paid down to the $3 million amount, there are therefore, no further principal reductions required until its maturity. See also the Notes to Consolidated Financial Statements.

The payment of dividends by us and FS Bank may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. If, in the opinion of KDFI or the FDIC, FS Bank was engaged in or about to engage in an unsafe or unsound practice, they could require, after notice and a hearing, that FS Bank stop or refrain from engaging in the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. See "Prompt Corrective Action" above.

Restrictions on Transactions with Affiliates

Transactions between First Security and FS Bank are subject to Section 23A of the Federal Reserve Act. Section 23A places limits on the amount of:

- A bank's loans or extensions of credit to affiliates;
- A bank's investment in affiliates;
- Assets a bank may purchase from affiliates, except for real and personal property exempted by the Federal Reserve;
- The amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and
- A bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above extensions of credit transactions must also meet specified collateral requirements. FS Bank must also comply with other provisions designed to avoid the taking of low-quality assets.

Transactions between FS Bank and its affiliates (including First Security) are also subject to Section 23B of the Federal Reserve Act which, among other things, prohibits an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The Sarbanes-Oxley Act of 2002 further restricts First Security from extending or making arrangements for the extension of credit to any of its directors or executive officers.

FS Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

Community Reinvestment

The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the Office of the Comptroller of the Currency or the FDIC shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on FS Bank. Additionally, banks are required to publicly disclose the terms of various Community Reinvestment Act-related agreements.

Privacy

Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers. FS Bank has established a privacy policy to ensure compliance with federal requirements.

Other Consumer Laws and Regulations

Interest and other charges collected or contracted for by FS Bank are subject to state usury laws and federal laws concerning interest rates. For example, under the Servicemembers Civil Relief Act of 2003 (formerly the Soldiers' and Sailors' Civil Relief Act of 1940) a lender is generally prohibited from charging an annual interest rate in excess of 6% on any obligations for which the borrower is a person on active duty with the United States military. FS Bank's loan operations are also subject to federal laws applicable to credit transactions, such as the:

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair and Accurate Credit Transactions Act of 2004, governing the use of provision of customer information to credit reporting agencies, responding to complaints of inaccurate information contained in a customer's credit bureau database, providing for procedures to deal with fraud and identity theft and using medical information as a basis in a decision to grant credit;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing the federal laws.

FS Bank's deposit operations are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

- Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Anti-Terrorism Legislation

On October 26, 2001, the President of the United States signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers.

In addition, the USA PATRIOT Act authorizes the Secretary of the Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above. FS Bank currently has policies and procedures in place designed to comply with the USA PATRIOT Act.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation's financial institutions. As an example, the Fair and Accurate Credit Transactions Act of 2004 noted above contains a number of components for which there are presently no related regulations. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through the Federal Reserve's statutory power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The Federal Reserve, through its monetary and fiscal policies, affects the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

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ITEM 2. DESCRIPTION OF PROPERTIES

First Security Bancorp's principal offices are located at 318 East Main Street in Lexington, Kentucky in Fayette County. FS Bank owns this property.

In addition to its main office facility, FS Bank has three branch banking offices in Lexington, Kentucky, located at 3750 Palomar Centre Drive, 3616 Walden Drive and 2100 Southview Drive. FS Bank leases the land for its Palomar branch office from a related party and leases land for its Walden Drive branch office from an unrelated party. FS Bank leases the Southview Drive branch office from an unrelated party.

The Palomar Centre lease has an initial term extending until May 2021, and we have the option to extend the lease for an additional 20 year term. Rent under this lease is $69,600 annually until May 2005, with bi-annual adjustments of $2,400 until the end of the lease.

The Walden Drive lease has an initial term of five years, and we have the option to extend the lease for five additional five year terms. The annual rent is currently $61,700 and ranges up to $109,515 in the last of the lease extension periods.

The Southview Drive lease has a term extending until 2007, at which time we have the option to extend the lease for two additional five year terms. Annual rent is currently $51,093, and is subject to increases in any lease extension period based upon increases in the consumer price index.

As to all leased properties, in the opinion of management, the properties are adequately covered by insurance.

We also invest in real estate mortgage loans as a part of our banking business, in the form of making such loans and in the form of investments made in pooled real estate mortgage loans issued by various government sponsored entities such as the Federal National Mortgage Association (FNMA).

ITEM 3. LEGAL PROCEEDINGS

As of the date hereof, there are no material pending legal proceedings to which First Security or FS Bank is a party or of which any of its properties are subject; nor are there material proceedings known to First Security or FS Bank to be contemplated by any governmental authority; nor are there material proceedings known to First Security or FS Bank, pending or contemplated, in which any director, officer or affiliate or any principal security holder of First Security or FS Bank or any associate of any of the foregoing, is a party or has an interest adverse to First Security or FS Bank.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Since inception in May 2000, First Security's common stock has been traded on the OTC Bulletin Board under the symbol "FSLK". The following table shows the high and low bid price information for First Security Bancorp's common stock for each quarter in 2004 and 2003, as derived from data furnished by the National Association of Securities Dealers. These quotations reflect inter-dealer prices, without retail markup, markdown, or commission, and may not represent actual transactions.

	Bid Price Per Share	
	High	Low
2004		
First quarter	$18.00	$15.90
Second quarter	18.00	17.00
Third quarter	17.50	17.00
Fourth quarter	17.75	16.75
2003		
First quarter	$ 21.00	$ 16.25
Second quarter	21.00	17.05
Third quarter	18.50	17.00
Fourth quarter	17.00	14.75

Trading volume is considered very light as the stock is thinly traded, as that term is generally used.

As of March 1, 2005, First Security had 526 owners of record of its shares.

First Security has not paid any cash dividends since inception, and it does not anticipate that it will consider paying dividends until FS Bank has achieved a level of profitability appropriate to fund such dividends and support asset growth and until First Security extinguishes its debt. See Item 1. "Description of Business – Supervision and Regulation – Payment of Dividends" and Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information on dividend restrictions applicable to First Security, including the prohibition on payment of dividends under the loan First Security obtained on December 30, 2003.

Equity Plan Compensation Information

The following table provides information as of December 31, 2004 with respect to our compensation plans under which equity securities of the Company are authorized for issuance:

Plan category	(a) Number of securities issued upon the exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by shareholders (1)	119,650	$18.23	66,350
Equity compensation plans not approved by shareholders (2)	20,000	$14.00	-
Totals	139,650	$17.62	66,350

(1) Reflects shares of our common stock subject to options and available for issuance under the Company's Stock Award Plan.

(2) Reflects options granted under the Executive Employment Agreement we entered into with R. Douglas Hutcherson when he joined First Security and FS Bank as our President and CEO effective December 1, 2003. The options vest 4,000 per year commencing September 15, 2004, and have an expiration date of December 1, 2013.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following is a discussion of our financial condition at December 31, 2004 and 2003, and our results of operations for the years ended December 31, 2004, 2003 and 2002. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from the Consolidated Financial Statements. You should read the following discussion and analysis along with our Consolidated Financial Statements and the related notes included elsewhere herein.

Selected Consolidated Financial Data

The following table sets forth selected historical financial information for 2004, 2003 and 2002. This information should be read in conjunction with the Consolidated Financial Statements and the related Notes found in Item 7 herein. Factors concerning the comparability of certain indicated periods are discussed in this section.

	2004	2003	2002
Income Statement Data:			
Interest income	$ 10,738	$ 11,402	$ 13,136
Interest expense	4,411	5,471	6,950
Net interest income	6,327	5,931	6,186
Provision for loan losses	297	669	1,475
Securities gains	318	694	660
Gain on sale of loans	332	1,067	511
Loss on disposal of premises and fixed assets	-	-	(1)
Other noninterest income	847	1,005	929
Noninterest expense	6,538	7,282	5,442
Income tax expense	305	126	322
Net income	684	620	1,049
Balance Sheet Data:			
Total assets	217,434	238,258	231,086
Total securities	38,748	38,624	43,046
Loans held for sale	-	407	3,390
Total loans, net of allowance	150,856	158,733	164,999
Allowance for loan losses	1,720	2,379	2,457
Total deposits	178,862	190,640	188,955
Repurchase agreements and other short-term borrowings	5,857	8,874	8,211
FHLB advances	8,246	12,512	14,517
Note payable	3,000	5,000	-
Shareholders' Equity	20,608	20,112	18,464
Per Share Data:			
Basic earnings per share	$ 0.44	$ 0.42	$ 0.72
Diluted earnings per share	0.44	0.41	0.69
Book value per share	13.22	12.90	12.68
Performance Ratios:			
Return on average assets	0.31%	0.27%	0.47%
Return on average equity	3.37%	3.22%	5.86%
Net interest margin (tax equivalent basis)	3.05%	2.84%	3.11%
Efficiency ratio	84	84	66
Asset qualty ratios:			
Nonperforming assets to total loans	2.02%	2.44%	3.75%
Net loan charge-offs to average loans	0.60%	0.46%	0.34%
Allowance for loan losses to total loans	1.13%	1.48%	1.47%
Capital ratios:			
Average shareholders' equity to average total assets	9.16%	8.36%	8.05%
Leverage ratio	9.78%	8.67%	7.90%
Tier I risk-based capital ratio	11.62%	10.85%	9.80%
Total risk-based ratio	12.59%	12.10%	11.00%
Other Key Data:			
End-of-period full-time equivalent employees	49	62	57

Overview

General. Startup banks typically have unusually high levels of growth for the first three to four years of operation, as the new entity seeks to capture market share. Thereafter, growth slows as the institution matures and reaches a growth rate that is more reflective of the market as a whole. FS Bank experienced rapid growth of its total assets for its first four full years of operation, from late 1997 through the end of 2001. As FS Bank began to mature in 2002, growth of total assets slowed. For the two years ended December 31, 2003, annualized growth in totals assets declined to 8.5% per year. For 2004, total assets declined by 8.7%. The following table highlights growth since 2001:

	2004	2003	2002	2001
Total assets	$217,434	$238,258	$231,086	$202,270
Net loans (1)	150,856	159,140	168,389	150,884
Total earning assets	203,978	223,729	216,246	188,129
Total deposits	178,862	190,640	188,955	168,744
Net interest income	6,327	5,931	6,186	4,568
Net income	684	620	1,049	1,022
Growth rates				
Total assets	-8.7%	3.1%	14.2%	50.4%
Net loans (1)	-5.2%	-5.5%	11.6%	42.5%
Total earning assets	-8.8%	3.5%	14.9%	51.5%
Total deposits	-6.2%	.9%	12.0%	46.0%
Net interest income	6.7%	-4.1%	35.4%	18.8%
Net income	10.3%	-40.9%	2.6%	-3.3%

(1) Includes loans held for sale and reduced by the allowance for loan losses.

The growth has been supported by both new equity capital and earnings. The initial capitalization for FS Bank in 1997 was $10 million. Thereafter, $6.3 million in additional equity capital was raised through a 2000 second offering, which continued into 2001, when an additional $628,000 was received. In 2003, $1,082,000 was received from the exercise of warrants issued to certain organizers at the time FS Bank was organized and from the exercise of stock options granted to employees and directors. There were no additional shares issued in 2004.

Growth has also been supported by earnings, although to a lesser extent, as FS Bank sustained net losses for 1997 and 1998 in the aggregate amount of $1,515,000. As a de novo bank, the net losses during the first two years of operation were anticipated. We have operated profitably since 1998, accumulating retained earnings of $2,736,000 at December 31, 2004. No dividends have been paid on our common stock, as all earnings have been retained to support growth.

Financial Condition. Between June 2002 and June 2004, the growth of total deposits in our market area was approximately 9% per year according to data released by the FDIC comparing total deposits as of June 30, 2004, 2003 and 2002. Total deposits of FS Bank increased by slightly less than 1% in 2003, and declined by 6.5% in 2004.

Since growth in deposits is utilized to fund growth in loans, and since loans declined during 2003 and 2004, this lower growth in total deposits in 2003 and the decline of deposits in 2004 reflects the reduction in the need for funding sources. The decline in loans in both 2003 and 2004 is attributable to the increased competitive environment and turnover of key management personnel, particularly lending officers, as discussed further below.

Since June 30, 2002, three banks entered the local market. These startup banks are targeting the same customer segments as FS Bank and are, at times, offering interest rates that are below market on loans and in excess of market for deposits. This increased competitive environment has resulted in some loss of both loans and deposits and has caused us to become more aggressive in establishing interest rates for both loans and deposits in order to lessen the loss of our loan and deposit volumes.

In 2003, we experienced turnover of key personnel in the positions of president, chief financial officer and chief operating officer. In 2004, we experienced turnover in the position of senior lending officer and in other lending officer and branch manager positions. These changes reflect the intense competitive nature of our market and they have affected our ability to attract and retain new customers, thus adding to the slowdown in overall growth of loans in 2003 and to the decline in loans in 2004. The vacancies created in these key positions adversely impacted the ability of FS Bank to maintain its momentum in implementing its strategic and tactical plans in both 2003 and 2004. As of the date of this report, all positions have been filled, with the exception of one lending position, and we are actively seeking an individual to fill that role. The existence of unfilled positions, especially in the lending area, may have an impact on the ability of FS Bank to meet its goals for loan growth in 2005.

During both 2003 and 2004, FS Bank sought to increase the proportion of its variable rate loans in its loan portfolio so as to take advantage of the widely anticipated increases in the prime lending rate. The proportion of variable rate loans to total loans was increased from 39.2% at December 31, 2002 to 56.8% at December 31, 2003 and to 67.1% at December 31, 2004.

During 2004, FS Bank implemented a funding strategy designed to reduce interest costs composed of the following elements:

- Reduce the balances of certificates of deposit through more aggressive control of pricing, which also resulted in reductions in the balances of federal funds sold in excess of our liquidity needs. This plan element enhanced net interest income, as the rates customarily paid on certificates of deposit for most maturities are higher than the rates earned on federal funds sold.

- Reduce our dependency on certificates of deposit as the primary funding source by obtaining a larger proportion of deposits in the form of money market accounts. The reasons for this plan element are three-fold:

    i) In the historically low interest rate environment of 2004, customers sought to maximize the interest rate they earned on certificates of deposit by extending terms. This had the effect of compressing net interest income, margins and spreads because of the higher interest rates and associated interest expense.

    ii) In mid-2004, we significantly enhanced the interest rates paid on money market accounts so as to further reduce both our dependency on certificates of deposit and the interest cost to FS Bank, as the cost of money market accounts is substantially lower than the cost of certificates of deposit.

    iii) The shifting of deposits from fixed rate term certificates of deposits to variable rate immediately repriceable money market accounts better matches the loan portfolio in repricing relationships.

These strategies resulted in a substantial improvement in net interest income as more fully discussed below in Results of Operations.

At year end 2004, the financial condition of FS Bank and First Security was strong, as presented in the following table:

Indicator	FS Bank	First Security
Equity Capital to Total Assets	10.4%	9.5%
Total Risk Based Capital to Risk-weighted Assets	13.8%	12.6%
Cash Equivalents to Total Assets	10.5%	10.5%
Investments to Total Assets	15.5%	15.5%
Loans (net) to Total Deposits	84.1%	84.3%

As is shown above, FS Bank and First Security are well capitalized, and FS Bank is positioned with a strong level of liquid assets which enable it to fund loan growth in 2005, with approximately 26% of its total asset base available for redeployment as needed.

Results of Operations. First Security's net interest income increased from $5.9 million in 2003 to $6.3 million in 2004, for an increase of $.4 million, or 6.7%. This increase was a result of several factors, including more effective management of the funding of deposits and other sources of liquidity, coupled with increases in loan yields that resulted from increases in the prime rate that occurred during the last six months of the year. This increase in net interest income was achieved even though the average balance of interest-bearing assets and liabilities was moderately lower in 2004 than in 2003.

In 2003, our net interest income declined from $6.2 million in 2002 to $5.9 million. This was a result of several factors, including lower yields on federal funds sold, loans and investments not entirely offset by lower yields on interest bearing liabilities. The decline of interest income from loans and investments was $1.0 million and $.8 million, respectively, reflecting lower yields, while interest expense declined by $1.5 million, for a net decline in net interest income of $257,000, measured without regard to tax-equivalent adjustments.

For 2004, First Security recorded a provision for loan losses in the amount of $297,000, as compared to $669,000 for 2003 and $1,472,000 in 2002. Net loans charged off were $956,000 in 2004, as compared to $749,000 in 2003 and $551,000 in 2002. The majority of charge offs in 2004 relate to loans to a troubled franchise operator which first became problem loans and were significantly reserved for in 2002, while the majority of charge offs in 2003 relate to a small manufacturer.

Noninterest income declined from $2.8 million in 2003 to $1.5 million in 2004. Much of the decline was due to mortgage loan originations and sales during 2004, which contributed $332,000 in gains during the year, as compared to $1.1 million in 2003. In 2003, noninterest income increased from $2.1 million to $2.8 million, attributable to increases in mortgage loan originations and gains on sales, which increased from $511,000 in 2002, to $1.1 million in 2003. First Security also recorded $318,000 in gains on the sales of securities available-for-sale in 2004 as compared to $694,000 in 2003 and $660,000 in 2002.

Noninterest expense decreased approximately $744,000 in 2004. Noninterest expense is composed of salaries and employee benefits, equipment and occupancy expenses and other operating expenses. Of this total decrease, approximately $333,000 related to the sale of certain assets and reduction of staff previously associated with the mortgage company department. The balance of the decrease was in the amount of $411,000 and is primarily attributable to a decrease of $241,000 in legal and professional fees. Noninterest expenses increased from $5.4 million in 2002 to $7.3 million in 2003, primarily as a result of the purchase of the mortgage loan origination business, which was acquired in 2002.

First Security decreased its number of full-time equivalent employees from 62.0 December 31, 2003 to 49.5 at December 31, 2004. The majority of the decrease is attributable to the sale of assets used in the mortgage loan origination department and its associated reduction in staff. During 2004, we experienced an overall decrease in compensation and employee benefit expense of approximately $475,000. Of this decrease, approximately $295,000 related to the mortgage loan origination department.

Capital and Liquidity. On December 30, 2003, First Security borrowed $5 million from a commercial bank and infused the proceeds as additional equity capital into FS Bank. The note is structured as a reducing revolving loan, bears interest at a rate of prime less .25% and will mature on December 31, 2006. In response to a lack of growth in loans as anticipated in 2004, FS Bank paid a dividend of $2 million to First Security, which in turn applied this amount to the note, bringing its balance to $3 million at December 31, 2004.

Critical Accounting Estimates

The accounting principles we follow and our methods of applying these principles conform with accounting principles generally accepted in the United States and with general practices within the banking industry. In connection with the application of those principles, we have made judgments and estimates which, in the case of the determination of our allowance for loan losses (ALL), have been critical to the determination of our financial position and results of operations.

Allowance for Loan Losses (ALL). To evaluate the loan portfolio, management has established loan grading procedures. These procedures establish a grade for each loan upon origination which is periodically reassessed throughout the term of the loan. Grading categories include highest quality, above average, average, low average, watch, substandard, doubtful, and loss. Loans graded watch or worse also include loans severely past-due and those not accruing interest. Specific reserve allocations are calculated for specific individual loans having been graded watch, substandard, doubtful, and loss based on the specific estimated collectability (and by reference, estimated inherent risk of loss) of each loan. The aggregate of the estimated probable and incurred loss then becomes a portion of the allowance for loan losses to be specifically allocated to that loan. These calculations are referred to as specific allocations.

For loans not individually graded watch, substandard, doubtful or loss, an estimated loss factor is calculated and applied to each category, after reducing the category amounts for cash equivalent collateral held by FS Bank (such as certificates of deposit issued by FS Bank and held as collateral) and guaranties from the federal government (such as SBA guaranties). A general allowance allocation is computed using totals of each loan grading category (as adjusted) multiplied by an estimated loss factor applied to each grading category. The sum of the calculation for each grading category represents the general allowance. These loss factors are typically developed over time using actual loss experience adjusted for the various factors discussed above.

The sum of the specific allocations and the general allocation represents management's best estimate of the probable incurred losses contained in the loan portfolio at the measurement date. Even though the ALL is composed of two components, the entire ALL is available to absorb any credit losses.

In assessing the adequacy of the ALL, we also rely on an ongoing independent loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, the input from our independent loan reviewer, who is not an employee of FS Bank, and reviews that may have been conducted by bank regulatory agencies as part of their usual examination process.

Management believes the allowance for loan losses at December 31, 2004 was adequate. Although we believe we use the best information available to make allowance provisions, future adjustments which could be material may be necessary if the assumptions used to determine the allowance differ from future loan portfolio performance.

Results of Operations

For 2004, we experienced a decline in our loans and a slowing in the growth in other earning assets and deposits. We also experienced decreased operating expenses. These factors combined to result in an increase in net income. Net income for the year ended December 31, 2004 was $684,000, as compared to $620,000 for 2003 and $1,049,000 in 2002. The following is a more detailed discussion of results of our operations for the years ended December 31, 2004 and 2003.

Net Interest Income. Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of our earnings. For the year ended December 31, 2004, we recorded net interest income of $6,327,000 which resulted in a tax-equivalent net interest margin of 3.05% for the year, as compared to $5,931,000 and 2.84% for 2003 and $6,186,000 and 3.11% for 2002, respectively.

In 2003 and 2004, there were significant factors affected the changes in net interest margin and net interest income. In 2003, a substantial amount of fixed rate loans were repaid or renegotiated at lower rates as the prime rate declined in June 2003. At the same time, we sold a substantial amount of available-for-sale securities at gains, which indicates that the yields were above market, and reinvested at lower rates. Loan balances were only slightly lower. In 2004, the prime rate increased by 125 basis points between July and December. These interest rate increases had a positive impact on our net interest income for 2004, as a significant portion of our loan portfolio is composed of adjustable rate loans tied primarily to our prime lending rate which increased in lock-step with the increases in the federal funds rate.

The following table sets forth the amount of our average balances, interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for total interest-earning assets and total interest-bearing liabilities, net interest spread and net yield on average interest-earning assets for each of the years in the three-year period ended December 31, 2004 (dollars in thousands):

	2004			2003			2002		
	Average Balances	Interest	Yields/ Rates	Average Balances	Interest	Yields/ Rates	Average Balances	Interest	Yields/ Rates
Interest-earning assets:									
Loans (1, 2)	$159,718	$ 9,180	5.75%	$164,520	$10,081	6.13%	$161,514	$11,102	6.87%
Securities available-for-sale:									
Taxable	38,355	1,416	3.72%	30,320	842	2.78%	31,813	1,333	4.20%
Tax exempt (3)	1,169	61	5.02%	9,858	574	5.83%	14,693	1,011	6.88%
Federal funds sold and other	9,201	102	1.00%	10,974	100	0.91%	1,748	32	1.83%
Total interest-earning assets	208,443	10,759	5.14%	215,672	11,597	5.38%	209,768	13,478	6.43%
Nonearning assets	13,074			14,552			12,637		
Total assets	$ 221,517			$ 230,224			$ 222,405		
Interest-bearing liabilities:									
Interest-bearing deposits:									
Interest checking	$ 19,635	$ 126	0.64%	$ 18,894	$ 136	0.72%	$ 20,926	$ 282	1.35%
Savings and money market	27,606	393	1.39%	22,599	230	1.02%	21,455	412	1.92%
Certificates of deposit	106,552	3,181	2.97%	124,891	4,509	3.61%	125,897	5,718	4.54%
Total interest-bearing deposits	153,793	3,701	2.39%	166,384	4,875	2.93%	168,278	6,412	3.81%
Securities sold under agreements to repurchase	7,483	51	0.67%	4,625	38	0.82%	6,765	91	1.35%
Federal funds purchased	607	15	2.30%	224	1	1.15%	2,415	47	1.95%
Federal Home Loan Bank advances	10,126	431	4.25%	13,552	557	4.11%	10,060	400	3.98%
Note Payable	5,000	213	4.26%	-	-		-	-	-
Total interest-bearing liabilities	177,010	4,411	2.48%	184,785	5,471	2.96%	187,518	6,950	3.71%
Noninterest-bearing liabilities:									
Demand deposits	23,162			22,617			15,930		
Other liabilities	1,053			3,575			1,053		
Total liabilities	201,225			210,977			204,501		
Stockholders' equity	20,293			19,247			17,904		
Total liabilities and stockholders' equity	$ 221,517			$ 230,224			$ 222,405		
Net interest income – tax equivalent		$ 6,348			$ 6,126			$ 6,528	
Adjustment for tax-equivalent income		(21)			(195)			(342)	
Net interest income as reported		$ 6,327			$ 5,931			$ 6,186	
Net interest spread (4)		2.66%			2.42%			2.72%	
Net interest margin (5)		3.05%			2.84%			3.11%	

(1) Average balances for nonperforming loans are included in the above amounts.
(2) Loan fees included in interest income were $479,000, $575,000 and $816,000 in 2004, 2003 and 2002, respectively.
(3) We computed yields based on the carrying value of tax exempt instruments on a fully tax equivalent basis.
(4) Net interest spread is calculated as the mathematical difference between the yield on total interest-earning assets and the cost of total interest-bearing liabilities.
(5) Net interest margin is calculated as the net interest income – tax equivalent divided into the total interest-earning assets.

Several factors contributed to the increase in net interest income and net interest margin for 2004 when compared to the same period in 2003, including the following:

- Our cost of funding for interest-bearing liabilities declined 48 basis points from 2.96% in 2003 to 2.48% in 2004. Several factors contributed to this decline:
    - There were a moderate number and amount of certificates of deposit that were issued in 1999 and 2000 for periods as long as five years and issued at rates as high as 7% that were redeemed or renewed in 2004 at much lower interest rates.
    - In July 2004, FS Bank implemented an enhanced money market pricing structure that was designed to reduce the proportion of certificates of deposit to total funding sources. Since money market interest rates were well below the average rate paid on certificates of deposit, the effect was to reduce the average cost of deposits.

- At various times in the last seven months of 2004, FS Bank utilized federal funds borrowing lines at other commercial banks. During 2004, the borrowing rate on these lines was in a range of 1.23% to 2.19%. Since these rates were well below the average rate paid on certificates of deposit, the effect was to reduce the average cost of funding.

- Our loan yields, including fees, declined from 6.13% for 2003 to 5.75% for 2004, a decline of 38 basis points. The primary reasons for this year to year decline are:

  - During the first six months of 2004, a substantial amount of older fixed rate loans matured, were paid off or were renegotiated to lower interest rates. In addition, as discussed elsewhere herein, we continued in our efforts to increase the proportion of variable rate loans in the loan portfolio in anticipation of interest rate increases, even though variable rate loans generally have lower yields than fixed rate loans, which are typically made for longer terms.

  - Fees charged on loans and included in the calculation of yields declined from $575,000 in 2003 to $479,000 in 2004.

  - Offsetting the above factors were the increases in FS Bank's prime lending rate during 2004, from 4.00% at June 30, 2004 to 5.25% at December 31, 2004. These increases, coupled with our efforts to increase the proportion of variable rate loans in the loan portfolio resulted in an increase in the overall interest yields (excluding fees) as shown below, as measured as of December 31 of the year indicated:

	2004		2003	
	Amount	Yield	Amount	Yield
Fixed Rate	$ 50,228	6.64%	$ 69,681	6.94%
Variable Rate	102,348	5.33%	91,431	4.44%
Totals	$152,576	5.76%	$161,112	5.52%

- Our interest income on investment securities increased during 2004 as a result of both increases in average balances and increases in yields. During 2004, as in 2003 and 2002, we sold a substantial portion of our securities at gains and reinvested at higher rates.

Several factors contributed to the decline in net interest income and net interest margin for 2003 when compared to the same period in 2002, including the following:

- Our loan yields decreased from 6.87% for 2002 to 6.13% for 2003, a decrease of 74 basis points. Several factors contributed to this decrease:

  - As of December 31, 2002, approximately 60% of our loans, aggregating approximately $100 million were on fixed rates with various maturities on or after January 1, 2003. During 2003, a substantial amount of these loans were renewed or renegotiated to a floating interest rate structure. As of December 31, 2003, our fixed rate loans had declined by approximately $30.3 million to $69.7 million. These fixed rate loans had a weighted yield of approximately 7.22% at December 31, 2002, as compared to 6.94% as of December 31, 2003.

  - FS Bank's prime lending rate for the period from January 1, 2003 through June 27, 2003 was 4.25% and then was reduced to 4.00% for the period from June 25, 2003 to December 31, 2003. This compares to a consistent 4.75% for the period of January 1, 2002 through November 7, 2002 and 4.25% for the period of November 8, 2002 through December 31, 2002. As of December 31, 2002, approximately 40% of our loans, aggregating approximately $66 million, were on floating rates tied to FS Bank's prime lending rate. During 2003, these loans increased by approximately $25 million to $91.4 million. The yield on these loans declined from 4.47% at December 31, 2002 to 4.44% at December 31, 2003.

- During 2003 and 2002, we sold a substantial amount of our available-for-sale securities, recognizing gains of $694,000 and $660,000, respectively. These gains were attributable to yields on the securities being higher than existed in the market at the time of sale. The proceeds from these sales were reinvested into lower yielding securities.

- Although deposit rates decreased between the two periods, those rates decreased at a slower pace than rates for loans, as deposit rates typically adjust more slowly than loan yields during a period of declining interest rates due to the term of the deposit accounts and due to competitive market pressures. Thus, deposit funding costs typically do not decrease as quickly as do revenues from interest income on earning assets. Additionally, during 2003, overall deposit rates were less than those rates for the comparable period in 2002. In some cases, rates for 2003 have decreased to such levels that further decreases in deposit rates approach what we term "embedded floors" or rates that are not reasonable or practical to go below, such that further decreases in deposit rates could place us in a competitive disadvantage as customers seek higher returns on their balances.

- During 2002, we borrowed $13.2 million in medium term (2 – 5 year) fixed rate advances from the Federal Home Loan Bank of Cincinnati ("FHLB") at a weighted average cost of 3.70%. These advances generally have prepayment penalties. Not all of these borrowings were match funded with loans having similarly structured prepayment penalties. Thus, in some cases, as our lending rates declined, we adjusted the interest rates downward on those loans that were funded with the advances without a corresponding decrease in the cost of the FHLB advances.

Rate and Volume Analysis. As noted above, our net interest income increased by $222,000 on a tax-equivalent basis between the years ended December 31, 2004 and 2003. The following is an analysis of the changes in our net interest income comparing the changes attributable to rates and those attributable to volumes (dollars in thousands):

	2004 Compared to 2003			2003 Compared to 2002		
	Rate	Volume	Net	Rate	Volume	Net
Interest-earning assets:						
Loans	$ (613)	$ (288)	$ (901)	$ (1,226)	$ 203	$ (1,023)
Securities available-for-sale						
Taxable	318	256	574	(437)	(60)	(497)
Tax exempt	(54)	(459)	(513)	(137)	(298)	(435)
Federal funds sold and other	20	(18)	2	(22)	96	74
Total interest-earning assets	(329)	(509)	(838)	(1,822)	(59)	(1,881)
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest checking	(15)	5	(10)	(121)	(25)	(146)
Savings and money market	106	58	164	(203)	20	(183)
Certificates of Deposit	(719)	(609)	(1,328)	(1,164)	(45)	(1,209)
Total interest-bearing deposits	(628)	(546)	(1,174)	(1,488)	(50)	(1,538)
Securities sold under agreements to repurchase	(7)	20	13	(27)	(24)	(51)
Federal funds purchased	10	4	14	(21)	(24)	(46)
Note payable	-	213	213	-	-	-
Federal Home Loan Bank advances	19	(145)	(126)	14	143	157
Total interest-bearing liabilities	(606)	(454)	(1,060)	(1,523)	45	(1,478)
Net interest income	$ 277	$ (55)	$ 222	$ (299)	$ (104)	$ (403)

Changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as change in volume times the previous rate, while rate change is change in rate times the previous volume. The change attributed to rates and volumes (change in rate times change in volume) is allocated between volume change and rate change at the ratio of how much each component bears to the absolute value of their total.

Provision for Loan Losses. The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses ("ALL") that, in our management's evaluation, should be adequate to provide coverage for probable and incurred loss on outstanding loans. The provision for loan losses amounted to $297,000, $669,000 and $1,472,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Based upon our management's evaluation of the loan portfolio, our management believes the allowance for loan losses to be adequate to absorb our estimate of probable and incurred losses existing in the loan portfolio at the balance sheet date. The decrease in the provision for loan losses for the year ended December 31, 2004 when compared to the year ended December 31, 2003, and the decrease in the provision for loan losses for the year ended December 31, 2003 as compared to the year ended December 31, 2002 were primarily due to the following factors:

- In 2002, management made a concerted effort to improve the quality of the loan portfolio by adopting a revised loan policy coupled with revised and more stringent underwriting guidelines. Based on management's evaluation, this resulted in a substantial improvement in the overall credit quality of new loans added to the portfolio in 2003 and 2004.

- In 2003 and 2004, management continued to critically evaluate the loan portfolio following the methodology implemented in late 2002. The previous recognition of provision expense in 2002 and 2003, coupled with new loans that were of substantially higher credit quality, based on management's evaluation, resulted in lowered provisions expense in both 2003 and 2004.

- In 2004, management continued its efforts to collect or eliminate poor quality loans extended in prior years.

Based upon our management's assessment of the loan portfolio, we adjust our ALL to an amount deemed appropriate to adequately cover probable and incurred losses in the loan portfolio. While our policies and procedures used to estimate the ALL, as well as the resultant provision for loan losses charged to operations, are considered adequate by our management and are reviewed from time to time by FS Bank's regulators, they are necessarily approximate and imprecise. There exist factors beyond our control, such as general economic conditions both locally and nationally, which may negatively impact, materially, the adequacy of our ALL and, thus, the resulting provision for loan losses.

Noninterest Income. FS Bank's noninterest income is composed of several components, some of which vary significantly between quarterly and annual periods. Service charges on deposit accounts and other noninterest income generally reflect FS Bank's growth, while fees from the origination of commercial and mortgage loans will often reflect market conditions and fluctuate from period to period. The opportunities for recognition of gains on sales of loans and gains on sales of investment securities may also vary widely from period to period.

The following is the makeup of our noninterest income for the years ended December 31, 2004 and 2003 (dollars in thousands):

			Change	
	2004	2003	Amount	Percent
Noninterest income:				
Service charges on deposit accounts	$ 624	$ 711	$ (87)	(12.2%)
Net gains on sales of loans	332	1,067	(735)	(68.8%)
Net gains on sales of securities	318	694	(376)	(54.1%)
Other noninterest income	223	294	(71)	(23.8%)
Total	$ 1,497	$ 2,766	$(1,269)	(50.2%)

The decline in service charge income for 2004 was primarily due to lower returned check fees for business accounts, which declined by $58,000, and general activity and service charges, which declined by $11,000. Other service charges and fees increased by $14,000.

Net gains on sales of loans includes income from origination fees and points on residential loans made with the expectation that they will be later sold into the secondary market, and from service release fees received on these loans from the purchasers. All loans are sold whereby servicing rights transfer to the buyer. Generally, mortgage origination fees increase in lower interest rate environments and decrease in rising interest rate environments. As a result, mortgage origination fees may fluctuate greatly in response to a changing rate environment. In 2004, net gains on sales of loans declined as a result of two factors:

- During 2003, a refinancing "boom" existed in the United States, evidenced by record numbers of borrowers refinancing their home loans in order to take advantage of the historically low long term interest rates. That boom slowed during the fourth quarter of 2003, and remained so throughout 2004. This slowdown affected FS Bank in its mortgage lending and sales of loans into the secondary market, as shown in the above table.

- On September 10, 2004, FS Bank sold certain assets it used in its mortgage loan origination department efforts to First Mortgage Company, LLC, an entity formed by Brady Ratliff and Allen Haggard, who were employed by FS Bank in its mortgage loan department. That sale resulted in no gains on sales of loans being recognized in the fourth quarter of 2004, although FS Bank retained the ability to originate and sell secondary market residential loans and in 2005, hired staff to perform this function.

Also included in noninterest income for the year ended December 31, 2004 were net gains of approximately $318,000 realized from the sale of approximately $11.1 million of available-for-sale securities. This compares to net gains of approximately $694,000 realized from the sale of approximately $11.6 million of available-for-sale securities in 2003. The decline in net gains from sales of securities is the result of the rising interest rate environment, which erodes the value of longer term fixed rate investments, and a lesser amount of securities being sold in 2004.

The following is the makeup of our noninterest income for the years ended December 31, 2003 and 2002 (dollars in thousands):

			Change	
	2003	2002	Amount	Percent
Noninterest income:				
Service charges on deposit accounts	$ 711	$ 788	$ (77)	-9.8%
Net gains on the sale of loans	1,067	511	556	108.8%
Net gains on the sale of securities	694	660	34	5.2%
Other noninterest income	294	140	154	110.0%
Total	$ 2,766	$ 2,099	$ 667	31.8%

As shown, the largest component of noninterest income is gains on sales of loans. This income category includes income from origination fees and points on residential loans made with the expectation that they will be later sold into the secondary market, and from service release fees received on these loans from the purchasers. All loans are sold whereby servicing rights transfer to the buyer. Generally, mortgage origination fees increase in lower interest rate environments and decrease in rising interest rate environments. As a result, mortgage origination fees may fluctuate greatly in response to a changing rate environment.

Service charge income for 2003 decreased from that of 2002 due to the termination of our relationship with two large volume customers who generated large amounts of overdraft and returned check fees.

Also included in noninterest income for the year ended December 31, 2003 were net gains of approximately $694,000 realized from the sale of approximately $11.6 million of available-for-sale securities. This compares to net gains of approximately $660,000 realized from the sale of approximately $46.2 million of available-for-sale securities in 2002.

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Noninterest Expense. Noninterest expense consists of salaries and employee benefits, equipment and occupancy expenses, and other operating expenses. The following is the makeup of our noninterest expense for the years ended December 31, 2004 and 2003 (dollars in thousands):

	2004	2003	Change Amount	Change Percent
Noninterest expense				
Salaries and employee benefits	$ 3,024	$ 3,499	$ (475)	(7.4%)
Equipment and occupancy	1,137	1,161	(24)	(2.1%)
Data processing	547	505	42	8.3%
Legal and professional fees	422	657	(235)	(35.8%)
Advertising	209	209	-	-
Bankshares tax	176	177	(1)	(0.6%)
Supplies and printing	69	125	(56)	(44.8%)
Loss on sales of foreclosed assets	-	72	(72)	n/a
Loss on write off of intangibles	100	-	100	n/a
Amortization of intangibles	10	14	(4)	(28.6%)
Other noninterest expense	844	863	(19)	(2.2%)
Total	$ 6,538	$ 7,282	$ (744)	(10.2%)

Total noninterest expenses declined in 2004 in the amount of $744,000 composed primarily of declines in salaries and employee benefits and legal and professional fees. All other expenses declined by an aggregate amount of $34,000. The changes in total noninterest expenses were due primarily to the following factors:

- Salaries and employee benefits declined by $295,000 as a result of the sale of certain assets used in the mortgage loan department on September 10, 2004. The agreement for sale provided that individuals employed in this department would be automatically hired by the purchaser. As a result, the salaries and employee benefits for those individuals were effectively assumed by the purchaser as of September 1, 2004. The remaining decline of $180,000 is primarily attributable to the amounts paid our former president pursuant to his termination agreement in the approximate amount of $90,000 and the $50,000 sign on bonus paid to our current president and chief executive officer in connection with his employment agreement.

- Legal and professional fees declined $235,000. Of this decline, $48,000 is attributable to First Security and $187,000 is attributable to FS Bank. Legal and professional fees in 2003 were substantially higher and related to strategic planning at First Security and problem loan administration at FS Bank.

- The loss of $100,000 relates to the write off of intangibles acquired in connection with the 2002 purchase of assets used in the mortgage loan department and sold in September 2004.

- The 2003 loss on the sale of foreclosed and repossessed assets of $72,000 relates to the liquidation of foreclosed assets that were acquired in 2002.

- The decline of $56,000 in supplies and printing expenses is primarily attributable to the implementation of tighter expense controls implemented in 2004.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 83.5% in 2004 as compared to 83.7% in 2003. We use the efficiency ratio as a way to analyze the amount of expense that is incurred to generate a dollar of revenue.

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The following is the makeup of our noninterest expense for the years ended December 31, 2003 and 2002 (dollars in thousands):

	2003	2002	Change Amount	Change Percent
Noninterest expense				
Salaries and employee benefits	$ 3,499	$ 2,711	$ 788	29.1%
Equipment and occupancy	1,161	953	208	21.8%
Data processing	505	262	243	92.7%
Legal and professional fees	657	280	377	134.6%
Advertising	209	167	42	25.1%
Bankshares tax	177	103	74	71.8%
Supplies and printing	125	107	18	16.8%
Loss on sales of foreclosed assets	72	-	72	n/a
Amortization of intangibles	14	10	4	40.0%
Other noninterest expense	863	849	14	1.6%
Total	$ 7,282	$ 5,442	$ 1,840	33.8%

Total noninterest expenses increased in 2003 in the amount of $1,840,000. The changes in total noninterest expenses were due primarily to the following factors:

- The full year operation of the mortgage origination and sales department increased noninterest expenses in the following areas:

Salaries and employee benefits	$394,000
Equipment and occupancy	48,000
Other noninterest expenses	57,000

- Salaries and employee benefits also increased by approximately $140,000 relating to the amounts paid our former president pursuant to his termination agreement in the approximate amount of $90,000 and the $50,000 sign on bonus paid to our current president and chief executive officer in connection with his employment agreement.

- The data processing expenses increased as a result of implementation of enhanced computer systems capabilities for our Internet site and the installation of remote backup and storage systems, all recorded as data processing expense, caused an increase of approximately $140,000.

- Legal and professional fees increased by $377,000. Of this increase, approximately $180,000 related to strategic planning and evaluation of strategic alternatives by our Board of Directors and approximately $156,000 related to legal and professional fees involving administration of problem loans.

- The increase in bankshares tax relates to the calculation of the taxable capital over a five year historical period. Our capital was significantly lower in earlier years, and thus, by eliminating a lower balance year from the calculation, the taxable base increases.

- The loss of $72,000 on the liquidation of foreclosed assets in 2003 that were acquired in 2002.

- The recording of a severance expense to our former chief executive officer in the amount of $90,000.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 83.7% in 2003 compared to 65.7% in 2002. We use the efficiency ratio as a way to analyze the amount of expense that is incurred to generate a dollar of revenue. This increase in the efficiency ratio is attributable to the decline in net interest income and the increase in noninterest expense.

Income Taxes. The effective income tax expense rate for the year ended December 31, 2004 was approximately 30.8% compared to 23.5% and 6.2% for the years ended December 31, 2003 and 2002, respectively. This rate of taxation compares to the statutory rate of 34%. The increase in the effective rate is solely attributable to the significant reduction in tax exempt income resulting from the sales of tax exempt investment securities in 2003 undertaken in order to reduce our market risk on long term fixed rate investments.

Quarterly Information. The following is a summary of quarterly balance sheet and results of operations information for 2004 (dollars in thousands, except per share data).

	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Selected balance sheet data at quarter end:				
Total assets	$ 217,434	$ 214,010	$ 217,208	$ 226,813
Total loans (excluding loans held for sale)	152,576	156,629	158,801	161,201
Allowance for loan losses	(1,720)	(1,796)	(2,298)	(2,384)
Securities available-for-sale	33,748	36,265	42,041	39,516
Total deposits	178,862	170,646	173,483	181,256
Securities sold under agreements to repurchase	5,857	8,264	8,291	7,563
Note Payable	3,000	5,000	5,000	5,000
Advances from FHLB	8,246	8,821	9,389	11,953
Total stockholders' equity	20,608	20,338	19,890	20,399
Balance sheet data, quarterly averages:				
Total assets	210,659	218,485	225,044	230,628
Total loans (excluding loans held for sale)	154,838	158,540	161,575	161,079
Allowance for loan losses	(1,750)	(2,122)	(2,297)	(2,374)
Securities available-for-sale	35,006	40,015	42,685	39,559
Total deposits	170,322	174,067	181,013	185,905
Securities sold under agreements to repurchase	5,578	8,394	8,122	7,374
Note Payable	5,000	5,000	5,000	5,000
Advances from FHLB	8,438	9,011	10,244	12,140
Total stockholders' equity	20,535	20,395	19,999	20,298
Income data:				
Interest income	$ 2,682	$ 2,639	$ 2,755	$ 2,662
Interest expense	(1,036)	(1,054)	(1,107)	(1,214)
Net interest income	1,646	1,585	1,648	1,448
Provision for loan losses	-	(222)	(50)	(25)
Net interest income after provision for loan losses	1,646	1,363	1,598	1,423
Noninterest income	225	361	396	515
Noninterest expense	(1,456)	(1,735)	(1,698)	(1,649)
Income before income taxes	415	(11)	296	289
Income taxes	(134)	10	(93)	(88)
Net income	$ 281	$ (1)	$ 203	$ 201
Per share data:				
Earnings - basic	0.18	-	0.13	0.13
Earnings - diluted	0.18	-	0.13	0.13
Book value at quarter end	$ 13.17	$ 13.08	$ 12.83	$ 13.02
Weighted average shares - basic	1,558,690	1,558,690	1,558,690	1,558,690

The quarterly provision for loan losses represents a charge to earnings necessary to establish the allowance for loan losses ("ALL") that, in our management's evaluation, should be adequate to provide coverage for probable and incurred loss on outstanding loans as of the end of each period. During 2004, we followed the same methodology for each quarter and determined that no provision was needed for the fourth quarter of 2004.

Financial Condition

Our consolidated balance sheet at December 31, 2004 reflects a modest decline since December 31, 2003. Total assets declined by $20.9 million from $238.3 million at December 31, 2003 to $217.4 million at December 31, 2004. That decline was made up primarily of declines of $6.6 million in federal funds sold, $4.9 million in investment securities and $8.5 million in gross loans. Total deposits declined by $11.8 million during 2004.

Loans. The composition of our loan portfolio at December 31, 2004, 2003, 2002, 2001 and 2000 is summarized as follows (dollars in thousands):

	2004	2003	2002	2001	2000
Commercial	$ 58,125	$ 49,165	$ 47,612	$ 41,309	$ 31,257
Mortgage loans on real estate:					
Commercial	40,087	61,669	64,325	62,330	41,397
Residential	10,069	14,882	17,871	19,749	11,663
Construction	26,299	16,990	20,664	15,508	11,661
Home equity	11,637	11,488	10,180	7,981	5,871
Consumer	5,531	6,035	5,773	4,696	4,501
Credit card	828	883	1,033	849	748
Total Gross Loans	$ 152,576	$ 161,112	$ 167,458	$ 152,422	$ 107,098

The composition of our loan portfolio underwent only minor changes in 2003, with total and relative balances similar. In 2004, that composition changed significantly as a result of increased emphasis in commercial loans and in construction loans. The decline in commercial loans secured by real estate is largely attributable to four large loans that were paid off during the year.

The following table classifies our fixed and variable rate loans at December 31, 2004 according to contractual maturities of (1) one year or less, (2) after one year through five years, and (3) after five years. The table also classifies our variable rate loans pursuant to the contractual repricing dates of the underlying loans (dollars in thousands):

	Amounts at December 31, 2004			Percentages
	Fixed	Variable	Total	% Totals
Based on contractual repricing dates:				
Daily floating rate	$ -	$ 97,922	$ 97,922	64.2%
Reprice within one year	18,544	883	19,427	12.7%
Reprice in one year through five years	28,491	3,543	32,034	21.0%
Reprice after five years	3,193	-	3,193	2.1%
Totals	$ 50,228	$ 102,348	$ 152,576	100.0%
Percentage of total portfolio	33.0%	67.0%	100.0%	

In 2003, we adopted a strategic loan portfolio management strategy that recognized the strong likelihood of increases in the interest rate environment. In order to take advantage of increases in the interest rate environment, we sought to increase the proportion of immediately repriceable loans and reduce the proportion of fixed rate loans and to reduce the repricing time frames for all loans. That strategy was followed throughout 2004 and resulted in a substantial change in the characteristics of our loan portfolio, summarized as follows:

	December 31, 2004		December 31, 2003	
Daily floating rate	$ 97,922	64.2%	$ 86,282	53.6%
Reprice within one year	19,427	12.7%	22,766	14.1%
Reprice in one year through five years	32,034	21.0%	46,136	28.6%
Reprice after five years	3,193	2.1%	5,928	3.7%
Totals	$ 152,576	100.0%	$ 161,112	100.0%

We believe that in the current and expected rising interest rate environment this strategy will enhance the overall yield in our loan portfolio and will have a positive impact on our net interest income and net interest margin.

The above information does not consider the impact of scheduled principal payments. Daily floating rate loans are tied to FS Bank's prime lending rate or a national interest rate index with the underlying loan rates changing in relation to changes in these indexes.

Non-Performing Assets. The specific economic and credit risks associated with our loan portfolio include, but are not limited to, a general downturn in the economy which could affect employment rates in our market area, general real estate market deterioration, interest rate fluctuations, deteriorated or non-existent collateral, title defects, inaccurate appraisals, financial deterioration of borrowers and fraud.

We attempt to reduce these economic and credit risks by adherence to loan-to-value guidelines for collateralized loans, by investigating the creditworthiness of the borrower and by monitoring the borrower's financial position. Also, we establish and periodically review our lending policies and procedures. Banking regulations limit our exposure by prohibiting loan relationships that exceed 20% of FS Bank's statutory capital in the case of loans that are not fully secured by readily marketable or other permissible types of collateral, and further limit the amount of loans that can be made to related parties.

FS Bank discontinues the accrual of interest income when (1) there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or (2) the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. At December 31, 2004, we had $2,969,000 in loans on nonaccrual compared to $3,605,000 at December 31, 2003.

There were approximately $10,000 in other loans at December 31, 2004 which were 90 days past due and still accruing interest, as compared to $214,000 at December 31, 2003. At December 31, 2004, we had $1,844,000 in restructured loans as compared to $3,092,000 at December 31, 2003. The restructured loans consist of several loans to a troubled franchise operator which, during 2003, were reclassified to nonaccrual. In 2004, the franchise operator filed bankruptcy. In addition, during 2004, we charged off approximately $695,000 of the total of these loans.

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The following table is a summary of our nonperforming loans at December 31, 2004, 2003, 2002, 2001 and 2000 (dollars in thousands):

	2004	2003	2002	2001	2000
Nonperforming loans					
Nonaccrual loans (1)	$ 2,969	$ 3,605	$ 1,867	$ 470	$ -
Restructured loans (2)	-	-	3,268	-	-
Accruing loans past due 90 days or more	10	214	1,218	319	2
Total nonperforming loans	2,979	3,819	6,353	789	2
Other real estate owned	-	119	-	-	-
Other foreclosed assets held pending liquidation	110	-	300	-	-
Total nonperforming assets	$ 3,089	$ 3,938	$ 6,653	$ 789	$ 2
Ratio of nonperforming loans to total loans	2.0%	2.4%	3.8%	.5%	-
Ratio of nonperforming assets to total loans	2.0%	2.4%	4.0%	.5%	-
Ratio of nonperforming assets to total allowance for loan losses at end of period	179.6%	165.5%	270.6%	51.3%	-

(1) Interest income that would have been recorded in 2004 related to nonaccrual loans was $255,000 compared to $12,000 for the year ended December 31, 2003, none of which is included in interest income or net income for the applicable periods.

(2) The restructured loans in the amount of $3,268,000 as of December 31, 2002 were placed in nonaccrual status in 2003 and are included in nonaccrual loans at December 31, 2004 and 2003. Those same loans, which aggregated $3,268,000 at December 31, 2002 had a balance of $1,844,000 at December 31, 2004.

Potential problem assets, which are not included in nonperforming assets, amounted to $3,199,000 or 2.10% of total loans at December 31, 2004 compared to $4,050,000 or 2.50% at December 31, 2003. Potential problem assets represent those assets with a potential or a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by FS Bank's primary regulator for loans classified as substandard.

Allowance for Loan Losses (ALL). We maintain the ALL at a level that our management deems appropriate to adequately cover the probable and incurred loss in the loan portfolio. As of December 31, 2004 and 2003, the balance in our allowance for loan losses was $1,720,000 and $2,379,000, respectively. Our management deemed these amounts to be adequate. The judgments and estimates associated with our ALL determination are described under "Critical Accounting Estimates" above.

At both December 31, 2004 and 2003 approximately 82% of our loan portfolio consisted of commercial loans, commercial real estate loans and commercial construction loans as compared to 79% at year end 2002. We periodically analyze our loan position with respect to our borrowers' industries to determine if a concentration of credit risk exists to any one or more industries. We do have a significant credit exposure of loans outstanding plus unfunded lines of credit to borrowers in the residential construction industry and to owners of nonresidential buildings at December 31, 2004 and 2003. This exposure level is taken into consideration by management in its determination of the adequacy of the allowance for loan losses. Based upon that determination, we believe that we did not have any excessive exposure to any single industry which would warrant additional allowance allocations.

The following table sets forth, based on management's best estimate, the allocation of the ALL to types of loans as of December 31 and the percentage (%) of the category of loans to total loans (dollars in thousands):

	2004 Amount	2004 %	2003 Amount	2003 %	2002 Amount	2002 %	2001 Amount	2001 %	2000 Amount	2000 %
Commercial	$ 1,000	38.1%	$ 1,610	30.6%	$1,509	28.5%	$ 639	27.0%	$ 519	29.1%
Mortgage loans on real estate:										
Commercial	275	26.3%	379	38.3%	460	38.4%	450	40.9%	300	38.7%
Residential	75	6.6%	80	9.2%	125	10.7%	138	13.0%	85	10.9%
Construction	200	17.2%	105	10.5%	116	12.3%	111	10.2%	64	10.9%
Home Equity	-	7.6%	-	7.2%	-	6.1%	-	5.2%	-	5.5%
Consumer	150	3.6%	190	3.7%	224	3.4%	175	3.1%	228	4.2%
Credit Card	20	.5%	15	.5%	25	.6%	25	.6%	25	.7%
Total	$ 1,720	100.0%	$ 2,379	100.0%	$2,459	100.0%	$ 1,538	100.0%	$ 1,221	100.0%

The following is a summary of changes in the allowance for loan losses for the years ended December 31, 2004, 2003, 2002, 2001 and 2000, and the ratio of the allowance for loan losses to total loans as of the end of each period (dollars in thousands):

	2004	2003	2002	2001	2000
Balance at beginning of period	$ 2,379	$ 2,459	$ 1,538	$ 1,221	$ 819
Charge-offs:					
Commercial	830	727	472	77	23
Real estate	99	30	-	32	-
Consumer	33	101	89	21	-
Total charge-offs	962	858	561	130	23
Recoveries:					
Commercial	5	104	-	-	-
Real estate	1	3	7	-	-
Consumer	-	2	3	-	-
Total recoveries	6	109	10	-	-
Net charge-offs	956	749	551	130	23
Provision for loan losses	297	669	1,472	447	425
Balance at end of period	$ 1,720	$ 2,379	$ 2,459	$ 1,538	$ 1,221
Loans at end of period	$ 152,576	$ 161,112	$ 167,456	$ 152,422	$ 107,098
Average loans	$ 159,718	$ 164,520	$ 161,514	$ 129,190	$ 94,593
Ratios:					
Allowance for loan losses to total loans	1.13%	1.48%	1.47%	1.02%	1.14%
Net charge-offs to average Loans for period	.60%	.46%	.34%	.10%	-

During 2004, we charged off $695,000 on loans to a single customer engaged in the franchise business. Those loans were reported as restructured loans at December 31, 2002 and as nonaccrual loans in 2003 and 2004. During 2003, we charged off $418,000 on loans to a single customer. That loan had been reported as nonaccrual as of December 31, 2002. These charge-offs constitute a substantial portion of all charge-offs for the years noted. Other than these instances, charge-offs to individual customers were not large in comparison to the total charge-offs.

Investments. Our investment portfolio, consisting primarily of Federal agency bonds and mortgage-backed securities, amounted to $33.7 million and $38.6 million at December 31, 2004 and 2003, respectively. The following table summarizes the amortized cost and fair value of our securities at those dates, all of which we classify as available-for-sale (dollars in thousands):

	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
2004				
Securities available-for-sale:				
U.S. Government and federal agencies	$ 13,517	$ 2	$ (71)	$ 13,448
State and municipal	875	7	-	882
Mortgage-backed	19,352	116	(50)	19,418
Total	$ 33,744	$ 125	$ (121)	$ 33,748
2003				
Securities available-for-sale:				
U.S. Government and federal agencies	$ 9,368	$ 75	$ (6)	$ 9,437
State and municipal	2,836	41	(4)	2,873
Mortgage-backed	26,105	280	(71)	26,314
Total	$ 38,309	$ 396	$ (81)	$ 38,624

During 2004, we sold $11.2 million of available-for-sale securities at a net gain of $318,000. This compares to sales of $11.6 million and net gains of $694,000 during 2003. At December 31, 2004, approximately $13.1 million of our available-for-sale portfolio was pledged to secure public fund and other deposits and securities sold under agreements to repurchase.

The following table shows the carrying value of investment securities according to contractual maturity classifications of one year or less, after one year through five years, after five years through ten years, and after ten years. Actual maturities differ from contractual maturities of mortgage-backed securities because these securities may be called or repaid in whole or in part based on the payments received from the mortgages underlying the securities. Therefore, these securities are not included in the maturity categories noted below as of December 31, 2004 and 2003 (dollars in thousands):

	2004	2003
Due in one year or less	$ 3,194	$ 267
Due after one year through five years	10,603	7,497
Due after five years through ten years	533	4,185
Due after ten years	-	361
Total of investment securities with fixed maturity dates	14,330	12,310
Mortgage-backed securities	19,418	26,314
Total investment securities	$ 33,748	$ 38,624

We compute income on securities using coupon interest, adding discount accretion or subtracting premium amortization, and for certain Treasury Inflation Protection securities, the adjustments to the par values based on inflation adjustment data as provided by the federal government. The majority of our investments for 2004 and 2003 were in the form of mortgage-backed securities. These investments are typically acquired at a premium to their par value. Since these securities are repayable in monthly increments, based on the repayment of the underlying mortgages, they are subject to wide variations in their yield caused by the increased write off of the purchase premiums. During 2004 and 2003, the interest rate market for residential financings was at or near a thirty year low, causing many homeowners to refinance their home mortgages, especially during 2003. As a result, when receiving prepayments, we accelerated premium amortization. This caused a lowering of the yields on these investments.

Deposits and Other Borrowings. We had approximately $178.9 million of deposits at December 31, 2004 compared to $190.6 million at December 31, 2003. Our deposits consist of noninterest and interest-bearing demand accounts, savings, money market and time deposits. Additionally, we have repurchase agreements which are essentially deposit equivalents collateralized by securities. These agreements amounted to $5.9 million at December 31, 2004 and $8.9 million at December 31, 2003. Additionally, at December 31, 2004, we had balances of $8.2 million in advances from the Federal Home Loan Bank of Cincinnati compared to $12.5 million at December 31, 2003.

Our deposits at December 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Interest-bearing demand	$ 16,657	$ 18,187	$ 17,601
Savings, money market and NOW	38,523	23,204	22,889
Time deposits	59,374	73,461	77,732
Time deposits $100,000 and over	41,638	51,207	50,255
Total interest-bearing deposits	156,192	166,059	168,477
Noninterest-bearing	22,670	24,581	20,478
Total deposits	$ 178,862	$ 190,640	$ 188,955

The above table reflects the strategic funding plan implemented in 2004 to reduce the proportion of certificates of deposit to the total of all deposits, particularly through growth in balances of savings, money market and NOW accounts.

Information on our repurchase agreements at December 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Average balance during the year	$ 7,483	$ 4,901	$ 6,832
Average interest rate during the year	.67%	.78%	1.34%
Maximum month end balance during the year	$ 8,729	$ 8,874	$ 14,088
Balance at year end	$ 5,857	$ 8,874	$ 8,211

Information on our advances from the Federal Home Loan Bank of Cincinnati and outstanding balances at December 31, 2004 and 2003 is as follows:

		Interest		Balances	
Date of Advance	Amount	Rate	Maturity	2004	2003
November 30, 2000	$ 1,050	6.71%	December 1, 2015	$ 1,000	$ 1,014
November 21, 2001	1,300	5.61%	December 1, 2016	1,246	1,265
May 1, 2002	5,000	3.70%	June 1, 2005	872	2,569
May 31, 2002	2,000	3.73%	May 28, 2004	-	2,000
June 19, 2002	1,800	4.15%	July 1, 2005	1,653	1,716
September 5, 2002	600	2.84%	October 1, 2006	283	432
September 5, 2002	600	3.06%	October 1, 2007	351	468
December 6, 2002	1,800	3.65%	January 1, 2008	1,504	1,661
December 6, 2002	1,432	3.82%	January 1, 2008	1,337	1,387
Totals	$15,582			$ 8,246	$ 12,512

All of the above advances are amortizing on a monthly basis through maturity except for the May 31, 2002 advance in the amount of $2 million, whose principal was paid in full at its May 28, 2004 maturity.

Note Payable. On December 30, 2003, the Company entered into a credit agreement with another financial institution that provides for a reducing revolving line of credit in the maximum amount of $6 million, of which $5 million was drawn at inception and contributed to FS Bank to increase its capital base. The related note is secured by 100% of the common shares of FS Bank and has a maturity of December 31, 2006. The maximum amount available under the credit agreement reduces to $5 million on December 31, 2004 and $4 million on December 31, 2005. The Company repaid $2 million of the note in December 2004.

The credit agreement contains a number of covenants relating to the operation of the Bank including the maintenance of a minimum equity capital ratio, a maximum ratio of nonperforming assets to total loans, a minimum return on average assets and the maintenance of a minimum dividend payment capacity by the Bank. Covenants applicable to the Company include a prohibition of the payment of dividends on its common stock. At year end 2004, all covenants of the credit agreement were either met or waived by the lender.

Funding. Generally, banks classify their funding base as either core funding or non-core funding. Core funding consists of all deposits other than time deposits issued in denominations of $100,000 or greater, while all other funding is deemed to be non-core. The following table represents the balances of our deposits and other fundings and the percentage of each type to the total at December 31, 2004, 2003 and 2002 (dollars in thousands):

	2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent
Core funding:						
Noninterest-bearing demand deposits	$ 22,670	11.6%	$ 24,581	11.3%	$ 20,478	9.7%
Interest-bearing demand deposits	16,657	8.5%	18,187	8.4%	17,601	8.3%
Savings and money market deposits	38,523	19.6%	23,204	10.7%	22,889	10.8%
Time deposits less than $100,000	59,374	30.3%	73,461	33.8%	77,732	36.7%
Total core funding	137,224	70.0%	139,433	64.2%	138,700	65.5%
Non-core funding:						
Time deposits greater than $100,000	41,638	21.3%	51,207	23.6%	50,255	23.7%
Securities sold under agreements to repurchase	5,857	3.0%	8,874	4.1%	8,211	3.9%
Federal Home Loan Bank advances	8,246	4.2%	12,512	5.8%	14,517	6.9%
Notes Payable	3,000	1.5%	5,000	2.3%	-	-%
Total non-core funding	58,741	30.0%	77,593	35.8%	72,983	34.5%
Total funding	$ 195,965	100.0%	$ 217,026	100.0%	$ 211,683	100.0%

Capital Resources. At December 31, 2004 and 2003, our stockholders' equity amounted to $20.6 million and $20.1 million, respectively. The change in stockholders' equity was attributable to our net income for the year ended December 31, 2004 of $684,000, the net decrease in comprehensive income of $206,000 attributable to the decrease in fair value of our available-for-sale securities portfolio and an increase of $18,000 relating to stock paid compensation.

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Generally, banking laws and regulations require banks and bank holding companies to maintain certain minimum capital ratios in order to engage in certain activities or be eligible for certain types of regulatory relief. At December 31, 2004 and 2003, our capital ratios, including FS Bank's capital ratios, met regulatory minimum capital requirements. At December 31, 2004 and 2003, FS Bank was categorized as "well-capitalized". To be categorized as "well-capitalized", FS Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. Additionally, First Security and FS Bank must maintain certain minimum capital ratios for regulatory purposes. The following table presents actual, minimum and "well-capitalized" capital amounts and ratios at December 31, 2004 and 2003 (amounts in millions):

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provisions		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2004						
Total Risk Based Capital to Risk-weighted assets:						
Consolidated	$ 22.3	12.6%	$ 14.1	8.0%	$ 17.7	10.0%
Bank only	24.5	13.8%	14.1	8.0%	17.7	10.0%
Tier I (Core) Capital to Risk-weighted assets						
Consolidated	$ 20.6	11.6%	$ 7.1	4.0%	$ 10.6	6.0%
Bank only	22.8	12.9%	7.1	4.0%	10.6	6.0%
Tier I Leverage Capital to Average Assets						
Consolidated	$ 20.6	9.8%	$ 8.4	4.0%	$ 10.5	5.0%
Bank only	22.8	10.8%	8.4	4.0%	10.5	5.0%
2003						
Total Risk Based Capital to Risk-weighted assets:						
Consolidated	$ 22.1	12.1%	$ 14.6	8.0%	$ 18.3	10.0%
Bank only	26.1	13.8%	15.1	8.0%	18.9	10.0%
Tier I (Core) Capital to Risk-weighted assets						
Consolidated	$ 19.8	10.9%	$ 7.3	4.0%	$ 11.0	6.0%
Bank only	23.7	12.5%	7.6	4.0%	11.4	6.0%
Tier I Leverage Capital to Average Assets						
Consolidated	$ 19.8	8.7%	$ 9.1	4.0%	$ 11.4	5.0%
Bank only	23.7	10.4%	9.1	4.0%	11.4	5.0%

Dividends. FS Bank is subject to restrictions on the payment of dividends to First Security under laws and regulations promulgated by the FDIC and the Commonwealth of Kentucky. Currently, FS Bank can pay First Security dividends of approximately $834,000 without prior approval of the FDIC or Commonwealth of Kentucky.

First Security is also subject to limits on payment of dividends to our shareholders by the rules, regulations and policies of federal banking authorities. We have not paid any dividends to date, nor do we anticipate paying dividends to our shareholders for the foreseeable future. In order to pay such dividends, we will need to receive dividends from FS Bank or have other sources of funds. In addition, in accordance with the terms of the credit agreement which we entered into on December 30, 2003, the payment of dividends on our common stock cannot be made, except with the consent of the lending institution. We do not intend to pay dividends on our common stock, instead preferring to retain all earnings to support the growth of our Company.

Interest and Liquidity Risk Management

Our objective is to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies. Our Asset Liability/Investment Committee ("ALCO") of FS Bank is charged with the responsibility of monitoring these policies, which are designed to ensure acceptable composition of asset/liability mix. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk management, which are actively monitored.

Interest Rate Sensitivity. In the normal course of business, we are exposed to market risk arising from fluctuations in interest rates. ALCO measures and evaluates the interest rate risk so that we can meet customer demands for various types of loans and deposits. ALCO determines the most appropriate amounts of on-balance sheet and off-balance sheet items. Measurements which we use to help us manage interest rate sensitivity include an earnings simulation model and gap analysis computations. These measurements are used in conjunction with competitive pricing analysis.

Earnings Simulation Model. We believe that interest rate risk is best measured by our earnings simulation modeling. Forecasted levels of net interest income based on existing interest-bearing earning assets and liabilities are combined with ALCO forecasts of interest rates for the next 12 months and are combined with other factors in order to produce various earnings simulations. To limit interest rate risk, we have guidelines for our net interest-earnings at risk which seek to limit the variance of net interest income to less than predetermined levels based on the change in the interest rate market. At any point our calculations reflect a change greater than this level (which is referred to in our policies and procedures as a Level 1 Alert), we are required to take action to mitigate the condition by actively restructuring our balance sheet risk profile.

The following data is presented relating to the results of the earnings simulation model at December 31, 2004:

	Changes in interest rates from current rates stated in basis points								
	-400	-300	-200	-100	0	100	200	300	400
Forecast net interest income	$5,057	$5,536	$6,007	$6,416	$6,736	$7,043	$7,344	$7,646	$7,949
Effect on net interest income	(1,679)	(1,200)	(729)	(319)	0	307	608	910	1,213
Percentage change	-24.9%	-17.8%	-10.8%	-4.7%	0%	4.6%	9.0%	13.6%	18.0%
Level 1 Alert	-25.0%	-20.0%	-15.0%	-10.0%	0%	10.0%	15.0%	20.0%	25.0%

The results of the earnings simulation indicate that FS Bank is asset sensitive, meaning that in a rising interest rate environment, yields on assets are likely to increase faster than costs of liabilities, thus producing increases in net interest income.

The above table is intended to present our technique for measuring interest rate risk on projected net interest income based on changes in the general interest rate environment at a point in time. Given that the Federal Reserve implemented its publicly announced policy of measured and continuing increases in interest rates in July 2004, and has publicly announced its intention to continue to increase rates at a measured pace over the next twelve months, the calculations presented for declines are believed by management to be unlikely and thus, are not believed to be relevant.

Gap Analysis. An asset or liability is considered to be interest rate-sensitive if it will reprice or mature within the time period analyzed; for example, within three months or one year. The interest rate-sensitivity gap is the difference between the interest-earning assets and interest-bearing liabilities scheduled to mature or reprice within such time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities. A gap is considered negative when the amount of interest rate-sensitive liabilities exceeds the interest rate-sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to adversely affect net interest income. If our assets and liabilities were equally flexible and moved concurrently, the impact of any increase or decrease in interest rates on net interest income would be minimal.

At December 31, 2004, our twelve-month interest rate-sensitivity gap ratio of earning assets to interest-bearing liabilities was a positive 30.9%, as compared to a positive 22.2% at December 31, 2003. The increase in our positive gap ratio reflects our view that interest rates will continue to rise over the next 12 months and this will have a positive impact on our net interest income. Since deposit pricing will generally lag both in degree and timing with any upward interest rate adjustments, our management believes we are well-positioned to manage our net interest margins through an upward rate environment.

Each of the above analyses may not, on their own, be an accurate indicator of how our net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as "interest rate caps and floors"), which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates. ALCO reviews each of the above interest rate sensitivity analyses along with several different interest rate scenarios as part of its responsibility to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies.

Liquidity Risk Management. The purpose of liquidity risk management is to ensure that there are sufficient cash flows to satisfy loan demand, deposit withdrawals, and our other needs. Traditional sources of liquidity for a bank include asset maturities and growth in core deposits. A bank may achieve its desired liquidity objectives from the management of its assets and liabilities and by internally generated funding through its operations. Funds invested in marketable instruments that can be readily sold and the continuous maturing of other earning assets are sources of liquidity from an asset perspective. The liability base provides sources of liquidity through attraction of increased deposits and borrowing funds from various other institutions.

Changes in interest rates also affect our liquidity position. We currently price deposits in response to market rates and our management intends to continue this policy. If deposits are not priced in response to market rates, a loss of deposits could occur which would negatively affect our liquidity position.

Scheduled loan payments are a relatively stable source of funds, but loan payoffs and deposit flows fluctuate significantly, being influenced by interest rates, general economic conditions and competition. Additionally, debt security investments are subject to prepayment and call provisions that could accelerate their payoff prior to stated maturity. We attempt to price our deposit products to meet our asset/liability objectives consistent with local market conditions. Our ALCO is responsible for monitoring our ongoing liquidity needs. Our regulators also monitor our liquidity and capital resources on a periodic basis.

In addition, FS Bank is a member of the Federal Home Loan Bank of Cincinnati. As a result, FS Bank receives advances from the Federal Home Loan Bank of Cincinnati, pursuant to the terms of various borrowing agreements, which assist it in the funding of its home mortgage and commercial real estate loan portfolios. FS Bank has pledged under the borrowing agreements with the Federal Home Loan Bank of Cincinnati certain qualifying residential mortgage loans pursuant to a blanket lien as collateral. Based upon the advance limitations based on the collateral amounts, at December 31, 2004, FS Bank could have borrowed additional amounts in the approximate amount of $2.3 million.

Additional sources of liquidity are represented by federal funds borrowing arrangements entered into with other banks. At December 31, 2004, we had borrowing lines established in the aggregate amount of $14 million. There were no balances on these lines at December 31, 2004.

In addition to the above, we are a participant in a network of financial institutions that purchase and sell certificates of deposit to each other and we also receive funds on a direct and referred basis from other financial institutions and limited public funds, such as a local school board. There are no practical limits to the amount of certificates of deposit that can be sold or purchased using these delivery means. At December 31, 2004, we had approximately $22.5 million in certificates of deposits that were sold to institutional investors.

We devised our current funding strategy in 2003 and implemented it in 2004. The strategy is to issue institutional certificates of deposit with very short maturities (i.e. less than one year), so as to be able to obtain the funds at the lowest possible cost. In addition, given that our loan portfolio is primarily composed of loans that are repriceable based on changes in our prime rate, the interest rate movements on these shorter term institutional certificates of deposit better match the interest rate movements in our loan portfolio. The result is that we are less exposed to a significantly adverse impact on our profitability resulting from a sudden change in the interest rate environment, as the strategy seeks to better match the repricing period for both assets and liabilities. Prior to the adoption of the current strategy, FS Bank had issued these certificates of deposit for terms as long as five years and at substantially higher interest rates, especially in 1998 and 1999, when these certificates of deposit were issued for terms as long as five years and at rates as high as 7%.

At December 31, 2004, we had no significant commitments for capital expenditures.

The following table presents additional information about our contractual obligations as of December 31, 2004, which by their terms have contractual maturity and termination dates subsequent to December 31, 2004 (dollars in thousands):

	Next 12 Months	13-36 Months	37-60 Months	Over 60 Months
Contractual Obligations:				
Certificates of deposit	$ 61,964	$ 31,042	$ 8,006	$ -
Securities sold under agreements to repurchase	5,857	-	-	-
Federal Home Loan advances	3,049	893	3,172	1,132
Note payable	-	3,000	-	-
Minimum operating lease commitments	167	235	150	957
Total	$ 71,037	$ 35,170	$ 11,328	$ 2,089

Our management believes that we have adequate liquidity to meet all known contractual obligations and unfunded commitments, including loan commitments and reasonable borrower, depositor, and creditor requirements over the next twelve months.

Off-Balance Sheet Arrangements

At December 31, 2004, we had outstanding commitments to fund existing loans of $40.8 million pursuant to credit availability terms in the loan agreements, $4.4 million in loans approved and committed, but not yet closed and standby letters of credit of $4.0 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, FS Bank has the ability to liquidate Federal funds sold or securities available-for-sale or, on a short-term basis, to borrow and purchase Federal funds from other financial institutions or, finally, to sell institutional certificates of deposit as discussed above. At December 31, 2004, FS Bank had accommodations with upstream correspondent banks for unsecured short-term advances. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within a month.

The following table presents additional information about our unfunded commitments as of December 31, 2004 and 2003, which by their terms have contractual maturity dates subsequent to December 31, 2004 (dollars in thousands):

	2004		2003	
	Fixed	Variable	Fixed	Variable
Commitments to make loans	$ -	$ 334	$ -	$ 600
Unused lines of credit	477	40,339	6,003	27,883
Letters of credit	-	4,038	-	1,360

Commitments to make loans are generally made for periods of 3 months or less.

Impact of Inflation

The Consolidated Financial Statements and related consolidated financial data presented herein have been prepared in accordance with generally accepted accounting principles and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation.

Recent Accounting Pronouncements

Adoption of New Accounting Standards: In 2003, the Company adopted FASB Statement 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, FASB Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities, FASB Statement 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, FASB Interpretation 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, and FASB Interpretation 46, Consolidation of Variable Interest Entities. Adoption of the new standards in 2003 did not materially affect the Company's operating results or financial condition.

In March 2004, the Emerging Issues Task Force (EITF) finalized and issued EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1). EITF 03-1 provides recognition and measurement guidance regarding when impairments of equity and debt securities are considered other-than-temporary requiring a charge to earnings, and also requires additional annual disclosures for investments in unrealized loss positions. The additional annual disclosure requirements were previously issued by the EITF in November 2003 and were effective for the [Company] for the year ended December 31, 2003. In September 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) EITF 03-1-1, which delays the recognition and measurement provisions of EITF 03-1 pending the issuance of further implementation guidance. We are currently evaluating the effect of the recognition and measurement provisions of EITF 03-1. While our analysis is pending the FASB's revisions to EITF 03-1, we currently believe the adoption of EITF 03-1 will not result in a material impact on the Company's results of operations or financial condition.

On December 12, 2003, the American Institute of Certified Public Accountants issued Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3). SOP 03-3 requires acquired loans with poor credit quality to be recorded at fair value and prohibits carrying over or creation of valuation allowances in the initial accounting for the loans. SOP 03-3 also limits the yield that may be accreted to income. SOP 03-3 applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a business combination. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. SOP 03-3 is not expected to have a material impact on the Company's results of operations or financial condition.

In December, 2004, the FASB issued an amendment to SFAS 123 (SFAS 123R) which eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally requires that such transactions be accounted for using a fair value-based method. SFAS 123R will be effective for the Company for the first quarter of 2006.

SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, is recognized as of the required effective date.

As of the required effective date, the Company will apply SFAS 123R using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS 123 for either recognition or pro forma disclosures. For periods before the required effective date, a company may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS 123.

The Company will first report compensation cost under SFAS 123R in the first quarter of 2006. We are currently evaluating the effect of the recognition and measurement provisions of SFAS 123R but we currently believe the adoption of SFAS 123R will not result in a material impact on the Company's results of operations or financial condition.

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ITEM 7. FINANCIAL STATEMENTS

First Security Bancorp, Inc. and Subsidiary

Consolidated Financial Statements

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FIRST SECURITY BANCORP, INC.
Lexington, Kentucky

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

FIRST SECURITY BANCORP, INC.
Lexington, Kentucky

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
First Security Bancorp, Inc.
Lexington, Kentucky

We have audited the accompanying consolidated balance sheet of First Security Bancorp, Inc. as of December 31, 2004, and the related consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of First Security Bancorp, Inc. as of and for the year ended December 31, 2003, were audited by other accountants whose report dated February 6, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Security Bancorp, Inc. as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP
Indianapolis, Indiana
February 11, 2005

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
First Security Bancorp, Inc.
Lexington, Kentucky

We have audited the accompanying consolidated balance sheet of First Security Bancorp, Inc. as of December 31, 2003 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Security Bancorp, Inc. as of December 31, 2003 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Crowe, Chizek and Company LLC
Lexington, Kentucky
February 6, 2004

FIRST SECURITY BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31
(Dollar amounts in thousands, except for per share data)

	2004	2003
ASSETS		
Cash and due from banks	$ 4,446	$ 4,820
Federal funds sold	18,568	25,193
Total cash and cash equivalent	23,014	30,013
Securities available-for-sale	33,748	38,624
Loans held for sale	-	407
Loans, net of allowance of $1,720 and $2,379	150,856	158,733
Federal Home Loan Bank stock	806	772
Foreclosed assets	110	119
Premises and equipment, net	7,141	7,585
Goodwill	-	106
Other intangible assets	-	43
Accrued interest receivable and other assets	1,759	1,856
	$ 217,434	$ 238,258
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 22,670	$ 24,581
Interest-bearing	156,192	166,059
Total deposits	178,862	190,640
Federal funds purchased and repurchase agreements	5,857	8,874
Note payable	3,000	5,000
Federal Home Loan Bank advances	8,246	12,512
Accrued interest payable and other liabilities	861	1,120
Total liabilities	196,826	218,146
Shareholders' equity		
Common stock, no par value: 5,000,000 shares authorized; 1,558,690 shares issued	8,926	8,926
Additional paid-in capital	8,944	8,926
Retained earnings	2,736	2,052
Accumulated other comprehensive income	2	208
Total shareholders' equity	20,608	20,112
	$ 217,434	$ 238,258

FIRST SECURITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31
(Dollar amounts in thousands, except for per share data)

	2004	2003
Interest income		
Loans, including fees	$ 9,180	$ 10,081
Taxable securities	1,416	842
Tax exempt securities	40	379
Federal funds sold and other	102	100
	10,738	11,402
Interest expense		
Deposits	3,701	4,875
Federal funds purchased and repurchase agreements	67	39
Federal Home Loan Bank advances and other debt	643	557
	4,411	5,471
Net interest income	6,327	5,931
Provision for loan losses	297	669
Net interest income after provision for loan losses	6,030	5,262
Noninterest income		
Service charges on deposit accounts	624	711
Net gains on sales of loans	332	1,067
Net gains on sales of securities	318	694
Other	223	294
	1,497	2,766
Noninterest expense		
Salaries and employee benefits	3,024	3,499
Occupancy and equipment	1,137	1,161
Data processing	547	505
Legal and professional fees	422	657
Advertising	209	209
Bankshares Tax	176	177
Supplies and Printing	69	125
Loss on sale of foreclosed and repossessed assets	-	72
Loss on sale of assets	100	-
Amortization of intangibles	10	14
Other	844	863
	6,538	7,282
Income before income taxes	989	746
Income tax expense	305	126
Net income	$ 684	$ 620
Earnings per share		
Basic	$ .44	$ .42
Diluted	.44	.41

FIRST SECURITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31
(Share and dollar amounts in thousands)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2003	1,456	$ 8,385	$ 8,385	$ 1,432	$ 262	$ 18,464
Stock options exercised	14	99	99	-	-	198
Stock warrants exercised	89	442	442	-	-	884
Comprehensive income:						
Net income	-	-	-	620	-	620
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	-	-	-	-	(54)	(54)
Total comprehensive income						566
Balance, December 31, 2003	1,559	8,926	8,926	2,052	208	20,112
Stock options compensation	-	-	18			18
Comprehensive income:						
Net income	-	-	-	684	-	684
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	-	-	-	-	(206)	(206)
Total comprehensive income						478
Balance, December 31, 2004	1,559	$ 8,926	$ 8,944	$ 2,736	$ 2	$ 20,608

FIRST SECURITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31
(Dollar amounts in thousands, except for per share data)

	2004	2003
Cash flows from operating activities		
Net income	$ 684	$ 620
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	297	669
Depreciation and amortization	484	487
Net amortization of securities	315	723
Net realized gain on sale of securities	(318)	(694)
Federal Home Loan Bank stock dividends	(32)	(30)
Originations of loans held for sale	(18,666)	(64,459)
Proceeds from sale of loans	19,405	68,526
Net gain on sale of mortgage loans	(332)	(1,084)
Loss on write-off of intangible assets	100	-
Loss on sale of foreclosed and repossessed assets	-	72
Net change in:		
Accrued interest receivable	100	220
Other assets	(3)	(341)
Accrued interest payable	(136)	(69)
Other liabilities	(18)	266
Net cash from operating activities	1,880	4,906
Cash flows from investing activities		
Activity in available-for-sale securities:		
Maturities, calls and principal repayments	11,146	17,203
Sales	11,164	11,580
Purchases	(17,742)	(24,460)
Net change in loans	7,470	5,028
Proceeds from sale of foreclosed and repossessed assets	119	750
Purchase of Federal Home Loan Bank stock	(2)	-
Purchases of premises and equipment, net	(95)	(126)
Proceeds of sale of premises and equipment, net	65	-
Proceeds of sale of intangible assets	39	-
Cash paid in acquisition	-	(106)
Net cash from investing activities	12,164	9,869

FIRST SECURITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31
(Dollar amounts in thousands, except for per share data)

	2004	2003
Cash flows from financing activities		
Net change in deposits	(11,778)	1,685
Net change in repurchase agreements and short-term borrowings	(3,017)	663
Proceeds from Federal Home Loan Bank advances	-	-
Repayments of Federal Home Loan Bank advances	(4,266)	(2,005)
Proceeds from issuance of note payable	-	5,000
Repayments of note payable	(2,000)	-
Proceeds from issuance of options and common stock	18	1,082
Net cash from financing activities	(21,043)	6,425
Net change in cash and cash equivalents	$ (6,999)	$ 21,200
Cash and cash equivalents at beginning of period	30,013	8,813
Cash and cash equivalents at end of period	$ 23,014	$ 30,013
Supplemental cash flow information:		
Interest paid	$ 4,547	$ 5,541
Income tax paid	200	260
Supplemental non-cash disclosures:		
Transfers from loans to foreclosed and repossessed assets	110	569

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements of First Security Bancorp, Inc. ("Bancorp") and its wholly owned subsidiary First Security Bank of Lexington, Inc. ("Bank") are together referred to as the "Company". Intercompany transactions and balances are eliminated in consolidation.

The Company is a one-bank holding company and, other than the Bank, has no material business activity. The Bank commenced operations on November 17, 1997 and operates as a state chartered commercial bank, providing financial services through its offices in Lexington, Kentucky. Its primary deposit products are checking, savings, repurchase agreements and term certificates, and its primary lending products are commercial, real estate mortgage and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, commercial and residential real estate and consumer assets. Commercial loans are expected to be repaid from cash flow from operations of businesses and residential mortgage and consumer loans are expected to be repaid from the earnings of the borrowers. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and federal funds sold.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, 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 actual results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions under 90 days, and federal funds sold. Net cash flows are reported for loan and deposit transactions.

Securities: All debt securities are classified as available-for-sale and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Other securities, such as Federal Home Loan Bank stock, are carried at cost.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of cost or market in the aggregate. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. These loans are assessed at least annually for impairment and any such impairment is recognized in the period identified.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is reported on the interest method and includes amortization of net of deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer and credit card loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes that the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance are made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired loans or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on a number of factors, including the nature and volume of the non-classified loans, economic conditions and other factors.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated cash flows using the existing rate or at the fair value of the collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. Any excess of a loan balance over the recorded fair value of the assets received is charged to the allowance for loan losses at the time the assets are recorded. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are expensed. There were no additions to the valuation allowance for 2004 or 2003, as the fair value equaled the carrying cost.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 years.

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identified intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of acquired customer relationship intangible assets arising from acquisitions. They are initially measured at fair value and then are amortized using the straight-line method over their estimated useful lives.

Long-term Assets: Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future discounted cash flows. If impaired, the assets are recorded at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments, such as standby letters of credit, that are considered financial guarantees in accordance with FASB Interpretation No. 45 are not material.

Stock Compensation: Employee compensation expense under stock options is reported using the intrinsic value method. Stock-based compensation cost for options granted employees with an exercise price less than the market price of the underlying common stock at the date of the grant is reflected in net income. No stock-based compensation cost for options granted employees and directors with an exercise price equal to or greater than the market price of the underlying common stock at the date of grant is reflected in net income.

The following table illustrates the effect on net income and earnings per share if expense was measured for options granted using the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation.* Amounts are in thousands, except for per share data.

	2004	2003
Net income as reported	$ 684	$ 620
Deduct: Stock-based compensation expense determined under fair value based method	(28)	(82)
Pro forma net income	$ 656	$ 538
Basic earnings per share as reported	$ .44	$ .42
Pro forma basic earnings per share	.42	.36
Diluted earnings per share as reported	$ .44	$ .41
Pro forma diluted earnings per share	.42	.35

The pro forma effects are computed using option pricing models, using the following weighted-average assumptions as of grant date for grants issued during the year.

	2004	2003
Risk-free interest rate	3.50%	3.18%
Expected option life	5.0 years	5.0 years
Expected stock price volatility	33%	36%
Dividend yield	-	-

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale.

Adoption of New Accounting Standards: In 2003, the Company adopted FASB Statement 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, FASB Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities, FASB Statement 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, FASB Interpretation 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, and FASB Interpretation 46, Consolidation of Variable Interest Entities. Adoption of the new standards in 2003 did not materially affect the Company's operating results or financial condition.

In March 2004, the Emerging Issues Task Force (EITF) finalized and issued EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1). EITF 03-1 provides recognition and measurement guidance regarding when impairments of equity and debt securities are considered other-than-temporary requiring a charge to earnings, and also requires additional annual disclosures for investments in unrealized loss positions. The additional annual disclosure requirements were previously issued by the EITF in November 2003 and were effective for the [Company] for the year ended December 31, 2003. In September 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) EITF 03-1-1, which delays the recognition and measurement provisions of EITF 03-1 pending the issuance of further implementation guidance. We are currently evaluating the effect of the recognition and measurement provisions of EITF 03-1. While our analysis is pending the FASB's revisions to EITF 03-1, we currently believe the adoption of EITF 03-1 will not result in a material impact on the Company's results of operations or financial condition.

On December 12, 2003, the American Institute of Certified Public Accountants issued Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3). SOP 03-3 requires acquired loans with poor credit quality to be recorded at fair value and prohibits carrying over or creation of valuation allowances in the initial accounting for the loans. SOP 03-3 also limits the yield that may be accreted to income. SOP 03-3 applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a business combination. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. SOP 03-3 is not expected to have a material impact on the Company's results of operations or financial condition.

In December, 2004, the FASB issued an amendment to SFAS 123 (SFAS 123R) which eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally requires that such transactions be accounted for using a fair value-based method. SFAS 123R will be effective for the Company for the first quarter of 2006.

SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, is recognized as of the required effective date.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of the required effective date, the Company will apply SFAS 123R using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS 123 for either recognition or pro forma disclosures. For periods before the required effective date, a company may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS 123.

The Company will first report compensation cost under SFAS 123R in the first quarter of 2006. We are currently evaluating the effect of the recognition and measurement provisions of SFAS 123R but we currently believe the adoption of SFAS 123R will not result in a material impact on the Company's results of operations or financial condition.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of $248,000 and $154,000 was required to meet regulatory reserve and clearing requirements at year end 2004 and 2003. These balances do not earn interest.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Some items in the prior year financial statement were reclassified to conform to the current presentation.

Presentation: Unless otherwise indicated within the text, dollars are presented in thousands except for per share data.

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NOTE 2 – SECURITIES

The fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2004			
U.S. Government and federal agency	$ 13,448	$ 2	$ (71)
State and municipal	882	7	-
Mortgage-backed	19,418	116	(51)
Total	$ 33,748	$ 125	$ (122)
2003			
U.S. Government and federal agency	$ 9,437	$ 75	$ (6)
State and municipal	2,873	41	(4)
Mortgage-backed	26,314	280	(71)
Total	$ 38,624	$ 396	$ (81)

Securities with unrealized losses at year end 2004, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
U.S. Government and federal agency	$10,448	$ (71)	$ -	$ -	$10,448	$ (71)
State and municipal	-	-	-	-	-	-
Mortgage-backed	5,126	(4)	3,266	(47)	8,393	(51)
Total temporarily impaired with stated maturities	$15,574	$ (75)	$ 3,266	$ (47)	$18,841	$ (122)

NOTE 2 – SECURITIES (Continued)

Securities with unrealized losses at year end 2003, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
U.S. Government and federal agency	$ 494	$ (6)	$ -	$ -	$ 494	$ (6)
State and municipal	514	(3)	259	(1)	773	(4)
Mortgage-backed	5,633	(71)	-	-	5,633	(71)
Total temporarily impaired with stated maturities	$ 6,641	$ (80)	$ 259	$ (1)	$ 6,900	$ (81)

Unrealized losses on securities have not been recognized into income because the securities are of high credit quality, management has the intent and ability to hold for the foreseeable future and the decline in fair value is largely due to changes in market conditions. The fair value is expected to recover as the securities approach their maturity date and/or market conditions improve.

Sales of available-for-sale securities were as follows:

	2004	2003
Proceeds	$ 11,164	$ 11,580
Gross gains	318	698
Gross losses	-	4

Proceeds, as defined above, do not include proceeds from calls prior to the stated maturities, proceeds from redemptions at the stated maturity or proceeds received from normal repayments, as in the case of mortgage-backed securities.

The fair value of debt securities and carrying amount, if different, at year end 2004 by contractual maturity were as follows. Securities not due at a single maturity date, but rather having periodic repayments and a final maturity date consist primarily of mortgage-backed securities, as shown below.

	Fair Values
Due in one year or less	$ 3,194
Due from one to five years	10,603
Due from five to ten years	533
Due after ten years	-
Total securities due at a single maturity date	14,330
Mortgage-backed securities	19,148
Total	$ 33,748

Securities pledged at year end 2004 and 2003 had carrying amounts of $13.1 million and $8.8 million, and were pledged to public deposits and repurchase agreements.

At year end 2004 and 2003, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

NOTE 3 - LOANS

Loans at year end were as follows:

	2004	2003
Commercial	$ 58,125	$ 49,165
Mortgage loans on real estate:		
Commercial	40,087	61,669
Residential	10,069	14,882
Construction	26,299	16,990
Home equity	11,637	11,488
Consumer	5,531	6,035
Credit card	828	883
Subtotal	152,576	161,112
Less allowance for loan losses	(1,720)	(2,379)
Loans, net	$ 150,856	$ 158,733

Substantially all residential mortgage loans are pledged to the Federal Home Loan Bank as collateral for advances as additionally discussed in Note 8.

Changes in the allowance for loan losses were as follows:

	2004	2003
Beginning balance	$ 2,379	$ 2,459
Loans charged-off	(962)	(858)
Recoveries	6	109
Provision for loan losses	297	669
Ending balance	$ 1,720	$ 2,379

Impaired loans were as follows:

	2004	2003
Year end loans with no allocated allowance for loan losses	$ -	$ -
Year end loans with allocated allowance for loan losses	3,846	3,162
Total	$ 3,846	$ 3,162
Amount of the allowance for loan losses allocated	$ 928	$ 1,300
Average of impaired loans during the year	5,075	3,894
Interest income recognized during impairment	109	135
Cash-basis interest income recognized	109	135

Impaired loans include $3.1 million with a troubled borrower which was restructured during 2002.

Nonperforming loans were as follows:

	2004	2003
Loans past due 90 days still on accrual	$ 10	$ 214
Nonaccrual loans	2,969	3,605

Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified as impaired loans. Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category.

NOTE 4 – PREMISES AND EQUIPMENT

Year end premises and equipment were as follows:

	2004	2003
Land	$ 1,250	$ 1,250
Buildings	4,956	4,956
Leasehold improvements	342	305
Furniture and equipment	2,105	2,285
Total cost	8,654	8,796
Accumulated depreciation	(1,513)	(1,211)
Premises and equipment, net	$ 7,141	$ 7,585

Depreciation expense was $474 and $473 for 2004 and 2003.

The Company leases its three branch locations and, until September 10, 2004, its two loan production offices under noncancelable operating leases with various terms and renewal options. Rent expense under these leases for the years ended December 31, 2004 and 2003 was $231 and $262.

Rent commitments under these noncancelable operating leases were as follows, before considering renewal options that are generally present (in thousands):

2005	$ 167
2006	123
2007	112
2008	74
2009	76
Thereafter	957
Total	$ 1,509

In addition, the Company leases small items of office equipment, such as photocopiers, using agreements from one year to three years. These are not considered material and are not included in the above table.

NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

The change in the balance for goodwill during the year is as follows:

	2004	2003
Beginning of year	$ 106	$ -
Acquired goodwill	-	106
Write off of goodwill	(106)	-
Total	$ -	$ 106

NOTE 5 – GOODWILL AND INTANGIBLE ASSETS (Continued)

Acquired Intangible Assets

Acquired intangible assets were as follows at year end:

	2004		2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Other customer relationship intangibles	$ -	$ -	$ 67	$ 24

Aggregate amortization expense was $10 and $14 for 2004 and 2003. These intangible assets were written off during 2004 (see Note 17).

NOTE 6 - DEPOSITS

The scheduled maturities of time deposits as of December 31, 2004 were as follows (in thousands):

2005	$ 61,964
2006	20,426
2007	10,615
2008	7,543
2009	464
Thereafter	-
Total	$ 101,012

At year end 2004 and 2003, time deposits with balances in excess of $100 totaled $41,638 and $51,207, respectively.

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NOTE 7 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are secured by U.S. Government and agency obligations and by mortgage-backed securities with a carrying amount of $13,094 and $8,840 at year end 2004 and 2003.

Securities sold under agreements to repurchase are financing arrangements that mature within two years. At maturity, the securities underlying the agreements are returned to the Company. Substantially all of the securities sold under agreements to repurchase have a term of one day and are referred to as sweep repurchase agreements. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2004	2003
Average balance during the year	$ 7,483	$ 4,901
Average interest rate during the year	0.67%	0.78%
Maximum month end balance during the year	$ 8,729	$ 8,874
Weighted average interest rate at year end	1.57%	0.98%

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND NOTE PAYABLE

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

	2004	2003
Monthly maturities of July, 2005 through December, 2016, at fixed rates ranging from 2.84% to 6.71%	$ 8,246	$ 10,512
Principal due at maturity in May 2004, at fixed rate of 3.73%	-	2,000
Total	$ 8,246	$ 12,512

Advances are secured by the Federal Home Loan Bank stock and substantially all residential mortgage loans under a blanket lien arrangement.

Principal payments on advances over the next five years are as follows (in thousands):

2005	$ 3,049
2006	515
2007	378
2008	2,213
2009	959
Thereafter	1,132
Total	$ 8,246

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND NOTE PAYABLE (Continued)

Note Payable: On December 30, 2003, the Company entered into a credit agreement with another financial institution that provides for a reducing revolving line of credit in the maximum amount of $6 million, of which $5 million was drawn at inception. The related note is secured by 100% of the common shares of the Bank and has a maturity of December 31, 2006. The maximum amount available under the credit agreement was reduced to $4 million on December 31, 2004 and will be reduced to $3 million on December 31, 2005. The note bears interest at a variable rate, at the option of the Company on a quarterly basis, at prime less .25% or at LIBOR plus 2.40%. Interest is payable monthly and, other than payments required to reduce the balance to the maximum available amount, there are no scheduled principal repayments.

The credit agreement contains a number of covenants relating to the operation of the Bank including the maintenance of a minimum equity capital ratio, a maximum ratio of non-performing assets to total loans, a minimum return on average assets and the maintenance of a minimum dividend payment capacity by the Bank. Covenants applicable to the Company include a prohibition of the payment of dividends on its common stock. At year end 2004, all covenants of the credit agreement were either met or waived by the lender.

NOTE 9 – BENEFIT PLANS

The Bank has a 401(k) benefit plan which allows employee contributions up to 92% of their compensation plus an additional sum depending on the age of the participant, all subject to an annual overall limitation that changes each year in accordance with regulations issued by the Internal Revenue Service. The Bank matches 100% of the first 4% of compensation contributed. Expense for the years ended December 31, 2004 and 2003 was $57 and $63.

NOTE 10 - INCOME TAXES

Income tax expense (benefit) was as follows:

	2004	2003
Current federal	$ 71	$ -
Deferred federal	234	126
Total	$ 305	$ 126

Effective rates differ from the federal statutory rate of 34% applied to income before taxes due to the following:

	2004	2003
Federal statutory rate times the financial statement income	$ 336	$ 254
Effect of:		
Tax-exempt income	(12)	(109)
Low income housing tax credits	(24)	(24)
Other, net	5	5
Total	$ 305	$ 126

NOTE 10 - INCOME TAXES (Continued)

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

	2004	2003
Deferred tax assets		
Allowance for loan losses	$ 426	$ 682
Unused tax credits	-	65
Net operating loss carryforward	-	16
Organizational costs	-	1
Other	47	39
	473	803
Deferred tax liabilities		
FHLB stock dividends	$ (44)	$ (33)
Depreciation	(195)	(200)
Cash to accrual	-	(34)
Net unrealized security gains	(1)	(107)
Prepaid expenses	(60)	(62)
Other	(14)	(80)
	(314)	(516)
Net deferred tax asset	$ 159	$ 287

NOTE 11 – RELATED PARTY TRANSACTIONS

Loans to executive officers, directors, and their affiliates in 2004 were as follows (in thousands):

Beginning balance	$ 14,595
New loans	9,209
Effect of changes in related parties	(1,471)
Repayments	(10,875)
Ending balance	$ 11,458

Deposits from executive officers, directors, and their affiliates at year end 2004 and 2003 were approximately $6.0 million and $3.7 million, respectively.

The Bank leases land from a company controlled by a director upon which the Bank constructed a branch facility in 2001. The lease agreement provides for a twenty year term with a base rent that increases biannually from $70 per year at inception to $91 per year for the final two years of the term. The lease agreement also provides that the Bank will pay property taxes and other governmental levies or assessments on the property and a portion of the common area maintenance for the shopping center in which the branch facility is located.

NOTE 11 – RELATED PARTY TRANSACTIONS (Continued)

The rent commitment under this noncancelable operating lease is as follows, before considering the renewal option that is present (in thousands):

2005	$ 71
2006	72
2007	74
2008	74
2009	76
Thereafter	957
Total	$ 1,324

NOTE 12 – STOCK OPTIONS

Stock Award Plan
Options to buy stock are granted to directors, officers and employees under the Company's Stock Award Plan ("Stock Plan"), which provides for issuance of up to 200,000 options. Pursuant to the Stock Plan, options may be issued which are defined as incentive stock options or as non-qualified stock options. Incentive stock options are intended to qualify under the provisions of Internal Revenue Code Section 422 ("IRC"), which include, among other things, that the option price be not less than the fair value of the shares as of the date of grant. Non-qualified stock options are those that do not meet the requirements of the provisions of the IRC, and, accordingly, may contain terms that are different than those in place for incentive stock options. The Stock Plan is accounted for in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees", and related interpretations.

A summary of the activity in the Stock Plan is as follows:

	2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	87,750	$ 18.91	105,200	$ 17.33
Granted	45,350	17.15	22,000	19.55
Exercised	-	-	(14,000)	14.07
Forfeited	(13,450)	19.04	(25,450)	15.49
Outstanding at end of year	119,650	$ 18.23	87,750	$ 18.91
Options exercisable at year end	98,500	$ 18.43	79,650	$ 18.80
Weighted average fair value of options granted during year	$ 6.04		$ 7.07	

NOTE 12 – STOCK OPTIONS (Continued)

Options outstanding under the Stock Plan at year end 2004 were as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$13.75-\$15.50	18,250	24 months	\$ 15.39	17,400	\$ 15.39
\$16.00-\$22.00	101,400	60 months	18.74	81,100	19.08
Outstanding at year end	119,650	55 months	\$ 18.23	98,500	\$ 18.43

Other Stock Options
The Company has granted other options in connection with the employment of the Company's Chief Executive Officer which are separate from the aforementioned plan and tables. These options are non-qualified and were granted with an exercise price below the grant date market price. The difference between the exercise price and the market price will be recognized as compensation expense over the vesting period in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees."

Number of options	20,000
Vesting schedule	4,000 options per year commencing September 15, 2004
Maturity	December 1, 2013
Exercise price	\$14.00
Unamortized expense	\$22

NOTE 13 – STOCK WARRANTS

The Company issued stock warrants to certain organizers of the Bank. The warrants, issued in 1997, entitled the holder to purchase additional shares of the Company's common stock at the offering price of \$10 per share at any time during 2003. All warrants were exercised during 2003, resulting in the issuance of 88,440 shares and the receipt by the Company of \$884 in proceeds.

NOTE 14 – CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

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

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2004 and 2003, 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 that notification that management believes have changed the institution's category.

Actual and required capital amounts (in millions) and ratios are presented below at year end.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provisions		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2004						
Total Risk Based Capital to Risk-weighted assets						
Consolidated	$ 22.3	12.6%	$ 14.1	8.0%	$ 17.7	10.0%
Bank only	24.5	13.8%	14.1	8.0%	17.7	10.0%
Tier I Capital to Risk-weighted assets						
Consolidated	$ 20.6	11.6%	$ 7.1	4.0%	$ 10.6	6.0%
Bank only	22.8	12.9%	7.1	4.0%	10.6	6.0%
Tier I Leverage Capital to Average assets						
Consolidated	$ 20.6	9.8%	$ 8.4	4.0%	$ 10.5	5.0%
Bank only	22.8	10.8%	8.4	4.0%	10.5	5.0%
2003						
Total Risk Based Capital to Risk-weighted assets						
Consolidated	$ 22.1	12.1%	$ 14.6	8.0%	$ 18.3	10.0%
Bank only	26.1	13.8%	15.1	8.0%	18.9	10.0%
Tier I (Core) Capital to Risk-weighted assets						
Consolidated	$ 19.8	10.9%	$ 7.3	4.0%	$ 11.0	6.0%
Bank only	23.7	12.5%	7.6	4.0%	11.4	6.0%
Tier I Leverage Capital to Average Assets						
Consolidated	$ 19.8	8.7%	$ 9.1	4.0%	$ 11.4	5.0%
Bank only	23.7	10.4%	9.1	4.0%	11.4	5.0%

NOTE 14 – CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (Continued)

Banking regulations limit the amount of capital distributions that may be paid by the Bank without prior approval. Generally, capital distributions are limited to undistributed net income for the current year and prior two years. In addition, generally, capital distributions may be made only to the extent of retained earnings. At year end 2004, approximately $834 was available to pay dividends to the Company. The Company's ability to pay dividends is dependent on the Bank. In addition, in 2003 the Company entered into a credit agreement that contains restrictions on dividends it can pay. (See Note 8)

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

NOTE 15 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year end:

	2004		2003	
	Fixed	Variable	Fixed	Variable
	(in thousands)			
Commitments to make loans	$ -	$ 334	$ -	$ 600
Unused lines of credit	477	40,339	6,003	27,883
Letters of credit	-	4,038	-	1,360

Commitments to make loans are generally made for periods of 3 months or less.

Letters of credit are considered financial guarantees under FASB Interpretation 45. These instruments are carried at fair value, which was immaterial at year end 2004 and 2003.

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NOTE 16 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 23,014	$ 23,014	$ 30,013	$ 30,013
Securities available-for-sale	33,748	33,748	38,624	38,624
Loans held for sale	-	-	407	411
Loans, net	150,856	151,078	158,733	160,689
Federal Home Loan Bank stock	806	806	772	772
Accrued interest receivable	856	856	956	956
Financial liabilities				
Deposits	$ 178,862	$ 179,621	$ 190,640	$ 192,089
Repurchase agreements and short-term borrowings	5,857	5,857	8,874	8,874
Note Payable	3,000	3,000	5,000	5,000
Federal Home Loan Bank advances	8,246	8,428	12,512	12,959
Accrued interest payable	373	373	509	509

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents and Federal Home Loan Bank stock, accrued interest receivable and payable, demand deposits, repurchase agreements, short-term borrowings, note payable and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and, if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life of credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements and is not material.

NOTE 17 – ACQUISITION AND SALE OF MORTGAGE ORIGINATION COMPANY

On March 15, 2002, the Bank acquired the assets of First Mortgage Company, Inc., in Lexington, Kentucky. The operations were assumed by the Bank and were promoted under the name "First Security Mortgage Company", the purpose of which was to originate mortgage loans for sale into the secondary market. The acquisition agreement included a purchase price of up to $476, $69 of which was paid at closing for fixed assets. The remainder of the purchase price was payable contingent upon the department's earnings over the ensuing four years. In conjunction with the purchase and in addition to the fixed assets, the Bank recorded $67 in intangibles for customer lists and a non-compete agreement which was being amortized over five years. Of the remaining contingent purchase price, $106 was earned in 2003 and recorded as goodwill. In September 2004, the assets used in this department were sold to First Mortgage, LLC, an entity created by the two principal bank employees of the department. In connection with this transaction, First Mortgage, LLC assumed the operating leases and hired bank employees who were employed within this department. The Bank recorded a loss of $100 in connection with this sales transaction, which was the write off of the investment in goodwill and other intangible assets.

NOTE 18 - PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS

Condensed financial information of First Security Bancorp, Inc. follows:

CONDENSED BALANCE SHEETS,
December 31

	2004	2003
ASSETS		
Cash and due from banks	$ 325	$ 909
Investment in subsidiary	22,783	24,011
Other assets	505	197
Total assets	$ 23,613	$ 25,117
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Note Payable	$ 3,000	$ 5,000
Other liabilities	5	5
Total liabilities	3,005	5,005
Shareholders' Equity		
Common stock	8,926	8,926
Paid-in capital	8,944	8,926
Retained earnings	2,736	2,052
Accumulated other comprehensive income (loss)	2	208
Total shareholders' equity	20,608	20,112
Total liabilities and shareholders' equity	$ 23,613	$ 25,117

NOTE 18 - PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME
Years Ended December 31

	2004	2003
Income		
Interest income	$ 1	$ -
Other income	-	17
Dividend from subsidiary	2,000	-
	2,001	17
Expenses		
Salaries and employee benefits	18	55
Professional fees	188	205
Interest Expense	213	-
Other	27	55
	446	315
Income (loss) before income tax and undistributed subsidiary income	1,555	(298)
Income tax benefit	151	101
Income (loss) before undistributed earnings of subsidiary	1,706	(197)
Equity in undistributed earnings of subsidiary	(1,022)	817
Net income	$ 684	$ 620

NOTE 18 - PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOW
Years ended December 31

	2004	2003
Cash flows from operating activities		
Net income	$ 684	$ 620
Adjustments to reconcile net income to net cash from operating activities		
Equity in undistributed earnings of subsidiary	1,022	(817)
Change in other assets	(308)	(93)
Change in other liabilities	-	(7)
Net cash from operating activities	1,398	(297)
Cash flows from investing activities		
Investment in subsidiary	-	(5,000)
Cash flows from financing activities		
Proceeds from borrowing	-	5,000
Repayments on note	(2,000)	
Proceeds from issuance of options and common stock	18	1,082
Net cash from financing activities	(1,982)	6,082
Net change in cash and cash equivalents	(584)	785
Cash and cash equivalents at beginning of period	909	124
Cash and cash equivalents at end of period	$ 325	$ 909

NOTE 19 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2004	2003
Basic		
Net income	$ 684	$ 620
Weighted average common shares	1,559	1,488
Basic earnings per common share	$ .44	$ .42
Diluted		
Net income	$ 684	$ 620
Weighted average common shares outstanding for basic earnings per common share	1,559	1,488
Add: Dilutive effects of assumed exercises of		
Stock warrants	-	27
Stock options	5	8
Average shares and dilutive potential common shares	1,564	1,523
Diluted earnings per common share	$ .44	$ .41

Stock options for 58,000 and 66,000 shares of common stock were not considered in computing diluted earnings per common share for 2004 and 2003, respectively, because they were anti-dilutive.

NOTE 20 - OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related taxes were as follows:

	2004	2003
Unrealized holding gains and losses on available-for-sale securities	$ 7	$ 624
Less reclassification adjustments for gains and losses later recognized as income	(318)	(694)
Net unrealized gains and losses	(311)	(70)
Tax effect	105	16
Other comprehensive income (loss)	$ (206)	$ (54)

NOTE 21 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Net Interest Income	Noninterest Income	Noninterest Expense	Net Income	Earnings per Share Basic	Earnings per Share Diluted
2004						
First quarter	$ 1,448	$ 515	$ 1,649	$ 201	$ .13	$ .13
Second quarter	1,648	396	1,698	203	.13	.13
Third quarter	1,585	361	1,735	(1)	-	-
Fourth quarter	1,646	225	1,456	281	.18	.18
2003						
First quarter	$ 1,491	$ 460	$ 1,679	$ 123	$ .08	$ .08
Second quarter	1,480	961	1,863	202	.14	.13
Third quarter	1,435	794	1,855	249	.17	.16
Fourth quarter	1,525	551	1,885	46	.03	.04

(The balance of this page is intentionally left blank)

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 24, 2004, the Board of Directors of First Security determined to engage BKD, LLP ("BKD") as its independent auditors for the fiscal year ended December 31, 2004. The determination to replace Crowe Chizek and Company, LLP ("Crowe Chizek") was recommended by the Audit Committee and approved by the full Board of Directors.

The report of Crowe Chizek for the year ended December 31, 2003 contained no adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles. During the year ended December 31, 2003 and during the period from December 31, 2003 to March 24, 2004, there were no disagreements between First Security and Crowe Chizek concerning accounting principles or practices, financial statement disclosures, or auditing scope or procedure or any reportable events.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

First Security maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to First Security Bancorp's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. First Security carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that First Security Bancorp's disclosure controls and procedures were effective.

Changes in Internal Controls

There were no changes in First Security Bancorp's internal control over financial reporting during First Security Bancorp's fiscal quarter ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, First Security Bancorp's internal control over financial reporting.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information required by this Item (other than the information presented below) is contained under the headings "Item 1 Election of Directors," "Other Information About Management," and "Share Ownership by Directors, Executive Officers and Certain Beneficial Owners - Section 16(a) Beneficial Ownership Reporting Compliance" in First Security Bancorp's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, and incorporated herein by reference.

Audit Committee Expertise: The Board of Directors of First Security has a separately designated Audit Committee. Our Audit Committee Charter contains independence requirements members of the Audit Committee must meet, and requires each Audit Committee member to be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement, or to be able to do so within a reasonable period of time after his or her appointment to the Audit Committee. At least one member of the Audit Committee must have had past employment experience in finance or accounting or a professional certification in accounting or comparable experience or background which results in that individual possessing financial sophistication. Although not a requirement, our Audit Committee Charter contemplates that First Security will seek to have at least one member of the Audit Committee who is considered to be a "financial expert", as defined by the Securities and Exchange Commission.

The Board of Directors has determined that First Security presently does not have an "audit committee financial expert" serving on its Audit Committee, as that term is defined in Item 401 of SEC Regulation S-B. The Board of Directors believes that the Audit Committee members meet the independence and experience requirements mandated by our Audit Committee Charter, and have sufficient knowledge in financial and auditing matters to serve on the committee. The Board of Directors will monitor and evaluate its need for an audit committee financial expert throughout fiscal 2005.

Code of Ethics: As a banking organization, we have in place various policies and procedures designed to promote honest and ethical conduct consistent with the extensive banking laws and regulations that govern our business. These policies and procedures have been updated throughout 2004, and we believe that our current code of ethics that applies to our senior financial officers (Chief Executive Officer and Chief Financial Officer) is in conformity with the requirements for a code of ethics as defined in Item 406 of SEC Regulation S-B, which the SEC adopted in 2003. A copy of our Code of Ethics is posted on our website at http://www.myfsb.net. It can be accessed from "Investor Relations."

ITEM 10. EXECUTIVE COMPENSATION

The information required by this Item is contained under the heading, "Executive Compensation and Certain Transactions" in First Security Bancorp's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, and is incorporated herein by reference. The information under the heading "Equity Plan Compensation" in Item 5 of this report is incorporated by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is contained under the headings, "Share Ownership by Directors, Executive Officers and Certain Beneficial Owners" in First Security Bancorp's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, and is incorporated herein by reference. The information under the heading "Equity Plan Compensation" in Item 5 of this report is incorporated by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is contained in First Security Bancorp's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the headings, "Executive Compensation and Certain Transactions – Certain Transactions with Management" and "Executive Compensation and Certain Transactions - Employment Agreements" and is incorporated herein by reference.

ITEM 13. EXHIBITS

The following exhibits are furnished with this report (* denotes a management contract or compensatory plan arrangement):

3.1 Articles of Incorporation of First Security Bancorp, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form SB-2 [No. 333-43444]).

3.2 Articles of Amendment to Articles of Incorporation of First Security Bancorp, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form SB-2 [No. 333-43444]).

3.3 Bylaws of First Security Bancorp, Inc. (incorporated by reference to Exhibit 3.3 of the Company's 10-KSB filed for the year ended December 31, 2003 [No. 000-49781]).

4.1 Articles of Incorporation of First Security Bancorp, Inc. (included in Exhibit 3.1) (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form SB-2 [No. 333-43444]).

4.2 Articles of Amendment of Articles of Incorporation of First Security Bancorp, Inc. (included in Exhibit 3.2) (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement on Form SB-2 [No. 333-43444]).

4.3 Amended and Restated Bylaws of First Security Bancorp, Inc. (incorporated by reference to Exhibit 4.3 of the Company's 10-KSB filed for the year ended December 31, 2003 [No. 000-49781]).

*10.1 Employment Agreement between First Security Bancorp, Inc. and John S. Shropshire (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form SB-2 [No. 333-43444]).

*10.2 Severance Agreement for John S. Shropshire incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003[Commission File No. 000-49781]).

10.3 Contract for Electronic Data Processing Services between BSC, Inc. and First Security Bank of Lexington, Inc. (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form SB-2 [No.333-43444]).

10.4 Outsource Contract between BSC, Inc. and First Security Bank of Lexington, Inc. (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form SB-2 [No. 333-43444]).

10.5 Business/Manager License Agreement between Private Business, Inc. and First Security Bank of Lexington, Inc. (incorporated by reference to Exhibit 10.4 of the Company's Registration Statement on Form SB-2 [No.333-43444]).

10.6 Agreement for Administration of Credit Card Program between Crittson Financial, LLC and First Security Bank of Lexington, Inc. (incorporated by reference to Exhibit 10.5 of the Company's Registration Statement on Form SB-2 [No. 333-43444]).

10.7 Leases between THOMCO, Inc. and First Security Bank of Lexington, Inc. (incorporated by reference to Exhibit 10.7 of the Company's Registration statement on Form SB-2 [No. 333-43444]).

10.8 Grounds lease between Cherrywood Development, LLC and First Security Bank of Lexington, Inc. (incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form SB-2 [No. 333-43444]).

10.9 Grounds lease between LEX/108, LLC and First Security Bank of Lexington, Inc. for the lease of land and improvements in Palomar Centre in Lexington, Kentucky used for the purpose of a First Security Bank branch office.

10.10 First Security Bank of Lexington, Inc. Stock Award Plan (Amended and Restated as of March 18, 2003).(incorporated by reference to Exhibit 10.9 to the Form 10-K of First Security Bancorp, Inc. for the year ended December 31, 2002 [Commission File No. 000-49781]).

10.11 Contract for Electronic Data Processing Services between BSC, Inc. and First Security Bank of Lexington, Inc. dated as of November 14, 2003.

10.12 Outsource Contract between BSC, Inc. and First Security Bank of Lexington, Inc.

10.13 Data Processing Agreement between Fifth Third Bank and First Security Bank of Lexington, Inc. dated March 30, 2004.

*10.14 Employment Agreement between First Security Bancorp, Inc. and R. Douglas Hutcherson (incorporated by reference to Exhibit 10.11 of the Company's 10-KSB filed for the year ended December 31, 2003 [No. 000-49781]).

11.1 Statement re: Computation of Per share earnings (included in Note 20 to the Company's Consolidated Financial Statement included in this report).

21.1 Subsidiaries of First Security Bancorp, Inc.

23.1 Consent of BKD, LLC.

23.2 Consent of Crowe Chizek and Company LLC.

31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a).

32.1 Certification pursuant to 18 USC Section 1350 - Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to 18 USC Section 1350 - Sarbanes-Oxley Act of 2002.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is included in First Security Bancorp's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005 under the heading, "Independent Public Accountants" and is incorporated herein by reference.

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SIGNATURES

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

FIRST SECURITY BANCORP, INC.

By: /s/ R. Douglas Hutcherson
President and Chief Executive Officer
Date: March 30, 2005

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

Signature	Title	Date
/s/ Len Aldridge Len Aldridge	Chairman of the Board	March 30, 2005
/s/ R. Douglas Hutcherson R. Douglas Hutcherson	President and Chief Executive Officer (Principal Executive Officer)	March 30, 2005
/s/ John G. Sullivan John G. Sullivan	Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2005
/s/ Julian E. Beard Julian E. Beard	Director	March 30, 2005
Harold Glenn Campbell	Director	
/s/ A. F. Dawahare A. F. Dawahare	Director	March 30, 2005
/s/ Kenneth L. Gerson Kenneth L. Gerson	Director	March 30, 2005
/s/ Tommy R. Hall Tommy R. Hall	Director	March 30, 2005
/s/ Erle L. Levy Erle L. Levy	Director	March 30, 2005
/s/ Ira P. Mersack Ira P. Mersack	Director	March 30, 2005
Robert J. Rosenstein	Director	
/s/ Richard S. Trontz Richard S. Trontz	Director	March 30, 2005
/s/ William T. Vennes William T. Vennes	Director	March 30, 2005
/s/ Kathy E. Walker Kathy E. Walker	Director	March 30, 2005
/s/ D. Woodford Webb D. Woodford Webb	Director	March 30, 2005

EXHIBIT INDEX

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32.2	Certification pursuant to 18 USC Section 1350 - Sarbanes-Oxley Act of 2002

* Incorporated by reference. See Item 13.

First Security Bancorp, Inc. will provide a copy of the exhibits to its Form 10-KSB upon request. To obtain a copy of any exhibit, please contact Sue Ezrine, Investor Relations, First Security Bancorp, Inc., 318 East Main Street, Lexington, Kentucky 40507.

Exhibit 21.1

LIST OF SUBSIDIARIES

Subsidiary	Jurisdiction or State of Incorporation	Names Under Which Subsidiary Does Business
First Security Bank of Lexington, Inc. (1)	Kentucky	First Security Bank First Security Mortgage Company (4)
Peoples Secure, LLC (2)	Kentucky	Peoples Secure, LLC
First Security Capital Management, Inc. (3)	Kentucky	First Security Capital Management, Inc.

1. As a state chartered bank, First Security Bank of Lexington, Inc. is organized under the laws of the Commonwealth of Kentucky.

2. Peoples Secure, LLC is a limited liability company that owns certain banking related software that it licenses to other financial institutions. First Security Bancorp, Inc. owns 50% of the members interest in this entity.

3. First Security Capital Management, Inc. is a wholly owned subsidiary of First Security Bank of Lexington, Inc. and to date has been inactive.

4. First Security Mortgage Company was operated as a department of First Security Bank of Lexington from March, 2002 to September, 2004. Thereafter, its functions were incorporated into the retail branch operations of the bank.

(The balance of this age is intentionally left blank)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 File Nos. 333-105313 and 333-98625 of First Security Bancorp, Inc. of our report dated February 11, 2005 on the consolidated financial statements of First Security Bancorp, Inc. as of December 31, 2004 and for the year then ended, which report is included in this Annual Report on Form 10-KSB.

/s/ BKD, LLP
BKD, LLP
Indianapolis, Indiana
March 30, 2005

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-98625 on Form S-8 of First Security Bancorp, Inc. of our report dated February 6, 2004 relating to the 2003 consolidated financial statements appearing in this Annual Report on Form 10-KSB of First Security Bancorp, Inc. for the year ended December 31, 2004.

/s/ Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Lexington, Kentucky
March 29, 2005

Exhibit 31.1

FIRST SECURITY BANCORP, INC.

CERTIFICATION - PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, R. Douglas Hutcherson, certify that:

1) I have reviewed this annual report on Form 10-KSB of First Security Bancorp, Inc.;

2) Based on my knowledge, this annual 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 small business issuer as of, and for, the periods presented in this report;

4) The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the small business issuer and we 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 small business issuer, 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) evaluated the effectiveness of the small business issuer'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

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

5) The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: March 30, 2005

Signature /s/ R. Douglas Hutcherson
Chief Executive Officer

Exhibit 31.2

FIRST SECURITY BANCORP, INC.

CERTIFICATION - CHIEF FINANCIAL OFFICER

I, John G. Sullivan, certify that:

1) I have reviewed this annual report on Form 10-KSB of First Security Bancorp, Inc.;

2) Based on my knowledge, this annual 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 small business issuer as of, and for, the periods presented in this report;

4) The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the small business issuer and we 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 small business issuer, 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) evaluated the effectiveness of the small business issuer'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

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

5) The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: March 30, 2005

Signature /s/ John G. Sullivan
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of First Security Bancorp, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Douglas Hutcherson, President and Chief Executive Officer of the Company, certify, pursuant to 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) of the Securities and Exchange Act of 1934; and

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

Date: March 31, 2005

Signature R. Douglas Hutcherson
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of First Security Bancorp, Inc. (the "Company") on Form 10- KSB for the period ending December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John G. Sullivan, Chief Financial Officer of the Company, certify, pursuant to 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) of the Securities and Exchange Act of 1934; and

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

Date: March 31, 2005

Signature /s/ John G. Sullivan
Chief Financial Officer

FIRST SECURITY BANCORP

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