FARMERS CAPITAL BANK CORP
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 OR 15(d) of

The Securities Exchange Act of 1934

For the quarterly period ended September 30, 2016

Farmers Capital Bank Corporation
(Exact name of registrant as specified in its charter)

Kentucky	000-14412	61-1017851
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

P.O. Box 309	
202 West Main St.	40601
Frankfort, KY (Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code – (502) 227-1668

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Common stock, par value $0.125 per share

7,507,580 shares outstanding at November 4, 2016

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements	
Unaudited Condensed Consolidated Balance Sheets	3
Unaudited Condensed Consolidated Statements of Income	4
Unaudited Condensed Consolidated Statements of Comprehensive Income	5
Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity	6
Unaudited Condensed Consolidated Statements of Cash Flows	7
Notes to Unaudited Condensed Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3. Quantitative and Qualitative Disclosures About Market Risk	56
Item 4. Controls and Procedures	56

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	56
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	56
Item 6. Exhibits	57
SIGNATURES	59

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents:		
Cash and due from banks	$21,661	$28,392
Interest bearing deposits in other banks	84,504	74,758
Federal funds sold and securities purchased under agreements to resell	5,969	6,343
Money market mutual funds	15,441	11,000
Total cash and cash equivalents	127,575	120,493
Investment securities:		
Available for sale, amortized cost of $468,987 (2016) and $577,248 (2015)	474,419	582,202
Held to maturity, fair value of $3,801 (2016) and $3,809 (2015)	3,572	3,611
Total investment securities	477,991	585,813
Loans, net of unearned income	950,716	959,275
Allowance for loan losses	(9,146)	(10,315)
Loans, net	941,570	948,960
Premises and equipment, net	32,461	33,112
Company-owned life insurance	30,688	30,269
Other real estate owned	15,336	21,843
Other assets	32,872	35,460
Total assets	$1,658,493	$1,775,950
Liabilities		
Deposits:		
Noninterest bearing	$330,755	$313,969
Interest bearing	1,020,176	1,055,025
Total deposits	1,350,931	1,368,994
Federal funds purchased and other short-term borrowings	37,407	34,353
Securities sold under agreements to repurchase and other long-term borrowings	19,968	120,280
Subordinated notes payable to unconsolidated trusts	33,506	48,970
Dividends payable, common stock	525	-
Other liabilities	27,432	27,655
Total liabilities	1,469,769	1,600,252
Shareholders' Equity		
Common stock, par value $.125 per share 14,608,000 shares authorized; 7,507,028 and 7,499,748 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	938	937
Capital surplus	51,809	51,608
Retained earnings	132,856	120,371
Accumulated other comprehensive income	3,121	2,782

Total shareholders’ equity	188,724	175,698
Total liabilities and shareholders’ equity	$1,658,493	$1,775,950

See accompanying notes to unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest Income				
Interest and fees on loans	$11,714	$11,919	$35,640	$36,006
Interest on investment securities:				
Taxable	2,159	2,508	7,095	7,944
Nontaxable	630	661	1,866	1,982
Interest on deposits in other banks	102	32	290	123
Interest on federal funds sold, securities purchased under agreements to resell, and money market mutual funds	14	3	31	9
Total interest income	14,619	15,123	44,922	46,064
Interest Expense				
Interest on deposits	578	725	1,823	2,283
Interest on federal funds purchased and other short-term borrowings	26	13	72	33
Interest on securities sold under agreements to repurchase and other long-term borrowings	1,028	1,201	3,398	3,564
Interest on subordinated notes payable to unconsolidated trusts	177	219	534	643
Total interest expense	1,809	2,158	5,827	6,523
Net interest income	12,810	12,965	39,095	39,541
Provision for loan losses	(190)	(898)	(819)	(2,707)
Net interest income after provision for loan losses	13,000	13,863	39,914	42,248
Noninterest Income				
Service charges and fees on deposits	2,046	1,955	5,840	5,634
Allotment processing fees	810	1,066	2,504	3,358
Other service charges, commissions, and fees	1,459	1,442	4,173	4,056
Trust income	715	667	2,034	1,821
Investment securities gains (losses), net	3,776	(2)	3,990	163
Gains on sale of mortgage loans, net	273	220	695	558
Income from company-owned life insurance	229	234	785	702
Gain on debt extinguishment	-	-	4,050	-
Legal settlement	1,350	-	1,450	-
Other	114	107	314	346
Total noninterest income	10,772	5,689	25,835	16,638
Noninterest Expense				
Salaries and employee benefits	7,810	7,774	23,444	23,946
Occupancy expenses, net	1,172	1,177	3,541	3,623
Equipment expenses	777	691	2,088	1,918
Data processing and communication expenses	1,081	1,114	3,482	3,243
Bank franchise tax	613	608	1,823	1,820
Amortization of intangibles	-	112	-	337
Deposit insurance expense	227	397	805	1,201
Other real estate expenses, net	454	262	1,466	1,033

Legal expenses	101	292	370	693
Loss on debt extinguishment	3,776	-	3,776	-
Other	1,877	1,854	5,384	5,451
Total noninterest expense	17,888	14,281	46,179	43,265
Income before income taxes	5,884	5,271	19,570	15,621
Income tax expense	1,560	1,439	5,510	4,213
Net income	4,324	3,832	14,060	11,408
Less preferred stock dividends	-	-	-	395
Net income available to common shareholders	$4,324	$3,832	$14,060	$11,013
Per Common Share				
Net income – basic and diluted	$.58	$.51	$1.87	$1.47
Cash dividends declared	.07	N/A	.21	N/A
Weighted Average Common Shares Outstanding				
Basic and diluted	7,505	7,495	7,503	7,492

See accompanying notes to unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net Income	$4,324	$3,832	$14,060	$11,408
Other comprehensive (loss) income:				
Unrealized holding (loss) gain on available for sale securities arising during the period, net of tax of $(824), $1,023, $1,563 and $415, respectively	(1,531)	1,899	2,905	767
Reclassification adjustment for net realized (gain) loss included in net income, net of tax of $1,322, $(1), $1,397 and $57, respectively	(2,454)	1	(2,593)	(106)
Change in unfunded portion of postretirement benefit obligation, net of tax of $4, $8, $14 and $(649), respectively	9	15	27	(1,206)
Other comprehensive (loss) income	(3,976)	1,915	339	(545)
Comprehensive income	$348	$5,747	$14,399	$10,863

See accompanying notes to unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except per share data) Nine months ended September 30, 2016 and 2015	Preferred Stock	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2016	$-	7,500	$ 937	$51,608	$120,371	$ 2,782	$ 175,698
Net income	-	-	-	-	14,060	-	14,060
Other comprehensive income	-	-	-	-	-	339	339
Cash dividends declared – common, $.21 per share	-	-	-	-	(1,575)	-	(1,575)
Shares issued under director compensation plan	-	2	-	62	-	-	62
Shares issued pursuant to employee stock purchase plan	-	5	1	115	-	-	116
Expense related to employee stock purchase plan	-	-	-	24	-	-	24
Balance at September 30, 2016	$-	7,507	$ 938	$51,809	$132,856	$ 3,121	$ 188,724
Balance at January 1, 2015	$10,000	7,489	$ 936	$51,344	$105,774	$ 4,875	$ 172,929
Net income	-	-	-	-	11,408	-	11,408
Other comprehensive loss	-	-	-	-	-	(545)	(545)
Cash dividends declared – preferred, $39.50 per share	-	-	-	-	(395)	-	(395)
Redemption of preferred stock	(10,000)	-	-	-	-	-	(10,000)
Shares issued under director compensation plan	-	3	-	64	-	-	64
Shares issued pursuant to employee stock purchase plan	-	5	1	92	-	-	93
Expense related to employee stock purchase plan	-	-	-	24	-	-	24
Balance at September 30, 2015	$-	7,497	$ 937	$51,524	$116,787	$ 4,330	$ 173,578

See accompanying notes to unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Cash Flows

Nine months ended September 30, (In thousands)	2016	2015
Cash Flows from Operating Activities		
Net income	$14,060	$11,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,712	3,067
Net premium amortization of investment securities:		
Available for sale	3,054	3,278
Held to maturity	39	39
Provision for loan losses	(819)	(2,707)
Deferred income tax (benefit) expense	(76)	274
Noncash employee stock purchase plan expense	24	24
Noncash director fee compensation	62	64
Mortgage loans originated for sale	(26,399)	(21,490)
Proceeds from sale of mortgage loans	27,650	21,879
Gain on sale of mortgage loans, net	(695)	(558)
Loss on disposal of premises and equipment, net	2	16
Net loss on sale and write downs of other real estate	1,301	724
Gain on extinguishment of subordinated notes payable to unconsolidated trusts	(4,050)	-
Loss on extinguishment of long-term securities sold under agreements to repurchase	3,776	-
Net gain on sale of available for sale investment securities	(3,990)	(163)
Increase in cash surrender value of company-owned life insurance	(679)	(676)
Death benefits in excess of cash surrender value on company-owned life insurance	(81)	-
Decrease in accrued interest receivable	873	379
Decrease in other assets	1,305	2,436
Decrease in accrued interest payable	(529)	(85)
Increase in other liabilities	347	3,950
Net cash provided by operating activities	17,887	21,859
Cash Flows from Investing Activities		
Proceeds from maturities and calls of available for sale investment securities	103,832	95,665
Proceeds from sale of available for sale investment securities	215,734	12,674
Purchase of available for sale investment securities	(210,368)	(92,557)
Purchase of restricted stock investments, net	(472)	-
Loans originated for investment less than principal collected, net	8,510	1,108
Purchase of loans	(1,751)	(6,678)
Principal collected on purchased loans	2,304	1,764
Proceeds from death benefits of company-owned life insurance	341	-
Purchase of premises and equipment	(1,900)	(1,606)
Proceeds from sale of other real estate	3,946	9,239
Proceeds from disposals of premises and equipment	-	23
Net cash provided by investing activities	120,176	19,632
Cash Flows from Financing Activities		
Net decrease in deposits	(18,063)	(30,693)
Net increase in federal funds purchased and other short-term borrowings	3,054	6,167
Proceeds from securities sold under agreements to repurchase and other long-term borrowings	9	507

Repayments of securities sold under agreements to repurchase and other long-term borrowings	(104,097)	(116)
Cash paid to extinguish subordinated notes payable to unconsolidated trusts	(10,950)	-
Dividends paid, common stock	(1,050)	-
Redemption of preferred stock	-	(10,000)
Dividends paid, preferred stock	-	(508)
Shares issued under employee stock purchase plan	116	93
Net cash used in financing activities	(130,981)	(34,550)
Net increase in cash and cash equivalents	7,082	6,941
Cash and cash equivalents at beginning of year	120,493	100,914
Cash and cash equivalents at end of period	$127,575	$107,855

Unaudited Condensed Consolidated Statements of Cash Flows—(Continued)

Nine months ended September 30, (In thousands)	2016	2015
Supplemental Disclosures		
Cash paid during the period for:		
Interest	$6,356	$6,608
Income taxes	3,850	1,318
Transfers from loans to other real estate	1,640	1,192
Sale and financing of other real estate	3,050	403
Cash dividends payable, common stock	525	-
Cancelation of investment in Farmers Capital Bank Trust II	464	-
Extinguishment of subordinated notes payable to Farmers Capital Bank Trust II	15,464	-

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation and Nature of Operations

The condensed consolidated financial statements include the accounts of Farmers Capital Bank Corporation (the "Company" or "Parent Company"), a bank holding company, and its bank and nonbank subsidiaries. Bank subsidiaries include Farmers Bank & Capital Trust Company ("Farmers Bank") in Frankfort, KY, United Bank & Trust Company ("United Bank") in Versailles, KY, First Citizens Bank, Inc. ("First Citizens") in Elizabethtown, KY, and Citizens Bank of Northern Kentucky, Inc. ("Citizens Northern") in Newport, KY.

Farmers Bank's significant subsidiaries include EG Properties, Inc. and Farmers Capital Insurance Corporation ("Farmers Insurance"). EG Properties, Inc. is involved in real estate management and liquidation for certain repossessed properties of Farmers Bank. Farmers Insurance is an insurance agency in Frankfort, KY. United Bank has one wholly-owned subsidiary, EGT Properties, Inc. EGT Properties, Inc. is involved in real estate management and liquidation for certain repossessed properties of United Bank. First Citizens has one wholly-owned subsidiary, HBJ Properties, LLC. HBJ Properties, LLC is involved in real estate management and liquidation for certain repossessed properties of First Citizens. Citizens Northern has one wholly-owned subsidiary, ENKY Properties, Inc. ENKY Properties, Inc. is involved in real estate management and liquidation for certain repossessed properties of Citizens Northern.

The Company has two active nonbank subsidiaries, FCB Services, Inc. ("FCB Services"), and FFKT Insurance Services, Inc. ("FFKT Insurance"). FCB Services is a data processing subsidiary located in Frankfort, KY that provides services to the Company's banks as well as unaffiliated entities. FFKT Insurance is a captive property and casualty insurance company insuring primarily deductible exposures and uncovered liability related to properties of the Company. The Company has two subsidiaries organized as Delaware statutory trusts that are not consolidated into its financial statements. These trusts were formed for the purpose of issuing trust preferred securities.

The Company provides financial services at its 34 locations in 21 communities throughout Central and Northern Kentucky to individual, business, agriculture, government, and educational customers. Its primary deposit products are checking, savings, and term certificate accounts. Its primary lending products are residential mortgage, commercial lending, and consumer installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Other services include, but are not limited to, cash management services, issuing letters of credit, safe deposit box rental, and providing funds transfer services. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and federal funds sold.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Estimates used in the preparation of the condensed financial statements are based on various factors including the current interest rate environment and the general strength of the local and state economy. Changes in the overall interest rate environment can significantly affect the Company's net interest income and the value of its recorded assets and liabilities. Actual results could differ from those estimates used in the preparation of the condensed financial statements. The allowance for loan losses, carrying value of other real estate owned, actuarial assumptions used to calculate postretirement benefits, and the fair values of financial instruments are estimates that are particularly subject to change.

The consolidated balance sheet as of December 31, 2015 has been derived from the audited financial statements of the Company as of that date. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2015 included in the Company's annual report on Form 10-K. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and the footnotes required by U.S. GAAP for complete statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such condensed financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. All significant intercompany transactions and balances are eliminated in consolidation.

2. Reclassifications

Certain reclassifications have been made to the consolidated financial statements of prior periods to conform to the current period presentation. These reclassifications do not affect net income or total shareholders' equity as previously reported.

3. Accumulated Other Comprehensive Income

The following table presents changes in accumulated other comprehensive income by component, net of tax, for the periods indicated.

Three months ended September 30,	2016			2015		
(In thousands)	Unrealized Gains and Losses on Available for Sale Investment Securities	Postretirement Benefit Obligation	Total	Unrealized Gains and Losses on Available for Sale Investment Securities	Postretirement Benefit Obligation	Total
Beginning balance	$7,516	$ (419)	$7,097	$3,935	$ (1,520)	$2,415
Other comprehensive (loss) income before reclassifications	(1,531)	-	(1,531)	1,899	-	1,899
Amounts reclassified from accumulated other comprehensive income	(2,454)	9	(2,445)	1	15	16
Net current-period other comprehensive (loss) income	(3,985)	9	(3,976)	1,900	15	1,915
Ending balance	$3,531	$ (410)	$3,121	$5,835	$ (1,505)	$4,330

Nine months ended September 30, (In thousands)	2016 Unrealized Gains and Losses on Available for Sale Investment Securities	2016 Postretirement Benefit Obligation	2016 Total	2015 Unrealized Gains and Losses on Available for Sale Investment Securities	2015 Postretirement Benefit Obligation	2015 Total
Beginning balance	$3,219	$ (437)	$2,782	$5,174	$ (299)	$4,875
Other comprehensive income (loss) before reclassifications	2,905	-	2,905	767	(1,251)	(484)
Amounts reclassified from accumulated other comprehensive income	(2,593)	27	(2,566)	(106)	45	(61)
Net current-period other comprehensive income (loss)	312	27	339	661	(1,206)	(545)
Ending balance	$3,531	$ (410)	$3,121	$5,835	$ (1,505)	$4,330

10

The following table presents amounts reclassified out of accumulated other comprehensive income by component for the period indicated. Line items in the statement of income affected by the reclassification are also presented.

	Amount Reclassified from Accumulated Other Comprehensive Income				Affected Line Item in the Statement Where Net Income is Presented
	Three months ended September 30,		Nine months ended September 30,		
(In thousands)	2016	2015	2016	2015	
Unrealized gains on available for sale investment securities	$3,776	$(2)	$3,990	$163	Investment securities gains, net
	(1,322)	1	(1,397)	(57)	Income tax expense
	$2,454	$(1)	$2,593	$106	Net of tax
Amortization related to postretirement benefits					
Prior service costs	$(12)	$(13)	$(37)	$(38)	Salaries and employee benefits
Actuarial losses	(1)	(10)	(4)	(31)	Salaries and employee benefits
	(13)	(23)	(41)	(69)	Total before tax
	4	8	14	24	Income tax benefit
	$(9)	$(15)	$(27)	$(45)	Net of tax
Total reclassifications for the period	$2,445	$(16)	$2,566	$61	Net of tax

4. Accounting Policy

Loans and Interest Income

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their unpaid principal amount outstanding adjusted for any charge-offs and deferred fees or costs on originated loans. Interest income on loans is recognized using the interest method based on loan principal amounts outstanding during the period. Interest income also includes amortization and accretion of any premiums or discounts over the expected life of acquired loans at the time of purchase or business acquisition. Loan origination fees, net of certain direct origination costs, are deferred and amortized as yield adjustments over the contractual term of the loans.

The Company disaggregates certain disclosure information related to loans, the related allowance for loan losses, and credit quality measures by either portfolio segment or by loan class. The Company segregates its loan portfolio segments based on similar risk characteristics as follows: real estate loans, commercial loans, and consumer loans. Portfolio segments are further disaggregated into classes for certain required disclosures as follows:

Portfolio Segment	Class
Real estate loans	Real estate mortgage – construction and land development Real estate mortgage – residential Real estate mortgage – farmland and other commercial enterprises
Commercial loans	Commercial and industrial Depository institutions Agriculture production and other loans to farmers States and political subdivisions Other
Consumer loans	Secured Unsecured

The Company has a loan policy in place that is amended and approved from time to time as needed to reflect current economic conditions and product offerings in its markets. The policy establishes written procedures concerning areas such as the lending authorities of loan officers, committee review and approval of certain credit requests, underwriting criteria, policy exceptions, appraisal requirements, and loan review. Credit is extended to borrowers based primarily on their ability to repay as demonstrated by income and cash flow analysis.

Loans secured by real estate make up the largest segment of the Company’s loan portfolio. If a borrower fails to repay a loan secured by real estate, the Company may liquidate the collateral in order to satisfy the amount owed. Determining the value of real estate is a key component to the lending process for real estate backed loans. If the fair value of real estate (less estimated cost to sell) securing a collateral dependent loan declines below the outstanding loan amount, the Company will write down the carrying value of the loan and thereby incur a loss. The Company uses independent third party state certified or licensed appraisers in accordance with its loan policy to mitigate risk when underwriting real estate loans. Cash flow analysis of the borrower, loan to value limits as adopted by loan policy, and other customary underwriting standards are also in place which are designed to maximize credit quality and mitigate risks associated with real estate lending.

Commercial loans are made to businesses and are secured mainly by assets such as inventory, accounts receivable, machinery, fixtures and equipment, or other business assets. Commercial lending involves significant risk, as loan repayments are more dependent on the successful operation or management of the business and its cash flows. Consumer lending includes loans to individuals mainly for personal autos, boats, or a variety of other personal uses and may be secured or unsecured. Loan repayment associated with consumer loans is highly dependent upon the borrower’s continuing financial stability, which is heavily influenced by local unemployment rates. The Company mitigates its risk exposure to each of its loan segments by analyzing the borrower’s repayment capacity, imposing restrictions on the amount it will loan compared to estimated collateral values, limiting the payback periods, and following other customary underwriting practices as adopted in its loan policy.

The accrual of interest on loans is discontinued when it is determined that the collection of interest or principal is doubtful, or when a default of interest or principal has existed for 90 days or more, unless such loan is well secured and in the process of collection. Past due status is based on the contractual terms of the loan. Interest accrued but not received for a loan placed on nonaccrual status is reversed against interest income. Cash payments received on nonaccrual loans generally are applied to principal until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company’s policy for placing a loan on nonaccrual status or subsequently returning a loan to accrual status does not differ based on its portfolio class or segment.

Commercial and real estate loans delinquent in excess of 120 days and consumer loans delinquent in excess of 180 days are charged off, unless the collateral securing the debt is of such value that any loss appears to be unlikely. In all cases, loans are charged off at an earlier date if classified as loss under the Company’s loan grading process or as a result of regulatory examination. The Company’s charge-off policy for impaired loans does not differ from the charge-off policy for loans outside the definition of impaired.

Provision and Allowance for Loan Losses

The provision for loan losses represents charges or credits made to earnings to maintain an allowance for loan losses at a level considered adequate to provide for probable incurred credit losses at the balance sheet date. The allowance for loan losses is a valuation allowance increased by the provision for loan losses and decreased by net charge-offs. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Company estimates the adequacy of the allowance using a risk-rated methodology which is based on the Company’s past loan loss experience, known and inherent risks in the loan portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral securing loans, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires significant judgment and the use of estimates that may be susceptible to change.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for current risk factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment, should be charged off. Actual loan losses could differ significantly from the amounts estimated by management.

The general portion of the Company's loan portfolio is segregated into portfolio segments having similar risk characteristics identified as follows: real estate loans, commercial loans, and consumer loans. Each of these portfolio segments is assigned a loss percentage based on their respective sixteen quarter rolling historical loss rates, adjusted for the qualitative risk factors summarized below.

The qualitative risk factors used in the methodology are consistent with the guidance in the most recent Interagency Policy Statement on the Allowance for Loan Losses issued. Each factor is supported by a detailed analysis performed at each subsidiary bank and is both measureable and supportable. Some factors include a minimum allocation in some instances where loss levels are extremely low and it is determined to be prudent from a safety and soundness perspective. Qualitative risk factors that are used in the methodology include the following for each loan portfolio segment:

Delinquency trends
Trends in net charge-offs
Trends in loan volume
Lending philosophy risk
Management experience risk
Concentration of credit risk
Economic conditions risk

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. 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.

The Company accounts for impaired loans in accordance with Accounting Standards Codification ("ASC") Topic 310, *"Receivables."* ASC Topic 310 requires that impaired loans be measured at the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or at the fair value of the collateral if the loan is collateral dependent. Impaired loans may also be classified as nonaccrual. In many circumstances, however, the Company continues to accrue interest on an impaired loan. Cash receipts on accruing impaired loans are applied to the recorded investment in the loan, including any accrued interest receivable. Cash payments received on nonaccrual impaired loans generally are applied to principal until qualifying for return to accrual status. Loans that are part of a large group of smaller-balance homogeneous loans, such as residential mortgage, consumer, and smaller-balance commercial loans, are collectively evaluated for impairment. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective interest rate at inception, or at the fair value of collateral. The Company determines the amount of reserve for troubled debt restructurings that subsequently default in accordance with its accounting policy for the allowance for loan losses.

Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-08, *"Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)."* This ASU clarifies how an entity should assess whether it is the principal or the agent in contracts that include three or more parties and that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. In addition to clarifying the guidance on principal-versus-agent considerations, the ASU amends certain existing illustrative examples in the revenue standard and adds additional illustrative examples to clarify how an entity would assess whether it is the principal or the agent in a revenue transaction. The amendments in this ASU are effective at the same time as ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606),"* which is effective for the Company in annual and interim reporting periods beginning after December 15, 2017. The Company does not expect there to be a material impact on its consolidated financial position, results of operations, or cash flows upon adoption.

In March 2016, the FASB issued ASU No. 2016-09, *"Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,"* to improve the accounting for employee share-based payments. This ASU simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities, forfeitures, and classification on the statement of cash flows. ASU No. 2016-09 is effective for the Company in annual and interim reporting periods beginning after December 15, 2016. The Company does not expect there to be a material impact on its consolidated financial position, results of operations, or cash flows upon adoption.

In April 2016, the FASB issued ASU No. 2016-10, *"Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing."* The amendments in this ASU clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. This ASU is effective for the Company in annual and interim reporting periods beginning after December 15, 2017. The Company does not expect there to be a material impact on its consolidated financial position, results of operations, or cash flows upon adoption.

In May 2016, the FASB issued ASU No. 2016-12, *"Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,"* to clarify guidance in certain narrow aspects of Topic 606 and add some practical expedients. The amendments in this ASU include clarifications related to the collectability assessment, noncash consideration, and completed contracts at the date of transition to Topic 606. The ASU also provides a practical expedient for contract modifications. ASU No. 2016-12 is effective for the Company in annual and interim reporting periods beginning after December 15, 2017. The Company does not expect there to be a material impact on its consolidated financial position, results of operations, or cash flows upon adoption.

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,"* to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU requires enhanced disclosures, including qualitative and quantitative requirements, which provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

ASU No. 2016-13 is effective for the Company in annual and interim reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact of ASU No. 2016-13 on its consolidated financial position, results of operations, and cash flows.

In August 2016, the FASB issued ASU No. 2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force),"* to reduce diversity in practice of how certain transactions are classified in the statement of cash flows. The amendments in this ASU provide guidance on the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon bonds; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interest in securitization transactions; and separately identifiable cash flows and application of the predominance principle.

ASU No. 2016-15 is effective for the Company in annual and interim reporting periods beginning after December 15, 2017. The Company does not expect there to be a material impact on its consolidated financial position, results of operations, and cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

5. Net Income Per Common Share

Basic net income per common share is determined by dividing net income available to common shareholders by the weighted average total number of common shares issued and outstanding. Net income available to common shareholders represents net income adjusted for preferred stock dividends including dividends declared, accretion of discounts on preferred stock issuances, and cumulative dividends related to the current dividend period that have not been declared as of the end of the period.

Diluted net income per common share is determined by dividing net income available to common shareholders by the total weighted average number of common shares issued and outstanding plus amounts representing the dilutive effect of stock options outstanding. The effects of stock options outstanding are excluded from the computation of diluted earnings per common share in periods in which the effect would be antidilutive. Dilutive potential common shares are calculated using the treasury stock method.

Net income per common share computations were as follows for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In thousands, except per share data)	2016	2015	2016	2015
Net income, basic and diluted	$4,324	$3,832	$14,060	$11,408
Less preferred stock dividends	-	-	-	395
Net income available to common shareholders, basic and diluted	$4,324	$3,832	$14,060	$11,013
Average common shares issued and outstanding, basic and diluted	7,505	7,495	7,503	7,492
Net income per common share, basic and diluted	$.58	$.51	$1.87	$1.47

6. Investment Securities

The following tables summarize the amortized costs and estimated fair value of the securities portfolio at September 30, 2016 and December 31, 2015.

September 30, 2016 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available For Sale				
Obligations of U.S. government-sponsored entities	$ 75,804	$ 682	$ 8	$ 76,478
Obligations of states and political subdivisions	118,699	1,987	148	120,538
Mortgage-backed securities – residential	226,653	3,849	279	230,223
Mortgage-backed securities – commercial	40,209	181	151	40,239
Corporate debt securities	6,815	13	702	6,126
Mutual funds and equity securities	807	17	9	815
Total securities – available for sale	$ 468,987	$ 6,729	$ 1,297	$ 474,419
Held To Maturity				
Obligations of states and political subdivisions	$ 3,572	$ 229	$ -	$ 3,801

December 31, 2015 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available For Sale				
Obligations of U.S. government-sponsored entities	$107,135	$ 309	$ 538	$106,906
Obligations of states and political subdivisions	147,875	2,604	213	150,266
Mortgage-backed securities – residential	294,140	5,210	1,489	297,861
Mortgage-backed securities – commercial	20,655	52	123	20,584
Corporate debt securities	6,629	11	800	5,840
Mutual funds and equity securities	814	-	69	745
Total securities – available for sale	$577,248	$ 8,186	$ 3,232	$582,202
Held To Maturity				
Obligations of states and political subdivisions	$3,611	$ 198	$ -	$3,809

Investment securities with a carrying value of $180 million and $315 million at September 30, 2016 and December 31, 2015, respectively, were pledged to secure public and trust deposits, repurchase agreements, and for other purposes.

The amortized cost and estimated fair value of the debt securities portfolio at September 30, 2016, by contractual maturity, are detailed below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mutual funds and equity securities in the available for sale portfolio consist of investments attributed to the Company's captive insurance subsidiary. These securities have no stated maturity and are not included in the maturity schedule that follows.

Mortgage-backed securities are stated separately due to the nature of payment and prepayment characteristics of these securities, as principal is not due at a single date.

	Available For Sale		Held To Maturity	
September 30, 2016 (In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$13,318	$13,343	$-	$ -
Due after one year through five years	92,602	93,694	-	-
Due after five years through ten years	77,762	78,931	640	737
Due after ten years	17,636	17,174	2,932	3,064
Mortgage-backed securities	266,862	270,462	-	-
Total	$468,180	$473,604	$3,572	$ 3,801

Gross realized gains and losses on the sale of available for sale investment securities were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Gross realized gains	$3,829	$ 5	$4,181	$185
Gross realized losses	53	7	191	22
Net realized gain	$3,776	$ (2)	$3,990	$163

Investment securities with unrealized losses at September 30, 2016 and December 31, 2015 not recognized in income are presented in the tables below. The tables segregate investment securities that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or more. The tables also include the fair value of the related securities.

September 30, 2016 (In thousands)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Obligations of U.S. government-sponsored entities	$16,613	$ 8	$-	$ -	$16,613	$ 8
Obligations of states and political subdivisions	31,264	145	1,215	3	32,479	148
Mortgage-backed securities – residential	44,381	213	6,460	66	50,841	279
Mortgage-backed securities – commercial	18,029	151	-	-	18,029	151
Corporate debt securities	-	-	5,205	702	5,205	702
Mutual funds and equity securities	128	2	116	7	244	9
Total	$110,415	$ 519	$12,996	$ 778	$123,411	$ 1,297

December 31, 2015 (In thousands)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Obligations of U.S. government-sponsored entities	$57,927	$ 275	$21,576	$ 263	$79,503	$ 538
Obligations of states and political subdivisions	30,426	123	8,276	90	38,702	213
Mortgage-backed securities – residential	118,978	851	21,723	638	140,701	1,489
Mortgage-backed securities – commercial	10,882	123	-	-	10,882	123
Corporate debt securities	204	6	5,155	794	5,359	800
Mutual funds and equity securities	481	21	264	48	745	69
Total	$218,898	$ 1,399	$56,994	$ 1,833	$275,892	$ 3,232

Unrealized losses included in the tables above have not been recognized in income since they have been identified as temporary. The Company evaluates investment securities for other-than-temporary impairment ("OTTI") at least quarterly, and more frequently when economic or market conditions warrant. Many factors are considered, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was effected by macroeconomic conditions, and (4) whether the Company has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. The assessment of whether an OTTI charge exists involves a high degree of subjectivity and judgment and is based on the information available to the Company at a point in time.

Corporate debt securities in the Company's investment securities portfolio at September 30, 2016 include single-issuer trust preferred capital securities with an unrealized loss of $702 thousand and a carrying value of $5.2 million. At year-end 2015, these securities had an unrealized loss of $793 thousand. These securities were issued by a national and global financial services firm and purchased by the Company during 2007. The securities are currently performing and continue to be rated as investment grade by major rating agencies. The issuer of the securities announced in the first quarter of 2016 an increase in their common equity repurchase plan and have continued their per share common dividend payments. The Company does not intend to sell these securities nor does the Company believe it is likely that it will be required to sell these securities prior to their anticipated recovery. The Company believes these securities are not impaired due to reasons of credit quality or other factors, but rather the unrealized loss is primarily attributed to continuing uncertainties in international economies and market volatility. The Company believes that it will collect all amounts due according to the contractual terms of these securities and that the fair values of these securities will continue to recover as they approach their maturity dates.

The Company attributes the unrealized losses in other sectors of its investment securities portfolio to changes in market interest rates and volatility. Investment securities with unrealized losses at September 30, 2016 are performing according to their contractual terms, and the Company does not expect to incur a loss on these securities unless they are sold prior to maturity. The Company does not have the intent to sell these securities nor does it believe it is likely that it will be required to sell these securities prior to their anticipated recovery. The Company does not consider any of the securities to be impaired due to reasons of credit quality or other factors.

7. Loans and Allowance for Loan Losses

Major classifications of loans outstanding are summarized as follows:

(In thousands)	September 30, 2016	December 31, 2015
Real Estate		
Real estate mortgage – construction and land development	$ 114,454	$ 115,516
Real estate mortgage – residential	341,160	355,134
Real estate mortgage – farmland and other commercial enterprises	393,973	386,386
Commercial		
Commercial and industrial	47,706	48,379
States and political subdivisions	19,922	17,643
Other	23,666	23,798
Consumer		
Secured	4,597	6,665
Unsecured	5,238	5,754
Total loans	950,716	959,275
Less unearned income	-	-
Total loans, net of unearned income	$ 950,716	$ 959,275

Activity in the allowance for loan losses by portfolio segment was as follows for the periods indicated:

(In thousands)	Real Estate	Commercial	Consumer	Total
Three months ended September 30, 2016				
Balance, beginning of period	$8,404	$ 806	$ 275	$9,485
Provision for loan losses	(425)	203	32	(190)
Recoveries	31	52	9	92
Loans charged off	(88)	(134)	(19)	(241)
Balance, end of period	$7,922	$ 927	$ 297	$9,146
Nine months ended September 30, 2016				
Balance, beginning of period	$9,173	$ 820	$ 322	$10,315
Provision for loan losses	(1,025)	193	13	(819)
Recoveries	133	107	52	292
Loans charged off	(359)	(193)	(90)	(642)
Balance, end of period	$7,922	$ 927	$ 297	$9,146

(In thousands)	Real Estate	Commercial	Consumer	Total
Three months ended September 30, 2015				
Balance, beginning of period	$10,806	$ 1,057	$ 336	$12,199
Provision for loan losses	(765)	(136)	3	(898)
Recoveries	38	145	28	211
Loans charged off	(151)	(42)	(42)	(235)
Balance, end of period	$9,928	$ 1,024	$ 325	$11,277
Nine months ended September 30, 2015				
Balance, beginning of period	$12,542	$ 1,153	$ 273	$13,968
Provision for loan losses	(2,552)	(237)	82	(2,707)
Recoveries	376	176	91	643
Loans charged off	(438)	(68)	(121)	(627)
Balance, end of period	$9,928	$ 1,024	$ 325	$11,277

The following tables present individually impaired loans by class of loans for the dates indicated.

September 30, 2016 (In thousands)	Unpaid Principal	Recorded Investment	Recorded Investment	Total	Allowance

	Balance	With No Allowance	With Allowance	Recorded Investment	for Loan Losses Allocated
Real Estate					
Real estate mortgage – construction and land development	$ 9,395	$ 2,904	$ 3,820	$ 6,724	$ 572
Real estate mortgage – residential	9,763	3,814	5,979	9,793	1,358
Real estate mortgage – farmland and other commercial enterprises	26,429	10,986	15,335	26,321	335
Commercial					
Commercial and industrial	409	22	387	409	209
Consumer					
Unsecured	147	-	148	148	147
Total	$ 46,143	$ 17,726	$ 25,669	$ 43,395	$ 2,621

19

December 31, 2015 (In thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Allowance for Loan Losses Allocated
Real Estate					
Real estate mortgage – construction and land development	$9,932	$ 3,875	$ 3,372	$ 7,247	$ 556
Real estate mortgage – residential	8,655	2,502	6,024	8,526	1,278
Real estate mortgage – farmland and other commercial enterprises	20,980	4,149	16,703	20,852	681
Commercial					
Commercial and industrial	399	-	400	400	223
Consumer					
Unsecured	156	-	157	157	156
Total	$40,122	$ 10,526	$ 26,656	$ 37,182	$ 2,894

Three Months Ended September 30,	2016			2015		
(In thousands)	Average	Interest Income Recognized	Cash Basis Interest Recognized	Average	Interest Income Recognized	Cash Basis Interest Recognized
Real Estate						
Real estate mortgage – construction and land development	$7,838	$ 88	$ 88	$9,650	$ 49	$ 47
Real estate mortgage – residential	9,214	136	136	9,416	109	109
Real estate mortgage – farmland and other commercial enterprises	26,401	292	292	20,999	255	252
Commercial						
Commercial and industrial	409	4	2	449	5	5
Consumer						
Unsecured	150	2	2	161	2	2
Total	$44,012	$ 522	$ 520	$40,675	$ 420	$ 415

Nine Months Ended September 30,	2016			2015		
(In thousands)	Average	Interest Income Recognized	Cash Basis Interest	Average	Interest Income Recognized	Cash Basis Interest

			Recognized			Recognized
Real Estate						
Real estate mortgage – construction and land development	$8,319	$ 243	$ 231	$10,382	$ 265	$ 258
Real estate mortgage – residential	8,957	348	323	10,199	364	352
Real estate mortgage – farmland and other commercial enterprises	25,728	929	908	22,931	780	771
Commercial						
Commercial and industrial	413	15	13	563	11	11
Consumer						
Unsecured	152	5	4	118	4	4
Total	$43,569	$ 1,540	$ 1,479	$44,193	$ 1,424	$ 1,396

The following tables present the balance of the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of September 30, 2016 and December 31, 2015.

September 30, 2016 (In thousands)	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$2,265	$ 209	$ 147	$2,621
Collectively evaluated for impairment	5,657	718	150	6,525
Total ending allowance balance	$7,922	$ 927	$ 297	$9,146
Loans				
Loans individually evaluated for impairment	$42,838	$ 409	$ 148	$43,395
Loans collectively evaluated for impairment	806,749	90,885	9,687	907,321
Total ending loan balance, net of unearned income	$849,587	$ 91,294	$ 9,835	$950,716

December 31, 2015 (In thousands)	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$2,515	$ 223	$ 156	$2,894
Collectively evaluated for impairment	6,658	597	166	7,421
Total ending allowance balance	$9,173	$ 820	$ 322	$10,315
Loans				
Loans individually evaluated for impairment	$36,625	$ 400	$ 157	$37,182
Loans collectively evaluated for impairment	820,411	89,420	12,262	922,093
Total ending loan balance, net of unearned income	$857,036	$ 89,820	$ 12,419	$959,275

The following tables present the recorded investment in nonperforming loans by class of loans as of September 30, 2016 and December 31, 2015.

September 30, 2016 (In thousands)	Nonaccrual	Restructured Loans	Loans Past Due 90 Days or More and

			Still Accruing
Real Estate			
Real estate mortgage – construction and land development	$ 902	$ 3,648	$ -
Real estate mortgage – residential	2,037	4,034	-
Real estate mortgage – farmland and other commercial enterprises	3,810	14,882	-
Commercial			
Commercial and industrial	16	379	-
Other	6	-	-
Consumer			
Secured	8	-	-
Unsecured	-	136	-
Total	$ 6,779	$ 23,079	$ -

21

December 31, 2015 (In thousands)	Nonaccrual	Restructured Loans	Loans Past Due 90 Days or More and Still Accruing
Real Estate			
Real estate mortgage – construction and land development	$ 1,567	$ 3,674	$ -
Real estate mortgage – residential	2,485	4,127	-
Real estate mortgage – farmland and other commercial enterprises	4,266	15,503	-
Commercial			
Commercial and industrial	44	384	-
Other	8	-	-
Consumer			
Secured	10	-	-
Unsecured	-	143	-
Total	$ 8,380	$ 23,831	$ -

The Company has allocated $1.7 million and $1.9 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings and that are in compliance with those terms as of September 30, 2016 and December 31, 2015, respectively. The Company had no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings at September 30, 2016 and December 31, 2015.

There were no loans modified as troubled debt restructurings during 2016. The Company had three credits modified as troubled debt restructurings during 2015. Additionally, troubled debt restructurings increased during the first quarter of 2015 as a result of the purchase of a previously-participated portion of a loan to a nonaffiliated bank. This loan was participated prior to it being restructured. The purchase price paid represented a discount of $482 thousand or 15% of the purchased principal amount. The loan is performing under the terms of the restructuring and the borrower's financial position has steadily improved. Accretion of the discount was recognized over the contractual life of the loan, which ended in June 2015. There is no further accretion to be recognized. The total outstanding balance related to this credit, which was renewed during June 2015, was $11.0 million at September 30, 2016. This represents 47.8% of the Company's total restructured loans and is the largest such individual credit. This credit was restructured in 2012 following an interest rate concession and extended amortization term.

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2015. There were none during 2016 or during the three months ended September 30, 2015.

(Dollars in thousands) Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Nine Months Ended September 30, 2015			
Commercial:			
Commercial and industrial	2	$ 388	$ 388
Consumer:			
Secured	1	145	145
Total	3	$ 533	$ 533

The troubled debt restructurings identified above increased the allowance for loan losses by $356 thousand in the nine month period ended September 30, 2015. There were no charge-offs related to these loans. There were no payment defaults during the first nine months of 2016 or 2015 for credits that were restructured during the previous twelve months.

The tables below present an age analysis of past due loans 30 days or more by class of loans as of the dates indicated. Past due loans that are also classified as nonaccrual are included in their respective past due category.

September 30, 2016 (In thousands)	30-89 Days Past Due	90 Days or More Past Due	Total	Current	Total Loans
Real Estate					
Real estate mortgage – construction and land development	$-	$227	$227	$114,227	$114,454
Real estate mortgage – residential	1,158	848	2,006	339,154	341,160
Real estate mortgage – farmland and other commercial enterprises	-	2,500	2,500	391,473	393,973
Commercial					
Commercial and industrial	7	16	23	47,683	47,706
States and political subdivisions	-	-	-	19,922	19,922
Other	16	-	16	23,650	23,666
Consumer					
Secured	6	2	8	4,589	4,597
Unsecured	19	-	19	5,219	5,238
Total	$1,206	$3,593	$4,799	$945,917	$950,716

December 31, 2015 (In thousands)	30-89 Days Past Due	90 Days or More Past Due	Total	Current	Total Loans
Real Estate					
Real estate mortgage – construction and land development	$-	$227	$227	$115,289	$115,516
Real estate mortgage – residential	421	1,448	1,869	353,265	355,134
Real estate mortgage – farmland and other commercial enterprises	42	2,376	2,418	383,968	386,386
Commercial					
Commercial and industrial	42	43	85	48,294	48,379
States and political subdivisions	-	-	-	17,643	17,643
Other	62	-	62	23,736	23,798
Consumer					
Secured	9	1	10	6,655	6,665
Unsecured	18	-	18	5,736	5,754

Total	$ 594	$4,095	$4,689	$954,586	$959,275

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends and conditions. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes large-balance loans and non-homogeneous loans, such as commercial real estate and certain residential real estate loans. Loan rating grades, as described further below, are assigned based on a continuous process. The amount and adequacy of the allowance for loan loss is determined on a quarterly basis. The Company uses the following definitions for its risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the borrower's repayment ability, weaken the collateral or inadequately protect the Company's credit position at some future date. These credits pose elevated risk, but their weaknesses do not yet justify a substandard classification.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent of those classified as 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.

Loans not meeting the criteria above which are analyzed individually as part of the above described process are considered to be pass rated loans, which are considered to have a low risk of loss. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows for the dates indicated. Each of the following tables excludes immaterial amounts attributed to accrued interest receivable.

September 30, 2016 (In thousands)	Real Estate Real Estate Mortgage – Construction and Land Development	Real Estate Mortgage – Residential	Real Estate Mortgage – Farmland and Other Commercial Enterprises	Commercial Commercial and Industrial	States and Political Subdivisions	Other
Credit risk profile by internally assigned rating grades						
Pass	$106,172	$314,282	$356,497	$46,298	$19,922	$23,660
Special Mention	1,349	12,985	19,634	816	-	-
Substandard	6,933	13,893	17,842	592	-	6
Doubtful	-	-	-	-	-	-
Total	$114,454	$341,160	$393,973	$47,706	$19,922	$23,666

December 31, 2015 (In thousands)	Real Estate Real Estate Mortgage – Construction and Land Development	Real Estate Mortgage – Residential	Real Estate Mortgage – Farmland and Other Commercial Enterprises	Commercial Commercial and Industrial	States and Political Subdivisions	Other

Credit risk profile by internally assigned rating grades						
Pass	$104,383	$ 324,333	$ 343,894	$46,934	$ 17,643	$23,777
Special Mention	1,651	16,225	22,859	937	-	-
Substandard	9,482	14,576	19,633	508	-	21
Doubtful	-	-	-	-	-	-
Total	$115,516	$ 355,134	$ 386,386	$48,379	$ 17,643	$23,798

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the consumer loans outstanding based on payment activity as of September 30, 2016 and December 31, 2015.

	September 30, 2016		December 31, 2015	
	Consumer		Consumer	
(In thousands)	Secured	Unsecured	Secured	Unsecured
Credit risk profile based on payment activity				
Performing	$4,589	$ 5,102	$6,655	$ 5,611
Nonperforming	8	136	10	143
Total	$4,597	$ 5,238	$6,665	$ 5,754

8. Other Real Estate Owned

Other real estate owned ("OREO") was as follows as of the date indicated:

(In thousands)	September 30, 2016	December 31, 2015
Construction and land development	$ 8,094	$ 12,997
Residential real estate	1,095	960
Farmland and other commercial enterprises	6,147	7,886
Total	$ 15,336	$ 21,843

OREO activity for the nine months ended September 30, 2016 and 2015 was as follows:

Nine months ended September 30, (In thousands)	2016	2015
Beginning balance	$21,843	$31,960
Transfers from loans and other increases	1,790	1,274
Proceeds from sales	(6,996)	(9,642)
Gain (loss) on sales, net	30	(129)
Write downs and other decreases, net	(1,331)	(595)
Ending balance	$15,336	$22,868

At September 30, 2016, the Company had a total of $606 thousand of loans secured by residential real estate mortgages that were in the process of foreclosure.

9. Securities Sold under Agreements to Repurchase

Securities sold under agreements to repurchase represent transactions where the Company sells certain of its investment securities and agrees to repurchase them at a specific date in the future. Securities sold under agreements to repurchase are accounted for as secured borrowing and reflect the amount of cash received in connection with the transaction.

Securities sold under agreements to repurchase are collateralized by U.S. government agency securities, primarily mortgage-backed securities. The Company may be required to provide additional collateral securing the borrowings in the event of principal pay downs or a decrease in the market value of the pledged securities. The Company mitigates this risk by monitoring the market value and liquidity of the collateral and ensuring that it holds a sufficient level of eligible securities to cover potential increases in collateral requirements.

Of the total repurchase agreements, $37.4 million are classified as short-term borrowings and $1.3 million are classified as long-term borrowings on the balance sheet at September 30, 2016. At year-end 2015, $34.4 million and $101.5 million are classified as short-term and long-term borrowings, respectively. The following tables represent the remaining maturity of repurchase agreements disaggregated by the class of securities pledged as of the dates indicated.

	Remaining Contractual Maturity of the Agreements					
September 30, 2016 (In thousands)	Overnight/ Continuous	Less Than 30 Days	30-89 Days	90 Days to One Year	Over One Year to Four Years	Total
U.S. government agency securities	$36,007	$200	$ -	$1,457	$1,025	$38,689
Total	$36,007	$200	$ -	$1,457	$1,025	$38,689

	Remaining Contractual Maturity of the Agreements					
December 31, 2015 (In thousands)	Overnight/ Continuous	Less Than 30 Days	30-89 Days	90 Days to One Year	Over One Year to Four Years	Total
U.S. government agency securities	$33,151	$1,202	$ -	$716	$100,758	$135,827
Total	$33,151	$1,202	$ -	$716	$100,758	$135,827

10. Postretirement Medical Benefits

The Company provides lifetime medical and dental benefits upon retirement for certain employees meeting the eligibility requirements as of December 31, 1989 (“Plan 1”). Additional participants are not eligible to be included in Plan 1 unless they met the requirements on this date. During 2003, the Company implemented an additional postretirement health insurance program (“Plan 2”). Under Plan 2, any employee meeting the service requirement of 20 years of full time service to the Company and is at least age 55 upon retirement is eligible to continue their health insurance coverage. Under both plans, retirees not yet eligible for Medicare have coverage identical to the coverage offered to active employees. Under both plans, Medicare-eligible retirees are provided with a Medicare Advantage plan. The Company pays 100% of the cost of Plan 1. The Company and the retirees each pay 50% of the cost under Plan 2. Both plans are unfunded. Employees hired on or after January 1, 2016 are not eligible for benefits under Plan 2.

The following disclosures of the net periodic benefit cost components of Plan 1 and Plan 2 were measured at January 1, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Service cost	$159	$185	$478	$554
Interest cost	171	162	512	487
Recognized prior service cost	12	13	37	38
Recognized net actuarial loss	-	10	-	31
Net periodic benefit cost	$342	$370	$1,027	$1,110

The Company expects benefit payments of $393 thousand for 2016, of which $77 thousand and $235 thousand have been made during the three and nine months ended September 30, 2016, respectively.

11. Regulatory Matters

The Company and its subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements and a capital conservation buffer in excess of the required minimums, which is being phased in through 2019, will initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the banks must meet specific capital guidelines that involve quantitative measures of the banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and its subsidiary banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The Company and each of its bank subsidiaries meet the minimum capital ratios and a fully phased-in capital conservation buffer.

The regulatory ratios of the consolidated Company and its subsidiary banks were as follows for the dates indicated:

	September 30, 2016				December 31, 2015			
	Common Equity Tier 1 Risk-based Capital[1]	Tier 1 Risk-based Capital[1]	Total Risk-based Capital[1]	Tier 1 Leverage[2]	Common Equity Tier 1 Risk-based Capital[1]	Tier 1 Risk-based Capital[1]	Total Risk-based Capital[1]	Tier 1 Leverage[2]
Consolidated	16.65 %	19.57 %	20.39 %	12.44 %	14.91 %	19.00 %	19.89 %	12.46 %
Farmers Bank	17.12	17.12	17.84	9.53	15.57	15.57	16.35	9.20
United Bank	17.54	17.54	18.51	12.46	18.67	18.67	19.68	12.89
First Citizens	14.73	14.73	15.32	10.08	13.55	13.55	14.17	9.20
Citizens Northern	15.37	15.37	16.43	10.43	14.42	14.42	15.67	10.79
Regulatory minimum	4.50	6.00	8.00	4.00	4.50	6.00	8.00	4.00
Well-capitalized status	6.50	8.00	10.00	5.00	6.50	8.00	10.00	5.00

[1]Common Equity Tier 1 Risked-based, Tier 1 Risk-based, and Total Risk-based Capital ratios are computed by dividing a bank's Common Equity Tier 1, Tier 1 or Total Capital, as defined by regulation, by a risk-weighted sum of the bank's assets, with the risk weighting determined by general standards established by regulation.

[2]Tier 1 Leverage ratio is computed by dividing a bank's Tier 1 Capital by its total quarterly average assets, as defined by regulation.

12. Fair Value Measurements

ASC Topic 820, *"Fair Value Measurements and Disclosures,"* defines fair value, establishes a framework for measuring fair value, and sets forth disclosures about fair value measurements. ASC Topic 825, *"Financial Instruments,"* allows entities to choose to measure certain financial assets and liabilities at fair value. The Company has not elected the fair value option for any of its financial assets or liabilities.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This Topic describes three levels of inputs that may be used to measure fair value:

Level 1:	Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access at the measurement date.
Level 2:	Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3:	Significant unobservable inputs that reflect a reporting entity's own assumptions supported by little or no market activity, about the assumptions that market participants would use in pricing the asset or liability.

Following is a description of the valuation method used for financial instruments measured at fair value on a recurring basis. For this disclosure, the Company only has available for sale investment securities and money market mutual funds classified as cash equivalents that meet the requirement. The carrying value of the $15.4 million in money market mutual funds is equivalent to its fair value and based on Level 1 inputs.

<u>Available for sale investment securities</u>

Valued primarily by independent third party pricing services under the market valuation approach that include, but are not limited to, the following inputs:

Mutual funds and equity securities are priced utilizing real-time data feeds from active market exchanges for identical securities and are considered Level 1 inputs.

Government-sponsored agency debt securities, obligations of states and political subdivisions, mortgage-backed securities, corporate bonds, and other similar investment securities are priced with available market information through processes using benchmark yields, matrix pricing, prepayment speeds, cash flows, live trading data, and market spreads sourced from new issues, dealer quotes, and trade prices, among others sources and are considered Level 2 inputs.

Fair value disclosures for available for sale investment securities as of September 30, 2016 and December 31, 2015 are as follows:

(In thousands) Available For Sale Investment Securities	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016				
Obligations of U.S. government-sponsored entities	$76,478	$-	$ 76,478	$ -
Obligations of states and political subdivisions	120,538	-	120,538	-
Mortgage-backed securities – residential	230,223	-	230,223	-
Mortgage-backed securities – commercial	40,239	-	40,239	-
Corporate debt securities	6,126	-	6,126	-
Mutual funds and equity securities	815	815	-	-
Total	$474,419	$815	$ 473,604	$ -

(In thousands) Available For Sale Investment Securities	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015				

Obligations of U.S. government-sponsored entities	$106,906	$-	$ 106,906	$ -
Obligations of states and political subdivisions	150,266	-	150,266	-
Mortgage-backed securities – residential	297,861	-	297,861	-
Mortgage-backed securities – commercial	20,584	-	20,584	-
Corporate debt securities	5,840	-	5,840	-
Mutual funds and equity securities	745	745	-	-
Total	$582,202	$745	$ 581,457	$ -

The Company is required to measure and disclose certain other assets and liabilities at fair value on a nonrecurring basis in periods following their initial recognition. The Company's disclosure about assets and liabilities measured at fair value on a nonrecurring basis consists of collateral-dependent impaired loans and OREO. The carrying value of these assets are adjusted to fair value on a nonrecurring basis through impairment charges as described more fully below.

Impairment charges on collateral-dependent loans are recorded by either an increase to the provision for loan losses and related allowance or by direct loan charge-offs. The fair value of collateral-dependent impaired loans with specific allocations of the allowance for loan losses is measured based on recent appraisals of the underlying collateral. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraisers take absorption rates into consideration and adjustments are routinely made in the appraisal process to identify differences between the comparable sales and income data available. Such adjustments consist mainly of estimated costs to sell that are not included in certain appraisals or to update appraised collateral values as a result of market declines of similar properties for which a newer appraisal is available. These adjustments can be significant and typically result in a Level 3 classification of the inputs for determining fair value.

OREO includes properties acquired by the Company through, or in lieu of, actual loan foreclosures and is carried at fair value less estimated costs to sell. Fair value of OREO at acquisition is generally based on third party appraisals of the property that includes comparable sales data and is considered as Level 3 inputs. The carrying value of each OREO property is updated at least annually and more frequently when market conditions significantly impact the value of the property. If the carrying amount of the OREO exceeds fair value less estimated costs to sell, an impairment loss is recorded through noninterest expense.

The following tables represent the carrying amount of assets measured at fair value on a nonrecurring basis and still held by the Company as of the dates indicated. The amounts in the table only represent assets whose carrying amount has been adjusted by impairment charges during the period in a manner as described above; therefore, these amounts will differ from the total amounts outstanding. With the exception of those calculated using the collateral valuation method, collateral-dependent impaired loan amounts in the tables below exclude restructured loans that are measured based on present value techniques, which are outside the scope of the fair value reporting framework.

(In thousands)		Fair Value Measurements Using		
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016				
Collateral-dependent Impaired Loans				
Real estate mortgage – residential	$239	$-	$ -	$ 239
Real estate mortgage – farmland and other commercial enterprises	5	-	-	5
Total	$244	$-	$ -	$ 244
OREO				
Construction and land development	$3,900	$-	$ -	$ 3,900
Residential real estate	436	-	-	436
Farmland and other commercial enterprises	2,303	-	-	2,303
Total	$6,639	$-	$ -	$ 6,639

(In thousands) Description	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015				
Collateral-dependent Impaired Loans				
Real estate mortgage – construction and land development	$2,908	$-	$ -	$ 2,908
Real estate mortgage – residential	3,720	-	-	3,720
Total	$6,628	$-	$ -	$ 6,628
OREO				
Construction and land development	$2,252	$-	$ -	$ 2,252
Residential real estate	406	-	-	406
Farmland and other commercial enterprises	2,868	-	-	2,868
Total	$5,526	$-	$ -	$ 5,526

29

The following table represents impairment charges recorded in earnings for the periods indicated on assets measured at fair value on a nonrecurring basis.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In thousands)	2016	2015	2016	2015
Impairment charges:				
Collateral-dependent impaired loans	$33	$ 24	$540	$45
OREO	599	29	1,165	276
Total	$632	$ 53	$1,705	$321

The following table presents quantitative information about unobservable inputs for assets measured on a nonrecurring basis using Level 3 measurements. As described above, the fair value of real estate securing collateral-dependent impaired loans and OREO are based on current third party appraisals. It is sometimes necessary, however, for the Company to discount the appraisal amounts supporting its impaired loans and OREO. These discounts relate primarily to marketing and other holding costs that are not included in certain appraisals or to update values as a result of market declines of similar properties for which newer appraisals are available. Discounts may also result from contracts to sell properties entered into during the period. The range of discounts is presented in the table below for 2016 and 2015. The upper end of the range identified in the table related to collateral-dependent impaired loans for the current year is the result of adjustments to the carrying value on one relatively small credit. The weighted average column represents a better indicator of the discounts applied to the appraisals.

(In thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range	Average
September 30, 2016					
Collateral-dependent impaired loans	$244	Discounted appraisals	Marketability discount	0% -67.8%	8.3 %
OREO	$6,639	Discounted appraisals	Marketability discount	1.9%-45.4%	15.0 %
December 31, 2015					
Collateral-dependent impaired loans	$6,628	Discounted appraisals	Marketability discount	0% -8.3%	7.9 %
OREO	$5,526	Discounted appraisals	Marketability discount	2.3%-26.9%	6.5 %

Fair Value of Financial Instruments

The table that follows represents the estimated fair values of the Company’s financial instruments made in accordance with the requirements of ASC Topic 825, *“Financial Instruments.”* ASC Topic 825 requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet for which it is practicable to estimate that value. The estimated fair value amounts have been determined by the Company using available market information and present value or other valuation techniques. These derived fair values are subjective in nature, involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from the disclosure requirements. Accordingly, the aggregate fair value amounts presented are not intended to represent the underlying value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments not presented elsewhere for which it is practicable to estimate that value.

Cash and Cash Equivalents, Accrued Interest Receivable, and Accrued Interest Payable

The carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization or settlement.

Investment Securities Held to Maturity

Fair value is based on quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or with available market information through processes using benchmark yields, matrix pricing, prepayment speeds, cash flows, live trading data, and market spreads sourced from new issues, dealer quotes, and trade prices, among others sources.

Loans

The fair value of loans is estimated by discounting expected future cash flows using current discount rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Expected future cash flows are projected based on contractual cash flows adjusted for estimated prepayments.

Federal Home Loan Bank and Federal Reserve Bank Stock

It is not practical to determine the fair value of Federal Home Loan Bank and Federal Reserve Bank stock due to restrictions placed on its transferability.

Deposit Liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date and fair value approximates carrying value. The fair value of fixed maturity certificates of deposit is estimated by discounting the expected future cash flows using the rates currently offered for certificates of deposit with similar remaining maturities.

Federal Funds Purchased and Other Short-term Borrowings

The carrying amount is the estimated fair value for these borrowings which reprice frequently in the near term.

Securities Sold Under Agreements to Repurchase, Subordinated Notes Payable, and Other Long-term Borrowings

The fair value of these borrowings is estimated by discounting the expected future cash flows using rates currently available for debt with similar terms and remaining maturities. For subordinated notes payable, the Company uses its best estimate to determine an appropriate discount rate since active markets for similar debt transactions are very limited.

Commitments to Extend Credit and Standby Letters of Credit

Pricing of these financial instruments is based on the credit quality and relationship, fees, interest rates, probability of funding, compensating balance, and other covenants or requirements. Loan commitments generally have fixed expiration dates, variable interest rates and contain termination and other clauses that provide for relief from funding in the event there is a significant deterioration in the credit quality of the customer. Many loan commitments are expected to, and typically do, expire without being drawn upon. The rates and terms of the Company’s commitments to lend and standby letters of credit are competitive with others in the various markets in which the Company operates.

There are no unamortized fees relating to these financial instruments, as such the carrying value and fair value are both zero.

The following table presents the estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 and December 31, 2015. Information for available for sale investment securities is presented within this footnote in greater detail above.

			Fair Value Measurements Using		
(In thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016					
Assets					
Cash and cash equivalents	$127,575	$127,575	$127,575	$ -	$ -
Held to maturity investment securities	3,572	3,801	-	3,801	-
Loans, net	941,570	933,104	-	-	933,104
Accrued interest receivable	4,519	4,519	-	4,519	-
Federal Home Loan Bank and Federal Reserve Bank Stock	9,840	N/A	-	-	-
Liabilities					
Deposits	1,350,931	1,350,804	1,067,178	-	283,626
Federal funds purchased and other short-term borrowings	37,407	37,407	-	37,407	-
Securities sold under agreements to repurchase and other long-term borrowings	19,968	20,544	-	20,544	-
Subordinated notes payable to unconsolidated trusts	33,506	18,352	-	-	18,352
Accrued interest payable	322	322	-	322	-
December 31, 2015					
Assets					
Cash and cash equivalents	$120,493	$120,493	$120,493	$ -	$ -
Held to maturity investment securities	3,611	3,809	-	3,809	-
Loans, net	948,960	945,809	-	-	945,809
Accrued interest receivable	5,392	5,392	-	5,392	-
Federal Home Loan Bank and Federal Reserve Bank Stock	9,368	N/A	-	-	-
Liabilities					
Deposits	1,368,994	1,369,016	1,043,616	-	325,400

Federal funds purchased and other short-term borrowings	34,353	34,353	-	34,353	-
Securities sold under agreements to repurchase and other long-term borrowings	120,280	126,964	-	126,964	-
Subordinated notes payable to unconsolidated trusts	48,970	31,515	-	-	31,515
Accrued interest payable	851	851	-	851	-

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

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements with the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), under the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Statements in this report that are not statements of historical fact are forward-looking statements. In general, forward-looking statements relate to a discussion of future financial results or projections, future economic performance, future operational plans and objectives, and statements regarding the underlying assumptions of such statements. Although management of Farmers Capital Bank Corporation (the “Company” or “Parent Company”) believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate.

Various risks and uncertainties may cause actual results to differ materially from those indicated by the Company’s forward-looking statements. In addition to the risks described under Part 1, Item 1A *“Risk Factors”* in the Company’s most recent annual report on Form 10-K, factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to: economic conditions (both generally and more specifically in the markets in which the Company and its subsidiaries operate) and lower interest margins; competition for the Company’s customers from other providers of financial services; deposit outflows or reduced demand for financial services and loan products; government legislation, regulation, and changes in monetary and fiscal policies (which changes from time to time and over which the Company has no control); changes in interest rates; changes in prepayment speeds of loans or investment securities; inflation; material unforeseen changes in the liquidity, results of operations, or financial condition of the Company’s customers; changes in the level of non-performing assets and charge-offs; changes in the number of common shares outstanding; the capability of the Company to successfully enter into a definitive agreement for, close, and realize the benefits of anticipated transactions; unexpected claims or litigation against the Company; expected insurance or other recoveries; technological or operational difficulties; the impact of new accounting pronouncements and changes in policies and practices that may be adopted by regulatory agencies; acts of war or terrorism; the ability of the parent company to receive dividends from its subsidiaries; the impact of larger or similar financial institutions encountering difficulties, which may adversely affect the banking industry or the Company; the Company or its subsidiary banks’ ability to maintain required capital levels and adequate funding sources and liquidity; and other risks or uncertainties detailed in the Company’s filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of the Company.

The Company’s forward-looking statements are based on information available at the time such statements are made. The Company expressly disclaims any intent or obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or other changes.

RESULTS OF OPERATIONS

Third Quarter 2016 Compared to Third Quarter 2015

The Company reported net income of $4.3 million for the quarter ended September 30, 2016, an increase of $492 thousand or 12.8% compared with net income of $3.8 million for the third quarter of 2015. On a per common share basis, net income was $.58 and $.51 for the current and year-ago quarters, respectively. This represents an increase of $.07 or 13.7%.

Selected income statement amounts and related data are summarized in the table below.

(In thousands, except per share data)

Three Months Ended September 30,	2016	2015	Increase (Decrease)
Interest income	$14,619	$15,123	$ (504)
Interest expense	1,809	2,158	(349)
Net interest income	12,810	12,965	(155)
Provision for loan losses	(190)	(898)	708
Net interest income after provision for loan losses	13,000	13,863	(863)
Noninterest income	10,772	5,689	5,083
Noninterest expenses	17,888	14,281	3,607
Income before income taxes	5,884	5,271	613
Income tax expense	1,560	1,439	121
Net income	4,324	3,832	492
Less preferred stock dividends	-	-	-
Net income available to common shareholders	$4,324	$3,832	$ 492
Basic and diluted net income per common share	$.58	$.51	$ .07
Cash dividends declared per common share	.07	-	.07
Weighted average common shares outstanding – basic and diluted	7,505	7,495	10
Return on average assets	.98 %	.86 %	12 bp
Return on average equity	9.07 %	8.95 %	12 bp

bp – basis points.

The increase in net income is primarily attributed to higher noninterest income of $5.1 million or 89.3%, partially offset by higher noninterest expense of $3.6 million or 25.3%. Net interest income and the credit to the provision for loan losses were lower by $155 thousand and $708 thousand, respectively. Further information related to the more significant components making up the increase in net income follows.

Net Interest Income

The overall interest rate environment at September 30, 2016, as measured by the Treasury yield curve, remained at very low levels when compared with historical trends. The yield curve flattened slightly during the current quarter, particularly when comparing the two and three-year maturity periods. The six-month maturity period was up eight basis points, while the two and three-year maturity periods were both up 18 basis points. The ten and thirty-year maturity periods increased 12 and 3 basis points, respectively. At September 30, 2016, the short-term federal funds target interest rate remained between 0.25% and 0.50%, which was increased during December 2015 from a target range of zero to 0.25%. The Federal Reserve Board ("Federal Reserve") has indicated that while the case for an increase in the federal funds rate has strengthened, it will wait for further evidence of continued progress toward its objectives of maximum employment and two percent inflation when determining the timing and size of future adjustments to the target rate. At September 30, 2016, the national and Kentucky unemployment rate were both 5.0%. However, labor force participation rates remain near 40-year lows. The national inflation rate at September 30, 2016 was 1.5%, up from 0.7% at year-end 2015, but below the Federal Reserve target rate of 2%.

Net interest income was $12.8 million for the current quarter, a decrease of $155 thousand or 1.2% compared to $13.0 million for the prior year third quarter. The decline in net interest income was driven by lower interest income of $504 thousand or 3.3%, partially offset by a decrease in interest expense of $349 thousand or 16.2%. Interest income on loans and investment securities decreased $205 thousand or 1.7% and $380 thousand or 12.0% in the comparison. Interest expense on deposits and borrowed funds decreased $147 thousand or 20.3% and $202 thousand or 14.1%, respectively.

The decrease to interest income on loans was driven by a lower average rate earned of 14 basis points to 4.94%, partially offset by a higher average loan balance outstanding. Average loans for the current quarter increased $11.7 million or 1.3% compared to the third quarter of 2015. The Company continues to focus on maintaining strong credit underwriting standards and improving the overall credit quality of the loan portfolio.

Interest income on investment securities decreased mainly due to lower volume and, to a lesser extent, lower rates. Average investment securities for the quarter declined $42.3 million or 6.8% from a year ago. Proceeds received from matured or called investment securities are used to fund higher-earning loans or otherwise used to manage liquidity, such as for deposit outflows or for the repayment of long-term debt.

Interest expense on deposits is down primarily due to lower average outstanding balances and rate declines related to time deposits. The decline in interest expense on borrowed funds was driven by the early extinguishment of $15.5 million of debt during the first quarter of 2016.

Overall declines in the average rate earned from interest income on loans and average interest rate paid on deposits are the result of a slow growing economy and related low interest rate environment, competitive pressures, and the Company’s strategy of being more selective in pricing its loans and deposits. The goal of this strategy is to improve credit quality, net interest income, overall profitability, and capital position.

The Company is generally earning and paying less interest from its earning assets and funding sources as the average rates earned and paid have decreased. This includes repricing of variable and floating rate assets and liabilities that have reset to overall lower amounts since their previous repricing date as well as activity related to new earning assets and funding sources in a low interest rate environment. The Company continues to reprice its higher-rate maturing time deposits downward to lower market rates or to allow them to mature without renewal, as liquidity has been adequate.

As part of its strategy to improve net interest income and net interest margin, during September 2016, the Company began a series of transactions to deleverage its balance sheet and reposition its investment securities portfolio. The Company used a mixture of $10.4 million of excess cash and $93.4 million of proceeds from the sale of investment securities to prepay $100 million of high fixed-rate borrowings due to mature in November 2017 and a related prepayment fee of $3.8 million. The average yield on the mix of cash and investment securities sold to fund the debt prepayment was 2.97%. The average cost of the fixed rate borrowings that were repaid was 3.95%. The Company also began to reposition its investment securities portfolio. This is being accomplished by replacing approximately $78 million of certain lower yielding short-term investments built up in anticipation of the debt repayment with longer-term, higher-yielding investments consistent with a more normalized strategy and maturity periods. The average yield on the investments identified for the repositioning strategy is 0.85% compared to a targeted reinvestment yield of 1.85%. As a result, the average life of the securities portfolio increased to 4.0 years from 3.5 years. Due to the timing of the transactions, the benefits of the transactions were not fully realized as of the end of the quarter.

The net interest margin on a taxable equivalent basis was 3.23% in the current quarter, down two basis points from 3.25% a year ago. Net interest spread decreased two basis point to 3.07% from 3.09% a year earlier. The Company expects the deleveraging transaction and portfolio repositioning strategy to have a positive impact on its net interest margin in the next quarter, then remain relatively level over the near term according to current internal modeling. Future results could be significantly different than expectations.

The following tables present an analysis of net interest income for the quarterly periods ended September 30.

Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential

Three Months Ended September 30,	2016 Average		Average		2015 Average		Average	
(In thousands)	Balance	Interest	Rate		Balance	Interest	Rate	
Earning Assets								
Investment securities[1]								
Taxable	$451,199	$2,159	1.90	%	$488,636	$2,508	2.04	%
Nontaxable[2]	124,820	941	3.00		129,692	984	3.01	
Interest bearing deposits in banks, federal funds sold, securities purchased under agreements to resell, and money market mutual funds	102,021	116	.45		79,211	35	.18	
Loans[2,3,4]	948,734	11,792	4.94		936,988	12,001	5.08	
Total earning assets	1,626,774	$15,008	3.67	%	1,634,527	$15,528	3.77	%
Allowance for loan losses	(9,388)				(12,022)			
Total earning assets, net of allowance for loan losses	1,617,386				1,622,505			
Nonearning Assets								
Cash and due from banks	23,766				23,515			
Premises and equipment, net	32,462				33,934			
Other assets	80,147				86,572			
Total assets	$1,753,761				$1,766,526			
Interest Bearing Liabilities								
Deposits								
Interest bearing demand	$334,349	$60	.07	%	$326,645	$49	.06	%
Savings	410,214	126	.12		392,320	136	.14	
Time	289,327	392	.54		345,403	540	.62	
Federal funds purchased and other short-term borrowings	37,728	26	.27		31,330	13	.16	
Securities sold under agreements to repurchase and other long-term borrowings	134,427	1,205	3.57		167,827	1,420	3.36	
Total interest bearing liabilities	1,206,045	$1,809	.60	%	1,263,525	$2,158	.68	%
Noninterest Bearing Liabilities								
Demand deposits	328,351				303,878			
Other liabilities	29,792				29,192			
Total liabilities	1,564,188				1,596,595			
Shareholders' equity	189,573				169,931			
Total liabilities and shareholders' equity	$1,753,761				$1,766,526			
Net interest income		13,199				13,370		
TE basis adjustment		(389)				(405)		
Net interest income		$12,810				$12,965		

Net interest spread	3.07 %	3.09 %
Impact of noninterest bearing sources of funds	.16	.16
Net interest margin	3.23 %	3.25 %

[1]Average yields on securities available for sale have been calculated based on amortized cost.

[2]Income and yield stated at a fully tax equivalent basis using the marginal corporate Federal tax rate of 35%.

[3]Loan balances include principal balances on nonaccrual loans.

[4]Loan fees included in interest income amounted to $326 thousand and $301 thousand in 2016 and 2015, respectively.

Analysis of Changes in Net Interest Income (tax equivalent basis)

(In thousands)	Variance	Variance Attributed to	
Three Months Ended September 30,	2016/2015[1]	Volume	Rate
Interest Income			
Taxable investment securities	$ (349)	$ (184)	$ (165)
Nontaxable investment securities[2]	(43)	(40)	(3)
Interest bearing deposits in banks, federal funds sold, securities purchased under agreements to resell, and money market mutual funds	81	13	68
Loans[2]	(209)	755	(964)
Total interest income	(520)	544	(1,064)
Interest Expense			
Interest bearing demand deposits	11	1	10
Savings deposits	(10)	35	(45)
Time deposits	(148)	(83)	(65)
Federal funds purchased and other short-term borrowings	13	3	10
Securities sold under agreements to repurchase and other long-term borrowings	(215)	(700)	485
Total interest expense	(349)	(744)	395
Net interest income	$ (171)	$ 1,288	$ (1,459)
Percentage change	100.0 %	(753.2)%	853.2 %

[1]The changes that are not solely due to rate or volume are allocated on a percentage basis using the absolute values of rate and volume variances as a basis for allocation.

[2]Income stated at fully tax equivalent basis using the marginal corporate Federal tax rate of 35%.

<u>Provision</u> <u>for Loan Losses</u>

The provision for loan losses represents charges or credits to earnings that are necessary to maintain an allowance for loan losses at an adequate level to cover credit losses specifically identified in the loan portfolio, as well as management's best estimate of incurred probable loan losses in the remainder of the portfolio at the balance sheet date. The overall credit quality of the Company's loan portfolio continued to improve in the comparable periods, as certain credit quality metrics are at or near recent quarterly bests.

The Company recorded a credit to the provision for loan losses in the amount of $190 thousand and $898 thousand in the current and year ago quarters, respectively. The allowance for loan losses as a percentage of outstanding loans was 0.96% at September 30, 2016 compared to 1.08% and 1.21% at year-end 2015 and September 30, 2015, respectively.

The credit to the provision for loan losses is attributed to continuing overall improvement in the credit quality indicators of the loan portfolio. Net charge-offs were $149 thousand in the current quarter, an increase of $125 thousand compared to $24 thousand a year earlier. Although up, the Company's net charge-offs remain near its historical lows.

Nonperforming loans, loans graded as substandard, and watch list loans have each declined when compared with a year earlier. Historical loss rates have also improved as lower recent charge-off activity has replaced the higher levels experienced in the early part of the Company's rolling quarterly four year look-back period used when evaluating the allowance for loan losses. As credit quality metrics approach pre-recession levels, the rate of improvement has declined. While historical loss rates may continue to improve throughout 2016 due to elevated charge-offs falling out of the look-back period, this improvement may not necessarily correlate to a lower provision for loan losses. Other qualitative factors, such as changes in loan volume, the overall makeup of the portfolio, economic conditions, and other risk factors applied to historical loss rates may offset to some degree the impact of decreases to the historical loss rates. For further information about improvements in the Company's overall credit quality, please refer to the discussion under the captions *"Allowance for Loan Losses"* and *"Nonperforming Loans"* that follows.

Noninterest Income

The components of noninterest income are as follows for the periods indicated:

(Dollars in thousands) Three Months Ended September 30,	2016	2015	Increase (Decrease)	%
Service charges and fees on deposits	$2,046	$1,955	$ 91	4.7 %
Allotment processing fees	810	1,066	(256)	(24.0)
Other service charges, commissions, and fees	1,459	1,442	17	1.2
Trust income	715	667	48	7.2
Investment securities gains, net	3,776	(2)	3,778	NM
Gain on sale of mortgage loans, net	273	220	53	24.1
Income from company-owned life insurance	229	234	(5)	(2.1)
Legal settlement	1,350	-	1,350	NM
Other	114	107	7	6.5
Total noninterest income	$10,772	$5,689	$ 5,083	89.3 %

NM – Not meaningful.

The increase in noninterest income was driven by net gains on the sale of investment securities of $3.8 million and a $1.4 million payment received related to a litigation settlement for which the Company expects to receive no additional payments. The gains on the sale of investment securities relates to the series of transactions to deleverage and reposition the balances sheet discussed earlier under the caption *"Net Interest Income"* above, which completely offset the related loss on the early repayment of long-term borrowings.

Service charges and fees on deposits are up primarily due to higher service charges and dormant account fees of $123 thousand or 106% and $59 thousand or 10.0%, respectively, partially offset by lower overdraft fees of $97 thousand or 8.6%. During the second quarter of 2016, the Company standardized and reduced the number of its deposit account product offerings throughout the corporation. This contributed to an overall increase in service charges in the comparison. The Company anticipates that service charges on deposits will increase incrementally in the short term; however, it cannot quantify with precision the impact of this change on customer behavior and related deposit balances and fee income.

Allotment processing fees are down as a result of lower processing volume stemming from the U.S. Department of Defense ("DOD") policy that went into effect on January 1, 2015, which restricts the types of purchases active duty service members are able to make using the military allotment system for payment. These restrictions have resulted in lower processing volumes for the Company. The Company continues its efforts to diversify its allotment customer base and product offerings with the goal of offsetting the impact of the DOD policy restrictions.

Noninterest Expense

The components of noninterest expense are as follows for the periods indicated:

(Dollars in thousands) Three Months Ended September 30,	2016	2015	Increase (Decrease)	%
Salaries and employee benefits	$7,810	$7,774	$ 36	.5 %
Occupancy expenses, net	1,172	1,177	(5)	(.4)
Equipment expenses	777	691	86	12.4
Data processing and communication expense	1,081	1,114	(33)	(3.0)
Bank franchise tax	613	608	5	.8
Amortization of intangibles	-	112	(112)	(100.0)
Deposit insurance expense	227	397	(170)	(42.8)
Other real estate expenses, net	454	262	192	73.3
Legal expenses	101	292	(191)	(65.4)
Loss on debt extinguishment	3,776	-	3,776	NM
Other	1,877	1,854	23	1.2
Total noninterest expense	$17,888	$14,281	$ 3,607	25.3 %

NM – Not meaningful.

The increase in noninterest expense was primarily due to the $3.8 million loss related to the early extinguishment of $100 million of debt in the current quarter. The loss was completely offset by the net gain on the sale of investment securities discussed under the *"Noninterest Income"* caption above. Other significant components of noninterest expense that changed include higher expenses related to repossessed real estate and equipment expense, and lower expenses related to legal, deposit insurance, and amortization of intangible assets.

Impairment charges on repossessed real estate were $599 thousand, an increase of $570 thousand compared to $29 thousand in the year-ago quarter. The current quarter also includes a net gain on sales of repossessed real estate of $155 thousand compared to a net loss of $138 thousand in the comparison. Development, maintenance, and operating costs were down $85 thousand or 89.5%. The increase in equipment expense was driven by integration related costs of $123 thousand associated with the announced merger of our banking subsidiaries.

Legal expenses are lower due to the level of activity occurring in the normal course of business. The reduction in deposit insurance expense is due to the improvement in the risk ratings at the Company's subsidiary banks, which is used in the determination of the amount payable. Amortization of intangible assets declined as a result of being fully amortized at year-end 2015.

The Company is progressing with its plan to consolidate its four bank subsidiaries and data processing subsidiary into one bank. As a result of the consolidation, the Company expects estimated annualized pre-tax savings of $3.0 million to $3.5 million once the merger is completed. This estimate consists primarily of reductions to salaries and employee benefits. The Company expects the merger to be completed on February 20, 2017, subject to approval by the Federal Reserve Bank of St. Louis, which has not yet been received.

Income Taxes

Income tax expense was $1.6 million for the current quarter, an increase of $121 thousand or 8.4% compared to $1.4 million for the same quarter of 2015. The effective income tax rates were 26.5% and 27.3% for the current and year-ago quarters, respectively.

First Nine Months of 2016 Compared to First Nine Months of 2015

The Company reported net income of $14.1 million for the first nine months of 2016, an increase of $2.7 million or 23.2% compared with net income of $11.4 million for the same period in 2015. On a per common share basis, net income for the current nine months was $1.87, an increase of $.40 or 27.2% compared to $1.47 reported a year earlier. Per common share net income was also impacted positively by the Company's redemption of its outstanding preferred shares, which decreased preferred dividends by $395 thousand.

Selected income statement amounts and related data are presented in the table below.

(In thousands, except per share data)

Nine Months Ended September 30,	2016	2015	Increase (Decrease)
Interest income	$44,922	$46,064	$ (1,142)
Interest expense	5,827	6,523	(696)
Net interest income	39,095	39,541	(446)
Provision for loan losses	(819)	(2,707)	1,888
Net interest income after provision for loan losses	39,914	42,248	(2,334)
Noninterest income	25,835	16,638	9,197
Noninterest expenses	46,179	43,265	2,914
Income before income taxes	19,570	15,621	3,949
Income tax expense	5,510	4,213	1,297
Net income	14,060	11,408	2,652
Less preferred stock dividends	-	395	(395)
Net income available to common shareholders	$14,060	$11,013	$ 3,047
Basic and diluted net income per common share	$1.87	$1.47	$ .40
Cash dividends declared per common share	.21	-	.21
Weighted average common shares outstanding – basic and diluted	7,503	7,492	11
Return on average assets	1.07 %	.85 %	22 bp
Return on average equity	10.14 %	8.76 %	138 bp

bp – basis points.

The $2.7 million increase in net income is attributed primarily to higher noninterest income of $9.2 million or 55.3%, which includes a pretax gain of $4.1 million related to the early extinguishment of $15.5 million of debt during the first quarter of the current year. This was partially offset by higher noninterest expense of $2.9 million or 6.7% and a lower credit to the provision for loan losses of $1.9 million. Net interest income declined $446 thousand. Further information related to the more significant components making up the increase in net income follows.

Net Interest Income

Net interest income was $39.1 million for the first nine months of 2016, a decrease of $446 thousand or 1.1% compared to $39.5 million for the first nine months of 2015. The decrease in net interest income resulted from lower interest income of $1.1 million or 2.5%, partially offset by a decrease in interest expense of $696 thousand or 10.7%. Interest income on loans and investment securities decreased $366 thousand or 1.0% and $965 thousand or 9.7%, respectively. Interest expense on deposits and borrowed funds decreased $460 thousand or 20.1% and $236 thousand or 5.6%, respectively.

The decrease to interest income on loans resulted primarily from a decline in the average rate to 5.01% from 5.21%. The average rate earned on the loan portfolio was positively impacted three basis points in the current nine months by $236 thousand related to a nonaccrual commercial real estate loan that fully paid off during the first quarter of 2016. The prior year was boosted seven basis points by $482 thousand of accretion related to a loan purchased at a discount during the first quarter of 2015. Accretion related to this loan was recognized over its contractual life, which ended in June 2015. The lower average rate on loans for the current period was partially offset by a higher average balance outstanding. Average loans were up $24.6 million or 2.6% from the year-ago comparable period. The Company continues to focus on maintaining strong credit underwriting standards and improving the overall credit quality of the loan portfolio.

Interest income on investment securities decreased mainly due to lower volume. Average investment securities were down $50.1 million or 7.9% from the comparable year-ago period. Proceeds received from matured or called investment securities were mainly used to fund higher-earning loans and fund deposit outflows.

The decrease in interest expense on deposits is primarily due to lower average outstanding balances and rate declines related to time deposits. The decline in interest expense on borrowed funds was driven by the early extinguishment of $15.5 million of debt during the first quarter of 2016.

Overall declines in the average rate earned from interest income on loans and average interest rate paid on deposits are the result of a slow growing economy and low interest rate environment, competitive pressures, and the Company's strategy of being more selective in pricing its loans and deposits. The goal of this strategy is to improve credit quality, net interest income, overall profitability, and capital position.

The Company is generally earning and paying less interest from its earning assets and funding sources as the average rates earned and paid have decreased. This includes repricing of variable and floating rate assets and liabilities that have reset to overall lower amounts since their previous repricing date as well as activity related to new earning assets and funding sources in a low interest rate environment. The Company continues to reprice its higher-rate maturing time deposits downward to lower market rates or allowing them to mature without renewal, as liquidity has been adequate.

As part of its strategy to improve net interest income and net interest margin, during September 2016, the Company began a series of transactions to deleverage its balance sheet and reposition its investment securities portfolio. The Company used a mixture of $10.4 million of excess cash and $93.4 million of proceeds from the sale of investment securities to prepay $100 million of high fixed-rate borrowings due to mature in November 2017 and a related prepayment fee of $3.8 million. The average yield on the mix of cash and investment securities sold to fund the debt prepayment was 2.97%. The average cost of the fixed rate borrowings that were repaid was 3.95%. The Company also began to reposition its investment securities portfolio. This is being accomplished by replacing approximately $78 million of certain lower yielding short-term investments built up in anticipation of the debt repayment with longer-term, higher-yielding investments consistent with a more normalized strategy and maturity periods. The average yield on the investments identified for the repositioning strategy is 0.85% compared to a targeted reinvestment yield of 1.85%. As a result, the average life of the securities portfolio increased to 4.0 years from 3.5 years. Due to the timing of the transactions, the benefits of the transactions were not fully realized as of the end of the quarter.

The net interest margin on a taxable equivalent basis was 3.29% and 3.30% for the first nine months of 2016 and 2015, respectively. Net interest spread was 3.13% and 3.15% in the comparison. Net interest margin and spread for the current nine months were positively impacted two basis points related to the collection of interest on the nonaccrual commercial real estate loan identified above. The prior year margin and spread were boosted four basis points by accretion related to the loan purchased at a discount discussed above. The Company expects the deleveraging transaction and portfolio repositioning strategy to have a positive impact on its net interest margin in the fourth quarter, then remain relatively level over the near term according to current internal modeling. Future results could be significantly different than expectations.

The following tables present an analysis of net interest income for the nine months ended September 30.

Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential

Nine Months Ended September 30,	2016				2015			
(In thousands)	Average Balance	Interest	Average Rate		Average Balance	Interest	Average Rate	
Earning Assets								
Investment securities[1]								
Taxable	$459,125	$7,095	2.06	%	$504,087	$7,944	2.11	%
Nontaxable[2]	122,970	2,783	3.02		128,093	2,951	3.08	
Interest bearing deposits in banks, federal funds sold, securities purchased under agreements to resell, and money market mutual funds	97,044	321	.44		87,859	132	.20	
Loans[2,3,4]	955,417	35,861	5.01		930,775	36,284	5.21	
Total earning assets	1,634,556	$46,060	3.76	%	1,650,814	$47,311	3.83	%
Allowance for loan losses	(9,756)				(12,734)			
Total earning assets, net of allowance for loan losses	1,624,800				1,638,080			
Nonearning Assets								
Cash and due from banks	22,947				23,405			
Premises and equipment, net	32,590				34,341			
Other assets	81,440				91,822			
Total assets	$1,761,777				$1,787,648			
Interest Bearing Liabilities								
Deposits								
Interest bearing demand	$333,457	$191	.08	%	$337,601	$148	.06	%
Savings	406,639	387	.13		384,008	371	.13	
Time	303,240	1,245	.55		364,714	1,764	.65	
Federal funds purchased and other short-term borrowings	36,098	72	.27		29,371	33	.15	
Securities sold under agreements to repurchase and other long-term borrowings	147,706	3,932	3.56		167,867	4,207	3.35	
Total interest bearing liabilities	1,227,140	$5,827	.63	%	1,283,561	$6,523	.68	%
Noninterest Bearing Liabilities								
Demand deposits	320,873				302,380			
Other liabilities	28,502				27,682			
Total liabilities	1,576,515				1,613,623			
Shareholders' equity	185,262				174,025			
Total liabilities and shareholders' equity	$1,761,777				$1,787,648			
Net interest income		40,233				40,788		
TE basis adjustment		(1,138)				(1,247)		
Net interest income		$39,095				$39,541		

Net interest spread	3.13	%	3.15	%
Impact of noninterest bearing sources of funds	.16		.15	
Net interest margin	3.29	%	3.30	%

[1]Average yields on securities available for sale have been calculated based on amortized cost.

[2]Income and yield stated at a fully tax equivalent basis using the marginal corporate Federal tax rate of 35%.

[3]Loan balances include principal balances on nonaccrual loans.

[4]Loan fees included in interest income amounted to $1.0 million and $941 thousand in 2016 and 2015, respectively.

Analysis of Changes in Net Interest Income (tax equivalent basis)

(In thousands)	Variance	Variance Attributed to	
Nine Months Ended September 30,	2016/2015[1]	Volume	Rate
Interest Income			
Taxable investment securities	$ (849)	$ (671)	$ (178)
Nontaxable investment securities[2]	(168)	(113)	(55)
Interest bearing deposits in banks, federal funds sold, securities purchased under agreements to resell, and money market mutual funds	189	15	174
Loans[2]	(423)	1,347	(1,770)
Total interest income	(1,251)	578	(1,829)
Interest Expense			
Interest bearing demand deposits	43	(3)	46
Savings deposits	16	16	-
Time deposits	(519)	(271)	(248)
Federal funds purchased and other short-term borrowings	39	9	30
Securities sold under agreements to repurchase and other long-term borrowings	(275)	(644)	369
Total interest expense	(696)	(893)	197
Net interest income	$ (555)	$ 1,471	$ (2,026)
Percentage change	100.0 %	(265.0)%	365.0 %

[1]The changes that are not solely due to rate or volume are allocated on a percentage basis using the absolute values of rate and volume variances as a basis for allocation.

[2]Income stated at fully tax equivalent basis using the marginal corporate Federal tax rate of 35%.

Provision for Loan Losses

The Company recorded a credit to the provision for loan losses in the amount of $819 thousand and $2.7 million for the first nine months of 2016 and 2015, respectively. The allowance for loan losses as a percentage of outstanding loans was 0.96% at September 30, 2016 compared to 1.08% and 1.21% at year-end 2015 and September 30, 2015, respectively. The credit to the provision for loan losses is attributed to continuing improvement in the credit quality of the loan portfolio. The lower credit to the provision is mainly driven by a greater improvement in historical loss rates and certain credit quality metrics in the first nine months of 2015 compared to the current year-to-date period. The Company had net loan charge-offs of $350 thousand in the current period compared to net recoveries of $16 thousand a year earlier.

Nonperforming loans, loans graded as substandard, and watch list loans have each declined compared to a year earlier. Historical loss rates have also improved as lower recent charge-off activity has replaced the higher levels experienced in the early part of the Company's rolling quarterly four year look-back period used when evaluating the allowance for loan losses. As credit quality metrics approach pre-recession levels, the rate of improvement has declined in the comparable periods presented. While historical loss rates may continue to improve throughout 2016 due to elevated charge-offs falling out of the look-back period, this improvement may not necessarily correlate to a lower provision for loan losses. Other qualitative factors, such as changes in loan volume, the overall makeup of the portfolio, economic conditions, and other risk factors applied to historical loss rates may offset to some degree the impact of decreases to the historical loss rates. For further information about improvements in the Company's overall credit quality, please refer to the discussion under the captions *"Allowance for Loan Losses"* and *"Nonperforming Loans"* that follows.

Noninterest Income

The components of noninterest income are as follows for the periods indicated:

(Dollars in thousands) Nine Months Ended September 30,	2016	2015	Increase (Decrease)	%
Service charges and fees on deposits	$5,840	$5,634	$ 206	3.7 %
Allotment processing fees	2,504	3,358	(854)	(25.4)
Other service charges, commissions, and fees	4,173	4,056	117	2.9
Trust income	2,034	1,821	213	11.7
Investment securities gains, net	3,990	163	3,827	NM
Gain on sale of mortgage loans, net	695	558	137	24.6
Income from company-owned life insurance	785	702	83	11.8
Gain on debt extinguishment	4,050	-	4,050	NM
Legal settlement	1,450	-	1,450	NM
Other	314	346	(32)	(9.2)
Total noninterest income	$25,835	$16,638	$ 9,197	55.3 %

NM – Not meaningful.

The increase in noninterest income relates mainly to the $4.1 million gain related to the early extinguishment of debt during the first quarter of 2016, a $3.8 million increase in net gains on the sale of investment securities, and a $1.5 million payment received related to a litigation settlement for which the Company expects to receive no additional payments. The gains on the sale of investment securities relates primarily to the series of transactions during the current quarter to deleverage and reposition the balances sheet discussed earlier under the caption *"Net Interest Income"* above, which completely offset the related loss on the early repayment of long-term borrowings.

The increase in service charges and fees on deposits was driven by higher service charges of $210 thousand or 61.0%, and higher dormant account fees of $182 thousand or 10.3%, partially offset by lower overdraft fees of $173 thousand or 5.5%. During the second quarter of 2016, the Company standardized and reduced the number of its deposit account product offerings throughout the corporation. This contributed to an overall increase in service charges during the quarter. The Company anticipates that service charges on deposits will increase incrementally in the short term; however, it cannot quantify with precision the impact of this change on customer behavior and related deposit balances and fee income.

Nondeposit service charges, commissions, and fees were up due to higher interchange fees of $110 thousand or 4.8%. Trust income increased primarily due to higher market values of managed assets and, to a lesser degree, certain changes in fee structure that went into place during the third quarter of 2015. Net gains from the sale of mortgage loans was higher primarily due to an increase in volume of mortgage loans sold of $5.6 million or 26.4% in the comparison. The increase in income from company-owned life insurance is primarily related to the collection of a tax-free death benefit received in excess of the cash surrender value in the current period.

The decrease in allotment processing fees is a result of lower processing volume related to the U.S. DOD restrictions that went into effect on January 1, 2015. The new policy restricts active duty service members from entering into certain types of allotment arrangements. These restrictions have resulted in lower processing volumes. The Company continues its efforts to diversify its allotment customer base and product offerings with the goal of offsetting the impact of the DOD policy restrictions.

Noninterest Expense

The components of noninterest expense are as follows for the periods indicated:

(Dollars in thousands) Nine Months Ended September 30,	2016	2015	Increase (Decrease)	%
Salaries and employee benefits	$23,444	$23,946	$ (502)	(2.1)%
Occupancy expenses, net	3,541	3,623	(82)	(2.3)
Equipment expenses	2,088	1,918	170	8.9
Data processing and communication expense	3,482	3,243	239	7.4
Bank franchise tax	1,823	1,820	3	.2
Amortization of intangibles	-	337	(337)	(100.0)
Deposit insurance expense	805	1,201	(396)	(33.0)
Other real estate expenses, net	1,466	1,033	433	41.9
Legal expenses	370	693	(323)	(46.6)
Loss on debt extinguishment	3,776	-	3,776	NM
Other	5,384	5,451	(67)	(1.2)
Total noninterest expense	$46,179	$43,265	$ 2,914	6.7 %

NM – Not meaningful.

Noninterest expenses is up mainly due to the $3.8 million loss related to the early extinguishment of $100 million of debt during the third quarter of 2016. The loss was completely offset by the net gain on the sale of investment securities discussed under the *"Noninterest Income"* caption above. The increase in equipment expense was driven by $123 thousand of integration related costs associated with the announced merger of our banking subsidiaries. Data processing and communication expense increased mainly due to a one-time accrual adjustment during the second quarter of $137 thousand related to a change in card vendor and adding the use of a third party for statement processing.

The increase in repossessed real estate expenses is primarily the result of higher impairment charges of $736 thousand or 124%. Write-downs in the current year include $620 thousand in the aggregate related to two commercial real estate properties written down to their estimated fair value less cost to sell and $124 thousand related to a residential real estate development property as a result of entering into a sales contract expected to close in the fourth quarter. The current year also includes a net gain on property sales of $30 thousand compared to a net loss of $129 thousand a year ago. Development, maintenance, and operating costs were down $144 thousand or 46.6%.

Employee benefit expenses were down $694 thousand or 14.3%, mainly due to claims activity related to the Company's self-funded health insurance plan and, to a lesser extent, lower actuary-determined postretirement benefit expense. Salaries and related payroll taxes were up $191 thousand or 1.0%. The Company had an average of 491 full time equivalent employees during the first nine months of 2016, down from an average of 510 for the year-ago period. The increase in salaries and related payroll taxes is due to normal employee annual increases and the addition of a new Chief Operating Officer beginning in the first quarter of 2016.

Amortization of intangible assets declined as a result of being fully amortized at year-end 2015. The reduction in deposit insurance expense is due to the improvement in the risk ratings at the Company's subsidiary banks, which is used in the determination of the amount payable. The decline in legal expenses was mainly related to a legal settlement during the first quarter of 2015.

The Company is progressing with its plan to consolidate its four bank subsidiaries and data processing subsidiary into one bank. As a result of the consolidation, the Company expects estimated annualized pre-tax savings of $3.0 million to $3.5 million once the merger is completed. This estimate consists primarily of reductions to salaries and employee benefits. The Company expects the merger to be completed on February 20, 2017, subject to approval by the Federal Reserve Bank of St. Louis, which has not yet been received.

Income Taxes

Income tax expense was $5.5 million for the current nine months, an increase of $1.3 million or 30.8% compared to $4.2 million for 2015. The effective income tax rates were 28.2% and 27.0% for the current and year-ago periods, respectively. The increase in the effective income tax rate is mainly attributed to higher pretax income, made up by a higher mix of taxable versus tax-exempt sources of revenue driven by the $4.1 million pretax gain on the early extinguishment of debt during the first quarter of 2016.

FINANCIAL CONDITION

Total assets were $1.7 billion at September 30, 2016, a decrease of $117 million or 6.6% from year-end 2015, with declines occurring across nearly all significant line items. Liabilities were down $130 million or 8.2%, resulting in increased equity of $13.0 million or 7.4%. Selected balance sheet amounts and related data are presented in the table below and discussion that follows.

(Dollars in thousands, except per share amounts)	September 30, 2016	December 31, 2015	Increase (Decrease)	%
Cash and cash equivalents	$127,575	$120,493	$7,082	5.9 %
Investment securities	477,991	585,813	(107,822)	(18.4)
Loans, net of allowance of $9,146 and $10,315	941,570	948,960	(7,390)	(.8)
Other real estate owned	15,336	21,843	(6,507)	(29.8)
Other assets	96,021	98,841	(2,820)	(2.9)
Total assets	$1,658,493	$1,775,950	$(117,457)	(6.6)%
Deposits	$1,350,931	$1,368,994	$(18,063)	(1.3)%
Federal funds purchased and other short-term borrowings	37,407	34,353	3,054	8.9
Other borrowings	53,474	169,250	(115,776)	(68.4)

Other liabilities	27,957	27,655	302	1.1
Total liabilities	1,469,769	1,600,252	(130,483)	(8.2)
Common stock	938	937	1	.1
Capital surplus	51,809	51,608	201	.4
Retained earnings	132,856	120,371	12,485	10.4
Accumulated other comprehensive income	3,121	2,782	339	12.2
Total shareholders' equity	188,724	175,698	13,026	7.4
Total liabilities and shareholders' equity	$1,658,493	$1,775,950	$(117,457)	(6.6)%
End of period tangible book value per common share[1]	$25.14	$23.43	$1.71	7.3 %
End of period per common share closing price	29.64	27.11	2.53	9.3

[1]Represents total common equity less intangible assets divided by the number of common shares outstanding at the end of the period.

The increase in cash and cash equivalents and decrease in investment securities from year-end is a result of the Company's series of transactions to deleverage and reposition the balance sheet during the third quarter. The Company used a mixture of excess cash and proceeds from the sale of investment securities to fund the early repayment of $100 million of high fixed-rate borrowings. At September 30, 2016, the Company's strategy to reposition the investment securities portfolio by replacing approximately $78 million of certain lower yielding short-term investments with a more normalized strategy and maturity periods had yet to be fully completed, resulting in higher cash and cash equivalents.

The decrease in loans was driven by those secured by real estate, primarily residential real estate lending partially offset by an increase in commercial real estate. Nonaccrual loans represent $1.6 million of the overall decrease in loans. The decrease in OREO was primarily driven by property sales of $7.0 million.

The decrease in total liabilities is mainly attributed to the reduction in long-term borrowings and total deposits. Long-term borrowings declined $116 million or 68.4%, primarily due to the early extinguishment of $15.5 million of debt during the first quarter of 2016 and $100 million of debt during the third quarter. Interest bearing deposits are down $34.8 million or 3.3%, partially offset by an increase in noninterest bearing deposits of $16.8 million or 5.3%. The decrease in interest bearing deposits was driven by lower time deposits of $41.3 million or 12.7%.

The increase in shareholders' equity was driven by net income of $14.1 million, partially offset by dividends declared on common stock of $1.6 million. Other comprehensive income of $339 thousand was primarily made up of a $312 thousand increase in the after-tax unrealized gain related to the available for sale investment securities portfolio.

Temporary Investments

Temporary investments consist of interest bearing deposits in other banks, federal funds sold and securities purchased under agreements to resell, and money market mutual funds. The Company uses these funds in the management of liquidity and interest rate sensitivity or as a short-term holding prior to subsequent movement into other investments with higher yields or for other purposes. At September 30, 2016, temporary investments were $106 million, an increase of $13.8 million or 15.0% from year-end 2015.

Investment Securities

The investment securities portfolio is comprised primarily of residential mortgage-backed securities, tax-exempt securities of states and political subdivisions, and debt securities issued by U.S. government-sponsored agencies. Substantially all of the Company's investment securities are designated as available for sale. Principal payment received on mortgage-backed securities and proceeds from maturing or called investment securities not needed to fund higher-earning loans are either reinvested in similar investments or used to manage liquidity, such as for deposit outflows or other payment obligations. Total investment securities had a carrying amount of $478 million at September 30, 2016, a decrease of $108 million or 18.4% compared to $586 million at year-end 2015.

The decrease in investment securities was driven by net maturities, calls, and sales of $320 million in the aggregate, which outpaced purchases totaling $210 million. Proceeds from the sale of available-for-sale investment securities of $93.4 million, in addition to $10.4 million of cash deposits, were used to fund the debt prepayment in the third quarter as discussed in more detail under the *"Net Interest Income"* captions on pages 35 and 41. Net premium amortization of $3.1 million also made up part of the decrease. The market value adjustment of the available for sale securities portfolio increased $478 thousand and is attributable to higher bond prices related to longer term maturity periods. Yields for the five, ten and 30-year Treasury securities each decreased since year-end 2015. Generally, as market interest rates decrease, the value of fixed rate investments increase.

During the first half of 2016, the Company sold $27 million of municipal securities issued by certain local school districts located in Kentucky. This was done with the goal of reducing credit risk exposures in the portfolio to higher-unemployment areas. The Company recorded an overall net gain of $22 thousand on the sales and reinvested the proceeds in a mix of other municipal bonds in and outside of Kentucky, as well as U.S. government agencies.

Investment securities include single-issuer trust preferred capital securities of a U.S. based global financial services firm. The carrying value of this investment at September 30, 2016 was $5.2 million, which includes an unrealized loss of $702 thousand. At year-end 2015, these securities had an unrealized loss of $793 thousand.

The Company's investment in the single-issuer trust preferred capital securities continue to perform according to contractual terms and continue to be rated as investment grade by major rating agencies. The issuer of the securities announced in the first quarter of 2016 an increase in their common equity repurchase plan and have continued their per share common dividend payments. The Company does not intend to sell these securities nor does the Company believe it is likely that it will be required to sell these securities prior to their anticipated recovery. The Company believes these securities are not impaired due to reasons of credit quality or other factors, but rather the unrealized loss is primarily attributed to continuing uncertainties in both international and domestic economies and market volatility. The Company believes that it will collect all amounts due according to the contractual terms of these securities and that the fair values of these securities will continue to recover as they approach their maturity dates.

Loans

Loans were $951 million at September 30, 2016, a decrease of $8.6 million or 0.9% compared to year-end 2015. High quality loan demand remains soft, and the Company continues a conservative approach to loan originations while working to further reduce its level of nonperforming assets in a slow growth economy. Generating high quality loan demand continues to be a challenge. Loan payments include $2.7 million related to nonaccrual loans during 2016.

The composition of the loan portfolio is summarized in the table below.

(Dollars in thousands)	September 30, 2016 Amount	%	December 31, 2015 Amount	%
Real estate mortgage – construction and land development	$114,454	12.0 %	$115,516	12.0 %
Real estate mortgage – residential	341,160	35.9	355,134	37.0
Real estate mortgage – farmland and other commercial enterprises	393,973	41.5	386,386	40.3
Commercial, financial, and agriculture	91,294	9.6	89,820	9.4
Installment	9,835	1.0	12,419	1.3
Total	$950,716	100.0%	$959,275	100.0%

On an average basis, loans represented 58.5% of earning assets for the current nine month period, an increase of 181 basis points compared to 56.6% for the year 2015. The increase in the level of average loans as a percentage of earning assets reflects the overall growth in the loan portfolio over the past year. The increase in loans in the year-over-year period has been funded by cash flows from investment securities and temporary investments. Loans typically involve an increase in credit risk and higher yields when compared to investment securities and temporary investment alternatives.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed to be adequate by management to cover probable losses in the loan portfolio. The calculation of the appropriate level of allowance for loan losses requires significant judgment in order to reflect credit losses specifically identified in the Company’s loan portfolio as well as management's best estimate of probable incurred credit losses in the loan portfolio at the balance sheet date. The allowance for loan losses is a valuation allowance increased by the provision for loan losses and decreased by net charge-offs. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses and the related provision for loan losses generally fluctuate as the relative level of nonperforming and impaired loans vary. However, other factors impact the amount of the allowance for loan losses such as the Company’s historical loss experience, the financial condition of its borrowers, general economic conditions, and other qualitative risk factors as described in greater detail in the Company’s most recent annual report on Form 10-K.

The allowance for loan losses was $9.1 million or 0.96% of outstanding loans at September 30, 2016. This compares to $10.3 million or 1.08% of net loans outstanding at year-end 2015. The decrease in the allowance as a percentage of net loans outstanding from the prior year-end resulted primarily from a credit to the provision for loan losses of $819 thousand for the current nine-month period. As a percentage of nonperforming loans, the allowance for loan losses was 30.6% at September 30, 2016 compared to 32.0% at year-end 2015. The relatively low amount of the allowance for loan losses as a percentage of nonperforming loans is due mainly to the makeup of nonperforming loans.

Nonperforming loans include $23.1 million of accruing restructured loans, which represents 77.3% of total nonperforming loans at September 30, 2016. At year-end 2015, this amount was $23.8 million or 74.0%. The allowance attributed to credits that are restructured with lower interest rates generally represents the difference in the present value of future cash flows calculated at the loan's original effective interest rate and the new lower rate. This typically results in a reserve for loan losses that is less severe than for other loans that are collateral dependent. The allowance specifically allocated to impaired loans, which includes restructured loans, was $2.6 million or 6.0% and $2.9 million or 7.8% of such loans at September 30, 2016 and year-end, respectively. As a percentage of nonaccrual loans and loans past due 90 days or more and still accruing, the allowance for loan losses was 135% and 123% at the current quarter-end and year-end 2015, respectively.

The overall improvement in the credit quality of the loan portfolio experienced during 2015 continued during the first nine months of 2016. As credit quality metrics approach pre-recession levels, the rate of improvement has slowed. Although impaired loans increased $6.2 million during 2016, they remain near three-year lows and are down $122 million or 73.7% since peaking at $165 million in the first quarter of 2011.

Certain credit quality measures are summarized in the table that follows for the periods indicated. Several of these measures are at or near the best levels in the last three years.

(In thousands)	September 30, 2016	December 31, 2015	September 30, 2015	Three-year High[1]	Three-year Low[1]
Nonperforming loans	$ 29,858	$ 32,211	$ 32,356	$ 51,098	$ 29,843
Nonaccrual loans	6,779	8,380	8,201	24,720	6,397
Loans past due 30-89 days and still accruing	695	588	1,918	3,651	588
Loans graded substandard or below	39,266	44,220	43,669	76,852	39,266
Impaired loans	43,395	37,182	38,647	58,460	37,182
Loans, net of unearned income	950,716	959,275	935,145	999,883	927,389

[1]Based on quarter-end balances over the previous three years.

Nonperforming Loans

Nonperforming loans consist of nonaccrual loans, accruing restructured loans, and loans 90 days or more past due and still accruing interest. The accrual of interest on loans is discontinued when it is determined that the collection of interest or principal is doubtful, or when a default of interest or principal has existed for 90 days or more, unless such loan is well secured and in the process of collection. Restructured loans occur when a lender, because of economic or legal reasons related to a borrower’s financial difficulty, grants a concession to the borrower that it would not otherwise consider. Restructured loans typically include a reduction of the stated interest rate or an extension of the maturity date, among other possible concessions. The Company gives careful consideration to identifying which of its challenged credits merit a restructuring of terms that it believes will result in maximum loan repayments and mitigate possible losses. Cash flow projections are carefully scrutinized prior to restructuring any credits; past due credits are typically not granted concessions.

Nonperforming loans were $29.9 million at September 30, 2016, a decrease of $2.4 million or 7.3% compared to $32.2 million at year-end 2015. Nonaccrual loans decreased $1.6 million or 19.1%. Additions to nonaccrual loans of $2.7 million during the first nine months of 2016 were driven by one credit relationship of $958 thousand secured by multifamily residential real estate. Additions to nonaccrual loans were more than offset by principal payments of $2.7 million and transfers to other real estate owned ("OREO") of $1.3 million. Principal payments during the first nine months of 2016 include $468 thousand received for the full payment of a single larger-balance commercial real estate loan that occurred during the first quarter. Transfers to OREO from nonaccrual include two commercial and one residential real estate properties related to a single credit relationship with a total carrying value of $580 thousand. One of those commercial properties in the amount of $346 thousand was subsequently sold during the second quarter at a loss of $48 thousand. The ratio of nonperforming loans to loans outstanding is 3.1%, down 22 basis points from 3.4% at year-end 2015, and down 545 basis points from its peak of 8.6% in the first quarter of 2010. Accruing restructured loans make up 77.3% of the Company's nonperforming loans at September 30, 2016, up from 74.0% at year-end.

Nonperforming loans, presented by class, were as follows for the periods indicated:

Nonperforming Loans

(In thousands)	September 30, 2016	December 31, 2015
Nonaccrual Loans		
Real Estate		
Real estate mortgage – construction and land development	$ 902	$ 1,567
Real estate mortgage – residential	2,037	2,485
Real estate mortgage – farmland and other commercial enterprises	3,810	4,266
Commercial		
Commercial and industrial	16	44
Other	6	8
Consumer		
Secured	8	10
Total nonaccrual loans	$ 6,779	$ 8,380
Restructured Loans		
Real Estate		
Real estate mortgage – construction and land development	$ 3,648	$ 3,674
Real estate mortgage – residential	4,034	4,127
Real estate mortgage – farmland and other commercial enterprises	14,882	15,503
Commercial		
Commercial and industrial	379	384
Consumer		
Unsecured	136	143
Total restructured loans	$ 23,079	$ 23,831
Past Due 90 Days or More and Still Accruing	$ -	$ -
Total nonperforming loans	$ 29,858	$ 32,211
Ratio of total nonperforming loans to total loans (net of unearned income)	3.1 %	3.4 %

The most significant components of nonperforming loans include nonaccrual and accruing restructured loans. Activity during 2016 related to these two components was as follows:

(In thousands)	Nonaccrual Loans	Restructured Loans

Balance at December 31, 2015	$ 8,380	$ 23,831
Additions	2,713	-
Principal paydowns	(2,726)	(752)
Transfers to other real estate owned and other changes, net	(1,260)	-
Charge-offs	(328)	-
Balance at September 30, 2016	$ 6,779	$ 23,079

The Company’s comprehensive risk-grading and loan review program includes a review of loans to assess risk and assign a grade to those loans, a review of delinquencies, and an assessment of loans for needed charge-offs or placement on nonaccrual status. The Company had loans in the amount of $44.8 million and $54.2 million at September 30, 2016 and year-end 2015, respectively, which were performing but considered potential problem loans and are not included in the nonperforming loan totals in the table above. These loans, however, are considered in establishing an appropriate allowance for loan losses. The balance outstanding for potential problem credits is mainly attributed to a persistently slow-growing economy which continues to strain many of the Company’s customers. Potential problem loans include a variety of borrowers and are secured primarily by various types of real estate including commercial, construction properties, and residential real estate developments. At September 30, 2016, the five largest potential problem credits were $11.7 million in the aggregate compared to $12.3 million at year-end 2015.

Potential problem loans are identified on the Company’s watch list and consist of loans that require close monitoring by management. Credits may be considered as a potential problem loan for reasons that are temporary or correctable, such as for a deficiency in loan documentation or absence of current financial statements of the borrower. Potential problem loans may also include credits where adverse circumstances are identified that may affect the borrower’s ability to comply with the contractual terms of the loan. Other factors which might indicate the existence of a potential problem loan include the delinquency of a scheduled loan payment, deterioration in a borrower’s financial condition identified in a review of periodic financial statements, a decrease in the value of the collateral securing the loan, or a change in the economic environment in which the borrower operates. Certain loans on the Company’s watch list are also considered impaired and specific allowances related to these loans are established in accordance with the appropriate accounting guidance.

Other Real Estate

OREO includes real estate properties acquired by the Company through, or in lieu of, actual foreclosure. At September 30, 2016, OREO was $15.3 million, a decrease of $6.5 million or 29.8% compared to $21.8 million at year-end 2015. The decrease was driven by sales activity, including three larger-balance real estate development properties that sold for $4.1 million with a related net loss of $48 thousand in the aggregate and one larger-balance commercial real estate property sold for $1.2 million with a related gain of $182 thousand. Sales of OREO in the current period include $3.1 million financed by the Company. OREO has declined $37.2 million or 70.8% from its peak of $52.6 million, which occurred at year-end 2012. A summary of OREO activity for 2016 follows.

(In thousands)	Amount
Balance at December 31, 2015	$21,843
Transfers from loans and other increases	1,790
Proceeds from sales	(6,996)
Loss on sales, net	30
Write-downs and other decreases, net	(1,331)

Balance at September 30, 2016	$15,336

Deposits

A summary of the Company's deposits are as follows for the periods indicated.

	End of Period				Average			
(In thousands)	September 30, 2016	December 31, 2015	Increase (Decrease)	%	Nine Months September 30, 2016	Twelve Months December 31, 2015	Increase (Decrease)	%
Noninterest Bearing	$330,755	$313,969	$16,786	5.3 %	$320,873	$304,516	$16,357	5.4 %
Interest Bearing								
Demand	327,429	328,803	(1,374)	(.4)	333,457	334,281	(824)	(.2)
Savings	408,675	400,844	7,831	2.0	406,639	385,932	20,707	5.4
Time	284,072	325,378	(41,306)	(12.7)	303,240	356,419	(53,179)	(14.9)
Total interest bearing	1,020,176	1,055,025	(34,849)	(3.3)	1,043,336	1,076,632	(33,296)	(3.1)
Total Deposits	$1,350,931	$1,368,994	$(18,063)	(1.3)%	$1,364,209	$1,381,148	$(16,939)	(1.2)%

The decrease in total end of period and average deposits was driven by lower time deposits and is primarily attributed to the Company's overall high liquidity position and strategy to lower overall funding costs, mainly by allowing higher-rate certificates of deposit to roll off or to reprice at lower interest rates. Many of those balances have been rolled into either demand or savings accounts by the customer. As rates have decreased throughout the deposit portfolio, many customers have opted to transfer funds from maturing time deposits or investments from other sources into short-term demand or savings accounts. The Company has not sought out or accepted brokered deposits in the past nor does it have plans to do so in the future.

Borrowed Funds

Total borrowed funds were $91 million at September 30, 2016, a decrease of $113 million or 55.4% from year-end 2015. The decrease was driven by a $116 million or 68.4% decline in long-term borrowings, which is primarily due to the early extinguishment of $100 million of fixed-rate borrowings during the third quarter of 2016, discussed in more detail under the *"Net Interest Income"* captions on pages 35 and 41, and the early extinguishment of $15.5 million of subordinated debt related to trust preferred securities during the first quarter.

In January 2016, the Company terminated Farmers Capital Bank Trust II ("Trust II") as a result of the early extinguishment of debt issued to the trust and recorded a pretax gain of $4.1 million. Trust II was a Delaware statutory trust established by the Company in 2005 for the purpose of issuing preferred securities through a private offering. The proceeds from the offering were loaned to the Company in exchange for junior subordinated debentures with terms that parallel those of the preferred securities.

The Company became aware that all $15 million of the trust preferred securities issued by Trust II would be auctioned off as part of the liquidation of a larger pooled collateralized debt obligation. The Company placed a bid of $11.0 million for the securities, which was accepted by the trustee. The Company then canceled the preferred and common securities issued by the trust and extinguished the debentures, which totaled $15.5 million.

Short-term borrowings were $37.4 million at quarter-end, up $3.1 million or 8.9% from year-end 2015. This is attributable to an increase repurchase agreements with commercial depositors in the normal course of business. Short-term borrowings primarily represent funds that have been swept out of the deposit accounts of certain qualifying commercial customers into repurchase agreements and accounted for as secured borrowings by the Company.

LIQUIDITY

The primary source of funds for the Parent Company is the receipt of dividends from its subsidiary banks, balances of cash and cash equivalents maintained, and borrowings from nonaffiliated sources. Primary uses of cash include the payment of dividends to its shareholders, paying interest expense on borrowings, and payments for general operating expenses.

Payment of dividends to the Parent Company by its subsidiary banks is subject to certain regulatory restrictions as set forth in national and state banking laws and regulations. A depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. The federal banking agencies may prevent the payment of a dividend if they determine that the payment would be an unsafe and unsound banking practice. Moreover, the federal agencies have issued policy statements that provide bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Capital ratios at each of the Company’s four subsidiary banks exceed regulatory established “well-capitalized” status at September 30, 2016 under the prompt corrective action regulatory framework.

The Parent Company had cash and cash equivalents of $34.6 million and $36.0 million at September 30, 2016 and year-end 2015, respectively. Significant cash receipts by the Parent Company for 2016 include dividend payments from its bank and nonbank subsidiaries of $12.5 million and $1.0, respectively, management fees from subsidiaries of $1.9 million, and a return of capital amounts from a nonbank subsidiary of $500 thousand. Significant cash payments by the Parent Company in 2016 include $11.0 million to purchase the trust preferred securities issued by Trust II and extinguish the subordinated debt issued to the trust, $2.6 million for salaries, payroll taxes, and employee benefits, $1.1 million for the payment of dividends on common stock, and $516 thousand for the payment of interest on subordinated notes payable.

The Company's objective as it relates to liquidity is to ensure that its subsidiary banks have funds available to meet deposit withdrawals and credit demands without unduly penalizing profitability. In order to maintain a proper level of liquidity, the subsidiary banks have several sources of funds available on a daily basis. For assets, those sources of funds include liquid assets that are readily marketable or that can be pledged, or which mature in the near future. These assets primarily include cash and due from banks, federal funds sold, investment securities, and cash flow generated by the repayment of principal and interest on loans and investment securities. For liabilities, sources of funds primarily include the subsidiary banks' core deposits, Federal Home Loan Bank (“FHLB”) and other borrowings, and federal funds purchased and securities sold under agreements to repurchase. While maturities and scheduled amortization of loans and investment securities are generally a predictable source of funds, deposit outflows and mortgage prepayments are influenced significantly by general interest rates, economic conditions, and competition in our local markets.

As of September 30, 2016, the Company had $281 million of additional borrowing capacity under various FHLB, federal funds, and other borrowing agreements. However, there is no guarantee that these sources of funds will continue to be available to the Company, or that current borrowings can be refinanced upon maturity, although the Company is not aware of any events or uncertainties that are likely to cause a decrease in the Company's liquidity from these sources. The Company's borrowing capacity was $236 million at year-end 2015.

For the longer term, the liquidity position is managed by balancing the maturity structure of the balance sheet. This process allows for an orderly flow of funds over an extended period of time. The Company's Asset and Liability Management Committees, at both the Parent Company and bank subsidiary level, meet regularly to monitor the composition of the balance sheet to ensure comprehensive management of interest rate risk and liquidity.

Liquid assets consist of cash and cash equivalents and available for sale investment securities. At September 30, 2016, consolidated liquid assets were $602 million, a decrease of $101 million or 14.3% compared to $703 million at year-end 2015 primarily due to the deleveraging transactions during the third quarter of 2015. Although liquid assets decreased in the comparison, the Company's liquidity position remains elevated mainly as a result of the Company's overall net funding position and weak, high-quality loan demand. The overall funding position of the Company changes as loan demand, deposit levels, and other sources and uses of funds fluctuate.

Net cash provided by operating activities was $17.9 million and $21.9 million for the first nine months of 2016 and 2015, respectively. This represents a decrease of $4.0 million or 18.2%. Net cash flow provided by investing activities was $120 million and $19.6 million for 2016 and 2015, respectively. The $101 million increase was primarily driven by investment securities and loan activity, partially offset by lower proceeds from the sale of OREO. Net cash inflows related to investment securities were $109 million for 2016, up $93.4 million compared to a year earlier. Net cash inflows represent proceeds from the sale, maturity, and call of investment securities in excess of purchases. The increase in net cash inflows related to investment securities was driven by the series of transactions to deleverage the balance sheet and reposition the investment securities portfolio, as discussed in further detail under the *"Net Interest Income"* captions on pages 35 and 41. Of the total proceeds from the sale of investment securities, $93.4 million were used in funding the early debt repayment of $100 million in the third quarter. At September 30, 2016, the Company's strategy to reposition the investment securities portfolio had yet to be fully completed, resulting in higher net cash inflows. The Company had net cash inflow related to loans representing overall net principal collections in the current period of $9.1 million compared with net principal advances a year earlier in the amount of $3.8 million. Proceeds from the sale of OREO decreased $5.3 million in the comparison.

Net cash used in financing activities was $131 million for the first nine months of 2016, an increase of $96.4 million compared with $34.6 million a year earlier. The increase was driven primarily by payments to extinguish long-term debt of $11.0 million and $104 million during the first and third quarters of the current year, respectively, partially offset by deposit activity and cash paid in the prior year to redeem the final portion of the Company's outstanding preferred stock. Deposits decreased $18.1 million during 2016, down $12.6 million compared to a $30.7 million reduction for the first nine months of 2015. The Company redeemed $10.0 million of its preferred stock outstanding in 2015.

Commitments to extend credit are entered into with customers in the ordinary course of providing traditional banking services and are considered in addressing the Company's liquidity management. The Company does not expect these commitments to significantly affect the liquidity position in future periods. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options, or similar instruments.

CAPITAL RESOURCES

Shareholders' equity was $189 million at September 30, 2016, an increase of $13.0 million or 7.4% compared to $176 million at year-end 2015. The increase in shareholders' equity was driven by net income of $14.1 million, partially offset by dividends declared on common stock of $1.6 million. Other comprehensive income of $339 thousand was primarily made up of a $2.9 million increase related to the after-tax amount of the unrealized gain on available for sale investment securities partially offset by after-tax net realized gains of $2.6 million. The increase in the gross unrealized gain on available for sale investment securities correlates to the decline in long term market interest rates at the end of the period compared with year-end 2015. As market interest rates decrease, the value of fixed rate investments generally increases.

At September 30, 2016, the Company's tangible common equity ratio was 11.38%, an increase of 149 basis points compared to 9.89% at year-end 2015. The tangible common equity ratio represents tangible common equity as a percentage of tangible assets. The increase in the tangible common equity ratio is the result of a combination of both an increase in tangible common equity and a reduction in tangible assets in the comparison.

In July 2013, U.S. banking regulators adopted final rules related to standards on bank capital adequacy and liquidity (commonly referred to as "Basel III"). The new rules were effective for the Company beginning on January 1, 2015, subject to a phase-in period for certain provisions extending through January 1, 2019. The rules include a new common equity Tier 1 capital ratio, an increase to the minimum Tier 1 capital ratio, an increase to risk-weightings of certain assets, implementation of a new capital conservation buffer in excess of the required minimum (which began being phased in during 2016), and changes to how regulatory capital is defined. The Company and each of its bank subsidiaries meet the minimum capital ratios and a fully phased-in capital conservation buffer under the new rules.

Consistent with the objective of operating a sound financial organization, the Company's goal is to maintain capital ratios well above the regulatory minimum requirements. The capital ratios of the Company and its subsidiary banks are presented in the following table for the dates indicated.

	September 30, 2016				December 31, 2015			
	Common Equity Tier 1 Risk-based Capital[1]	Tier 1 Risk-based Capital[1]	Total Risk-based Capital[1]	Tier 1 Leverage[2]	Common Equity Tier 1 Risk-based Capital[1]	Tier 1 Risk-based Capital[1]	Total Risk-based Capital[1]	Tier 1 Leverage[2]
Consolidated	16.65 %	19.57 %	20.39 %	12.44 %	14.91 %	19.00 %	19.89 %	12.46 %
Farmers Bank & Capital Trust Company	17.12	17.12	17.84	9.53	15.57	15.57	16.35	9.20
United Bank & Trust Company	17.54	17.54	18.51	12.46	18.67	18.67	19.68	12.89
First Citizens Bank, Inc.	14.73	14.73	15.32	10.08	13.55	13.55	14.17	9.20
Citizens Bank of Northern Kentucky, Inc.	15.37	15.37	16.43	10.43	14.42	14.42	15.67	10.79
Regulatory minimum	4.50	6.00	8.00	4.00	4.50	6.00	8.00	4.00
Well-capitalized status	6.50	8.00	10.00	5.00	6.50	8.00	10.00	5.00

[1]Common Equity Tier 1 Risked-based, Tier 1 Risk-based, and Total Risk-based Capital ratios are computed by dividing a bank's Common Equity Tier 1, Tier 1 or Total Capital, as defined by regulation, by a risk-weighted sum of the bank's assets, with the risk weighting determined by general standards established by regulation.

[2]Tier 1 Leverage ratio is computed by dividing a bank's Tier 1 Capital by its total quarterly average assets, as defined by regulation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company uses a simulation model as a tool to monitor and evaluate interest rate risk exposure. The model is designed to measure the sensitivity of net interest income and net income to changing interest rates over future time periods. Forecasting net interest income and its sensitivity to changes in interest rates requires the Company to make assumptions about the volume and characteristics of many attributes, including assumptions relating to the replacement of maturing earning assets and liabilities. Other assumptions include, but are not limited to, projected prepayments, projected new volume, and the predicted relationship between changes in market interest rates and changes in customer account balances. These effects are combined with the Company's estimate of the most likely rate environment to produce a forecast of net interest income and net income. The forecasted results are then adjusted for the effect of a gradual increase and decrease in market interest rates on the Company's net interest income and net income. Because assumptions are inherently uncertain, the model cannot precisely estimate net interest income and net income or the effect of interest rate changes on net interest income and net income. Actual results could differ significantly from simulated results.

At September 30, 2016, the model indicated that if rates were to gradually increase by 75 basis points during the remainder of the calendar year, then net interest income remain relatively unchanged and net income would increase 0.1%, respectively for the year ending December 31, 2016 when compared to the forecasted results for the most likely rate environment. The model indicated that if rates were to gradually decrease by 75 basis points over the same period, then net interest income and net income would decrease 0.2% and 0.4%, respectively.

In the current low interest rate environment, it is not practical or possible to reduce certain deposit rates by the same magnitude as rates on earning assets. The average rate paid on the Company's deposits is already below 0.75%. This situation magnifies the model's predicted results when modeling a decrease in interest rates, as earning assets with higher yields have more of an opportunity to reprice at lower rates than lower-rate deposits.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report, and have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that all material information required to be disclosed in this report has been made known to them in a timely fashion.

The Company's Chief Executive Officer and Chief Financial Officer have also concluded that there were no significant changes during the quarter ended September 30, 2016 in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

As of September 30, 2016, there were various pending legal actions and proceedings against the Company arising from the normal course of business and in which claims for damages are asserted. It is the opinion of management, after discussion with legal counsel, that the disposition or ultimate resolution of such claims and legal actions will not have a material effect upon the consolidated financial statements of the Company.

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

During 2014, the Company changed the form of payment to its directors for board meeting and quarterly fees from 100% cash to 50% in cash and 50% in Company common stock. The shares are issued as part of a plan adopted by the board of directors. Each director has elected to participate by entering into an agreement with the Company to accept common stock in lieu of cash for 50% of the director's board meeting and quarterly fees. As the shares are only issued to directors as part of a plan approved by the board, the shares are exempt from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), as a sale not involving any public offering under Section 4(2) of the 1933 Act. Attendance for committee meetings continue to be paid completely in cash. As employee directors are not paid director's fees, only non-employee directors receive stock under this plan.

The Company issued 871 shares and 2,199 shares of common stock to its non-employee directors under this plan in the three and nine months ended September 30, 2016, respectively, as compensation for director fees of $26 thousand and $62 thousand for those respective periods. The cash retained by the Company by issuing common stock in lieu of paying cash is used for general corporate purposes. There are no brokers involved in the issuance of stock to directors and no commissions or other broker fees are paid.

At various times, the Company's Board of Directors has authorized the purchase of shares of the Company's outstanding common stock. No stated expiration dates have been established under any of the previous authorizations. There were no shares of common stock repurchased by the Company during the quarter ended September 30, 2016. There are 84,971 shares that may still be purchased under the various authorizations, although no shares have been purchased since 2008.

Item 6. Exhibits

List of Exhibits

3.1	Second Amended and Restated Articles of Incorporation of Farmers Capital Bank Corporation (incorporated by reference to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 000-14412)).
3.2	Articles of Amendment to Second Amended and Restated Articles of Incorporation of Farmers Capital Bank Corporation dated January 6, 2009 (incorporated by reference to the Current Report on Form 8-K dated January 13, 2009 (File No. 000-14412)).
3.3	Articles of Amendment to Second Amended and Restated Articles of Incorporation of Farmers Capital Bank Corporation dated November 16, 2009 (incorporated by reference to the Current Report on Form 8-K dated November 17, 2009 (File No. 000-14412)).
3.4	Amended and Restated Bylaws of Farmers Capital Bank Corporation (incorporated by reference to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 (File No. 000-14412)).
4.1*	Junior Subordinated Indenture, dated as of July 21, 2005, between Farmers Capital Bank Corporation and Wilmington Trust Company, as Trustee, relating to unsecured junior subordinated deferrable interest notes that mature in 2035.
4.2*	Amended and Restated Trust Agreement, dated as of July 21, 2005, among Farmers Capital Bank Corporation, as Depositor, Wilmington Trust Company, as Property and Delaware Trustee, the Administrative Trustees (as named therein), and the Holders (as defined therein).
4.3*	Guarantee Agreement, dated as of July 21, 2005, between Farmers Capital Bank Corporation, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee.

4.4*	Junior Subordinated Indenture, dated as of July 26, 2005, between Farmers Capital Bank Corporation and Wilmington Trust Company, as Trustee, relating to unsecured junior subordinated deferrable interest notes that mature in 2035.
4.5*	Amended and Restated Trust Agreement, dated as of July 26, 2005, among Farmers Capital Bank Corporation, as Depositor, Wilmington Trust Company, as Property and Delaware Trustee, the Administrative Trustees (as named therein), and the Holders (as defined therein).
4.6*	Guarantee Agreement, dated as of July 26, 2005, between Farmers Capital Bank Corporation, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee.
4.7*	Indenture, dated as of August 14, 2007 between Farmers Capital Bank Corporation, as Issuer, and Wilmington Trust Company, as Trustee, relating to fixed/floating rate junior subordinated debt due 2037.
4.8*	Amended and Restated Declaration of Trust, dated as of August 14, 2007, by Farmers Capital Bank Corporation, as Sponsor, Wilmington Trust Company, as Delaware and Institutional Trustee, the Administrative Trustees (as named therein), and the Holders (as defined therein).

4.9*	Guarantee Agreement, dated as of August 14, 2007, between Farmers Capital Bank Corporation, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee.
10.1	Employee Stock Purchase Plan of Farmers Capital Bank Corporation (incorporated by reference to Form S-8 effective June 24, 2004 (File No. 333-116801)).
10.2	Employment agreement dated December 10, 2012 between Farmers Capital Bank Corporation and Lloyd C. Hillard, Jr. (incorporated by reference to Exhibit 10.1 to Form 8-K/A filed December 26, 2012 (File No. 000-14412)).
10.3	Amendment No. 1 to Employment agreement dated December 10, 2012 between Farmers Capital Bank Corporation and Lloyd C. Hillard, Jr. (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 30, 2013 (File No. 000-14412)).
10.4	Amendment No. 2 to Employment agreement dated December 10, 2012 between Farmers Capital Bank Corporation and Lloyd C. Hillard, Jr. (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 8, 2014 (File No. 000-14412)).
10.5	Amendment No. 3 to Employment agreement dated December 10, 2012 between Farmers Capital Bank Corporation and Lloyd C. Hillard, Jr. (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 9, 2015 (File No. 000-14412)).
10.6	Employment agreement dated December 17, 2013 between Farmers Capital Bank Corporation and Rickey D. Harp (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 30, 2013 (File No. 000-14412)).
10.7	Employment agreement dated October 28, 2014 between Farmers Capital Bank Corporation and Mark A. Hampton (incorporated by reference to Exhibit 10.1 to Form 8-K filed October 28, 2014 (File No. 000-14412)).
10.8	Employment agreement dated November 18, 2015 between Farmers Capital Bank Corporation and J. David Smith, Jr. (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 19, 2015 (File No. 000-14412)).
31.1**	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32**	CEO & CFO Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101**	Interactive Data Files

* Exhibit not included pursuant to Item 601(b)(4)(iii) and (v) of Regulation S-K. The Company will provide a copy of such exhibit to the Securities and Exchange Commission upon request.

** Filed with this Quarterly Report on Form 10-Q.

SIGNATURES

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

Date:	November 8, 2016	/s/ Lloyd C. Hillard, Jr. Lloyd C. Hillard, Jr. President and CEO (Principal Executive Officer)
Date:	November 8, 2016	/s/ Mark A. Hampton Mark A. Hampton Executive Vice President, CFO, and Secretary (Principal Financial and Accounting Officer)