FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

2016 FINANCIAL REPORTS

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
First Farmers and Merchants Corporation
Columbia, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Farmers and Merchants Corporation and Subsidiaries (the "Company") which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year ended December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2016 consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Farmers and Merchants Corporation and Subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DHG
DIXON HUGHES GOODMAN LLP

Prior Period Financial Statements
The consolidated financial statements of First Farmers and Merchants Corporation as of December 31, 2015, and for each of the years in the two-year period ended December 31, 2015 were audited by other auditors whose report dated March 1, 2016, expressed an unqualified opinion on these statements.

Audit of Internal Control Over Financial Reporting
We also have audited in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 8, 2017 expressed an unqualified opinion.

Dixon Hughes Goodman LLP

Atlanta, Georgia
March 8, 2017

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

		December 31, 2016	December 31, 2015
ASSETS	Cash and due from banks	$ 22,703	$ 19,453
	Interest-bearing deposits	9,214	18,299
	Federal funds sold	1,165	24,476
	Total cash and cash equivalents	33,082	62,228
	Securities:		
	Available-for-sale	392,583	395,019
	Held-to-maturity (fair market value $18,057 and $4,089 as of the periods presented)	19,036	4,059
	Total securities	411,619	399,078
	Loans, net of deferred fees	821,567	731,266
	Allowance for loan and lease losses	(9,348)	(8,634)
	Net loans	812,219	722,632
	Bank premises and equipment, net	27,594	25,518
	Other real estate owned	-	62
	Bank-owned life insurance	27,354	26,552
	Goodwill	9,018	9,018
	Other assets	16,881	15,222
	TOTAL ASSETS	$ 1,337,767	$ 1,260,310
LIABILITIES	Deposits:		
	Noninterest-bearing	$ 255,964	$ 239,226
	Interest-bearing	907,859	864,575
	Total deposits	1,163,823	1,103,801
	Securities sold under agreements to repurchase	27,578	24,177
	Accounts payable and accrued liabilities	13,661	14,542
	FHLB borrowings	15,000	-
	TOTAL LIABILITIES	1,220,062	1,142,520
	Commitments and contingencies (Note 11)		
SHAREHOLDERS' EQUITY	Common stock - $10 par value per share, 8,000,000 shares authorized; 4,542,303 and 4,739,502 shares issued and outstanding as of the periods presented	45,423	47,395
	Retained earnings	74,357	71,583
	Accumulated other comprehensive loss	(2,170)	(1,283)
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	117,610	117,695
	Noncontrolling interest – preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	117,705	117,790
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,337,767	$ 1,260,310

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

		Years ended December 31,		
		2016	**2015**	**2014**
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	$ 32,056	$ 30,522	$ 28,300
	Income on investment securities			
	Taxable interest	4,785	5,713	5,738
	Exempt from federal income tax	2,258	2,218	2,473
	Dividends	416	229	269
	Total interest income	39,515	38,682	36,780
INTEREST EXPENSE	Interest on deposits	2,384	2,131	2,358
	Interest on other borrowings	93	94	70
	Total interest expense	2,477	2,225	2,428
	Net interest income	37,038	36,457	34,352
	Provision for loan and lease losses	840	30	-
	Net interest income after provision	36,198	36,427	34,352
NON-INTEREST INCOME	Mortgage banking activities	472	270	294
	Trust service fees	2,673	2,530	2,491
	Service fees on deposit accounts	6,688	6,616	6,470
	Brokerage fees	289	540	410
	Earnings on bank-owned life insurance	411	376	398
	Gain on sales of available-for-sale securities	267	534	652
	Gain on bank-owned life insurance	123	34	104
	Other non-interest income	567	510	392
	Total non-interest income	11,490	11,410	11,211
NON-INTEREST EXPENSE	Salaries and employee benefits	18,373	18,897	17,557
	Net occupancy expense	2,152	2,192	2,032
	Depreciation expense	1,406	1,489	1,441
	Data processing expense	2,576	2,506	2,321
	Legal and professional fees	1,224	1,301	860
	Stationary and office supplies	314	289	304
	Advertising and promotions	1,368	1,163	1,352
	FDIC insurance premium expense	621	587	589
	Other non-interest expense	6,027	5,742	6,325
	Total non-interest expenses	34,061	34,166	32,781
	Income before provision for income taxes	13,627	13,671	13,814
	Provision for income taxes	3,301	3,349	3,556
	Net income	10,326	10,322	10,258
	Noncontrolling interest – dividends on preferred stock subsidiary	16	16	16
	Net income available to common shareholders	$ 10,310	$ 10,306	$ 10,242
	Weighted average shares outstanding	4,634,171	4,832,217	4,963,826
	Earnings per share	$ 2.22	$ 2.13	$ 2.06

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years ended December 31, 2016	2015	2014
Net income	$ 10,326	$ 10,322	$ 10,258
Other comprehensive income (loss)			
Unrealized (depreciation) appreciation on available-for-sale securities, net of taxes of ($400), $685 and $4,742, respectively	(638)	1,097	7,571
Reclassification adjustment for realized gains included in net income, net of taxes of ($103), ($206) and ($251), respectively	(164)	(328)	(401)
Adjustment for amortization of net actuarial gains, net of taxes of ($67), ($61) and ($73), respectively	(107)	(99)	(115)
Adjustment for actuarial gain (loss) incurred in current year, net of taxes of $15, $110 and ($110), respectively	25	176	(177)
Adjustment for amortization of prior year service costs, net of taxes of ($2)	(3)	(3)	(3)
Other comprehensive (loss) income	(887)	843	6,875
Total comprehensive income	$ 9,439	$ 11,165	$ 17,133

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years ended December 31, 2016, 2015 and 2014
(Dollars in thousands, except per share data)

	Shares of stock	Noncontrolling interest - Preferred stock of subsidiary	Common stock	Retained earnings	Accumulated other comprehensive loss	Total
Balance at December 31, 2013	5,021,012	$ 95	$ 50,210	$ 62,900	$ (9,001)	$ 104,204
Net income				10,258		10,258
Other comprehensive income					6,875	6,875
Repurchase of common stock	(120,436)		(1,204)	(1,893)		(3,097)
Cash dividends declared, $0.74 per share				(3,640)		(3,640)
Preferred dividends paid				(16)		(16)
Balance at December 31, 2014	4,900,576	95	49,006	67,609	(2,126)	114,584
Net income				10,322		10,322
Other comprehensive income					843	843
Repurchase of common stock	(161,074)		(1,611)	(2,797)		(4,408)
Cash dividends declared, $0.74 per share				(3,535)		(3,535)
Preferred dividends paid				(16)		(16)
Balance at December 31, 2015	4,739,502	95	47,395	71,583	(1,283)	117,790
Net income				10,326		10,326
Other comprehensive loss					(887)	(887)
Repurchase under reorganization plan	(102,229)		(1,022)	(2,040)		(3,062)
Repurchase under stock repurchase plan	(94,970)		(950)	(2,070)		(3,020)
Cash dividends declared, $0.75 per share				(3,426)		(3,426)
Preferred dividends paid				(16)		(16)
Balance at December 31, 2016	4,542,303	$ 95	$ 45,423	$ 74,357	$ (2,170)	$ 117,705

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

		Years ended December 31,		
		2016	**2015**	**2014**
OPERATING ACTIVITIES	Net income	$ 10,326	$ 10,322	$ 10,258
	Adjustments to reconcile net income to net cash provided by operating activities			
	Provision for loan and lease losses	840	30	-
	Depreciation of premises and equipment	1,406	1,489	1,441
	Deferred tax benefit	(525)	614	545
	Net gains on sales of available-for-sale securities	(267)	(534)	(652)
	Gains on mortgage loans sold	(472)	(270)	(294)
	Proceeds from sale of mortgage loans held-for-sale	17,422	15,455	13,105
	Funding of mortgage loans held-for-sale	(16,950)	(14,831)	(12,838)
	Loss (gain) on foreclosed property	5	(33)	(516)
	Amortization of investment security premiums, net of accretion of discounts	1,560	1,196	1,100
	Increase in cash surrender value of life insurance contracts	(411)	(376)	(398)
	Changes in:			
	Other assets	(575)	821	(8)
	Other liabilities	(130)	(701)	435
	Net cash provided by operating activities	12,229	13,182	12,178
INVESTING ACTIVITIES	Proceeds from sales of available-for-sale securities	51,055	79,119	47,798
	Proceeds from maturities and calls of available-for-sale securities	68,190	31,967	30,072
	Proceeds from maturities and calls of held-to-maturity securities	1,540	19,940	5,398
	Purchases of available-for-sale investment securities	(119,390)	(107,655)	(134,373)
	Purchases of held-to-maturity investment securities	(16,534)	(1,991)	-
	Net increase in loans	(90,459)	(78,634)	(45,952)
	Proceeds from sale of other real estate owned	89	66	1,466
	Purchases of premises and equipment	(3,484)	(1,234)	(2,346)
	Purchase of life insurance policies	(861)	-	(175)
	Proceeds from redemption of life insurance policy	470	-	264
	Net cash used in investing activities	(109,384)	(58,422)	(97,848)
FINANCING ACTIVITIES	Net increase in deposits	60,022	83,846	62,618
	Net increase in securities sold under agreements to repurchase	3,401	1,343	4,739
	Increase in FHLB borrowings	15,000	-	-
	Repurchase of common stock under reorganization plan	(3,062)	-	-
	Repurchase of common stock under stock repurchase plan	(3,020)	(4,408)	(3,097)
	Cash dividends paid on common stock	(4,316)	(3,594)	(3,685)
	Cash dividends paid on preferred stock of subsidiary	(16)	(16)	(16)
	Net cash provided by financing activities	68,009	77,171	60,559
	Decrease in cash and cash equivalents	(29,146)	(31,931)	(25,111)
	Cash and cash equivalents at beginning of period	62,228	30,297	55,408
	Cash and cash equivalents at end of period	$ 33,082	$ 62,228	$ 30,297

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in thousands)

	Years ended December 31,		
Supplemental disclosures of cash flow information:	**2016**	**2015**	**2014**
Cash paid during the period for:			
Interest on deposits and borrowed funds	$ 2,413	$ 2,335	$ 2,479
Income taxes	3,352	3,241	3,094
Real estate acquired in settlement of loans	$ 32	$ 90	$ 5
Noncash investing activities:			
Change in fair value of securities available-for-sale, net of tax	$ (803)	$ 769	$ 7,170
Minimum pension liability adjustment, net of taxes	(85)	74	(295)
Common dividends declared	$ 3,426	$ 3,535	$ 3,640

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accounting principles followed and the methods of applying those principles conform with accounting principles generally accepted in the United States ("GAAP") and to general practices in the banking industry. The significant accounting policies applicable to First Farmers and Merchants Corporation (the "Company") are summarized as follows.

Nature of Operations

The Company is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, First Farmers and Merchants Bank (the "Bank"). The Bank is primarily engaged in providing a full range of banking and financial services, including lending, investing of funds, obtaining deposits, trust and wealth management operations, and other financing activities to individual and corporate customers in the Middle Tennessee area. The Bank is subject to competition from other financial institutions. The Company and Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

On April 19, 2016, the Company held its annual meeting of shareholders. At the annual meeting of shareholders, a corporate reorganization plan ("the Plan") was approved. Under the Plan, holders of fewer than 400 shares of Company common stock received cash in exchange for their shares in an amount determined by an independent third party valuation. Shareholders owning 400 or more shares were unaffected by the Plan. As a result of the reorganization, the Company had fewer than 1,200 holders of record of its common stock. Accordingly, the Company filed Form 15 with the Securities and Exchange Commission ("SEC") on April 22, 2016, which immediately suspended its duty to file periodic reports with the SEC pursuant to Section 13 of the Exchange Act, while also terminating the registration of its common stock under the Exchange Act.

Basis of Presentation

The accompanying consolidated financial statements present the accounts of the Company and its wholly-owned subsidiary, the Bank. The Bank has the following direct and indirect subsidiaries: F&M West, Inc., Maury Tenn, Inc., and Maury Tenn Properties, Inc. Noncontrolling interests consist of preferred shares in Maury Tenn Properties, Inc. that are owned by third parties and Maury Tenn, Inc. The preferred shares in Maury Tenn Properties, Inc. receive dividends, which are included in the consolidated statements of income shown as income to non-controlling interest. Intercompany accounts and transactions have been eliminated in consolidation.

Certain items in prior financial statements have been reclassified to conform to the current presentation. These reclassifications had no effect on net income or shareholders' equity.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management of the Company and the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities. Those estimates and assumptions also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan and lease losses, the fair value of financial instruments, the valuation of foreclosed real estate, valuation of goodwill, valuation of deferred tax assets, the liability related to post-retirement benefits, and reserves for claims incurred but not reported under the self-insured employee health benefits plan.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Concentrations of Credit Risk

The Company's banking activities include granting commercial, residential, and consumer loans to customers primarily located in Middle Tennessee and northern Alabama. The Company manages its portfolio and product mix in a manner to reduce economic risk. Concentrations of credit, as defined for regulatory purposes, are reviewed quarterly by management to ensure that internally established limits are not exceeded. At December 31, 2016, our concentrations of commercial real estate, rental and leasing loans were 143.9% of Tier 1 Capital plus the allowance for loan and lease losses. Health care and social assistance loans were 39.3%. Construction loans were 69.2%. Wholesale trade credits were 23.2%. These percentages are within our internally established limits regarding concentrations of credit.

Loans secured by non-farm, non-residential real estate comprised 19.0% of the loan portfolio at December 31, 2016.

Cash and Due From Banks

Included in cash and due from banks are reserve amounts that are required to be maintained in the form of cash and/or balances due from the Federal Reserve Bank and other banks. At December 31, 2016, the Bank's required reserve was $5.8 million at the Federal Reserve. From time to time throughout the year, the Bank's balances due from other financial institutions exceeded Federal Deposit Insurance Corporation ("FDIC") insurance limits. The Bank had $1.2 million of federal funds sold as of December 31, 2016. Federal funds sold are essentially uncollateralized loans to other financial institutions.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents include cash on hand, cash due from banks, and federal funds sold. Federal funds are sold for one-day periods.

Securities

Certain debt securities that management has the intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity are classified as "available-for- sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of tax. Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount of the security. To determine whether impairment is other-than-temporary, management considers whether the entity expects to recover the entire amortized cost basis of the security by reviewing the present value of the future cash flows associated with the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as a credit loss and is deemed to be other-than-temporary impairment. If a credit loss is identified, the credit loss is recognized as a charge to earnings and a new cost basis for the security is established. If management concludes that a decline in fair value of a security is temporary and, a full recovery of principal and interest is expected and it is not more-likely-than-not that it will be required to sell the security before recovery of their amortized cost basis, then the security is not other-than-temporarily impaired and the shortfall is recorded as a component of equity.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff is reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan and lease losses, any unamortized deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on retail and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, the borrower has not missed a payment for six months, and future payments are reasonably assured.

Discounts and premiums on purchased commercial loans are amortized to income using the interest method over the remaining period to contractual maturity and adjusted for anticipated prepayments.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is established through provisions for loan and lease losses charged against income. Loan losses are charged against the allowance when management determines that the uncollectibility of a loan has been confirmed. Subsequent recoveries, if any, are credited to the allowance account in the period received.

The adequacy of the allowance for loan and lease losses is evaluated quarterly in conjunction with loan review reports and evaluations that are discussed in meetings with loan officers, credit administration, and the Bank's Board of Directors. The Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect a borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors are considered in this evaluation. This process is inherently subjective as it requires material estimates that are susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans. The allowance for loan and lease losses is maintained at a level believed by management to be adequate to absorb estimated losses inherent in the loan portfolio.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Allowance for Loan and Lease Losses, (continued)

A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions, and other relevant factors that affect repayment of the loans. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

When any collateral dependent commercial loan is considered uncollectable, whether past due or not, a current assessment of the value of the underlying collateral is made. The loan is placed on nonaccrual and the loan is charged down to the value of the collateral less estimated cost to sell or a specific reserve equal to the difference between book value of the loan and the fair value assigned to the collateral is created until such time as the loan is foreclosed. When the foreclosed collateral has been legally assigned to the Bank, a charge off is taken, if necessary, in order that the remaining balance reflects the fair value estimated less costs to sell the collateral then transferred to other real estate owned or other repossessed assets. When any unsecured commercial loan is considered uncollectable the loan is charged off no later than at 90 days past due.

All closed-end consumer loans (excluding conventional 1-4 family residential loans and installment and revolving loans secured by real estate) are charged off upon reaching no later than 120 days (4 monthly payments) delinquent. If a loan is considered uncollectable, it is charged off earlier than 120 days delinquent. For conventional 1-4 family residential loans and installment and revolving loans secured by real estate, when a loan is 90 days past due, a current assessment of the value of the real estate is made. If the balance of the loan exceeds the fair value of the property, the loan is placed on nonaccrual and foreclosure proceedings are initiated. When the foreclosed property has been legally assigned to the Bank, a charge-off is taken with the remaining balance, reflecting the fair value less estimated costs to sell, transferred to other real estate owned.

Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains and losses on loan sales are recorded in non-interest income. The Company does not retain servicing rights on loans sold. Loans held-for-sale at December 31, 2016 totaled $218,000. There were no loans held-for-sale at December 31, 2015.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Other Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

When foreclosed properties are acquired current appraisals are obtained on the properties. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected selling costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 24 months.

Premises and Equipment

Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. The provision for depreciation is computed principally on an accelerated method over the estimated useful life of an asset, which ranges from 15 to 39 years for buildings, from three to 25 years for equipment, and the expected lease terms for leasehold improvements. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses from the disposition of property are reflected in operations, and the asset accounts and related allowances for depreciation are reduced.

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment. At December 31, 2016 and 2015 Federal Reserve and Federal Home Loan Bank stock totaled $3.9 million.

Goodwill

Goodwill is evaluated annually for impairment. Quantitative and qualitative assessments are performed to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more-likely-than-not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Income Taxes

The Company files consolidated income tax returns with its subsidiaries. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance requires two components of income tax expense which are current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more-likely-than-not, based on the technical merits that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment. With a few exceptions, the Company is no longer subject to U.S. federal tax examinations and state and local tax examinations by tax authorities for years prior to 2013.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. As of December 31, 2016, the Company has accrued no interest and no penalties related to uncertain tax positions.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction.

Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as input, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company’s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. See Note 12 – Fair Value Measurement.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Earnings Per Share

Earnings per share represents income available to shareholders divided by the weighted average number of shares of Company common stock outstanding during the period. Fully diluted earnings per share is not presented as there are no common stock equivalents.

The following is a summary of the earnings per share calculation for the periods presented:

	Years ended December 31, 2016	2015	2014
	(dollars in thousands, expect per share data)		
Earnings per share calculation:			
Numerator – Net income available to common shareholders	$ 10,310	$ 10,306	$ 10,242
Denominator – Weighted average common shares outstanding	4,634,171	4,832,217	4,963,826
Net income per common share available to common shareholders	$ 2.22	$ 2.13	$ 2.06

In December 2015, the Company reauthorized a plan to repurchase up to 200,000 shares of its common stock during 2016. The Company repurchased 94,970, 161,074 and 120,436 shares in 2016, 2015, and 2014, respectively. The Company also repurchased 102,229 shares related to the corporate reorganization plan approved on April 19, 2016 by the Company's shareholders.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss), net of applicable income tax expenses or benefits. Other comprehensive income (loss) includes unrealized appreciation or depreciation on available-for-sale securities and changes in the net actuarial gain or loss of the post-retirement benefit obligation.

The components of accumulated other comprehensive loss, included in shareholder's equity, are as follows:

	Years ended December 31, 2016	2015	2014
	(dollars in thousands)		
Net unrealized losses on available-for-sale securities	$ (5,573)	$ (4,269)	$ (5,517)
Net actuarial gain on unfunded portion of post-retirement benefit obligation	2,044	2,183	2,062
	(3,529)	(2,086)	(3,455)
Tax benefit	1,359	803	1,329
Accumulated other comprehensive loss	$ (2,170)	$ (1,283)	$ (2,126)

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period end date. There were no transfers between levels during 2016 or 2015.

Segment Reporting

Management analyzes the operations of the Company assuming one operating segment, community lending services.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, (Topic 606)*. ASU 2014-09 states a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August of 2015, the FASB issued *ASU 2015-14, Revenue from Contracts with Customers, (Topic 606): Deferral of the Effective Date*. ASU 2015-14 defers the effective date of Update 2014-09 for all entities by one year. As such, ASU 2014-09 is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but the Company does not expect it to have a material impact.

In January 2016, the FASB issued *ASU 2016-01 Financial Instruments Overall (Topic 825)*. The amendments in ASU 2016-01: (a) require equity investments (except for those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplify the impairment assessment of equity securities without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminate the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (d) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (e) require an entity to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (f) require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the notes to the financial statements; and (g) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Recent Accounting Pronouncements, (continued)

In February 2016, the FASB issued *ASU 2016-02 Leases (Topic 842).* ASU 2016-02 requires the recognition in the statement of financial position of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The guidance requires that a lessee should recognize lease assets and lease liabilities as compared to previous GAAP that did not require lease assets and lease liabilities to be recognized for most leases. The guidance becomes effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact on its consolidated financial statements.

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326).* ASU 2016-13 introduces the current expected credit losses methodology. Among other things, the ASU requires the measurement of all expected credit losses for financial assets, including loans and available-for-sale debt securities, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new model will require institutions to calculate all probable and estimable losses that are expected to be incurred through the loan's entire life. ASU 2016-13 also requires the allowance for credit losses for purchased financial assets with credit deterioration since origination to be determined in a manner similar to that of other financial assets measured at amortized cost; however, the initial allowance will be added to the purchase price rather than recorded as credit loss expense. The disclosure of credit quality indicators related to the amortized cost of financing receivables will be further disaggregated by year of origination (or vintage). Institutions are to apply the changes through a cumulative-effect adjustment to their retained earnings as of the beginning of the first reporting period in which the standard is effective. For public business entities that are not SEC filers, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the impact on its consolidated financial statements.

In August 2016, the FASB issued *ASU 2016-15 Statement of Cash Flows (Topic 230).* ASU 2016-15 is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted with retrospective application. The Company is currently evaluating the impact on its consolidated financial statements.

NOTE 2 – RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

Amounts reclassified from AOCI and the affected line items in the statements of income during the periods presented are as follows:

	Amounts reclassified from AOCI Years ended December 31, 2016	2015	2014	Affected line item in the Statements of income
Unrealized gains on available-for-sale securities	$ 267	$ 534	$ 652	Gain on sale of available-for-sale securities
	(103)	(206)	(251)	Provision for income taxes
	$ 164	$ 328	$ 401	Net reclassified amount
Amortization of defined benefit pension items	$ 174	$ 160	$ 188	Salaries and employee benefits
	(67)	(62)	(72)	Provision for income taxes
	$ 107	$ 98	$ 116	Net reclassified amount
Total reclassifications out of AOCI	$ 271	$ 426	$ 517	

NOTE 3 – SECURITIES

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2016 and 2015 are summarized as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
		(dollars in thousands)		
December 31, 2016				
Available-for-sale securities:				
U.S. government sponsored agencies	$ 87,089	$ 112	$ (566)	$ 86,635
U.S. government sponsored agency mortgage backed securities	215,718	26	(5,097)	210,647
States and political subdivisions	71,281	759	(669)	71,371
Corporate bonds	24,068	18	(156)	23,930
	$ 398,156	$ 915	$ (6,488)	$ 392,583
Held-to-maturity securities:				
States and political subdivisions	$ 19,036	$ 17	$ (996)	$ 18,057
December 31, 2015				
Available-for-sale securities:				
U.S. government sponsored agencies	$ 132,543	$ 40	$ (1,526)	$ 131,057
U.S. government sponsored agency mortgage backed securities	171,620	6	(4,559)	167,067
State and political subdivisions	71,493	1,916	(90)	73,319
Corporate bonds	23,632	54	(110)	23,576
	$ 399,288	$ 2,016	$ (6,285)	$ 395,019
Held-to-maturity securities:				
States and political subdivisions	$ 4,059	$ 33	$ (3)	$ 4,089

NOTE 3 – SECURITIES, (CONTINUED)

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015 was approximately $322.4 million and $306.3 million, which was approximately 78% and 77%, respectively, of the Company's investment portfolio. The Company evaluates its investment portfolio on a quarterly basis for impairment.

The analysis performed as of December 31, 2016 and 2015 indicated that all impairment was considered temporary, market driven due primarily to fluctuations in market interest rates and not credit-related.

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that were not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities had been in a continuous unrealized loss position at December 31, 2016 and 2015:

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
			(dollars in thousands)			
December 31, 2016						
Available-for-sale securities:						
U.S. government sponsored agencies	$ 54,450	$ (566)	$ -	$ -	$ 54,450	$ (566)
U.S. government sponsored agency mortgage backed securities	154.016	(3,481)	41,575	(1,616)	195,591	(5,097)
States and political subdivisions	37,714	(669)	-	-	37,714	(669)
Corporate bonds	15,525	(151)	1,523	(5)	17,048	(156)
	$ 261,705	$ (4,867)	$ 43,098	$ (1,621)	$ 304,803	$ (6,488)
Held-to-maturity securities:						
States and political subdivisions	$ 17,596	$ (996)	$ -	$ -	$ 17,596	$ (996)
December 31, 2015						
Available-for-sale securities:						
U.S. government sponsored agencies	$ 70,454	$ (425)	$ 43,080	$ (1,100)	$ 113,534	$ (1,525)
U.S. government sponsored agency mortgage backed securities	74,860	(1,073)	90,125	(3,486)	164,985	(4,559)
States and political subdivisions	8,472	(64)	2,556	(26)	11,028	(90)
Corporate bonds	14.504	(87)	1,854	(24)	16,358	(111)
	$ 168,290	$ (1,649)	$ 137,615	$ (4,636)	$ 305,905	$ (6,285)
Held-to-maturity securities:						
States and political subdivisions	$ 438	$ (3)	$ -	$ -	$ 438	$ (3)

NOTE 3 – SECURITIES, (CONTINUED)

As shown in the tables above, at December 31, 2016, the Company had approximately $7.5 million in unrealized losses on $322.4 million of securities. The unrealized loss positions are most significant in two types of securities sectors which are U.S. government sponsored agency mortgage backed securities and state and political subdivisions. The unrealized losses associated with these investment securities are driven by changes in interest rates and the unrealized loss is recorded as a component of equity. These securities will continue to be monitored as a part of our ongoing impairment analysis, but are expected to perform even if the rating agencies reduce the credit rating of the bond issuers. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments. If a shortfall in future cash flows is identified, a credit loss will be deemed to have occurred and will be recognized as a change to earnings and a new cost basis for the security will be established.

The amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2016 and 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
December 31, 2016	**Amortized cost**	**Fair value**	**Amortized cost**	**Fair value**
	(dollars in thousands)			
Within one year	$ 16,972	$ 17,038	$ 330	$ 331
One to five years	108,918	108,501	200	200
Five to ten years	26,418	26,372	668	638
After ten years	30,130	30,025	17,838	16,888
Mortgage-backed securities	215,718	210,647	-	-
	$ 398,156	$ 392,583	$ 19,036	$ 18,057

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $269.5 million at December 31, 2016 and $253.6 million at December 31, 2015.

The book value of securities sold under agreements to repurchase amounted to $28.8 million and $30.5 million at December 31, 2016 and 2015, respectively.

	Years ended December 31,		
	2016	**2015**	**2014**
	(dollars in thousands)		
Gross gains recognized on sales of securities	**$** 286	$ 579	$ 737
Gross losses recognized on sales of securities	(19)	(45)	(85)
Net realized gains on sales of securities available-for-sale	**$** 267	$ 534	$ 652

NOTE 4 – LOANS

The following table presents the Bank's loans by category as of the periods presented:

	December 31, 2016	December 31, 2015
Commercial	(dollars in thousands)	
Commercial and industrial	$ 137,684	$ 127,899
Non-farm, non-residential real estate	159,646	161,009
Construction and development	80,049	51,330
Commercial loans secured by real estate	45,880	28,091
Other commercial	78,912	60,325
Total commercial	502,171	428,654
Retail		
Consumer loans	8,044	9,914
Single family residential	281,399	260,254
Other retail	29,953	32,444
Total retail	319,396	302,612
	$ 821,567	$ 731,266
Less:		
Allowance for loan and lease losses	(9,348)	(8,634)
Total net loans	$ 812,219	$ 722,632

The amount of capitalized fees, net calculated in accordance with ASC 310-20 included in the above loan totals were $780,000 and $941,000 at December 31, 2016 and 2015, respectively.

Loan Origination/Risk Management. The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

NOTE 4 – LOANS, (CONTINUED)

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

At December 31, 2016, approximately 43% of the outstanding principal balance of the Company's commercial real estate loans was secured by owner-occupied properties, compared to 55% at December 31, 2015. With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption, and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

The Company originates residential and consumer loans utilizing a computer-based credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements.

The Company engages a third party vendor to perform loan reviews. The Company reviews and validates the credit risk program on an annual basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

The goal of the bank is to diversify loans to avoid a concentration of credit in a specific industry, person, entity, product, service, or any area vulnerable to a tax law change or an economic event. A concentration of credit occurs when obligations, direct or indirect, of the same or affiliated interests represent 25% or more of the Bank's capital structure. Commercial real estate rental and leasing represented the highest concentration at 120% of tier 1 capital. The Board of Directors recognizes that the Bank's geographic trade area imposes some limitations regarding loan diversification if the bank is to perform the function for which it has been chartered. Specifically, lending to qualified borrowers within the Bank's trade area will naturally cause concentrations of real estate loans in the primary communities served by the Bank and loans to employees of major employers in the area.

NOTE 4 – LOANS, (CONTINUED)

The following table provides details regarding the aging of the Bank's loan portfolio:

December 31, 2016	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Current	Total loans
			(dollars in thousands)			
Commercial						
Commercial and industrial	$ 19	$ 13	$ 193	$ 225	$ 137,459	$ 137,684
Non-farm, non-residential real estate	-	-	202	202	159,444	159,646
Construction and development	-	-	-	-	80,049	80,049
Commercial loans secured by estate real estate	-	-	149	149	45,731	45,880
Other commercial	-	-	-	-	78,912	78,912
Total commercial loans	19	13	544	576	501,595	502,171
Retail						
Consumer	50	14	3	67	7,977	8,044
Single family residential	1,456	79	211	1,746	279,653	281,399
Other retail	217	1	30	248	29,705	29,953
Total retail loans	1,723	94	244	2,061	317,335	319,396
Total	$ 1,742	$ 107	$ 788	$ 2,637	$ 818,930	$ 821,567

December 31, 2015	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Current	Total loans
			(dollars in thousands)			
Commercial						
Commercial and industrial	$ 245	$ 25	$ 245	$ 515	$ 127,384	$ 127,899
Non-farm, non-residential real estate	2,486	123	279	2,888	158,121	161,009
Construction and development	7	-	-	7	51,323	51,330
Commercial loans secured by estate real estate	24	8	163	195	27,896	28,091
Other commercial	-	-	-	-	60,325	60,325
Total commercial loans	2,762	156	687	3,605	425,049	428,654
Retail						
Consumer	43	36	7	86	9,828	9,914
Single family residential	1,918	664	164	2,746	257,508	260,254
Other retail	160	148	54	362	32,082	32,444
Total retail loans	2,121	848	225	3,194	299,418	302,612
Total	$ 4,883	$ 1,004	$ 912	$ 6,799	$ 724,467	$ 731,266

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include non-performing loans, but also include loans modified in troubled debt restructurings. The Company has two loans totaling $146,000 that were 90 days or more past due that were not included in nonaccrual loans as of December 31, 2016. The Company had no loans that were 90 days or more past due that were not included in nonaccrual loans as of December 31, 2015.

NOTE 4 – LOANS, (CONTINUED)

The following table summarizes the impaired loans by loan type:

December 31, 2016	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment year to date	Interest received	Interest accrued
	(dollars in thousands)							
Commercial:								
Commercial and industrial	$ 359	$ 30	$ 229	$ 259	$ 48	$ 260	$ 16	$ 14
Non-farm, non-residential real estate	2,180	39	1,930	1,969	1	2,315	162	137
Commercial loans secured by real estate	197	5	149	154	26	166	3	14
Commercial total	2,736	74	2,308	2,382	75	2,741	181	165
Retail:								
Single family residential	1,539	799	492	1,291	58	1,335	78	79
Other retail	153	93	-	93	-	101	9	8
Retail total	1,692	892	492	1,384	58	1,436	87	87
Total	$ 4,428	$ 966	$ 2,800	$ 3,766	$ 133	$ 4,177	$ 268	$ 252

December 31, 2015	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment year to date	Interest received	Interest accrued
	(dollars in thousands)							
Commercial:								
Commercial and industrial	$ 432	$ 60	$ 262	$ 322	$ 28	$ 344	$ 17	$ 22
Non-farm, non-residential real estate	469	401	-	401	-	428	17	24
Commercial loans secured by real estate	192	-	163	163	29	169	6	13
Commercial total	1,093	461	425	886	57	941	40	59
Retail:								
Single family residential	1,612	510	830	1,340	102	1,415	81	83
Other retail	130	74	-	74	-	79	6	7
Retail total	1,742	584	830	1,414	102	1,494	87	90
Total	$ 2,835	$ 1,045	$ 1,255	$ 2,300	$ 159	$ 2,435	$ 127	$ 149

NOTE 4 – LOANS, (CONTINUED)

December 31, 2014	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment year to date	Interest received	Interest accrued
				(dollars in thousands)				
Commercial:								
Commercial and industrial	$ 3,760	$ 2,734	$ 217	$ 2,951	$ 9	$ 3,230	$ 97	$ 207
Non-farm, non-residential real estate	3,720	3,241	-	3,241	-	3,570	213	212
Commercial loans secured by real estate	1,053	564	166	730	33	826	67	77
Other commercial	1,256	1,092	-	1,092	-	1,171	89	84
Commercial total	9,789	7,631	383	8,014	42	8,797	466	580
Retail:								
Single family residential	1,094	539	439	978	10	786	44	42
Other retail	425	411	-	411	-	369	17	19
Retail total	1,519	950	439	1,389	10	1,155	61	61
Total	$ 11,308	$ 8,581	$ 822	$ 9,403	$ 52	$ 9,952	$ 527	$ 641

NOTE 4 – LOANS, (CONTINUED)

Non-accrual loans, segregated by class of loans, were as follows:

	December 31, 2016	December 31, 2015
	(dollars in thousands)	
Commercial		
Commercial and industrial	$ 259	$ 322
Non-farm, non-residential real estate	1,969	401
Commercial loans secured by real estate	154	163
Total commercial loans	2,382	886
Retail		
Consumer loans	75	74
Single family residential	846	1,237
Total retail loans	921	1,311
Total non-accrual loans	$ 3,303	$ 2,197

Included in certain loan categories of impaired loans are certain loans that have been modified in a troubled debt restructuring where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Modifications of terms for our loans and their inclusion as troubled debt restructurings are based on individual facts and circumstances. Loan modifications that are included as troubled debt restructurings may involve either an increase or reduction of the interest rate, extension of the term of the loan, or deferral of principal and/or interest payments, regardless of the period of the modification. All of the loans identified as troubled debt restructurings were modified due to financial stress of the borrower. In order to determine if a borrower is experiencing financial difficulty, an evaluation is performed to determine the probability that the borrower will be in payment default on any of its debt in the foreseeable future with the modification. This evaluation is performed under the Company's internal underwriting policy.

When the Company modifies loans in a troubled debt restructuring, the Company evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, or the current fair value of the collateral, less selling costs for collateral dependent loans. If the Company determined that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, the Company evaluates all troubled debt restructurings, including those that have payment defaults, for possible impairment and recognize impairment through the allowance.

As of December 31, 2016, the Company did not have any commitments to extend additional funds to borrowers with loans modified and included as a troubled debt restructuring. During 2016, certain loans were modified in troubled debt restructurings, where economic concessions were granted to borrowers consisting of reductions in the interest rates, payment extensions, forgiveness of principal, and forbearances.

NOTE 4 – LOANS, (CONTINUED)

Presented below, segregated by class of loans, are troubled debt restructurings:

	Twelve months ended December 31, 2016		
	Number of modifications	Post-modification outstanding balance	Net charge-offs resulting in modifications
		(dollars in thousands)	
Commercial:			
Non-farm, non-residential	1	$ 35	$ -
Commercial loans secured by real estate	1	15	-
Total	2	$ 50	$ -

	Twelve months ended December 31, 2015		
	Number of modifications	Post-modification outstanding balance	Net charge-offs resulting in modifications
		(dollars in thousands)	
Retail:			
Single family residential	2	$ 111	-
Total	2	$ 111	$ -

The loan's accrual status is assessed at the time of its modification. As a result of the assessment, the accrual status may be modified. Commercial and consumer loans modified in a troubled debt restructuring are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a troubled debt restructuring subsequently default, the Company evaluates the loan for possible further impairment. The allowance for loan and lease losses may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan. The Company considers a loan in default when it is 90 days or more past due or transferred to non-accrual.

As of December 31, 2016 and 2015, the Company did not have any loans that were modified in troubled debt restructurings during the past twelve months that have subsequently defaulted.

As of December 31, 2016, the Company held no foreclosed real estate. As of December 31, 2015, the Company held one foreclosed residential real estate property that was the result of obtaining physical possession in accordance with ASC 310-40. The carrying value was $62,000. In addition, the Company had no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to location requirement of the applicable jurisdiction.

Credit Quality Indicators. As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the weighted-average risk grade of commercial loans, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) non-performing loans, and (v) the general economic conditions in the State of Tennessee.

NOTE 4 – LOANS, (CONTINUED)

The Company uses a risk grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 through 8. A description of the general characteristics of the eight risk grades is as follows:

Risk Rating 1 – Minimal Risk – Loans in this category are secured by a cash deposit and are substantially risk free.

Risk Rating 2 – Modest Risk – Loans in this category have borrowers that show profitability, liquidity, and capitalization better than industry norms and a strong market position in the region. The borrower of these loans have a proven history of profitability and financial stability, along with an abundance of financeable assets available to protect the Bank's position.

Risk Rating 3 – Average Risk – Loans in this category have borrowers that show a stable earnings history and financial condition in line with industry norms. The borrower's liquidity and leverage are in line with industry norms. The credit extension is considered sound, however, elements may be present which suggest the borrower may not be free from temporary impairments in the future.

Risk Rating 4 – Acceptable Risk – Loans in this category have sound risk profiles, in which the borrower shows satisfactory asset quality and liquidity, good debt capacity and coverage, and good management in critical positions.

Risk Rating 5 – Pass/Watch – Loans in this category require a heightened level of supervision. The borrower may exhibit declining earnings, strained cash flow, increasing leverage, or weakening market positions that indicate a trend toward an unacceptable risk. The borrowers liquidity, leverage, and earnings performance is below or trending below industry norms.

Risk Rating 6 – Special Mention – Loans in this category are not currently adequate. These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Risk Rating 7 – Substandard – Loans in this category are inadequately protected by the current sound worth and paying capacity of the obligor of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Risk Rating 8 – Doubtful – Loans in this category have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

NOTE 4 – LOANS, (CONTINUED)

The following table presents risk grades and classified loans by class:

December 31, 2016 Commercial loan portfolio: Credit risk profile by internally assigned grade	Commercial and industrial	Non-farm, non-residential real estate	Construction and development	Commercial loans secured by real estate	Other commercial	Commercial loan totals
	(dollars in thousands)					
Risk rating 1 - minimal risk	$ 1,350	$ 287	$ -	$ 97	$ 189	$ 1,923
Risk rating 2 - modest risk	5,909	275	-	-	66,050	72,234
Risk rating 3 - average risk	36,709	57,814	10,718	2,827	5,977	114,045
Risk rating 4 - acceptable risk	78,423	96,665	69,331	42,717	6,674	293,810
Risk rating 5 - pass/watch	9,111	2,616	-	70	22	11,819
Risk rating 6 - special mention	26	102	-	89	-	217
Risk rating 7 - substandard	6,156	1,887	-	80	-	8,123
TOTALS	$ 137,684	$ 159,646	$ 80,049	$ 45,880	$ 78,912	$ 502,171

Retail loan portfolio: Credit risk profiles based on delinquency status classification	Consumer	Single family residential**	Other retail	Retail loan totals
	(dollars in thousands)			
Performing - risk ratings 1 - 6	$ 8,023	$ 280,108	$ 29,881	$ 318,012
Risk rated 7*	21	1,291	72	1,384
TOTALS	$ 8,044	$ 281,399	$ 29,953	$ 319,396

*Loans are classified as nonperforming loans and are automatically placed on nonaccrual status once they reach 90 days past due. For the purposes of this table, the total includes all risk rated 7 loans, of which may be performing or non-performing.

**Single family residential loans includes first mortgages, closed-end second mortgages, residential construction loans, and home equity lines of credit ("HELOCs").

NOTE 4 – LOANS, (CONTINUED)

December 31, 2015 Commercial loan portfolio: Credit risk profile by internally assigned grade	Commercial and industrial	Non-farm, non-residential real estate	Construction and development	Commercial loans secured by real estate	Other commercial	Commercial loan totals
			(dollars in thousands)			
Risk rating 1 - minimal risk	$ 1,263	$ 312	$ -	$ 103	$ 77	$ 1,755
Risk rating 2 - modest risk	5,633	295	-	-	49,017	54,945
Risk rating 3 - average risk	54,952	43,253	9,328	2,529	6,004	116,066
Risk rating 4 - acceptable risk	60,922	105,014	40,604	24,895	5,066	236,501
Risk rating 5 - pass/watch	4,793	11,532	1,398	471	-	18,194
Risk rating 6 - special mention	-	108	-	-	161	269
Risk rating 7 - substandard	336	495	-	93	-	924
TOTALS	$ 127,899	$ 161,009	$ 51,330	$ 28,091	$ 60,325	$ 428,654

Retail loan portfolio: Credit risk profiles based on delinquency status classification	Consumer	Single family residential**	Other retail	Retail loan totals
		(dollars in thousands)		
Risk ratings 1 - 6	$ 9,896	$ 258,216	$ 32,388	$ 300,500
Nonperforming - risk rating 7*	18	2,038	56	2,112
TOTALS	$ 9,914	$ 260,254	$ 32,444	$ 302,612

*Loans are classified as nonperforming loans and are automatically placed on nonaccrual status once they reach 90 days past due. For the purposes of this table, the total includes all risk rated 7 loans, of which may be performing or non-performing.

**Single family residential loans includes first mortgages, closed-end second mortgages, residential construction loans, and HELOCs.

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES

The allowance for loan and lease losses ("ALLL") is a reserve established through a provision for possible loan and lease losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's allowance for possible loan and lease loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies." Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for possible loan losses is designed to account for credit deterioration as it occurs. The provision for loan and lease losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, potential problem loans, criticized loans, and net charge-offs or recoveries, among other factors. The provision for loan and lease losses also reflects the totality of actions taken on all loans for a particular period. In other words, the amount of the provision reflects not only the necessary increases in the allowance for possible loan losses related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of three elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Commercial loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the obligor's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the relationship manager level for all commercial loans. When a loan has a calculated grade of seven or higher, a special assets officer analyzes the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for possible loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things.

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans and the internal risk grade of such loans at the time they were charged-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are periodically updated based on actual charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial and industrial loans, commercial real estate loans, consumer real estate loans, and consumer and other loans.

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES, (CONTINUED)

The components of the general valuation allowance include: (i) the additional reserves allocated to specific loan portfolio segments as a result of applying an environmental risk adjustment factor to the base historical loss allocation and (ii) the additional reserves that are not allocated to specific loan portfolio segments including allocations for groups of similar loans with risk characteristics that exceed certain concentration limits established by management.

Included in the general valuation allowances are allocations for groups of similar loans with risk characteristics that exceed certain concentration limits established by management. Concentration risk limits have been established, among other things, for certain industry concentrations, large balance and highly leveraged credit relationships that exceed specified risk grades, and loans originated with policy exceptions that exceed specified risk grades.

The allowance for loan and lease losses is maintained at a level considered adequate to provide for the losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, know and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to change. The Company uses a rolling eighteen quarters historic loss period for all segments when estimating the historic charge-off rates calculated in accordance with ASC Topic 450.

General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Company. In general, such valuation allowances are determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Bank's lending management and staff; (ii) the effectiveness of the Company's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in loan portfolio growth rate; (v) the composition and concentrations of credit; (vi) the impact of competition on loan structuring and pricing; (vii) the effectiveness of the internal loan review function; (viii) the impact of environmental risks on portfolio risks; and (ix) the impact of changes to interest rates on portfolio risk. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, moderate, or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance.

Included in the general valuation allowances are allocations for groups of similar loans with risk characteristics that exceed certain concentration limits established by management. Concentration risk limits have been established, among other things, for certain industry concentrations, large balance and highly leveraged credit relationships that exceed specified risk grades, and loans originated with policy exceptions that exceed specified risk grades.

Loans identified as losses by management and internal loan review are charged off. Furthermore, consumer loan accounts are charged off automatically based on regulatory requirements.

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES, (CONTINUED)

The following tables summarize the allocation in the ALLL by loan segment:

December 31, 2016	Beginning balance	Charge-offs	Recoveries	Provision	Ending balance
Commercial					
Commercial and industrial	$ 2,140	$ (22)	$ 71	$ 113	$ 2,302
Non-farm, non-residential real estate	1,836	-	-	(12)	1,824
Construction and development	975	-	-	275	1,250
Commercial loans secured by real estate	1,011	-	-	168	1,179
Other commercial	736	-	3	178	917
Total commercial	6,698	(22)	74	722	7,472
Retail					
Consumer loans	243	(161)	4	(60)	26
Single family residential	730	(29)	6	202	909
Other retail	963	(2)	4	(24)	941
Total retail	1,936	(192)	14	118	1,876
Total	$ 8,634	$ (214)	$ 88	$ 840	$ 9,348

December 31, 2015	Beginning balance	Charge-offs	Recoveries	Provision	Ending balance
Commercial					
Commercial and industrial	$ 1,608	$ -	$ 521	$ 11	$ 2,140
Non-farm, non-residential real estate	1,757	-	80	(1)	1,836
Construction and development	975	-	-	-	975
Commercial loans secured by real estate	932	-	79	-	1,011
Other commercial	728	-	3	5	736
Total commercial	6,000	-	683	15	6,698
Retail					
Consumer loans	237	(11)	17	-	243
Single family residential	738	(36)	14	14	730
Other retail	959	-	3	1	963
Total retail	1,934	(47)	34	15	1,936
Total	$ 7,934	$ (47)	$ 717	$ 30	$ 8,634

December 31, 2014	Beginning balance	Charge-offs	Recoveries	Provision	Ending balance
Commercial					
Commercial and industrial	$ 1,883	$ (363)	$ 88	$ -	$ 1,608
Non-farm, non-residential real estate	1,757	-	-	-	1,757
Construction and development	968	-	7	-	975
Commercial loans secured by real estate	1,306	(376)	2	-	932
Other commercial	726	-	2	-	728
Total commercial	6,640	(739)	99	-	6,000
Retail					
Consumer loans	269	(11)	21	-	237
Single family residential	769	(41)	10	-	738
Other retail	959	-	-	-	959
Total retail	1,997	(52)	31	-	1,934
Total	$ 8,637	$ (791)	$ 130	-	$ 7,934

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES, (CONTINUED)

The following tables detail the amount of the ALLL allocated to each portfolio segment as of December 31, 2016, 2015 and 2014, disaggregated on the basis of the Company's impairment methodology:

December 31, 2016	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Ending balance
Commercial			
Commercial and industrial	$ 48	$ 2,254	$ 2,302
Non-farm, non-residential real estate	1	1,823	1,824
Construction and development	-	1,250	1,250
Commercial loans secured by real estate	26	1,153	1,179
Other commercial	-	917	917
Total commercial	75	7,397	7,472
Retail			
Consumer loans	-	26	26
Single family residential	58	851	909
Other retail	-	941	941
Total retail	58	1,818	1,876
Total	$ 133	$ 9,215	$ 9,348

December 31, 2015	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Ending balance
Commercial			
Commercial and industrial	$ 28	$ 2,112	$ 2,140
Non-farm, non-residential real estate	-	1,836	1,836
Construction and development	-	975	975
Commercial loans secured by real estate	29	982	1,011
Other commercial	-	736	736
Total commercial	57	6,641	6,698
Retail			
Consumer loans	-	243	243
Single family residential	102	628	730
Other retail	-	963	963
Total retail	102	1,834	1,936
Total	$ 159	$ 8,475	$ 8,634

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES, (CONTINUED)

December 31, 2014	**Loans individually evaluated for impairment**	**Loans collectively evaluated for impairment**	**Ending balance**
Commercial			
Commercial and industrial	$ 9	$ 1,599	$ 1,608
Non-farm, non-residential real estate	-	1,756	1,757
Construction and development	-	975	975
Commercial loans secured by real estate	33	899	932
Other commercial	-	733	728
Total commercial	42	5,958	6,000
Retail			
Consumer loans	-	237	237
Single family residential	10	728	738
Other retail	-	960	959
Total retail	10	1,924	1,934
Total	$ 52	$ 7,882	$ 7,934

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES, (CONTINUED)

The following tables show loans as of December 31, 2016, 2015 and 2014 related to each balance in the allowance for possible loan and lease losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology:

December 31, 2016	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Ending balance
Commercial			
Commercial and industrial	$ 259	$ 137,425	$ 137,684
Non-farm, non-residential real estate	1,969	157,677	159,646
Construction and development	-	80,049	80,049
Commercial loans secured by real estate	154	45,726	45,880
Other commercial	-	78,912	78,912
Total commercial	2,382	499,789	502,171
Retail			
Consumer loans	21	8,023	8,044
Single family residential	1,291	280,108	281,399
Other retail	72	29,881	29,953
Total retail	1,384	318,012	319,396
Total	$ 3,766	$ 817,801	$ 821,567

December 31, 2015	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Ending balance
Commercial			
Commercial and industrial	$ 322	$ 127,577	$ 127,899
Non-farm, non-residential real estate	401	160,608	161,009
Construction and development	-	51,330	51,330
Commercial loans secured by real estate	163	27,928	28,091
Other commercial	-	60,325	60,325
Total commercial	886	427,768	428,654
Retail			
Consumer loans	-	9,914	9,914
Single family residential	1,340	258,914	260,254
Other retail	74	32,370	32,444
Total retail	1,414	301,198	302,612
Total	$ 2,300	$ 728,966	$ 731,266

NOTE 5 – ALLOWANCE FOR LOAN AND LEASE LOSSES, (CONTINUED)

December 31, 2014	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Ending balance
Commercial			
Commercial and industrial	$ 2,951	$ 96,837	$ 99,788
Non-farm, non-residential real estate	3,241	160,220	163,461
Construction and development	-	50,424	50,424
Commercial loans secured by real estate	730	27,207	27,937
Other commercial	1,092	40,093	41,185
Total commercial	8,014	374,781	382,795
Retail			
Consumer loans	-	9,536	9,536
Single family residential	978	228,581	229,559
Other retail	411	29,751	30,162
Total retail	1,389	267,868	269,257
Total	$ 9,403	$ 642,649	$ 652,052

NOTE 6 – PREMISES AND EQUIPMENT

The following table presents the Company's assets by category:

	2016	2015
	(dollars in thousands)	
Land	$ 10,248	$ 9,296
Premises	24,296	22,951
Furniture and equipment	11,305	10,375
Leasehold improvements	1,846	1,846
Construction in progress	231	278
	47,926	44,746
Less accumulated depreciation	(20,332)	(19,228)
	$ 27,594	$ 25,518

NOTE 7 – RELATED PARTY TRANSACTIONS

Certain related parties (primarily directors and executive officers of the Company or the Bank, including their affiliates, families and companies in which they hold 10% or more ownership) were customers of, and had loans and other transactions with, the Bank in the ordinary course of business. An analysis of the activity with respect to such loans are shown in the table below. These totals exclude loans made in the ordinary course of business to other companies with which neither the Company nor the Bank had a relationship other than the association of one of its directors in the capacity of officer or director.

The Bank has granted loans to certain related parties including directors, executive officers, and their related interests. These loan transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans to persons not related to the Bank and did not involve more than the normal risk of collectability or present other unfavorable features. None of these loans to directors, executive officers, and their related interests are impaired at December 31, 2016 and 2015. Changes in related party loans for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(dollars in thousands)	
Related party extensions of credit, beginning of period	$ 4,260	$ 4,774
New loans	517	879
Repayments or reductions	(1,871)	(1,393)
Related party extension of credit, end of period	$ 2,906	$ 4,260

The aggregate balances of related party deposits at December 31, 2016 and 2015 were $33.4 million and $24.5 million, respectively.

The aggregate balances of related party repurchase agreements at December 31, 2016 and 2015 were $10.0 million and $13.8 million, respectively.

The Company and Bank utilize various services and purchased goods provided by certain related parties. Payments to directors for services provided during 2016, 2015, and 2014 totaled $235,000, $151,000, and $170,000, respectively.

NOTE 8 – LEASES

Real property for four of the Bank's office locations and certain equipment are leased under noncancelable operating leases expiring at various times through 2034. In most cases, the leases provide for one or more renewal options of five to ten years under the same or similar terms. In addition, various items of office equipment are leased under cancelable operating leases. Total rental expense incurred under all operating leases, including short-term leases with terms of less than one month, amounted to approximately $26,000, $30,000, and $27,000 for equipment leases and approximately $417,000, $380,000, and $304,000 for building leases in 2016, 2015 and 2014, respectively. Future minimum lease commitments as of December 31, 2016 under all noncancelable operating leases with initial terms of one year or more are shown in the following table:

Year	Lease payments
(dollars in thousands)	
2017	$ 565
2018	554
2019	558
2020	558
2021	558
Thereafter	2,892
Total	$ 5,685

NOTE 9 – FEDERAL AND STATE INCOME TAXES

The following table presents components of income tax expense attributable to continuing operations:

	2016	2015	2014
Current	$ 3,826	$ 2,735	$ 3,011
Deferred	(525)	614	545
Total provision for income taxes	3,301	$ 3,349	$ 3,556

Deferred tax effects of principal temporary differences	2016	2015	2014
Allowance for possible loan and lease losses	$ 3,579	$ 3,324	$ 3,055
Deferred compensation	2,587	2,563	2,557
Write down of other real estate	-	-	9
Amortization of intangibles	(3,067)	(2,976)	(2,686)
Recognition of nonaccrual loan income	64	119	129
Unrealized losses on available-for-sale securities	2,145	1,644	2,124
Post-retirement benefit obligation	826	841	986
Accelerated depreciation	(590)	(691)	(973)
Prepaid expenses	(86)	(135)	(135)
Other	(306)	(733)	31
Net deferred tax asset	$ 5,152	$ 3,956	$ 5,097

Reconciliation of total income taxes reported with the amount of income taxes computed at the federal statutory rate (34% each year):

	2016	2015	2014
Tax expense at statutory rate	$ 4,628	$ 4,643	$ 4,692
Increase (decrease) in taxes resulting from:			
Tax-exempt interest	(1,298)	(1,226)	(1,060)
Nondeductible interest expense	19	19	14
Employee benefits	(192)	(80)	(128)
Other nondeductible expenses (nontaxable income) - net	76	28	38
State income taxes net of federal tax benefit	-	106	-
Other	68	(141)	-
Total provision for income taxes	$ 3,301	$ 3,349	$ 3,556
Effective tax rate	24.3%	24.4%	25.8%

NOTE 9 – FEDERAL AND STATE INCOME TAXES, (CONTINUED)

The Company and its subsidiaries file consolidated income tax returns with the Internal Revenue Service and State of Tennessee. The Company is not subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2013. There was not a valuation allowance for deferred tax assets at December 31, 2016 and 2015.

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more-likely-than-not the Company will realize the benefits of these deductible differences as of December 31, 2016 and 2015.

NOTE 10 – BORROWED FUNDS

The Bank is a party to the Blanket Agreement for Advances and Security Agreement (the “Blanket Agreement”) with the Federal Home Loan Bank of Cincinnati (the “FHLB”). Advances made to the Bank under the Blanket Agreement are collateralized by the FHLB stock and qualifying residential mortgage loans totaling 150% of the outstanding amount borrowed. These collateralization matters are outlined in the Blanket Agreement dated June 20, 2006 between the Bank and the FHLB. As of December 31, 2016, there was an outstanding overnight advance of $15 million. There were no outstanding advances at December 31, 2015.

Stock held in the FHLB totaling $3.0 million at December 31, 2016 and 2015 is carried at cost. The stock is restricted and can only be sold back to the FHLB at par.

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as secured borrowings and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. As a result, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of offset for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third party financial institution in the counterparty's custodial account. The Company has the right to sell or repledge the investment securities. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained, while mitigating the potential risk of over-collateralization in the event of counterparty default.

NOTE 10 – BORROWED FUNDS, (CONTINUED)

The following table presents the remaining contractual maturities of the Company's repurchase agreements as of December 31, 2016 and 2015, disaggregated by the class of collateral pledged.

December 31, 2016	**Overnight and Continuous**
	(dollars in thousands)
Class of collateral pledged:	
U.S. government agencies	$ 27,578

December 31, 2015	**Overnight and Continuous**
	(dollars in thousands)
Class of collateral pledged:	
U.S. government agencies	$ 24,177

Securities sold under agreements to repurchase consist of obligations of the Bank to other parties. The obligations are secured by investment securities and such collateral is held in safekeeping by a third party. The maximum amount of outstanding agreements at any month end during 2016 and 2015 totaled $29.5 million and $26.4 million, respectively, and the monthly average of such agreements totaled $26.1 million and $25.1 million for 2016 and 2015, respectively. The agreements at December 31, 2016, mature January 3, 2017.

NOTE 11 – SIGNIFICANT ESTIMATES, COMMITMENTS, AND CONTINGENCIES

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the ALLL are reflected in the Note 5 – Allowance for Loan and Lease Losses. Other significant estimates and concentrations not discussed in those footnotes include:

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations, and cash flows of the Company.

Pension and Other Post-Retirement Benefit Obligations

The Company has a noncontributory defined benefit post-retirement health care plan whereby it agrees to provide certain post-retirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Self-Insurance Reserves

The Company is self-insured for its employees' health benefit programs, which include medical, dental, and prescription drug benefits. The costs of the Company's employee health insurance benefits, including paid claims, an estimate of incurred but not reported ("IBNR") claims, stop loss premiums and administrative fees are included in salaries and employee benefits on the consolidated statements of income.

The accrual for employee health insurance benefits is based on analysis performed internally by management. The Company regularly analyzes the liability for incurred but not reported claims and believes our reserves are adequate. However, significant judgement is involved in assessing these reserves, such as assessing historical claims paid, average lag times between claims incurred dates, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustment is included in expense once a probable amount is known. Any significant increase in the number of employee health insurance claims or costs of those claims above our recorded reserve could have a material impact to our financial results.

Current Economic Conditions

The current economic climate continues to present financial institutions with circumstances and challenges which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including volatility in the valuation of real estate and other collateral supporting loans.

The accompanying financial statements have been prepared using values and information currently available to the Company.

Given the potential for volatility of economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the ALLL and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company's regulators could require material adjustments to asset values or the allowance for loan and lease losses for regulatory capital purposes that could affect the Company's measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action.

NOTE 11 – SIGNIFICANT ESTIMATES, COMMITMENTS, AND CONTINGENCIES, (CONTINUED)

Commitments and Credit Risk

The Company grants commercial, consumer, and residential loans to customers throughout the State of Tennessee. The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 30 to 90 days, and which are intended for sale to investors in the secondary market. Total mortgage loans in process of origination were $1.7 million and $1.1 million, at December 31, 2016 and 2015, respectively. Total mortgage loans held-for-sale amounted to $218,000 and $0, at December 31, 2016 and 2015, respectively.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to $14.2 million and $12.3 million, at December 31, 2016 and 2015, respectively, with terms ranging from seven days to 24 months.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2016, the Company had granted unused lines of credit to borrowers for commercial lines and open-end consumer lines aggregating $49.8 million and $143.5 million, respectively. At December 31, 2015, unused lines of credit to borrowers for commercial lines and open-end consumer lines aggregated $44.6 million and $159.5 million, respectively.

NOTE 12 – FAIR VALUE MEASUREMENT

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. Fair value measurement must maximize the use of observable inputs and minimize the use of unobservable inputs. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820, "Fair Value Measurements and Disclosures" establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities.

- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, market consensus, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's monthly and/or quarterly valuation process. There were no transfers between levels during 2016 or 2015.

Recurring Measurements

The following table summarizes financial assets measured at fair value on a recurring basis by the level within the fair value hierarchy utilized to measure fair value:

	Recurring fair value measurements at December 31, 2016			
	Total carrying value	**Level 1**	**Level 2**	**Level 3**
		(dollars in thousands)		
Assets				
Available-for-sale investment securities:				
U.S. government sponsored agencies	$ 86,635	$ -	$ 86,635	$ -
U.S. government sponsored agency mortgage backed securities	210,647	-	210,647	-
State and political subdivision	71,371	-	71,371	-
Corporate bonds	23,930	-	23,930	-
Total assets at fair value	$ 392,583	$ -	$ 392,583	$ -

NOTE 12 – FAIR VALUE MEASUREMENT, (CONTINUED)

	Recurring fair value measurements at December 31, 2015			
	Total carrying value	Level 1	Level 2	Level 3
	(dollars in thousands)			
Assets				
Available-for-sale investment securities:				
U.S. government sponsored agencies	$ 131,057	$ -	$ 131,057	$ -
U.S. government sponsored agency mortgage backed securities	167,067	-	167,067	-
State and political subdivision	73,319	-	73,319	-
Corporate bonds	23,576	-	23,576	-
Total assets at fair value	$ 395,019	$ -	$ 395,019	$ -

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service, such as Interactive Data Corporation, which utilizes pricing models to determine fair value measurement. The Company reviews the pricing quarterly to verify the reasonableness of the pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other factors. U.S. government agencies, state and political subdivisions, U.S. government sponsored agency mortgage-backed securities and corporate bonds are classified as Level 2 inputs.

Nonrecurring Measurements

The following table summarizes financial assets measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015, by the level within the fair value hierarchy utilized to measure fair value:

December 31, 2016	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans (collateral-dependent)	$ -	$ -	$ 2,670	$ 2,670

December 31, 2015	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans (collateral-dependent)	$ -	$ -	$ 1,260	$ 1,260
Other real estate owned	$ -	$ -	$ 62	$ 62

NOTE 12 – FAIR VALUE MEASUREMENT, (CONTINUED)

Impaired Loans (Collateral-Dependent)

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Chief Credit Officer. Appraisals are reviewed for accuracy and consistency by the Chief Credit Officer. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Chief Credit Officer by comparison to historical results. Fair value adjustments were $130,000 at December 31, 2016 and $178,000 at December 31, 2015.

Loans considered impaired under ASC 310-35, “Impairment of a Loan,” are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) subsequent partial write-downs that are based on the observable market price or current appraised value of the collateral or (2) the full charge-off of the loan carrying value.

Other Real Estate Owned

Other real estate owned (“OREO”) is initially recorded at fair value at the time of acquisition, as determined by independent appraisal or evaluation by the Company, less costs to sell when the real estate is acquired in settlement of loans. Quarterly evaluations of OREO are performed to determine if there have been any subsequent decline in the value of OREO properties. OREO is classified within Level 3 of the fair value hierarchy. OREO assets are subject to nonrecurring fair value adjustments to reflect subsequent partial write-downs that are based on the observable market price or current appraised value of the collateral less selling costs. There were no fair value adjustments at December 31, 2016. Fair value adjustments were approximately $12,000 in the aggregate at December 31, 2015.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by the Chief Credit Officer. Appraisals are required annually and reviewed for accuracy and consistency by the Chief Credit Officer. The appraised values are reduced by discounts to consider lack of marketability and estimated costs to sell. Appraisers are selected from the list of approved appraisers maintained by management.

NOTE 12 – FAIR VALUE MEASUREMENT, (CONTINUED)

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements:

	Quantitative information about Level 3 fair value measurements			
December 31, 2016	**Fair value**	**Valuation technique(s)**	**Unobservable input**	**Range (weighted average)**
	(dollars in thousands)			
Impaired loans (collateral-dependent)	$ 2,670	Market comparable properties	Marketability discount	26.0% - 55.0% (36.0%)

	Quantitative Information about Level 3 fair value measurements			
December 31, 2015	**Fair value**	**Valuation technique(s)**	**Unobservable input**	**Range (weighted average)**
	(dollars in thousands)			
Impaired loans (collateral-dependent)	$ 515	Market comparable properties	Marketability discount	25.0% - 46.0% (41.0%)
Other real estate owned	$ 62	Current appraised value	Market price of comparable properties	13.0%

ASC Topic 825, "Financial Instruments," requires disclosure of the fair value of financial assets and liabilities, including those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and due from banks – The carrying amount approximates fair value.

Interest bearing deposits in other banks – The carrying amount approximates fair value.

Federal funds sold – The carrying amount approximates fair value.

Securities held-to-maturity – Fair values are based on quoted market prices, if available. If a quoted price is not available, fair value is estimated using quoted prices for similar securities. The fair value estimate is provided to management from a third party using modeling assumptions specific to each type of security that are reviewed and approved by management. Quarterly sampling of fair values provided by additional third parties supplement the fair value review process.

Loans held-for-sale – The fair value is predetermined at origination based on sale price.

Loans (net of the allowance for loan and lease losses) – The fair value of fixed rate loans and variable rate mortgage loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For other variable rate loans, the carrying amount approximates fair value.

NOTE 12 – FAIR VALUE MEASUREMENT, (CONTINUED)

FHLB stock – The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Federal Reserve Bank stock – The carrying value of Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Reserve Bank.

Accrued interest receivable – The carrying amount approximates fair value.

Deposits – The fair value of fixed maturity time deposits is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. For deposits including demand deposits, savings accounts, NOW accounts, and certain money market accounts, the carrying value approximates fair value.

Repurchase agreements – The fair value is estimated by discounting future cash flows using current rates.

Accrued interest payable – The carrying amount approximates fair value.

Federal Funds Purchased and other borrowings – For federal funds purchased and overnight borrowings from the FHLB, the carrying amount approximates fair value, as these borrowings are settled on a short-term basis (typically daily).

Commitments to extend credit and letters of credit – The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair values of these commitments are not material.

NOTE 12 – FAIR VALUE MEASUREMENT, (CONTINUED)

The following tables present the assets and liabilities that are measured at fair value on a non-recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial position:

Fair value measurements at December 31, 2016 using

	Carrying amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(dollars in thousands)			
Financial assets				
Cash and due from banks	$ 22,703	$ 22,703	$ -	$ -
Interest-bearing deposits in other banks	9,214	9,214	-	-
Federal funds sold	1,165	1,165	-	-
Federal Home Loan Bank and Federal Reserve Bank stock	3,879	-	3,879	-
Securities available-for-sale	392,583	-	392,583	-
Securities held-to-maturity	19,036	-	18,057	-
Loans held-for-sale	218	-	218	-
Loans, net	812,219	-	-	819,413
Accrued interest receivable	4,625	-	4,625	-
Financial liabilities				
Non-interest bearing deposits	255,964	255,964	-	-
Interest-bearing deposits	907,859	-	1,006,964	-
Repurchase agreements	27,578	-	27,578	-
Accrued interest payable	567	-	567	-
FHLB borrowings	15,000	-	15,000	-
Off-balance sheet credit related instruments:				
Commitments to extend credit and letters of credit	-	-	-	-

NOTE 12 – FAIR VALUE MEASUREMENT, (CONTINUED)

Fair value measurements at December 31, 2015 using

	Carrying amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(dollars in thousands)		
Financial assets				
Cash and due from banks	$ 19,453	$ 19,453	$ -	$ -
Interest-bearing deposits in other banks	18,299	18,299	-	-
Federal funds sold	24,476	24,476	-	-
Federal Home Loan Bank and Federal Reserve Bank stock	3,879	-	3,879	-
Securities available-for-sale	395,019	-	395,019	-
Securities held-to-maturity	4,059	-	4,089	-
Loans, net	722,632	-	-	718,956
Accrued interest receivable	4,540	-	4,540	-
Financial liabilities				
Non-interest bearing deposits	239,226	239,226	-	-
Interest-bearing deposits	864,575	-	864,036	-
Repurchase agreements	24,177	-	24,177	-
Accrued interest payable	503	-	503	-
Off-balance sheet credit related instruments:				
Commitments to extend credit and letters of credit	-	-	-	-

NOTE 13 – QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following tables present unaudited quarterly interim financial information for the Company for the periods presented:

	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	Total
			(dollars in thousands)		
Interest income	$ 9,665	$ 9,683	$ 10,045	$ 10,122	$ 39,515
Interest expense	558	605	642	672	2,477
Net interest income	9,107	9,078	9,403	9,450	37,038
Provision for loan and lease losses	75	380	385	-	840
Non-interest income	2,626	2,918	3,077	2,864	11,485
Non-interest expenses	8,227	8,254	8,570	9,021	34,072
Income before income taxes	3,431	3,362	3,525	3,293	13,611
Income taxes	842	815	912	732	3,301
Net income	$ 2,589	$ 2,547	$ 2,613	$ 2,561	$ 10,310
Basic earnings per share	$ 0.55	$ 0.55	$ 0.57	$ 0.56	$ 2.22
Weighted average shares outstanding	4,739,502	4,658,005	4,584,146	4,556,029	4,634,171

	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	Total
			(dollars in thousands)		
Interest income	$ 9,303	$ 9,720	$ 9,817	$ 9,842	$ 38,682
Interest expense	565	556	556	548	2,225
Net interest income	8,738	9,164	9,261	9,294	36,457
Provision for loan and lease losses	-	-	-	30	30
Non-interest income	2,885	2,774	2,907	2,877	11,443
Non-interest expenses	8,030	8,559	8,524	9,102	34,215
Income before income taxes	3,593	3,379	3,644	3,039	13,655
Income taxes	976	677	925	771	3,349
Net income	$ 2,617	$ 2,702	$ 2,719	$ 2,268	$ 10,306
Basic earnings per share	$ 0.53	$ 0.56	$ 0.57	$ 0.48	$ 2.13
Weighted average shares outstanding	4,897,245	4,853,265	4,808,352	4,771,648	4,832,217

NOTE 14 – DEPOSITS

The Bank does not have any foreign offices and all deposits are serviced in its 20 domestic offices. Maturities of time deposits of $250,000 or more at December 31, 2016 and 2015 are as follows:

	2016	2015
	(dollars in thousands)	
Under 3 months	$ 6,956	$ 11,774
3 to 12 months	26,735	36,427
Over 12 months	6,478	7,122
Total	$ 40,169	$ 55,323

At December 31, 2016 and 2015, the Bank had $78,000 and $223,000, respectively, of deposit accounts in overdraft status and thus have been reclassified to loans in the accompanying consolidated balance sheets.

The following table presents maturities of interest-bearing time deposits as of December 31, 2016:

	(dollars in thousands)
2017	$ 155,816
2018	12,839
2019	6,606
2020	6,765
2021	11,355
Thereafter	31
Total	$ 193,412

NOTE 15 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

The following tables present the condensed balance sheets, statements of income, comprehensive income (loss), and cash flows of the Parent Company:

CONDENSED BALANCE SHEETS

	As of December 31,	
	2016	2015
	(dollars in thousands)	
Cash	$ 563	$ 310
Investment in bank subsidiary	114,036	114,655
Investment in credit life insurance company	54	54
Investment in other securities	17	17
Dividends receivable from bank subsidiary	863	1,754
Cash surrender value - life insurance	4,903	4,546
Total assets	$ 120,436	$ 121,336
Liabilities		
Accrued liabilities	$ 1,963	$ 1,887
Dividends payable	863	1,754
Total liabilities	2,826	3,641
Shareholders' equity		
Common stock - $10 par value, 8,000,000 shares authorized; 4,542,303 and 4,739,502 shares issued and outstanding as of the periods presented	45,423	47,395
Retained earnings	74,357	71,583
Accumulated other comprehensive loss	(2,170)	(1,283)
Total shareholders' equity	117,610	117,695
Total liabilities and shareholders' equity	$ 120,436	$ 121,336

NOTE 15 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY, (CONTINUED)

CONDENSED STATEMENTS OF INCOME

	Years ended December 31,		
	2016	2015	2014
		(dollars in thousands)	
Operating income			
Dividends from bank subsidiary	$ 11,178	$ 8,002	$ 7,038
Other dividend income	5	-	8
Other	77	72	65
Operating expenses	(1,092)	(292)	(263)
Income before equity in undistributed net income of bank subsidiary	10,168	7,782	6,848
Equity in undistributed net income of bank subsidiary	158	2,540	3,410
Net income	$ 10,326	$ 10,322	$ 10,258
Noncontrolling interest – dividends on preferred stock	(16)	(16)	(16)
Net income available to common shareholders	$ 10,310	$ 10,306	$ 10,242

NOTE 15 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY, (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2016	2015	2014
		(dollars in thousands)	
Operating activities			
Net income	$ 10,326	$ 10,322	$ 10,258
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed net income of bank subsidiary	(158)	(2,540)	(3,410)
Increase in cash surrender value of life insurance contracts	(357)	(72)	(65)
Decrease in other assets	892	59	245
(Decrease) increase in payables	(36)	288	18
Total adjustments	341	(2,265)	(3,212)
Net cash provided by operating activities	10,667	8,057	7,046
Financing activities			
Payment to repurchase common stock	(6,082)	(4,408)	(3,097)
Common stock dividends paid	(4,316)	(3,594)	(3,685)
Preferred stock of subsidiary dividends paid	(16)	(16)	(16)
Net cash used by financing activities	(10,414)	(8,018)	(6,798)
Increase in cash	253	39	248
Cash at beginning of year	310	271	23
Cash at end of year	$ 563	$ 310	$ 271

NOTE 16 – EMPLOYEE BENEFIT PLANS

The Bank contributes to a qualified profit-sharing plan covering employees who meet participation requirements. To be eligible to participate, employees must complete 1,000 hours of service within the twelve-month time period following their date of hire. Employees must be age 20 or older. The amount of the contribution is at the discretion of the Bank's Board of Directors, up to the maximum deduction allowed for federal income tax purposes. Contributions to the plan, which amounted to $791,000, $885,000, and $1.0 million in 2016, 2015 and 2014, respectively, are included in salaries and employee benefits expense.

On November 15, 2016, the Bank formalized a supplemental executive retirement plan ("SERP") for a key officer. The principal cost of this agreement is accrued over the anticipated remaining period of active employment, based on the present value of the expected retirement benefit. As of December 31, 2016, the related liability of approximately $33,000 was included in other liabilities as of December 31, 2016.

The Company and Bank implemented a deferred compensation plan that permits directors to defer their director's fees and earn interest on the deferred amount in the amount of the wall street journal prime rate plus three percent. The agreements provide for a lump sum payment or 120 monthly payments of deferred fees plus accrued interest after retirement, separation from service, or death. The liability accrued for this plan totaled $6.7 million at December 31, 2016 and 2015. The charge to expense for the agreements was $737,000, $738,000, and $715,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 17 – POST-RETIREMENT BENEFIT PLAN

Effective July 1, 2013, the Company revised its retiree medical benefit plan for employees who were hired before March 27, 2007. Newly retiring employees will no longer be offered medical, dental or life insurance coverage. Instead, qualified retirees will receive a post-retirement bonus. The Company will pay a post-retirement bonus equal to $20,000 to employees who: (i) were hired prior to March 20, 2007; (ii) retire on or after July 1, 2013; (iii) are at least age 59 ½ at the time of retirement; and (iv) have at least 25 years of service to the Company as of retirement. The bonus will be paid in a lump sum cash payment (subject to applicable tax withholding requirements) within 60 days after the employee's retirement, provided such retirement constitutes a "separation from service" under section 409A of the Internal Revenue Code. The Company still sponsors a defined benefit post-retirement health care plan for retirees who retired prior to July 1, 2007. Under this plan, premiums paid by retirees and spouses depend on date of retirement, age and coverage election.

The Company funding policy is to make the minimal annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute $159,000 to the plan in 2017.

The following table provides further information about the plan:

	Post-retirement benefits	
	2016	**2015**
	(dollars in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,241	$ 2,560
Service cost	38	36
Interest cost	92	105
Expected benefits paid	(161)	(174)
Actuarial gain	(40)	(286)
Benefit obligation at end of year	$ 2,170	$ 2,241
Change in fair value of assets		
Fair value of plans assets at beginning of year	$ -	$ -
Employer contribution	161	174
Benefits paid	(161)	(174)
Fair value of plan assets at end of year	$ -	$ -
Reconciliation of funded status to benefit costs recognized		
Projected benefit obligation, end of year	$ (2,170)	$ (2,241)
Fair value of assets, end of year	-	-
Funded status, end of year	$ (2,170)	$ (2,241)

NOTE 17 – POST-RETIREMENT BENEFIT PLAN, (CONTINUED)

Amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	2016	2015
	(dollars in thousands)	
Unrecognized net actuarial gain	$ (2,008)	$ (2,142)
Unrecognized prior service cost	(36)	(41)
	$ (2,044)	$ (2,183)

Amounts recognized in statement of financial position are as follows:

	2016	2015
	(dollars in thousands)	
Accounts payable and accrued liabilities	$ 2,170	$ 2,241

A reconciliation of other comprehensive income (loss) is as follows:

	Post-retirement benefits		
	2016	2015	2014
		(dollars in thousands)	
Accumulated other comprehensive income (loss) beginning of year	$ (2,183)	$ (2,062)	$ (2,542)
Amortization of net actuarial gain	174	160	188
(Gain) loss incurred in current year	(40)	(286)	287
Prior service cost established in current year	5	5	5
Other comprehensive income (loss)	139	(121)	480
Ending balance (before tax effects)	$ (2,044)	$ (2,183)	$ (2,062)

	Post-retirement benefits		
	2016	2015	2014
Components of net periodic benefit cost		(dollars in thousands)	
Service cost	$ 38	$ 36	$ 34
Interest cost	92	105	111
Amortization of prior service cost	(5)	(5)	(5)
Recognized net actuarial gain	(174)	(160)	(188)
Net periodic benefit cost	$ (49)	$ (24)	$ (48)

The estimated net gain for the defined benefits post-retirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $179,000.

NOTE 17 – POST-RETIREMENT BENEFIT PLAN, (CONTINUED)

	Post-retirement benefits	
Weighted-average assumption used to determine benefit obligation:	**2016**	**2015**
Discount rate	3.75%	4.25%
Rate of compensation increase	NA	NA

	Post-retirement benefits	
Weighted-average assumptions used to determine benefit costs:	**2016**	**2015**
Discount rate	4.25%	4.25%

The following table gives the Health Care Cost Trend, which is applied to gross charges, net claims and retiree paid premiums to reflect the Company's past practice and stated ongoing intention to maintain relatively constant cost sharing between the Company and retirees:

Health care trend rate	**2016**	**2015**
Initial		
Pre-65	9%	9%
Post-65	8%	8%
Ultimate (pre and post-65)	5%	5%
Years to ultimate		
Pre-65	8	8
Post-65	6	6

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid, net of participant contributions:

FYE	**Company benefits** (dollars in thousands)
2017	$ 159
2018	153
2019	149
2020	149
2021	187
2022-2026	963
	$ 1,760

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-percentage-point increase	**1-percentage-point decrease**
	(dollars in thousands)	
Effect on total of service and interest cost	$ 11	$ (7)
Effect on post-retirement benefit obligation	198	(104)

NOTE 18 – REGULATORY CAPITAL

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific guidelines that involve quantitative measure of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

The minimum capital level requirements applicable to bank holding companies and banks are:

(1) a common equity Tier 1 capital ratio of 4.5%;
(2) a Tier 1 risk-based capital ratio of 6%;
(3) a total risk-based capital ratio of 8%; and
(4) a Tier 1 leverage ratio of 4% for all institutions.

The capital level requirements also establish a "capital conservation buffer" of 2.5% (to be phased in over three years) above the regulatory minimum risk-based capital ratios, and result in the following required minimum ratios once the capital conservation buffer is fully phased in:

(1) a common equity Tier 1 risk-based capital ratio of 7%;
(2) a Tier 1 risk-based capital ratio of 8.5%; and
(3) a total risk-based capital ratio of 10.5%.

As of January 1, 2016, compliance with the capital conservation buffer is determined by increasing the capital ratio minimum by 0.625% for the capital ratio with the least spread between regulatory minimum and calculated ratios. The buffer will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions. Management believes that, as of December 31, 2016, the Company and the Bank would meet all capital adequacy requirements on a fully implemented basis as if such requirements had been in effect.

To be considered well capitalized under applicable banking regulations, the Company and the Bank must maintain the following minimum capital ratios and not be subject to a written agreement, order or directive to maintain a higher capital level:

(1) a common equity Tier 1 capital ratio of 6.5%;
(2) a Tier 1 risk based capital ratio of 8%;
(3) a Total risk based capital ratio of 10%; and
(4) a Tier 1 leverage ratio of 5%.

Under capital level requirements, common equity Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions. Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Tier 2 capital generally consists of subordinated debt (including that portion of subordinated debentures associated with trust preferred securities in excess of the amount that is treated as Tier 1 capital), types of preferred stock that don't qualify as Tier 1 capital and a limited amount of loan loss reserves, subject to certain eligibility criteria.

NOTE 18 – REGULATORY CAPITAL, (CONTINUED)

The current capital level requirements allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. Both the Company and the Bank have opted out of this requirement.

Actual capital amounts and ratios are presented in the table below. Management believes, as of December 31, 2016, that the Company and the Bank met the guidelines to which they were subject.

(Dollars in thousands)	Actual		Minimum capital requirement		Minimum to be well capitalized	
As of December 31, 2016	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Common equity Tier 1 (to Risk weighted assets) Consolidated	$ 110,762	12.5 %	$ 39,966	4.5 %	$ -	-
Bank	107,187	12.1 %	39,742	4.5 %	57,405	6.5%
Total capital (to Risk weighted Assets) Consolidated	120,110	13.5 %	71,050	8.0 %	-	-
Bank	116,535	13.2 %	70,652	8.0 %	88,315	10.0%
Tier 1 capital (to Risk weighted assets) Consolidated	110,762	12.5 %	53,287	6.0 %	-	-
Bank	107,187	12.1 %	52,989	6.0 %	70,652	8.0%
Tier 1 capital (to average assets) Consolidated	110,762	8.4 %	52,708	4.0 %	-	-
Bank	107,187	8.2 %	52,513	4.0 %	65,641	5.0%
As of December 31, 2015						
Common equity Tier 1 (to Risk weighted assets) Consolidated	$ 109,960	13.3 %	$ 37,256	4.5 %	$ -	-
Bank	106,918	12.9 %	37,177	4.5 %	53,699	6.5%
Total capital (to Risk weighted assets) Consolidated	118,594	14.3%	66,234	8.0%	-	-
Bank	115,522	14.0%	66,092	8.0%	82,615	10.0%
Tier 1 Capital (to Risk weighted assets) Consolidated	109,960	13.3 %	49,675	6.0 %	-	-
Bank	106,918	12.9 %	49,569	6.0 %	66,092	8.0%
Tier 1 Capital (to average assets) Consolidated	109,960	8.9 %	49,599	4.0 %	-	-
Bank	106,918	8.7 %	49,420	4.0 %	61,775	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2016, approximately $6,109 of retained earnings were available for dividend declaration without prior approval.

NOTE 19 – SUBSEQUENT EVENTS

FASB ASC Topic 855, "Subsequent Events", established general standards of accounting for a disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company evaluated all events or transactions that occurred after December 31, 2016, through March 8, 2017. During this period there were no material recognizable subsequent events that required recognition or disclosures in the December 31, 2016 financial statements.