CITIZENS FIRST CORP
Form 10-K
March 23, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC. 20549

Form 10-K

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

For the fiscal year ended December 31, 2016

Or

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

For the transition period from to

Commission File Number: 001-33126

CITIZENS FIRST CORPORATION

(Exact name of registrant as specified in its charter)

Kentucky	61-0912615
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1065 Ashley Street, Bowling Green, Kentucky	42103
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number, Including Area Code: (270) 393-0700

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

Title of each class	Name of each exchange on which registered
Common stock, no par value	The NASDAQ Stock Market, LLC

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. . Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.. Yes 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post files) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K(Section229.405) is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicated by check mark whether the registrant is a large accelerated file, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of a "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12-b-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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates (for purposes of this calculation, "affiliates" are considered to be the directors and executive officers of the issuer) computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $26,192,515 as of June 30, 2016

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 2,019,052 shares of common stock as of March 23, 2017

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the Annual Meeting of Shareholders to be held May 17, 2017 are incorporated by reference into Part III.

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Citizens First Corporation

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Part I

Forward-Looking Statements

Citizens First Corporation (the "Company") may from time to time make written or oral statements, including statements contained in this report, which may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "may", "expect", "anticipate", "intend", "consider", "plan", "believe", "seek", "should", "estimate", and sim expressions are intended to identify such forward-looking statements, but other statements may constitute forward-looking statements. These statements should be considered subject to various risks and uncertainties. Such forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Such statements are made pursuant to "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors that could cause actual results and performance to differ from those expressed in our forward-looking statements we make or incorporate by reference in this Annual Report on Form 10-K include, but are not limited to those described below under Item 1A – "Risk Factors" and the following:

· current and future economic and business conditions, including, without limitation, the deterioration of real estate values, the subprime mortgage, credit and liquidity markets, as well as the Federal Reserve's actions with respect to interest rates, may lead to a deterioration in credit quality, thereby requiring increases in our provision for credit losses, a reduced demand for credit, which would reduce earning assets, and/or a decline in real estate values;

· possible changes in trade, monetary and fiscal policies, as well as legislative and regulatory changes, including changes in accounting standards and banking, securities and tax laws, and our ability to maintain appropriate levels of capital;

· changes in the interest rate environment and our ability to effectively manage interest rate risk and other market risk, credit risk and operational risk;

· changes in the quality or composition of our loan or investment portfolios, including adverse developments in the real estate markets, the borrowers' industries or in the repayment ability of individual borrowers or issuers;

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increases in our nonperforming assets, or our inability to recover or absorb losses created by such nonperforming assets;

- our ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support our business;

- the failure of our assumptions underlying the establishment of allowances for loan losses and other estimates, or dramatic changes in those underlying assumptions or judgments in future periods, that, in either case, render the allowance for loan losses inadequate or require that further provisions for loan losses be made;

- laws and regulations affecting financial institutions in general;

- government intervention in the U.S. financial system;

- the cost and other effects of material contingencies;

- our ability to keep pace with technological changes;

- our ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by our customers and potential customers;

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- the threat or occurrence of war or acts of terrorism and the existence or exacerbation of general geopolitical instability and uncertainty;

- management's ability to develop and execute plans to effectively respond to unexpected changes; and

- other factors and information contained in this Annual Report on Form 10-K and other reports that we file with the Securities and Exchange Commission (SEC) under the Exchange Act.

The cautionary statements in this Annual Report on Form 10-K also identify important factors and possible events that involve risk and uncertainties that could cause our actual results to differ materially from those contained in the forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made. We do not intend and undertake no obligation to update or revise any forward-looking statements, whether as a result of differences in actual results, changes in assumptions, future events or otherwise.

Item 1. Business

Overview

We are a Kentucky corporation organized in 1975 for the purpose of conducting business as an investment club. We are headquartered in Bowling Green, Kentucky. In late 1998 and early 1999 we received regulatory approval to serve as the bank holding company for Citizens First Bank, Inc. (the "Bank"), a Kentucky state chartered bank that commenced operations on February 19, 1999. The Bank currently conducts full-service community banking operations from eight (8) locations in the Kentucky counties of Barren, Hart, Simpson and Warren, and a loan production office in Williamson County, Tennessee.

We are primarily engaged in the business of accepting demand, savings and time deposits insured by the FDIC and providing commercial, consumer and mortgage loans to the general public. We primarily market our products and services to small and medium-sized businesses and to retail consumers. Our strategy is to provide outstanding service through our employees, who are relationship-oriented and committed to customer service. Through this strategy, we intend to grow our business, expand our customer base and improve our profitability.

As of December 31, 2016, we had total assets of $455.4 million, total loans of $359.4 million, deposits of $370.4 million and stockholders' equity of $42.4 million.

Lending Activities

General. We offer a variety of loans, including commercial and residential real estate mortgage loans, construction loans, commercial loans and consumer loans to individuals and small to mid-size businesses that are located in or conduct a substantial portion of their business in our market area. Our underwriting standards vary for each type of loan, as described below. At December 31, 2016, we had total loans of $359.4 million, representing 78.9% of our total assets.

Commercial Loans. We make commercial loans primarily to small and medium-sized businesses. These loans are secured and unsecured and are made available for general operating inventory and accounts receivables, as well as any other purposes considered appropriate. We will generally look to a borrower's business operations as the principal source of repayment, but will also require, when appropriate, security interests in personal property and personal guarantees. In addition, the majority of commercial loans that are not mortgage loans are secured by a lien on equipment, inventory and other assets of the commercial borrower. These loans are generally considered to have greater risk than first and second mortgages on real estate because these loans may be unsecured or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease than real estate. At December 31, 2016, commercial loans amounted to $60.4 million, or 16.8% of our total loan portfolio, excluding for these purposes commercial loans secured by real estate which are included in the commercial real estate category. At December 31, 2016, our commercial loans had an average size of $104,000 and the largest loan was $5.0 million.

Commercial Real Estate Loans. We originate and maintain a significant amount of commercial real estate loans. This lending involves loans secured by multi-family residential units, income-producing properties and owner-occupied commercial properties. Loan amounts generally conform to the regulatory loan-to-value guidelines and amortizations match the economic life of the collateral, with a maximum amortization schedule of 20 years. Loans secured by commercial real estate are generally subject to a maximum term of 20 years. At December 31, 2016, total commercial real estate loans amounted to $216.5 million, or 60.2% of our loan portfolio. At December 31, 2016, our commercial real estate loans had an average size of $420,000 and the largest loan was $5.1 million.

Residential Real Estate Mortgage Loans. We originate residential real estate mortgage loans with either fixed or variable interest rates to borrowers to purchase and refinance one-to-four family properties. We also offer home equity loans and home equity lines of credit. Real estate mortgage loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate, which could negatively affect a borrower’s cash flow, creditworthiness and ability to repay the loan. Except for home equity loans and lines of credit, substantially all of our residential real estate loans are secured by a first lien on the real estate. Loans secured by residential real estate with variable interest rates will have a maximum term and amortization schedule of 30 years. We sell to the secondary market the majority of our residential fixed-rate mortgage loans, thereby reducing our interest rate risk and credit risk. Loans secured by vacant land are generally subject to a maximum term of five years and a maximum amortization schedule of five years. At December 31, 2016, total residential real estate loans amounted to $78.4 million, or 21.8% of our loan portfolio. At December 31, 2016, our residential real estate mortgage loans had an average size of $69,000 and the largest loan was $2.4 million.

We provide customers access to long-term conventional real estate loans through our mortgage loan division, which underwrites loans that are purchased by unaffiliated third party brokers in the secondary market. We receive fees in connection with the sale of mortgage loans, with these fees aggregating $376,000 and $233,000 for the years ending December 31, 2016 and 2015, respectively. We do not retain servicing rights with respect to the secondary market residential mortgage loans that we originate.

Consumer. We make personal loans and lines of credit available to consumers for various purposes, such as the purchase of automobiles, boats and other recreational vehicles, and the making of home improvements and personal investments. Consumer loans generally have shorter terms and higher interest rates than residential mortgage loans and usually involve more credit risk than mortgage loans because of the type and nature of the collateral. Consumer lending collections are dependent on a borrower’s continuing financial stability and are thus likely to be adversely affected by job loss, illness or personal bankruptcy. In many cases, repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan balance because of depreciation of the underlying collateral. We emphasize the amount of the down payment, credit quality and history, employment stability and monthly income. These loans are expected generally to be repaid on a monthly repayment schedule with the payment amount tied to the borrower’s periodic income.

We believe that the generally higher yields earned on consumer loans help compensate for the increased credit risk associated with such loans and that consumer loans are important to our efforts to serve the credit needs of our customer base. At December 31, 2016, total consumer loans amounted to $4.1 million, or 1.1% of our loan portfolio. At December 31, 2016, our consumer loans had an average size of $5,000, and the largest loan was $240,000.

Loan Underwriting and Approval. We seek to make sound, high quality loans while recognizing that lending money involves a degree of business risk. Our loan policies are designed to assist us in managing this business risk. These policies provide a general framework for our loan operations while recognizing that not all risk activities and procedures can be anticipated. Our loan policies instruct lending personnel to use care and prudent decision making and to seek the guidance of our Chief Credit Officer, our Vice President Credit Risk Officer, our Senior Vice President Credit Administration or our President and Chief Executive Officer where appropriate.

Deposit Products

Our principal source of funds is core deposits. We offer a range of deposit products and services including checking accounts, savings accounts, NOW accounts, money market accounts, sweep accounts, fixed and variable rate IRA accounts, Christmas Club accounts and certificate of deposit accounts. We solicit accounts from a wide variety of customers, including individuals and small to medium-sized businesses. We actively pursue business checking accounts by offering competitive rates and other convenient services to our business customers. In some cases, we require business customers to maintain minimum balances. We offer a deposit pick-up service to our commercial customers that enable these customers to make daily cash deposits through one of our couriers. At December 31, 2016, we had total deposits of $370.4 million.

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Other Banking Services

Our retail banking strategy is to offer basic banking products and services that are attractively priced and easily understood by the customer. We focus on making our products and services convenient and readily accessible to the customer. In addition to banking during normal business hours, we offer extended drive-through hours, ATMs, and banking by telephone, mail and personal appointment. We have ten ATMs located within our markets. We also provide debit cards, credit cards, safekeeping and safe deposit boxes, ACH and other direct deposit services, savings bond redemptions, cashier's checks, travelers' checks and letters of credit. We have also established relationships with correspondent banks and other independent financial institutions to provide other services requested by customers, including cash management services, wire transfer services, and loan participations where the requested loan amount exceeds the lending limits imposed by law or by our policies. We maintain an internet banking website at www.citizensfirstbank.com, which allows customers to obtain account balances and transfer funds among accounts. The website also provides online bill payment and electronic delivery of customer statements.

We provide title insurance services to mortgage loan customers for a fee. Through third party providers, we offer other insurance services and trust services and receive a fee for referrals. We offer non-deposit investment services and products through an agreement with a broker-dealer. We earn advisory fees and commissions from the sale of these services and products. The objective of offering these products and services is to generate fee income and strengthen relationships with our customers.

Competition and Market Area

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. Our profitability depends upon our ability to compete in the market area in which our bank offices are located. We compete for deposits, loans and other banking services generally on the basis of convenient office locations, interest rates offered on deposit accounts and charged on loans, fees and the range of services offered. We compete with existing area financial institutions other than commercial banks and savings banks, including commercial bank loan production offices, mortgage companies, insurance companies, consumer finance companies, securities brokerage firms, credit unions, money market funds and other business entities which have recently entered traditional banking markets.

Along with its headquarters in Bowling Green, the Bank currently operates eight (8) full-service banking facilities in the counties of Warren, Simpson, Barren and Hart in south central Kentucky, as well as a loan production office in Williamson County, Tennessee. Our market area consists primarily of a ten county region located in south central Kentucky known as the Barren River Area Development District. This region consists of Allen, Barren, Butler, Edmonson, Hart, Logan, Metcalfe, Monroe, Simpson, and Warren Counties in Kentucky. As of June 30, 2016, there were 20 financial institutions operating a total of 56 offices in the Bowling Green MSA. In addition, there are six financial institutions operating a total of seven offices in Simpson County, four institutions operating a total of six offices in Hart County and eight financial institutions operating 20 offices in Barren County.

Employees

At December 31, 2016, we had 95 full-time equivalent employees. Management considers its relations with its employees to be good. Neither we nor the Bank are a party to any collective bargaining agreement.

Supervision and Regulation

We are subject to the extensive regulatory framework applicable to bank holding companies and their subsidiaries. This framework is intended primarily for the protection of depositors, the FDIC's Deposit Insurance Fund and the banking system as a whole, and generally is not intended for the protection of stockholders or other investors. Described below are the material elements of selected laws and regulations applicable to us and the Bank. These descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but may have a material effect on our business, financial condition or results of operations.

Applicable laws and regulations restrict our permissible activities and investments and impose conditions and requirements on the products and services we offer and the manner in which they are offered and sold. They also restrict our ability to

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repurchase stock or pay dividends, or to receive dividends from our banking subsidiary, and impose capital adequacy requirements on us and our banking subsidiary. The consequences of noncompliance with these laws and regulations can include substantial monetary and nonmonetary sanctions.

As described in more detail below, comprehensive reform of the legislative and regulatory landscape occurred with the passage of the Dodd-Frank Act in 2010. Implementation of the Dodd-Frank Act and related rulemaking activities continued in 2016. The Dodd-Frank Act implements numerous and far-reaching changes that affect financial companies, including banking organizations. Many of the provisions of the Dodd-Frank Act and other laws are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. Some of the regulation related to these reforms are still in the implementation stage and, as a result, there is significant uncertainty concerning their ultimate impact on us.

In addition to banking laws, regulations and regulatory agencies, we are subject to various other laws, regulations, supervision and examination by other regulatory agencies, all of which directly or indirectly affect our operations and management.

Overview

We are a bank holding company under the Bank Holding Company Act of 1956 (BHC Act). As such, we are subject to the supervision, examination and reporting requirements of the Board of Governors of the Federal Reserve (Federal Reserve) under the BHC Act and the regulations promulgated thereunder. We are required to file periodic reports of our operations and any additional information the Federal Reserve may require.

The Bank is a member of the FDIC and, as such, its deposits are insured by the FDIC to the extent provided by law. The Bank is a state bank chartered under the banking laws of the Commonwealth of Kentucky. As a result, it is subject to the supervision, examination and reporting requirements of both the Kentucky Department of Financial Institutions (KDFI) and the FDIC.

We are subject to numerous state and federal statutes and regulations that affect our business activities and operations, including restrictions on loan limits, interest rates, "insider" loans to officers, directors, and principal shareholders, tie-in arrangements and transactions with affiliates, among other things. Federal and state regulators also have authority to impose substantial sanctions on the Bank and its directors and officers if we engage in unsafe or unsound practices, or otherwise fail to comply with regulatory standards. Supervisory agreements, such as memoranda of understanding entered into with federal and state bank regulators, may also impose requirements and reporting obligations.

Acquisitions

A bank holding company must obtain Federal Reserve Board approval before acquiring, directly or indirectly, ownership or control of more than 5% of the voting stock or all or substantially all of the assets of a bank, merging or consolidating with any other bank holding company and before engaging, or acquiring a company that is not a bank but is engaged in certain non-banking activities. Federal law also prohibits a person or group of persons from acquiring “control” of a bank holding company without notifying the Federal Reserve Board in advance and then only if the Federal Reserve Board does not object to the proposed transaction. The Federal Reserve Board has established a rebuttable presumptive standard that the acquisition of 10% or more of the voting stock of a bank holding company with a class of securities registered under the Securities Exchange Act of 1934 would constitute an acquisition of control of the bank holding company. In addition, any company is required to obtain the approval of the Federal Reserve Board before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of a bank holding company’s voting securities, or otherwise obtaining control or a “controlling influence” over a bank holding company.

Permissible Activities under the BHC Act

A bank holding company is generally permitted under the BHC Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in banking or managing or controlling banks, furnishing services to or performing services for our subsidiaries and any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

As a bank holding company, we may elect to become a financial holding company, which enables the holding company to conduct activities that are “financial in nature.” Activities that are “financial in nature” include securities underwriting,

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dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve has determined to be closely related to banking. We have not sought financial holding company status. If we were to elect in writing for financial holding company status, each insured depository institution we controlled would have to be well capitalized, well managed and have at least a satisfactory CRA rating.

Capital Requirements

We are required to comply with the capital adequacy standards established by the Federal Reserve at the holding company level, and the FDIC at the bank level. In July 2013, the Federal Reserve issued final rules (and the FDIC issued interim final rules that were adopted as final rules in April 2014) to implement the Basel III capital accord, as well as certain requirements of the Dodd-Frank Act.

The final capital rules substantially revised the capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Bank. In addition, the capital rules modified the types of capital instruments that may be included in regulatory capital and how certain assets are risk-weighted for purposes of these calculations. The final rules implementing the Basel III regulatory capital reforms became effective as to the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions).

The Basel III rules, among other things, (i) introduce a new capital measure called common equity Tier 1 (CET1), (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The preamble to the final rules states that these quantitative calculations are minimums and that the agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner.

The rules also establish a “capital conservation buffer” of 2.5% (to be phased in over three years) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under these new rules, Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, will no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets on December 31, 2009, trust preferred securities issued prior to that date, will continue to count as Tier 1 capital subject to certain limitations. The definition of Tier 2 capital is generally unchanged for most banking organizations, subject to certain new eligibility criteria.

Common equity Tier 1 capital will generally consist of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions.

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

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Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. These requirements provide for a minimum ratio of Tier 1 capital to total consolidated quarterly average assets (as defined for regulatory purposes), net of the loan loss reserve, goodwill and certain other intangible assets (the "leverage ratio"), of 4.0% for all bank holding companies.

Failure to meet statutorily mandated capital requirements or more restrictive ratios separately established for a financial institution by its regulators could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of intereset that the institution my pay on its deposits and other

resterictions on its business.

Safety and Soundness Standards

Guidelines adopted by the federal bank regulatory agencies pursuant to the Federal Deposit Insurance Act (FDIA) establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. Additionally, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the FDIA. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Prompt Corrective Action

The FDIA establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal banking regulators established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized), into one of which each institution is placed. With respect to institutions in the three undercapitalized categories, the regulators must take prescribed supervisory actions and are authorized to take other discretionary actions. The severity of the action depends upon the capital category into which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category. As of December 31, 2016, the Bank was well-capitalized.

An institution that is classified as well-capitalized based on its capital levels may be treated as adequately capitalized, and an institution that is adequately capitalized or undercapitalized based upon its capital levels may be treated as though it were undercapitalized or significantly undercapitalized, respectively, if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment.

If a bank is not well capitalized, it cannot accept brokered deposits without prior FDIC approval. Even if approved, rate restrictions apply governing the rate the bank may be permitted to pay on the brokered deposits. In addition, a bank that is undercapitalized cannot offer an effective yield in excess of 75 basis points over the “national rate” paid on deposits (including brokered deposits, if approval is granted for the bank to accept them) of comparable size and maturity. The “national rate” is defined as a simple average of rates paid by insured depository institution and branches for which data are available and is published weekly by the FDIC. Institutions subject to the restrictions that believe they are operating in an area where the rates paid on deposits are higher than the “national rate” can use the local market to determine the prevailing rate if they seek and receive a determination from the FDIC that it is operating in a high-rate area. Regardless of the determination, institutions must use the national rate to determine conformance for all deposits outside their market area.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to limitations.

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The controlling bank holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution and a lower capital category based on supervisory factors other than capital.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if payment of such a management fee or the making of such capital distribution would cause the Bank to become undercapitalized, it could not pay a management fee or dividend to us.

Dividends

We are a legal entity separate and distinct from the Bank. The principal source of our cash flow is dividends paid to us by the Bank. Statutory and regulatory limitations apply to the Bank's ability to pay dividends to us as well as to our ability to pay dividends to our shareholders. Under Kentucky law, the Company is not permitted to pay dividends to the extent they result in the insolvency of the corporation from a balance sheet perspective or the corporation becoming unable to pay debts as they come due.

In addition to state law limitations on the Company's ability to pay dividends, the Federal Reserve imposes limitations on the Company's ability to pay dividends. As noted above, effective January 1, 2016, Federal Reserve limitations limit dividends, stock repurchases and discretionary bonuses to executive officers if the Company's regulatory capital is below the level of regulatory minimums plus the applicable capital conservation buffer, which will increase each year until January 1, 2019.

Statutory limitations also apply to the Bank's payment of dividends to the Company. Under Kentucky law, dividends by Kentucky banks may be paid only from current or retained net profits. The Kentucky Department of Financial Institutions must approve the declaration of dividends if the total dividends to be declared by a bank for any calendar year would exceed the bank's total net profits for such year combined with its retained net profits for the preceding two years, less any required transfers to surplus or a fund for the retirement of preferred stock or debt.

The payment of dividends by the Bank may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice.

Under the FDIA, an insured institution may not pay a dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the Federal Reserve and the FDIC have issued policy statements stating that bank holding companies and insured banks should generally pay dividends only out of current operating earnings, and the new capital rules prohibit the payment of dividends when a holding company or insured depository institution is not in compliance with the capital conservation buffer described elsewhere in this report.

The amount and timing of all future dividend payments, if any, is subject to Board discretion and will depend on our earnings, capital position, financial condition and other factors, including new regulatory capital requirements, as they become known to us.

Transactions with Affiliates

Both the Company and the Bank are subject to the provisions of Section 23A and Section 23B of the Federal Reserve Act. Section 23A places limits on the amount of a bank's loans or extensions of credit to affiliates, a bank's investment in an affiliate, assets a bank may purchase from affiliates, except for real and personal property exempted by the obligations of affiliates, the amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates, transactions involving the borrowing or lending of securities and any derivative transaction that results in credit exposure to an affiliate, and a bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate.

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The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. The Bank must also comply with other provisions designed to avoid the taking of low-quality assets. Section 23B prohibits an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Source of Strength

Under the Dodd-Frank Act, and previously under Federal Reserve policy, we are required to act as a source of financial strength for and to commit resources to support the Bank in circumstances in which might not otherwise do so. This support may be required at times when, absent such Federal Reserve policy, we may not be inclined to provide it. If the Bank were to become undercapitalized, we would be required to provide a guarantee of the Bank's plan to return to capital adequacy. In addition, any loans by a bank holding company to any of its banking subsidiaries are subordinate in right of payment to deposits and to other indebtedness of such banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a banking subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Branching

With prior regulatory approval and/or notices, as applicable, Kentucky law permits banks based in the state to either establish new or acquire existing branch offices throughout Kentucky. As a result of the Dodd Frank Act, the Bank and any other national or state chartered bank may branch across state lines to the same extent as banks chartered in the state of the branch.

FDIC Insurance

Deposits in the Bank are insured by the FDIC subject to applicable limitations. To offset the cost of this issuance, the FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities and the size of the institutions. Under the Dodd-Frank Act, the FDIC has adopted regulations that base deposit insurance assessments on total assets less capital rather than deposit liabilities and include off-balance sheet liabilities of institutions and their affiliates in risk-based assessments.

The Dodd-Frank Act increased the basic limit on federal deposit insurance coverage to $250,000 per depositor. The Dodd-Frank Act also repealed the prohibition on paying interest on demand transaction accounts.

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

Community Reinvestment

The Community Reinvestment Act (CRA) requires that the FDIC in connection with examinations of financial institutions within their respective jurisdictions, a financial institution's primary regulator, which is the FDIC for the Bank, shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank. At our last regulatory examination, the Bank received a "satisfactory" CRA rating.

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Consumer Protection Laws

The Bank is subject to consumer laws and regulations that are designed to protect consumers. Interest and other charges collected or contracted for by the bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions such as the:

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Bank Secrecy Act, governing how banks and other firms report certain currency transactions and maintain appropriate safeguards against "money laundering" activities;
- Soldiers' and Sailors' Civil Relief Act of 1940, governing the repayment terms of, and property rights underlying, secured obligations of persons in active military service; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing the federal laws.
- The Bank's deposit operations are subject to the:
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities (including with

respect to the permissibility of overdraft charges) arising from the use of automated teller machines and other electronic banking services.

Consumer Financial Protection Bureau

Dodd-Frank created a new, independent federal agency called the Consumer Financial Protection Bureau (CFPB) which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but are examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Financial Privacy and Cybersecurity

The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing Internet-based services of the financial institution. The other statement indicates that a financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyber attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

Anti-Money Laundering; USA Patriot Act

Financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. We are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence in dealings with foreign financial institutions and foreign customers. We also must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Recent laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act), enacted in 2001, renewed in 2006 and extended, in part, in 2011. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

The USA Patriot Act amended, in part, the Bank Secrecy Act and provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. The statute also creates enhanced information collection tools and enforcement mechanics for the U.S. government, including: (1) requiring standards for verifying customer identification at account opening; (2) promulgating rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (3) requiring reports by nonfinancial trades and businesses filed with the Treasury’s Financial Crimes Enforcement Network for transactions exceeding $10,000; and (4) mandating the filing of suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations. The statute also requires enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons.

The Federal Bureau of Investigation may send bank regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The Bank may be subject to a request for a search of its records for any relationships or transactions with persons on those lists and may be required to report any identified relationships or transactions. Furthermore, the Office of Foreign Assets Control (OFAC) is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, bank regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must freeze such account, file a suspicious activity report and notify the appropriate authorities.

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Proposed Legislation and Regulatory Action

Congress may enact further legislation that affects the regulation of the financial services industry, and state legislatures may enact further legislation affecting the regulation of financial institutions chartered by or operation in these states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof, although enactment of the proposed legislation could impact the regulatory structure under which the Company operates and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, may require modifications of the Company’s business strategy, and limit the Company’s ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicate to the Company or the Bank could have a material effect on our business.

Effects of Governmental Policies and Economic Conditions

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

Available Information

We file reports with the SEC including our annual report on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8-K and proxy statements, as well as any amendments to those reports. The public may read and copy any materials the Registrant files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are accessible at no cost on our web site at http://www.citizensfirstbank.com, under the Investors Relations section, once they are electronically filed with or furnished to the SEC. A shareholder may also request a copy of our Annual Report or Form 10-K free of charge upon written request to: Chief Financial Officer, Citizens First Corporation, 1065 Ashley Street, Suite 150, Bowling Green, Kentucky 42103.

Item 1A. Risk Factors

Our business, financial condition, and results of operation could be harmed by any of the following risks, or other risks that have not been identified or which we believe are immaterial or unlikely. Shareholders should carefully consider the risks described below in conjunction with other information in this Form 10-K and the information incorporated by reference in this Form 10-K, including our consolidated financial statements and related notes.

Legislative and regulatory initiatives to support the financial services industry have been coupled with numerous restrictions and requirements that could detrimentally affect our business.

The Dodd-Frank Act and the rules and regulations promulgated thereunder significantly impacted the United States bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The scope and impact of many of the Dodd-Frank Act provisions, including the authority provided to the CFPB, will continue to be determined over time as rules and regulations are issued and become effective. As a result, we cannot predict the ultimate impact of the Dodd- Frank Act on us at this time, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition, results of operations and our ability to pay dividends. However, it is expected that at a minimum they will increase our operating and compliance costs. Compliance with these requirements may necessitate

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that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results

of operations.

Changes to capital requirements for bank holding companies and depository institutions may negatively impact our results of operations.

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules implementing the Basel III regulatory capital reforms were effective as to the Company and the Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes "capital" for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 riskbased capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a "capital conservation buffer" of 2.5% (to be phased in over three years) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total riskbased capital ratio of 10.5%. The capital conservation buffer requirement is to be phased in over a three year periodbeginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under these new rules, Tier 1 capital will generally consist of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, will no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets, trust preferred securities issued prior to that date, will continue to count as Tier 1 capital subject to certain limitations. The definition of Tier 2 capital is generally unchanged for most banking organizations, subject to certain new eligibility criteria. Common equity Tier 1 capital will generally consist of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions.

The application of more stringent capital requirements for the Company and the Bank, like those adopted to implement the Basel III reforms, could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying dividends or buying back shares.

We may be adversely affected by interest rate changes.

Our earnings are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, and (iii) the average duration of our loan and mortgage-backed securities portfolios. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

We generally seek to maintain a neutral position in terms of the volume of assets and liabilities that mature or re-price during any period. As such, we have adopted asset and liability management strategies to attempt to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments and funding sources, so that it may reasonably maintain its net interest income and net interest margin. However, interest rate fluctuations, the level and shape of the interest rate yield curve, loan prepayments, loan production and deposit flows are constantly changing and influence the ability to maintain a neutral position. Accordingly, we may not be successful in maintaining a neutral position and, as a result, our net interest margin may be adversely impacted.

Our loan portfolio exposes us to credit risk.

There are inherent risks associated with our lending activities and we seek to mitigate these risks by adhering to conservative underwriting practices. Although we believe that our underwriting practices are appropriate for the various kinds of loans we make, we may nevertheless incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan losses. Increased credit risk may result from several factors, including adverse changes in local, U.S. and global economic and industry conditions, declines in the value of collateral, concentrations of credit associated with specific loan categories, industries or collateral types and risks related to individual borrowers. We rely heavily on information provided by third parties when originating and monitoring loans. If this information is intentionally or negligently misrepresented and we do not detect such misrepresentations, the credit risk associated with the transaction may be increased. Although we attempt to manage our credit risk by carefully monitoring the concentration of our loans within specific loan categories and industries and through prudent loan approval and monitoring practices in all categories of our lending, we cannot assure you that our approval and monitoring procedures will reduce these lending risks. If our credit administration personnel, policies and procedures are not able to adequately adapt to changes in economic or other conditions that affect customers and the quality of the loan portfolio, we may incur increased losses that could adversely affect our financial results.

We are exposed to higher credit risk by commercial real estate, commercial and agricultural loans.

Commercial real estate and commercial and agricultural lending usually involve higher credit risks than that of single-family residential lending. As of December 31, 2016, commercial real estate loans accounted for 60.2% of our loan portfolio and commercial and agricultural loans accounted for 16.8% of our loan portfolio. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

Commercial loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the collateral securing the loans have the following characteristics: (a) they depreciate over time, (b) they are difficult to appraise and liquidate, and (c) they fluctuate in value based on the success of the business.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest), the availability of permanent take-out financing, and the builder's ability to ultimately sell the property. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Commercial real estate and commercial and agricultural loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans.

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The banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures.

Our loan portfolio possesses increased risk due to our relatively high concentration of loans collateralized by real estate.

Approximately 85% of our loan portfolio as of December 31, 2016 was comprised of loans collateralized by real estate. Further adverse changes in the economy affecting values of real estate generally or in our primary market specifically could significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the collateral securing a loan to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition.

Weakness in the residential real estate markets could adversely affect our performance.

As of December 31, 2016, consumer residential real estate loans represented approximately 21.8% of our total loan portfolio. Declines in home values would adversely affect the value of collateral securing the residential real estate that we hold, as well as the volume of loan originations and the amount we realize on the sale of real estate loans. These factors could result in higher delinquencies and greater charge-offs in future periods, which could materially adversely affect our business, financial condition or results of operations.

If our allowance for loan losses proves to be insufficient to absorb probable incurred losses in our loan portfolio, our earnings will decrease.

If loan customers with significant loan balances fail to repay their loans, our earnings and capital levels will suffer. We maintain an allowance for loan losses that we believe is a reasonable estimate of probable incurred losses within the loan portfolio. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of any collateral securing the loans. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of customers relative to their financial obligations with us. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and these losses may exceed current estimates. We cannot fully predict the amount or timing of losses or whether the loss allowance will be adequate in the future and our current and future allowances for loan losses may not be adequate to cover future loan losses given current and future market conditions. Excessive loan losses and significant additions to our allowance for loan losses could have a material adverse impact on our financial condition and results of operations.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our financial condition and results of operations.

General economic conditions in the U.S. and in our local economy could adversely affect us.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services that the Bank offers, is highly dependent upon the business environment in markets where the Bank operates and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters, terrorist acts, or a combination of these or other factors. Although the domestic economy has been in the recovery phase since 2009, the recovery is modest and there can be no assurance that the economy will not enter into another recession, whether in the near term or long

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term. Continuation of the slow recovery or another economic downturn or sustained, high unemployment levels may negatively impact our operating results and have a negative effect on the ability of our borrowers to make timely repayments of their loans, increasing the risk of loan defaults and losses.

Our ability to maintain required capital levels and adequate sources of funding and liquidity could be impacted by changes in the capital markets and deteriorating economic and market conditions.

We, and the Bank, are required to maintain certain capital levels established by banking regulations or specified by bank regulators, including those capital maintenance standards imposed on us as a result of the Dodd-Frank Act, and we are required to serve as a source of strength to the Bank. We must also maintain adequate funding sources in the normal course of business to support our operations and fund outstanding liabilities. Our ability to maintain capital levels, sources of funding and liquidity could be impacted by changes in the capital markets in which we operate and deteriorating economic and market conditions. The Bank will be required to obtain regulatory approval in order to pay dividends to us unless the amount of such dividends does not exceed its retained net profits for that year plus the preceding two years. Failure by the Bank to meet applicable capital guidelines or to satisfy certain other regulatory requirements could subject our bank subsidiary to a variety of enforcement remedies available to the federal regulatory authorities.

Certain of our deposits and other funding sources may be volatile and impact our liquidity.

In addition to traditional core deposits, such as demand deposit accounts, interest checking, money market savings and certificates of deposits, we utilize or in the past have utilized several noncore funding sources, such as brokered certificates of deposit, Federal Home Loan Bank (FHLB) of Cincinnati advances, federal funds purchased and other sources. We utilize these noncore funding sources to fund the ongoing operations and growth of the Bank. The availability of these noncore funding sources is subject to broad economic conditions and to investor assessment of our financial strength and, as such, the cost of funds may fluctuate significantly and/or be restricted, thus impacting our net inters income, our immediate liquidity and/or our access to additional liquidity.

Impairment of goodwill and/or intangible assets could require charges to earnings, which could result in a negative impact on our results of operations.

A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in future impairment of goodwill or other intangible assets. At December 31, 2016, our goodwill and other identifiable intangible assets totaled approximately $4.3 million. If we were to conclude that a future write-down of our goodwill or intangible assets is necessary, then we would record the appropriate charge to earnings, which could be materially adverse to our results of operations and financial position.

Our internal operations are subject to a number of risks.

Our internal operations are subject to certain risks, including but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk resulting inadequate or failed internal processes, people and systems includes the risk of fraud by employees or persons outside of our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

We face security risks, including denial of service attacks, hacking, social engineering attacks targeting our colleagues and customers, malware intrusion or data corruption attempts, and identity theft that could result in the disclosure of confidential information, adversely affect our business or reputation, and create significant legal and financial exposure.

Our computer systems and network infrastructure are subject to security risks and could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Denial of service attacks have been launched against a number of financial services

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institutions. These denial of service attacks have not breached our data security systems, but require substantial resources to defend, and may affect customer satisfaction and behavior.

Despite efforts to ensure the integrity of our systems, we may not be able to anticipate all security breaches of these types, nor may we be able to implement guaranteed preventive measures against such security breaches. Persistent attackers may succeed in penetrating defenses given enough resources, time, and motive. The techniques used by cyber criminals change frequently, may not be recognized until launched and can originate from a wide variety of sources, including outside groups such as external service providers, organized crime affiliates, terrorist organizations or hostile foreign governments. These risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and application.

A successful penetration or circumvention of system security could cause us serious negative consequences, including significant disruption of operations, misappropriation of confidential information, or damage to our computers or systems or those of our customers and counterparties. A successful security breach could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on the Company.

We rely on third parties to provide key components of our business infrastructure.

We rely on third-party service providers to leverage subject matter expertise and industry best practice, provide enhanced products and services, and reduce costs. Although there are benefits in entering into third-party relationships with vendors and others, there are risks associated with such activities. When entering a third-party relationship, the risks associated with that activity are not passed to the third-party but remain our responsibility. Increased risk could occur based on poor planning, oversight, control, and inferior performance or service on the part of the third party, and may result in legal costs or loss of business. Any problems caused by third-party service providers could adversely affect our ability to deliver products and services to our customers and to conduct our business. Replacing a third-party service provider could also take a long period of time and result in increased expenses.

We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify these systems as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. We outsource many of our major systems, such as data processing. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans, gather deposits and provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

In addition, we provide our customers the ability to bank remotely, including online over the Internet. The secure transmission of confidential information is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject us to additional regulatory scrutiny, expose us to civil litigation and possible financial liability and cause reputational damage.

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We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology will increase efficiency and will enable financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients.

Our securities portfolio performance in difficult market conditions could have adverse effects on our results of operations.

Under U.S. generally accepted accounting principles, we are required to review our investment portfolio periodically for the presence of other-than-temporary impairment of its securities, taking into consideration current market conditions, the extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, our intent to sell or determination that we will not be required to sell investments until a recovery of fair value, as well as other factors. Adverse developments with respect to one or more of the foregoing factors may require us to deem particular securities to be other-than-temporarily impaired, with the credit loss recognized as a charge to earnings. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require us to recognize further impairments in the value of our securities portfolio, which may have an adverse effect on our results of operations.

We are subject to environmental liability risk associated with our lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, results of operations and financial condition.

Our businesses may be adversely affected if we are unable to hire and retain qualified employees

Our success depends, in part, on our executive officers and other key personnel. The market for qualified individuals is highly competitive, and we may not be able to attract and retain qualified personnel or candidates to replace or succeed members of our senior management team or other key personnel. Our compensation practices are subject to review and oversight by the Federal Reserve, the FDIC and other regulators. As a banking institution, we may be subject to limitations on compensation practices, which may or may not affect our competitors, by the Federal Reserve, the FDIC or other regulators. These limitations could further affect our ability to attract and retain our executive officers and other key personnel.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, we have grown our business by focusing on our geographic market and emphasizing the high level of service and responsiveness desired by our customers. We compete for loans, deposits and other financial services with other commercial banks, thrifts, credit unions, consumer finance companies, insurance companies and brokerage firms. Many of our competitors offer products and services which we do not offer, and many have substantially greater resources, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, and smaller and newer competitors may also be more aggressive in terms of pricing loan and deposit products than us in order to obtain a larger share of the market. Some of the financial institutions and financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank

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holding companies, federally insured state-chartered banks and national banks and federal savings banks. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services.

We also experience competition from a variety of institutions outside of our market area. Some of these institutions conduct business primarily over the Internet and may thus be able to realize certain cost savings and offer products and services at more favorable rates and with greater convenience to the customer.

Our accounting policies and methods impact how we report our financial condition and results of operations. Application of these policies and methods may require management to make estimates about matters that are uncertain.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with U.S. generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in our reporting materially different amounts than would have been reported under a different alternative. For a description of our significant accounting policies, see Note 1 of the Notes to Consolidated Financial Statements. These accounting policies are critical to presenting our financial condition and results of operations. They may require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions.

Changes in accounting standards could materially impact our consolidated financial statements.

The accounting standard setters, including the Financial Accounting Standards Board, SEC and other regulatory bodies, from time to time may change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results, or a cumulative charge to retained earnings.

Our internal controls may be ineffective.

We regularly review and update our internal controls, disclosure controls and procedures and corporate governance policies and procedures. As a result, we may incur increased costs to maintain and improve our controls and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls or procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations or financial condition.

National or state legislation or regulation may increase our expenses and reduce earnings.

Federal bank regulators are increasing regulatory scrutiny, and additional restrictions (including those originating from the Dodd-Frank Act) on financial institutions have been proposed or adopted by regulators and by Congress. Changes in tax law, federal legislation, regulation or policies, such as bankruptcy laws, deposit insurance, consumer protection laws, and capital requirements, among others, can result in significant increases in our expenses and/or chargeoffs, which may adversely affect our earnings. Changes in state or federal tax laws or regulations can have a similar impact. Many state and municipal governments, including the Commonwealth of Kentucky, are under financial stress due to the economy. As a result, these governments could seek to increase their tax revenues through increased tax levies which could have a meaningful impact on our results of operations. Furthermore, financial institution regulatory agencies are expected to continue to be very aggressive in responding to concerns and trends identified in examinations, including the continued issuance of additional formal or informal enforcement or supervisory actions. These actions, whether formal or informal, could result in our agreeing to limitations or to take actions that limit our operational flexibility, restrict our growth or increase our capital or liquidity levels. Failure to comply with any formal or informal regulatory restrictions, including informal supervisory actions, could lead to further regulatory enforcement actions. Negative developments in the financial services industry and the impact of recently enacted or new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely

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impact our financial performance. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans.

We may be adversely affected by further increases in FDIC insurance or special assessments.

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to applicable limits. The amount of a particular institution's deposit insurance assessment is based on that institution's risk classification under an FDIC risk-based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. Market developments have significantly depleted the Deposit Insurance Fund (DIF) of the FDIC and reduced the ratio of reserves to insured deposits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased the deposit insurance assessment rates and thus raised deposit insurance premiums for insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially and adversely affect us, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Even though our common stock is currently traded on the NASDAQ Stock Market, it has less liquidity than many other stocks quoted on a national securities exchange.

The trading volume in our common stock has been relatively low when compared with larger companies listed on NASDAQ or other stock exchanges. We cannot say with any certainty that an active and liquid trading market for our common stock will develop. Because of this, it may be more difficult for stockholders to sell a substantial number of shares for the same price at which stockholders could sell a smaller number of shares. We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We can give no assurance that sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

The market price of our common stock has fluctuated significantly, and may fluctuate in the future. These fluctuations may be unrelated to our performance. General market or industry price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

Our capital stock is subordinate to our existing and future indebtedness.

Our capital stock ranks junior to all of our existing and future indebtedness and other non-equity claims with respect to assets available to satisfy claims against us, including claims in the event of our liquidation. As of December 31, 2016, our total liabilities were approximately $413 million, and we may incur additional indebtedness in the future to increase our capital resources. Additionally, if our capital ratios or the capital ratios of the Bank fall below the required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of debt securities.

We are a holding company and depend on our subsidiary bank for dividends, distributions and other payments.

We are a legal entity separate and distinct from our bank subsidiary. Our principal source of cash flow, including cash flow to pay dividends to our stockholders and principal and interest on our outstanding debt, is dividends from the Bank. There are statutory and regulatory limitations on the payment of dividends by the Bank to us, as well as by us to our stockholders. Regulations of both the Federal Reserve and the State of Kentucky affect the ability of the Bank to pay dividends and other distributions to us and to make loans to us. If the Bank is unable to make dividend payments to us and sufficient cash or liquidity is not otherwise available, we may not be able to make dividend payments to our common and preferred stockholders or principal and interest payments on our outstanding debt. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, shares of our capital stock are effectively subordinated to all existing and future liabilities and obligations of our subsidiaries.

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We may not pay dividends on shares of our capital stock.

Holders of shares of our capital stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We have declared cash dividends on our common stock sporadically; we are not required to do so. Furthermore, the terms of our outstanding preferred stock prohibit us from declaring or paying any dividends on any junior series of our capital stock, including our common stock, or from repurchasing, redeeming or acquiring such junior stock, unless we have declared and paid full dividends on our outstanding preferred stock for the most recently completed dividend period.

We are also subject to statutory and regulatory limitations on our ability to pay dividends on our capital stock. For example, it is the policy of the Federal Reserve that BHCs should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the organization's expected future needs, asset quality and financial condition. Further, if we are unable to satisfy the capital requirements applicable to us for any reason, we may be limited in our ability to declare and pay dividends on our capital stock.

We may need to raise additional debt or equity capital in the future, but may be unable to do so.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and other business purposes. Our ability to raise additional capital, if needed, will depend on, among other things, prevailing conditions in the capital markets, which are outside of our control, and our financial performance. The economic slowdown and loss of confidence in financial institutions over the past several years may increase our cost of funding and limit our access to some of our customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. We cannot assure you that capital will be available to us on acceptable terms or at all. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition or results of operations.

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Item 1B. Unresolved Staff Comments None.

Item 2. Properties

We currently operate in Warren, Simpson, Barren and Hart Counties in Kentucky, as well as Williamson County, Tennessee.

Type of Office	Location	Leased or Owned
Corporate Office	1065 Ashley Street Bowling Green, Kentucky	Owned
Main Office	1805 Campbell Lane Bowling Green, Kentucky	Leased(1)
Branch	987 Lehman Avenue Bowling Green, Kentucky	Owned
Branch	1200 S. Main Street Franklin, Kentucky	Owned
Branch	204 East Main Street Horse Cave, Kentucky	Owned
Branch	760 West Cherry Glasgow, Kentucky	Owned
Branch	607 S L Rogers Well Blvd Glasgow, Kentucky	Leased
Branch	656 North Main Street Munfordville, Kentucky	Leased
Branch	1700 Scottsville Road Bowling Green, Kentucky	Owned
Loan Production Office	3301 Aspen Grove Drive, Ste.200 Franklin, Tennessee	Leased

(1) We sold this branch in the fourth quarter of 2006 to an unrelated party and leased it back.

We also own properties located at 2900 Louisville Road and on Gator Drive in Bowling Green which may be used for future branch expansion.

Item 3. Legal Proceedings

In the opinion of management, there is no proceeding pending or, to the knowledge of management, threatened, in which an adverse decision could result in a material adverse change in the consolidated financial condition or results of operations of the Company.

Item 4. Mine Safety Disclosures.

Not Applicable.

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

The common stock of the Company is traded in the NASDAQ Global Market under the symbol "CZFC." Trading volume in the Company's common stock is light. As of March 23, 2017, there were approximately 724 beneficial owners of the Company's common stock, including 111 shareholders of record and, to the best knowledge of the Company, approximately 613 beneficial owners whose shares are held by securities brokers-dealers or other nominees.

The following table shows the reported high and low closing sales price information for our common stock for the periods indicated:

2016	High	Low
Fourth Quarter	$ 18.25	$ 16.00
Third Quarter	17.00	14.23
Second Quarter	15.00	13.76
First Quarter	14.25	13.34

2015	High	Low
Fourth Quarter	$ 14.35	$ 12.66
Third Quarter	13.20	12.51
Second Quarter	12.85	12.00
First Quarter	12.69	11.90

We paid a cash dividend of $0.16 per share on our common stock in 2016, compared to $0.08 per share in 2015. Dividends on common stock will be payable in the future at the discretion of the Board of Directors, subject to certain restrictions discussed below and in our financial statements. Quarterly dividends are payable on our cumulative perpetual preferred stock, prior and in preference to the payment of dividends on our common stock, at an annual fixed rate of 6.5%. See Item 1, “Business — Supervision and Regulation” for additional information on dividend restrictions applicable to the Company and Citizens First Bank.

The following table sets forth certain information as of December 31, 2016, regarding Company compensation plans under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of Securities To be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under equity compensation plans (excluding securities reflected in Column a (c)
Equity compensation plans approved by security holders	18,300	$ 13.20	81,700
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	—

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Item 6. Selected Financial Data.

Not Applicable

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with Item 8 "Financial Statements" as well as other information included in this Form 10-K.

Overview of 2016

Significant developments for the year ended December 31, 2016 were:

- Net income increased 16.9% or $610,000, from a net income of $3.61 million in 2015 to $4.22 million in 2016. Net income increased primarily due to an increase in net interest income of $536,000.

- Diluted earnings per share increased 18.6%, or $0.26 per common share, from $1.40 in 2015 to $1.66 in 2016. Earnings per share improved due to the increased net income combined with a decline in $25,000 of preferred stock dividends, a result of the conversion of 13 preferred shares to 29,575 common shares.

- Net interest margin remained consistent during 2016, increasing 1 basis point to 3.87% for 2016 compared to 3.86% for 2015. We experienced a decline in both the yield on average earnings assets and the cost of average interest-bearing liabilities.

- Nonperforming assets decreased to $23,000, or 0.01% of total assets at December 31, 2016, compared to $637,000, or 0.15% of total assets at December 31, 2015.

Application of Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles and follow general practices within the financial services industry. The most significant accounting policies followed by the Company are presented in Note 1 to the Consolidated Financial Statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses, the evaluation of our goodwill and other intangible assets, and our valuation of deferred tax assets to be the accounting areas that require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

Allowance for Loan Losses

The allowance for loan losses represents management’s estimate of probable credit losses incurred in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows or underlying collateral values on impaired loans, estimated losses on loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Note 1 to the Consolidated Financial Statements describes the methodology used to determine the allowance for loan losses, and a discussion of the factors driving changes in the amount of the allowance for loan losses is included under “Credit Quality and the Allowance for Loan Losses” below.

Goodwill and Other Intangibles

Management is required to assess goodwill and other intangible assets annually for impairment or more often if certain factors are identified which could imply potential impairment. This assessment involves preparing analyses of market multiples for similar operations, and estimating the fair value of the reporting unit to which the goodwill is allocated. If the analysis results in an estimate of fair value materially less than the carrying value we would be required to take a charge against earnings to write down the asset to the lower fair value. Based on management’s assessment completed with the

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help of an outside valuation firm, we believe our goodwill of $4.1 million and other identifiable intangibles of $194,000 are not impaired and are properly recorded in the consolidated financial statements as of December 31, 2016.

Valuation of Deferred Tax Asset

We evaluate deferred tax assets quarterly. We will realize this asset to the extent we are profitable or able to carry back tax losses to periods in which we paid income taxes. Our determination of the realization of the deferred tax asset will be based upon management's judgment of various future events and uncertainties, including the timing and amount of future income we will earn and the implementation of various tax planning strategies to maximize realization of the deferred tax assets. Management believes we will generate sufficient operating earnings to realize the deferred tax asset. Examinations of our income tax returns or changes in tax law may impact the tax liabilities and resulting provisions for income taxes. Future decreases in the corporate tax rate could result in a loss of value of the Company's deferred tax assets, but would reduce future income tax expense.

Results of Operations

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets, such as loans and securities, and the total interest cost of the deposits and borrowings obtained to fund these assets. Factors that influence the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and non-earning assets, and the amount of non-interest bearing deposits supporting earning assets.

For the year ended December 31, 2016, net interest income was $15.6 million, an increase of $536,000, or 3.6%, from net interest income of $15.1 million in 2015. Net interest income increased primarily from an increase in the volume of average earning assets of $11.6 million, led by our increase in average loans.

Interest rates increased in the fourth quarter of 2016, which was evidenced by the Federal Reserve increasing the discount rate 25 basis points at their December meeting. The prime rate remained stable throughout most of 2016 at 3.50%, but increased to 3.75% in December, 2016.

Net Interest Analysis Summary

	2016	2015
Average yield on interest earning assets	4.49 %	4.52 %
Average rate on interest bearing liabilities	0.73 %	0.76 %
Net interest spread	3.76 %	3.76 %
Net interest margin	3.87 %	3.86 %

Our average interest-earning assets were $411.0 million for 2016, compared with $399.4 million for 2015, a $11.6 million, or 2.9% increase primarily attributable to an increase in loans. Average loans were $340.8 million for 2016, compared with $322.3 million for 2015, an increase of $18.5 million, or 5.7%. Our total interest income on a tax-equivalent basis increased 2.2% to $18.4 million for 2016, compared with $18.0 million for 2015. The change was due primarily to the increased volume of interest-earning assets.

Our average interest-bearing liabilities increased $2.2 million, or 0.6%, to $346.2 million for 2016, compared with $344.0 million for 2015. Our total interest expense decreased $78,000, or 3.0%, to $2.5 million for 2016, compared with $2.6 million during 2015. The change was due primarily to a decrease in the rates on FHLB borrowings and a decrease in the volume of time deposits. We also experienced a growth in non-interest bearing deposits of $4.4 million, or 9.8%, to $49.7 million for 2016, compared with $45.2 million for 2015.

The following table sets forth for the years ended December 31, 2016 and 2015 information regarding average balances of assets and liabilities as well as the amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities and average yields and costs. We have calculated the yields and costs for the periods

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indicated by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented.

Average Consolidated Balance Sheets and Net Interest Analysis (Dollars in thousands) Year Ended December 31,

Year ended December 31,	2016 Average Balance	Income/ Expense	Average Rate		2015 Average Balance	Income/ Expense	Average Rate	
Earning assets:								
Federal funds sold	$ 2,787	$ 14	0.50	%	$ 15,258	$ 36	0.24	%
Interest-bearing deposits in other financial institutions	7,427	68	0.92	%	1,100	17	1.55	%
Available-for-sale securities (1)								
Taxable	36,194	672	1.86	%	34,718	632	1.82	%
Nontaxable	21,780	892	4.10	%	24,063	1,039	4.32	%
Federal Home Loan Bank stock	2,025	81	4.00	%	2,025	81	4.00	%
Loans receivable (2)	340,837	16,713	4.90	%	322,256	16,230	5.04	%
Total interest earning assets	411,050	18,440	4.49	%	399,420	18,035	4.52	%
Non-interest earning assets	28,578				30,760			
Total Assets	$ 439,628				$ 430,180			
Interest-bearing liabilities:								
NOW Accounts	$ 121,600	$ 486	0.40	%	$ 112,505	$ 409	0.36	%
Money market Accounts	23,749	$ 88	0.37	%	$ 25,716	$ 96	0.37	%
Savings accounts	21,225	39	0.18	%	20,076	38	0.19	%
Time deposits	144,565	1,491	1.03	%	162,254	1,686	1.04	%
Total interest-bearing deposits	311,139	2,104	0.68	%	320,551	2,229	0.70	%
Borrowings	30,075	307	1.02	%	18,448	279	1.51	%
Subordinated debentures	5,000	118	2.36	%	5,000	99	1.98	%
Total interest-bearing liabilities	346,214	2,529	0.73	%	343,999	2,607	0.76	%
Non-interest bearing deposits	49,689				45,237			
Other liabilities	2,290				2,218			
Total liabilities	398,193				391,454			
Stockholders’ equity	41,435				38,726			
Total Liabilities and Stockholders’ Equity	$ 439,628				$ 430,180			
Net interest income		$ 15,911				$ 15,428		
Net interest spread (1)			3.76	%			3.76	%
Net interest margin (1) (3)			3.87	%			3.86	%
Return on average assets ratio			0.96	%			0.84	%
Return on average equity ratio			10.20	%			9.32	%
Average equity to assets ratio			9.43	%			9.00	%

(1) Income and yield stated at a tax equivalent basis for nontaxable securities using the marginal corporate Federal tax rate of 34.0%.

(2) Average loans include nonperforming loans. Interest income includes interest and fees on loans, but does not include interest on loans 90 days or more past due.

(3) Net interest income as a percentage of average interest-earning assets.

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Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volumes. The following table sets forth the effect which the varying levels of interest earning assets and interest bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented. Changes in rate-volume are proportionately allocated between rate and volume variances.

	(Dollars in Thousands) Twelve Months Ended December 31, 2016 Vs. 2015 Increase (Decrease) Due to		
	Rate	Volume	Net
Interest-earning assets:			
Federal funds sold	7	(29)	(22)
Interest-bearing deposits in other financial institutions	(47)	98	51
Available-for-sale securities:			
Taxable	13	27	40
Nontaxable (1)	(48)	(99)	(147)
Federal Home Loan Bank stock	—	—	—
Loans, net	(452)	935	483
Total Net Change in income on interest-earning assets	(527)	932	405
Interest-bearing liabilities:			
NOW Accounts	44	33	77
Money market accounts	(1)	(7)	(8)
Savings accounts	(1)	2	1
Time deposits	(11)	(184)	(195)
FHLB and other borrowings	(60)	(65)	(125)
Subordinated debentures	(148)	176	28
Total Net Change in expense on interest-earning liabilities	(177)	(47)	(224)
Net change in net interest income	(350)	979	629
Percentage Change	-55.7%	155.7%	100.0%

(1) Income stated at a fully tax equivalent basis using the marginal corporate Federal tax rate of 34.0%.

Provision for Loan Losses

The provision for loan losses for 2016 was $(85,000), or (0.01)% of average loans, compared to a provision of $135,000, or 0.04% of average loans during 2015. We had net charge-offs (recoveries) totaling $(23,000) during 2016, compared to $104,000 during 2015. We consider the size, volume and credit quality of the loan portfolio as well as recent economic and other external influences to record the allowance for loan losses and provision for loan losses that is directionally consistent with our loan portfolio.

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Non-interest Income

Non-interest income decreased 0.2%, or $8,000, from $3.3 million in 2015 to $3.3 million in 2016. Gains on the sale of mortgage loans increased $142,000 due to increased volume of loans sold in the secondary market. Other non-interest income decreased $82,000, due to a $95,000 gain on the sale of a loan which was recorded in 2015. The following table shows the detailed components of non-interest income:

	(Dollars in Thousands)		
	2016	2015	Increase (Decrease)
Service charges on deposit accounts	$ 1,396	$ 1,421	$ (25)
Other non-interest income	676	758	(82)
Gain on sale of mortgage loans held for sale	375	233	142
Non-deposit brokerage fees	315	364	(49)
Lease income	207	245	(38)
Bank-owned life insurance	177	181	(4)
Gain on the sale of available-for-sale securities	126	78	48
	$ 3,272	$ 3,280	$ (8)

Non-interest Expense

Non-interest expense decreased 1.8%, or $240,000, from $13.2 million in 2015 to $13.0 million in 2016. Professional fees decreased $245,000 due to lower legal and collection expenses. Other expenses decreased $166,000, of which $262,000 is related to a loss on the disposal of a former branch facility in 2015. Those decreases in expenses were partially offset by an increase in personnel expenses of $340,000.

The increases and decreases in expense in 2016 by major categories are as follows:

	(Dollars in Thousands)		
	2016	2015	Increase (Decrease)
Personnel expense	$ 6,875	$ 6,535	$ 340
Net occupancy expense	1,927	2,019	(92)
Advertising and public relations	320	330	(10)
Professional fees	465	710	(245)
Data processing services	1,037	1,001	36

Franchise shares and deposit tax	528	533	(5)
FDIC insurance	223	244	(21)
Other real estate owned expenses	17	94	(77)
Other	1,566	1,732	(166)
	$ 12,958	$ 13,198	$ (240)

Income Taxes

Income tax expense was calculated using the Company's expected effective rate for 2016 and 2015. We have recognized deferred tax liabilities and assets to show the tax effects of differences between the financial statement and tax bases of assets and liabilities. Our statutory federal tax rate was 34.0% in both 2016 and 2015. The effective tax rate for 2016 was 29.9%, compared to 28.2% for 2015. The difference between the statutory and effective rates are impacted by such factors as income from tax-exempt loans, tax-exempt income on state and municipal securities, and income on bank owned life insurance.

Balance Sheet Review

Our assets at December 31, 2016 totaled $455.4 million, compared with $432.2 million at December 31, 2015, an increase of $23.2 million, or 5.4%. Average assets increased 2.2% or $9.4 million, from $430.2 million in 2015 to $439.6 million in 2016.

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Loans

Total loans averaged $340.8 million in 2016, compared to $322.3 million in 2015. At year-end 2016, loans totaled $359.4 million, compared to $330.8 million at year-end 2015, an increase of $28.6 million, or 8.6%. We experienced increases in the commercial and agricultural and commercial real estate portfolios in 2016. The following table presents a summary of the loan portfolio by category:

	(Dollars in Thousands)				
	December 31, 2016			December 31, 2015	
		% of Total Loans			% of Total Loans
Commercial and agricultural	$ 60,388	16.80	%	$ 53,516	16.18 %
Commercial real estate	216,511	60.25	%	193,457	58.48 %
Residential real estate	78,422	21.82	%	79,680	24.09 %
Consumer	4,070	1.13	%	4,129	1.25 %
	$ 359,391	100.00	%	$ 330,782	100.00 %

Our commercial real estate loans include financing for industrial developments, residential developments, retail shopping centers, industrial buildings, restaurants, and hotels. The percentage distribution of our loans by industry as of December 31, 2016 and 2015 is shown in the following table:

	2016	2015
Agriculture, forestry, and fishing	8.76 %	8.06 %
Construction	7.38 %	5.90 %
Manufacturing	3.83 %	3.75 %
Transportation, communication, electric, gas, and sanitary services	4.07 %	4.84 %
Wholesale trade	3.62 %	2.79 %
Retail trade	4.36 %	5.48 %
Finance, insurance, and real estate	37.11 %	34.05 %
Services	18.63 %	19.71 %
Public administration	0.30 %	0.39 %
Total commercial and commercial real estate	88.06 %	84.97 %
Residential real estate loans	10.97 %	14.01 %
Other consumer loans	0.97 %	1.02 %
Total loans	100 %	100 %

The majority of our loans are to customers located in south central Kentucky and central Tennessee. As of December 31, 2016, the Company’s 20 largest credit relationships consisted of loans and loan commitments ranging from $4.1 million to $11.2 million. The aggregate amount of these credit relationships was $105.9 million, with total commitments of $119.1 million.

Our lending activities are subject to a variety of lending limits imposed by state and federal law. Citizens First Bank's secured legal lending limit to a single borrower was approximately $12.5 million at December 31, 2016.

As of December 31, 2016, we had $17.7 million of participations in loans purchased from, and $24.7 million of participations in loans sold to, other banks. As of December 31, 2015, we had $21.1 million of participations in loans purchased from, and $21.8 million of participations in loans sold to, other banks.

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The following table sets forth the maturity distribution of our loan portfolio as of December 31, 2016. Maturities are based upon contractual terms. Our policy is to specifically review and approve all loans renewed; loans are not automatically rolled over.

	(Dollars in Thousands)			
Loan Maturities as of December 31, 2016	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial and agricultural	$ 22,229	$ 29,135	$ 9,024	$ 60,388
Commercial real estate	35,174	116,990	64,347	216,511
Residential real estate	10,017	34,361	34,044	78,422
Consumer	1,137	2,890	43	4,070
Total	$ 68,557	$ 183,376	$ 107,458	$ 359,391

The table below presents loans outstanding as of December 31, 2016 with maturities greater than one year categorized by fixed and variable interest rates:

As of December 31, 2016	(Dollars in Thousands)
Fixed Rate	$ 221,210
Variable Rate	69,624
Total maturities greater than one year	$ 290,834

Asset and Liability Management

We manage our assets and liabilities to provide a consistent level of liquidity to accommodate normal fluctuations in loans and deposits. The yield on approximately 24.7% of our earning assets as of December 31, 2016, adjusts simultaneously with changes in an external index, primarily the highest prime rate as quoted in the Wall Street Journal. A majority of our interest bearing liabilities have been issued with fixed terms and can only be repriced at maturity. The prime rate remained stable at 3.50% during most of 2016 and and at 3.25% during most of 2015. The prime rate increased to 3.50% in December, 2015 and increased to 3.75% in December 2016. The yield on our earning assets declined during 2016 as we were not able to reinvest at the yields previously earned on loans and called and matured investments. The cost of our interest bearing liabilities for the year ended 2016 continued to decline, which allowed the net interest margin to increase 1 basis point from the prior year end. If interest rates stabilize for a period of time, the difference between interest earning assets and interest bearing liabilities will tend to stabilize. In a stable rate environment, our net interest margin will be impacted by, among other factors, a change in the mix of earning assets, with our deposit growth being invested in an interest bearing sweep account, investment securities or loans.

Credit Quality and the Allowance for Loan Losses

We consider credit quality to be of primary importance. We contract with a third party CPA firm for loan review services. The scope of the engagement calls for annual review of large loan relationships (in excess of $1 million), problem credits, unsecured loans,insider relationships, and a random sample of smaller commercial credits with annual coverage of at least 50% of the outstanding loan portfolio. The focus of the reviews is centered in the commercial and commercial real estate portfolios, as they comprise the majority of the Bank’s loan portfolio. Management addresses any findings raised during the review process and takes appropriate actions as warranted.

The allowance for loan losses represents management’s estimate of probable credit losses incurred in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change.

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The allowance for loan losses is established through a provision for loan losses charged to expense. At December 31, 2016 and 2015, the allowance was $4.9 million. The ratio of the allowance for loan losses to total loans at December 31, 2016 was 1.35%, compared to 1.49% at December 31, 2015. The following table sets forth an analysis of our allowance for loan losses for the years ended December 31, 2016 and 2015.

	(Dollars in Thousands)	
	2016	2015
Balance at beginning of year	$ 4,916	$ 4,885
Provision (credit) for loan losses	(85)	135
Amounts charged off:		
Commercial	109	154
Commercial real estate	52	17
Residential real estate	39	57
Consumer	2	24
Total loans charged off	202	252
Recoveries of amounts previously charged off:		
Commercial	144	124
Commercial real estate	52	2
Residential real estate	24	13
Consumer	5	9
Total recoveries	225	148
Net charge-offs (recoveries)	(23)	104
Balance at end of year	$ 4,854	$ 4,916
Total loans, net of unearned income:		
Average	$ 340,837	$ 322,256
At December 31	$ 359,391	$ 330,782
As a percentage of average loans:		
Net charge-offs (recoveries)	(0.01) %	0.03 %
Provision (credit) for loan losses	(0.02) %	0.04 %

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated. This allocation is not intended to suggest how actual losses may occur.

	(Dollars in Thousands)			
	December 31, 2016		December 31, 2015	
	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
Residential real estate loans	$ 527	21.82 %	$ 524	24.09 %

Consumer and other loans	14	1.13	%	28	1.25	%
Commercial and agricultural	615	16.80	%	812	16.18	%
Commercial real estate	3,628	60.25	%	3,431	58.48	%
Unallocated	70	0.00	%	121	0.00	%
Total allowance for loan losses	$ 4,854	100.00	%	$ 4,916	100.00	%

We maintain a modest unallocated amount in the allowance to recognize the imprecision in estimating and measuring losses when evaluating allocations for individual loans or pools of loans. Allocations on individual loans and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience. The unallocated portion of the allowance decreased from $121,000 at December 31, 2015 to $70,000 at December 31, 2016.

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The following table sets forth selected asset quality amounts and ratios for the periods indicated:

	(Dollars in Thousands)	
	2016	2015
Non-accrual loans	$ 23	$ 537
Loans 90+ days past due/accruing	—	—
Restructured loans on non-accrual	—	—
Total non-performing loans	23	537
Other real estate owned	—	100
Total non-performing assets	$ 23	$ 637
Non-performing loans to total loans	0.01 %	0.16 %
Non-performing assets to total assets	0.01 %	0.15 %
Net charge-offs (recoveries) YTD	$ (23)	$ 104
Net charge-offs (recoveries) YTD to average YTD total loans	(0.01) %	0.03 %
Allowance for loan losses to non-performing loans	21,104.35 %	915.46 %
Allowance for loan losses to total loans	1.35 %	1.49 %

Non-performing assets totaled $23,000 at December 31, 2016, compared to $637,000 at December 31, 2015, a decrease of $614,000. Payoffs and paydowns of $564,000 included the disposition of two other real estate owned properties sold for $100,000, and three loans totaling $73,000 that were charged off. These decreases were offset by the addition of $23,000 in residential real estate loans.

Non-performing loans are defined as non-accrual loans, loans accruing but past due 90 days or more, and non-current restructured loans. Non-performing assets are defined as non-performing loans, other real estate owned, and repossessed assets. The non-performing loan total at year-end 2016 consisted of two non-accrual loans totaling $23,000 and no loans over 90 days past due that are still accruing. No other real estate was owned at December 31, 2016.

Management classifies commercial and commercial real estate loans as non-accrual when principal or interest is past due 90 days or more and the loan is not adequately collateralized and is in the process of collection, or when, in the opinion of management, principal or interest is not likely to be paid in accordance with the terms of the obligation. We charge off consumer loans after 120 days of delinquency unless they are adequately secured and in the process of collection. Non-accrual loans are not reclassified as accruing until principal and interest payments are brought current and future payments appear reasonably certain. Generally, we do not include loans that are current as to principal and interest in our non-performing assets categories. However, we will still classify a current loan as a potential problem loan if we develop doubts about the borrower's future performance under the terms of the loan contract.

Troubled debt restructurings (TDRs) are modified loans in which a concession is provided to a borrower experiencing financial difficulties. Loan modifications are considered TDRs when the concession provided is not available to the borrower through either normal channels or other sources. However, not all loan modifications are TDRs. Our standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. However, each potential loan modification is reviewed individually and the terms of the loan are modified to meet a borrower's specific circumstances at a point in time. TDRs can be classified as either accrual or nonaccrual loans. Non-accrual TDRs are included in non-accrual loans whereas accruing TDRs are excluded because the borrower remains contractually current.

Loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, allocations for individual loans are included in the allowance calculation based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Company. Included in the review of individual loans are those that are impaired as provided in ASC Topic 310 "Receivables". We evaluate the collectability of both principal and interest when assessing the need for a loss accrual. Historical loss rates are applied to other loans not subject to individual allocations. These historical loss rates may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the national and local economies, trends in the nature and volume of loans (delinquencies, charge-offs and nonaccrual loans), changes in mix, asset quality trends, risk management and loan administration, changes in internal lending policies and credit standards, and examination results from bank regulatory agencies and loan review.

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

We believe that the allowance for loan losses at December 31, 2016, provides for probable incurred credit losses in the loan portfolio as of that date. That determination is based on the best information available to management, but necessarily involves uncertainties and matters of judgment and, therefore, cannot be determined with precision and could be susceptible to significant change in the future. In addition, bank regulatory authorities, as a part of their periodic examinations, may reach different conclusions regarding the quality of the loan portfolio and the level of the allowance, which could require us to make additional provisions in the future.

Securities

Our securities portfolio serves as a source of liquidity and earnings and contributes to the management of interest rate risk. Our portfolio also provides us with securities to pledge as required collateral for certain governmental deposits and borrowed funds.

The investment securities portfolio is comprised primarily of U.S. Government agency securities, mortgage-backed securities, and tax-exempt securities of state and political subdivisions. Securities are all classified as available-for-sale. The investment portfolio decreased by $6.7 million, or 11.1%, to $53.5 million at December 31, 2016, compared with $60.2 million at December 31, 2015.

The tables below present the maturities and yield characteristics of securities as of December 31, 2016 and 2015. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2016	(Dollars in Thousands) One Year or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	Total Maturities	Fair Value
U.S. Government agencies	$ —	$ 1,998	$ —	$ —	$ 1,998	$ 1,957
Agency mortgage-backed securities: (1)	85	21,700	6,363	—	28,148	27,957
Municipal securities	1,264	9,924	7,606	2,516	21,310	21,380
Trust preferred security	—	—	—	1,884	1,884	1,240
Corporate bond	—	—	1,000	—	1,000	1,013
Total available-for-sale securities	$ 1,349	$ 33,622	$ 14,969	$ 4,400	$ 54,340	$ 53,547
Percent of total	2.48 %	61.87 %	27.55 %	8.10 %	100.00 %	
Weighted average yield(2)	3.06 %	2.47 %	3.31 %	4.14 %	2.85 %	

(1) Agency mortgage backed securities (residential) are grouped into average lives based on December 2016 prepayment projections.

(2) The weighted average yields are based on amortized cost and municipal securities are calculated on a full tax-equivalent basis.

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	(Dollars in Thousands)					
December 31, 2015	One Year or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	Total Maturities	Fair Value
U.S. Government agencies	$ —	$ 2,998	$ —	$ —	$ 2,998	$ 2,994
Agency mortgage-backed securities: (1)	315	24,389	4,742	—	29,446	29,657
Municipal securities	1,126	10,838	8,086	4,591	24,641	25,222
Trust preferred security	—	—	—	1,880	1,880	1,340
Corporate bond	—	—	1,000	—	1,000	987
Total available-for-sale securities	$ 1,441	$ 38,225	$ 13,828	$ 6,471	$ 59,965	$ 60,200
Percent of total	2.40 %	63.75 %	23.06 %	10.79 %	100.00 %	
Weighted average yield(2)	4.31 %	2.45 %	3.43 %	4.07 %	2.88 %	

(1) Agency mortgage backed securities (residential) are grouped into average lives based on December 2015 prepayment projections.

(2) The weighted average yields are based on amortized cost and municipal securitiesare calculated on a full tax-equivalent basis.

The Trust preferred security category consists of one single issue trust preferred security which has experienced a decline in fair value due to inactivity in the market. No impairment charge is being taken as no loss of principal is anticipated and all payments are being received as scheduled. All rated securities are investment grade. For those that are not rated, the financial condition has been evaluated and no adverse conditions were identified related to repayment. Declines in fair value are a function of rate changes in the market and market illiquidity. The Company does not intend to sell these securities and does not believe it will be required to sell these securities.

Deferred Tax Assets

We have a net deferred tax asset of $1.5 million at December 31, 2016. We evaluate this asset on a quarterly basis. To the extent we believe it is more likely than not that it will not be utilized, we will establish a valuation allowance to reduce its carrying amount to the amount it expects to be realized. At December 31, 2016, no valuation allowance has been established against the outstanding deferred tax asset. The deferred tax asset will be utilized as taxable income is generated in future years.

Deposits

We offer traditional deposit products, including non-interest-bearing and interest-bearing checking (or NOW accounts), commercial checking, money market accounts, savings accounts and certificates of deposit. We compete for deposits through our branch network with competitive pricing and advertising.

Total deposits averaged $360.8 million during 2016, a decrease of $5.0 million, or 1.4%, compared to $365.8 million during 2015. Average deposits decreased during the year and the cost of funds declined as higher cost deposits matured and were renewed at lower rates. Deposits at December 31, 2016 totaled $370.4 million, no change from the prior year end.

We utilize brokered certificates of deposit and will continue to utilize these sources for deposits when they can be cost-effective. We have also implemented the use of a deposit listing service and have utilized this service to replace brokered deposits. There were $1,877,000 brokered deposits at December 31, 2016 and $1,766,000 at December 31, 2015.

Time deposits of $100,000 or more totaled $71.9 million at December 31, 2016, compared to $73.4 million at December 31, 2015. Interest expense on time deposits of $100,000 or more was $735,000 in 2016, compared to $808,000

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in 2015. A summary of average balances and rates paid on deposits for the years ended December 31, 2016 and 2015 follows.

	(Dollars in Thousands)					
	2016			2015		
	Average Balance	Average Rate		Average Balance	Average Rate	
Noninterest bearing demand	$ 49,689	—	%	$ 45,237	—	%
Interest bearing demand	121,600	0.40	%	112,505	0.36	%
Savings	44,974	0.28	%	45,792	0.29	%
Time	144,565	1.03	%	162,254	1.04	%
	$ 360,828	1.71	%	$ 365,788	1.69	%

Liquidity, Other Borrowings, and Capital Resources

Borrowings

FHLB Advances. We obtain advances from the Federal Home Bank of Cincinnati (FHLB) for funding and liability management. These advances are collateralized by a blanket agreement of eligible 1-4 family residential mortgage loans and eligible commercial real estate. Rates vary based on the term to repayment. Total advances as of December 31, 2016 were $35.0 million.

At December 31, 2016, we had established Federal Funds lines of credit totaling $18.8 million with three correspondent banks. No amounts were drawn as of December 31, 2016 or 2015.

In 2016, we renewed a line of credit agreement with a community bank to be used for operating capital and general corporate purposes. The line has a total availability of $3.0 million and matures November 21, 2017. The line has a floor rate of 4.5% and is secured by the Bank's common stock. As of December 31, 2016, the line had a zero balance.

We issued $5.0 million in subordinated debentures in October, 2006. These subordinated debentures bear an interest rate, which reprices each calendar quarter, of 165 basis points over 3-month LIBOR (London Inter Bank Offering Rate). Our interest rate as of December 31, 2016 was 2.5%, and at December 31, 2015 was 1.98%.

Information regarding our borrowings as of December 31, 2016 and 2015 is presented below:

	(Dollars in Thousands)	
	2016	2015
Borrowed funds:		
Balance at year end	$ 35,000	$ 15,000
Weighted average rate at year end	0.91 %	1.54 %
Average balance during the year	$ 30,075	$ 18,448
Weighted average rate during the year	1.02 %	1.51 %
Maximum month-end balance	$ 38,000	$ 21,500
Subordinated debentures:		
Balance at year end	$ 5,000	$ 5,000
Weighted average rate at year end	2.50 %	1.98 %
Average balance during the year	$ 5,000	$ 5,000
Weighted average rate during the year	2.36 %	1.98 %
Maximum month-end balance	$ 5,000	$ 5,000
Total borrowings:		
Balance at year end	$ 40,000	$ 20,000
Weighted average rate at year end	1.11 %	1.65 %
Average balance during the year	$ 35,075	$ 23,448
Weighted average rate during the year	1.23 %	1.61 %
Maximum month-end balance	$ 43,000	$ 26,500

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Capital

Stockholders' equity was $42.4 million on December 31, 2016, an increase of $2.9 million, or 7.3%, from $39.5 million on December 31, 2015. A common dividend of $0.16 per share was paid in 2016 compared to $0.08 per share in 2015. 2015 marked the first common dividend paid since 2008. During 2015, we repurchased the 254,218 warrants issued in 2008 to the US Treasury as part of its participation in the US Treasury's Capital Purchase Program for $1.7 million.

The Company previously issued 250 shares of Cumulative Convertible Preferred Stock, (Preferred Stock), for an aggregate purchase price of $8.0 million. The Preferred Stock was sold for $31,992 per share, is entitled to quarterly cumulative dividends at an annual fixed rate of 6.5% and is currently convertible into shares of common stock of the Company at an initial conversion price per share of $15.50 (currently $14.06, adjusted for stock dividends). As of March 23, 2017, approximately 8% of preferred shareholders (holding 21 shares of Preferred Stock) have converted their shares into 47,775 shares of common stock.

We are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The rules also establish a "capital conservation buffer" of 2.5% to be phased in over three years, above the new regulatory minimum risk-based capital ratio. The buffer as of December 31, 2016 is .625%. The buffer could limit the payment of dividends and discretionary bonuses to officers if a bank fails to maintain required capital levels. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. We believe as of December 31, 2016, the Company and the Bank met all capital adequacy requirements to which it is subject.

Capital ratios as of December 31, 2016, and 2015 (calculated in accordance with regulatory guidelines) were as follows:

	December 31, 2016				December 31, 2015			
	Tier I Risk-based Capital	Total Risk-based Capital	Common Equity Tier I Capital	Tier I Leverage	Tier I Risk-based Capital	Total Risk-based Capital	Common Equity Tier I Capital	Tier I Leverage
Consolidated	11.37 %	12.62 %	8.19 %	9.97 %	11.33 %	12.58 %	7.77 %	9.46 %

Citizens First Bank, Inc.	11.28 %	12.53 %	11.28 %	9.89 %	11.78 %	13.03 %	11.78 %	9.83 %
Regulatory minimum	4.00 %	8.00 %	4.50 %	4.00 %	4.00 %	8.00 %	4.50 %	4.00 %
Well-capitalized minimum	6.00 %	10.00 %	6.50 %	5.00 %	6.00 %	10.00 %	6.50 %	5.00 %

(1) Calculated in accordance with regulatory guidelines. The well-capitalized minimum is for the Bank only. When fully phased-in on January 1, 2019, Basel III Capital Rules will require banking organizations to maintain: a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer"; a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer; a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer; and a minimum ratio of Tier 1 capital to adjusted average consolidated assets of at least 4.0%.

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Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of December 31, 2016:

	(Dollars in Thousands)				
December 31, 2016	One Year or Less	More Than One Year but less Than Three years	More Than Three Years but less Than Five years	Five Years or More	Total
Time deposits	$ 90,530	$ 44,342	$ 9,621	$ 4	$ 144,497
FHLB advances	27,000	8,000	—	—	35,000
Subordinated debentures	—	—	—	5,000	5,000
Lease commitments	414	845	663	571	2,493
	$ 117,944	$ 53,187	$ 10,284	$ 5,575	$ 186,990

FHLB advances include arrangements under various FHLB credit programs. Long-term FHLB debt is more fully described in Note 9 of our Consolidated Financial Statements. Lease commitments include the leases in place for certain branch sites.

Liquidity

Our objective for liquidity management is to ensure that we have funds available to meet deposit withdrawals and credit demands without unduly penalizing profitability. In order to maintain a proper level of liquidity, the Bank has several sources of funds available on a daily basis that can be used for liquidity purposes. Those sources of funds include the Bank's core deposits, cash flow generated by repayment of principal and interest on loans and investment securities, FHLB borrowings and federal funds purchased. 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.

Our asset and liability management committee meets monthly and monitors the composition of the balance sheet to ensure comprehensive management of interest rate risk and liquidity. We prepare a monthly cash flow report which forecasts funding needs and availability for the coming months, based on forecasts of loan closings and payoffs, potentially callable securities, and other factors.

Off-Balance Sheet Risk

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a client as long as the client has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee.

At December 31, 2016, unfunded commitments to extend credit and unused lines of credit totaled $55.0 million, of which $20.0 million were at fixed rates and $35.0 million were at variable rates. At December 31, 2015, unfunded commitments to extend credit and unused lines of credit totaled $46.3 million, of which $13.0 million were at fixed rates and $33.3 million were at variable rates. We evaluate each client's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

We had letters of credit totaling $1.1 million and $333,000 at December 31, 2016 and 2015, respectively. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

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Except as otherwise disclosed, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements, or transactions that could result in liquidity needs or other commitments that significantly impact earnings.

Impact of Inflation and Changing Prices

The consolidated financial statements and related financial data presented in this filing have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars, without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Our principal financial objective is to achieve long-term profitability while reducing exposure to fluctuating market interest rates. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. In order to reduce the exposure to interest rate fluctuations, the Company has developed strategies to manage its liquidity and shorten its effective maturities of certain interest-earning assets. We do not maintain a trading account for any class of financial instrument nor do we engage in hedging activities or purchase high-risk derivative instruments, and we are not subject to foreign exchange rate risk or commodity price risk.

We monitor interest rate sensitivity and interest rate risk with an earnings simulation model generated by First National Bankers Bank of Louisiana who employs the Sungard Ambit ALM4 model. This model uses rate risk measurement techniques to produce a reasonable estimate of interest margin risks. The system provides several methods for measuring interest rate risk, including rate sensitivity gap analysis to show cash flow and repricing information, and margin simulation, or rate shocking, to quantify the actual income risk, by modeling the Company's sensitivity to changes in cash flows over a variety of interest rate scenarios. The program performs a full simulation of each balance sheet category under various rate change conditions and calculates the net interest income change for each. Each category's interest change is calculated as rates ramp up and down. In addition, the prepayment speeds and repricing speeds are changed.

The following illustrates the effects on net interest income of an immediate shift in market interest rates from the earnings simulation model as of December 31, 2016:

Projected Interest Rate Change	Estimated Value	Net Interest Income $ Change From Base	% Change From Base	
+400	$ 18,670,024	$ 2,790,315	17.57	%
+300	17,959,804	2,080,094	13.10	%
+200	17,242,216	1,362,507	8.58	%
Base	15,879,709	—	—	%
(200)	15,437,374	(442,335)	(2.79)	%

As of December 31, 2016, our balance sheet was in an asset-sensitive position and remains in an asset sensitive position for the next four years. During the asset-sensitive time frame, an increase in interest rates would have a positive effect on earnings and a decrease in interest rates would have a negative effect on earnings. The Company's interest rate risk position is also impacted by the activation of floors on variable rate loans subject to repricing during the time frame.

In preparing the preceding table, we used certain assumptions relating to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under differing interest rate scenarios, among others.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types

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may lag behind changes in market rates. Additionally, certain assets, such as ARM loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements of the Company and report of independent accountants are included herein:

- Report of Independent Registered Public Accounting Firm, Crowe Horwath LLP
- Consolidated Balance Sheets - December 31, 2016 and 2015
- Consolidated Statements of Comprehensive Income - Years ended December 31, 2016 and 2015
- Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 2016 and 2015
- Consolidated Statements of Cash Flows - Years ended December 31, 2016 and 2015
- Notes to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors

Citizens First Corporation

Bowling Green, Kentucky

We have audited the accompanying consolidated balance sheets of Citizens First Corporation as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens First Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Louisville, Kentucky

March 23, 2017

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Citizens First Corporation

Consolidated Balance Sheets

December 31

	(In Thousands, Except Share Data)	
	2016	2015
Assets		
Cash and due from financial institutions	$ 8,542	$ 8,865
Federal funds sold	—	6,390
Cash and cash equivalents	8,542	15,255
Interest-bearing deposits in other financial institutions	11,018	2,728
Available-for-sale securities	53,547	60,200
Loans held for sale	264	—
Loans, net of allowance for loan losses of $4,854 and $4,916 at December 31, 2016 and December 31, 2015, respectively	354,537	325,866
Premises and equipment, net	9,390	9,998
Bank owned life insurance (BOLI)	8,351	8,174
Federal Home Loan Bank (FHLB) stock, at cost	2,025	2,025
Accrued interest receivable	1,622	1,680
Deferred income taxes	1,464	1,328
Goodwill and other intangible assets	4,291	4,362
Other real estate owned	—	100
Other assets	371	200
Total Assets	$ 455,422	$ 432,181
Liabilities		
Deposits		
Noninterest bearing	$ 52,322	$ 48,522
Savings, NOW and money market	173,620	168,335
Time	144,497	153,531
Total deposits	370,439	370,388
FHLB advances and other borrowings	35,000	15,000
Subordinated debentures	5,000	5,000
Accrued interest payable	220	213
Other liabilities	2,399	2,056
Total Liabilities	413,058	392,657
Stockholders’ Equity		
6.5% cumulative preferred stock, no par value, authorized 250 shares, aggregate liquidation preference of $7,998; issued and outstanding 237	7,261	7,659

and 250 shares at December 31, 2016 and December 31, 2015, respectively		
Common stock, no par value, authorized 5,000,000 shares; issued and outstanding 2,000,852 and 1,968,777 shares at December 31, 2016 and December 31, 2015, respectively	25,920	25,406
Retained earnings	9,706	6,304
Accumulated other comprehensive income (loss)	(523)	155
Total stockholders' equity	42,364	39,524
Total liabilities and stockholders' equity	$ 455,422	$ 432,181

See Notes to Consolidated Financial Statements

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Citizens First Corporation

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31

	(In Thousands, Except Per Share Data)	
	2016	2015
Interest and dividend income		
Loans	$ 16,713	$ 16,230
Taxable securities	672	632
Non-taxable securities	593	688
Other	163	134
Total interest and dividend income	18,141	17,684
Interest expense		
Deposits	2,103	2,229
FHLB advances	278	175
Subordinated debentures	118	99
Short-term borrowings	29	104
Total interest expense	2,528	2,607
Net interest income	15,613	15,077
Provision for loan losses (credit)	(85)	135
Net interest income after provision for loan losses (credit)	15,698	14,942
Non-interest income		
Service charges on deposit accounts	1,396	1,421
Other service charges and fees	676	758
Gain on sale of mortgage loans	375	233
Non-deposit brokerage fees	315	364
Lease income	207	245
BOLI income	177	181
Gain on sale of securities available-for-sale	126	78
Total non-interest income	3,272	3,280
Non-interest expenses		
Salaries and employee benefits	6,875	6,535
Net occupancy expense	1,927	2,019
Advertising and public relations	320	330
Professional fees	465	710
Data processing services	1,037	1,001
Franchise shares and deposit tax	528	533
FDIC insurance	223	244
Other real estate owned expenses	17	94
Loss on branch disposal	—	262
Other	1,566	1,470

Total non-interest expenses		12,958		13,198
Income before income taxes		6,012		5,024
Provision for income taxes		1,795		1,417
Net income		4,217		3,607
Dividends and accretion on preferred stock		495		520
Net income available for common stockholders	$	3,722	$	3,087
Basic earnings per common share	$	1.86	$	1.57
Diluted earnings per common share	$	1.66	$	1.40
Comprehensive income (loss), net of tax				
Net income		4,217		3,607
Other comprehensive income (loss)				
Reclassification adjustment for gains included in net income, net of taxes		(83)		(51)
Change in unrealized gain (loss) on available for sale securities, net of taxes		(595)		(138)
Total other comprehensive income (loss)		(678)		(189)
Comprehensive income	$	3,539	$	3,418

See Notes to Consolidated Financial Statements.

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Citizens First Corporation

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2016 and 2015

In thousands, except share data

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2015	$ 7,659	$ 27,072	$ 3,373	$ 344	$ 38,448
Net income	—	—	3,607	—	3,607
Redemption of 254,218 warrants	—	(1,706)	—	—	(1,706)
Stock based compensation	—	40	—	—	40
Change in accumulated other comprehensive income (loss)	—	—	—	(189)	(189)
Dividend declared and paid on common stock ($.08 per share)	—	—	(157)	—	(157)
Dividend declared and paid on preferred stock	—	—	(520)	—	(520)
Balance, December 31, 2015	$ 7,659	$ 25,406	$ 6,304	$ 155	$ 39,524

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2016	$ 7,659	$ 25,406	$ 6,304	$ 155	$ 39,524
Net income	—	—	4,217	—	4,217
Conversion of cumulative preferred	(398)	398	—	—	—
Exercise of director stock options	—	32	—	—	32
Stock based compensation	—	84	—	—	84
Change in accumulated other comprehensive income (loss)	—	—	—	(678)	(678)
Dividend declared and paid on common stock ($.16 per share)	—	—	(320)	—	(320)
Dividend declared and paid on preferred stock	—	—	(495)	—	(495)
Balance, December 31, 2016	$ 7,261	$ 25,920	$ 9,706	$ (523)	$ 42,364

See Notes to Consolidated Financial Statements

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Citizens First Corporation Consolidated

Statements of Cash Flows

Years Ended December 31

	(In Thousands)	
	2016	2015
Operating Activities		
Net income	$ 4,217	$ 3,607
Items not requiring (providing) cash:		
Depreciation	522	551
Provision (credit) for loan losses	(85)	135
Amortization of premiums and discounts on securities	310	326
Amortization of core deposit intangible	71	71
Deferred income taxes	215	248
Stock based compensation	84	40
BOLI Income	(177)	(181)
Proceeds from sale of mortgage loans held for sale	18,277	10,853
Origination of mortgage loans held for sale	(18,166)	(10,620)
Gains on sales of available-for-sale securities	(126)	(78)
Gains on sales of mortgage loans held for sale	(375)	(233)
Write-downs and losses (gains) on other real estate owned	(11)	86
Loss (gain) on sale premises and equipment	4	(16)
Loss on branch disposal	27	262
Changes in:		
Accrued interest receivable	58	(153)
Other assets	93	36
Accrued interest payable and other liabilities	350	187
Net cash provided by operating activities	5,288	5,121
Investing Activities		
Loan originations and payments, net	(28,652)	(12,519)
Purchases of interest-bearing deposits in other financial institutions	(8,290)	(2,728)
Purchase of premises and equipment	(142)	(436)
Proceeds from maturities of available-for-sale securities	11,924	7,054
Proceeds from sales of available-for-sale securities	4,358	2,200
Proceeds from sales of other real estate owned	177	123
Proceeds from sales of premises and equipment	197	399
Purchase of available-for-sale securities	(10,841)	(11,002)
Net cash used in investing activities	(31,269)	(16,909)
Financing Activities		
Net change in demand deposits, money market, NOW and savings accounts	9,085	25,947
Net change in time deposits	(9,034)	2,657
Proceeds from FHLB advances	37,000	10,000
Repayment of FHLB advances	(15,000)	(21,000)
Proceeds from other borrowings	—	1,500

Repayment of other borrowings	(2,000)	(1,000)
Repurchase of TARP warrants	—	(1,706)
Exercise of stock options	32	—
Dividends paid on common stock	(320)	(157)
Dividends paid on preferred stock	(495)	(520)
Net cash provided by financing activities	19,268	15,721
Decrease in Cash and Cash Equivalents	(6,713)	3,933
Cash and Cash Equivalents, Beginning of Year	15,255	11,322
Cash and Cash Equivalents, End of Year	$ 8,542	$ 15,255
Supplemental Cash Flows Information		
Interest paid	$ 2,521	$ 2,625
Income taxes paid	$ 1,365	$ 1,135
Conversion of cumulative preferred stock	398	—
Loans transferred to other real estate owned	$ 66	$ 111

See Notes to Consolidated Financial Statements.

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Citizens First Corporation

Notes to Unaudited Consolidated Financial Statements

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation– The consolidated financial statements include Citizens First Corporation and its wholly-owned subsidiary Citizens First Bank, Inc., together referred to as “the Company” or “the Bank”. Intercompany transactions and balances are eliminated in consolidation.

The Company provides financial services to individual and corporate customers in Warren, Simpson, Barren and Hart counties in Kentucky and central Tennessee. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial and consumer 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. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

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

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

Securities–Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans Held for Sale–Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains on sales of mortgage loans are recorded at the time of disbursement by an investor at the difference between the sales proceeds and the loan's carrying value. Loans are sold servicing released.

Loans–Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term on the level-yield method. Past due status is based on contractual terms of the loan. Generally, loans are placed on non-accrual status at 90 days past due and interest is considered a loss, unless the loan is well secured and in the process of collection.

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

Allowance for Loan Losses–The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. For all loan portfolio segments, loan losses are evaluated on a case by case basis and charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, information about specific borrower situations and estimated collateral values, prevailing economic conditions, and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. 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.

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

The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative current factors. The historical loss experienced is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 12 quarters. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These factors can include the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The Company defines its portfolio segments by regulatory classification, which include the following: Commercial loans, consisting of loans to depository institutions, loans to finance agricultural production, and other non-real estate commercial and industrial loans; Commercial Real Estate, consisting of loans for construction and land development, farmland, multi-family residential properties, and other non-farm, non-residential real estate loans; Residential Real Estate, consisting of first liens on residential 1-4 family properties and junior liens (revolving and non-revolving) on residential 1-4 family properties; and Consumer, including revolving and non-revolving consumer purpose loans.

Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These loans also

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involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity.

Commercial loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the collateral securing the loans have the following characteristics: (a) they depreciate over time, (b) they are difficult to appraise and liquidate, and (c) they fluctuate in value based on the success of the business. These loans are secured and unsecured and are made available for general operating inventory and accounts receivables, as well as any other purposes considered appropriate. We will generally look to a borrower’s business operations as the principal source of repayment, but will also require, when appropriate, security interests in personal property and personal guarantees. In addition, the majority of commercial loans that are not mortgage loans are secured by a lien on equipment, inventory and other assets of the commercial borrower. These loans are generally considered to have greater risk than first and second mortgages on real estate because these loans may be unsecured or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease than real estate.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest), the availability of permanent take-out financing, and the builder's ability to ultimately sell the property. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Approximately 85.2% of our loan portfolio as of December 31, 2016 was comprised of loans collateralized by real estate. Further adverse changes in the economy affecting values of real estate generally or in our primary market specifically could significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the collateral securing a loan to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition.

We originate residential real estate mortgage loans with either fixed or variable interest rates to borrowers to purchase and refinance one-to-four family properties. Real estate mortgage loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate, which could negatively affect a borrower’s cash flow, credit worthiness and ability to repay the loan.

We make personal loans and lines of credit available to consumers for various purposes, such as the purchase of automobiles, boats and other recreational vehicles, and the making of home improvements and personal investments.

Consumer loans generally have shorter terms and higher interest rates than residential mortgage loans and usually involve more credit risk than mortgage loans because of the type and nature of the collateral. Consumer lending collections are dependent on a borrower's continuing financial stability and are thus likely to be adversely affected by job loss, illness or personal bankruptcy. In many cases, repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan balance because of depreciation of the underlying collateral. We believe that the generally higher yields earned on consumer loans help compensate for the increased credit risk associated with such loans and that consumer loans are important to our efforts to serve the credit needs of our customer base.

Federal Home Loan Bank (FHLB) Stock–The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment–Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from twenty-five to forty years.   Leasehold improvements are amortized over the shorter of the life of the lease or the life of the asset. Furniture, fixtures and equipment are depreciated using the straight-line with useful lives ranging from three to seven years.

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Foreclosed Assets–Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at a lower of cost of fair value less estimated costs to sell. Subsequent to foreclosure, valuations are periodically performed by management to validate the carrying value of the foreclosed properties.

Bank Owned Life Insurance–The Bank has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets–Prior to January 1, 2009, goodwill resulted from business acquisitions and represented the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value in the period identified. The Company has selected December 31 as the date to perform the annual impairment test. The Company’s assessment did not identify impairment of goodwill as of December 31, 2016 and 2015. The balance of goodwill was $4.1 million as of December 31, 2016 and December 31, 2015.

Other intangible assets consist largely of core deposit intangible assets arising from a bank acquisition. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives of 8 years.

Loan Commitments and Related Financial Instruments–Financial instruments include off balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Income Taxes–Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. Future decreases in the corporate tax rate could result in a loss of value of the Company’s deferred tax assets, but would reduce future income tax expense. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Company files consolidated income tax returns with its subsidiary.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other expense.

Stock Based Compensation Plans–Compensation cost is recognized for performance share units issued to employees, based on the fair value of these awards at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Retirement Plans–Employee 401(k) expense is the amount of matching contributions.

Operating Segments–While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

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Earnings per Common Share–Basic earnings per common share is net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options, performance share units, warrants and preferred stock. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Comprehensive Income (Loss)–Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are also recognized as a separate component of equity.

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

Dividend Restriction–Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

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

Recent Accounting Pronouncements–In May 2014 the FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March 2016, the FASB issued ASU 2016-08 that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. The amendments in this update affect this guidance issued in 2014 that is not yet effective. The Company does not expect the new standard, or any of the amendments, to result in a material change from our current accounting for revenue.

In January 2016 the FASB issued ASU 2016-01 which amends existing guidance on the classification and measurement of financial instruments. This new standard revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The new standard is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

In February 2016 the FASB issued ASU 2016-02 which establishes the principles to report information about the assets and liabilities that arise from leases. This new standard changes the way operating leases are accounted for and reflected on the lessee's balance sheet. The new standard is intended to increase transparency and comparability by requiring lessees to recognize the financial obligation and right-of-use asset associated with operating leases that have a lease term of more than 12 months on the balance sheet. The new standard is effective for reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements. Based on the leases outstanding at December 31, 2016, we do not expect the new standard to have a material impact on our consolidated financial statements.

In March 2016 the FASB issued ASU 2016-09 which provides guidance on share-based payment accounting. The new standard includes multiple provision intended to simplify various aspects of the accounting for share-based payments. The new standard became effective January 1, 2017 and did not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduces the current expected credit loss (CECL) model and replaces the incurred loss model. The most significant impact for financial institutions will be to the allowance for loan and lease losses (ALLL). The standard allows for various expected credit loss estimation methods and is scalable. This standard is effective for reporting periods beginning after December 15, 2019. We have attended training sessions and are assessing

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our data and system needs and the evaluating the impact of adopting this new accounting standard. The Company expects to recognize a one-time increase to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of this standard on the consolidated financial statements.

Reclassifications–Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Note 2: Available-For-Sale Securities

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at December 31, 2016 and December 31, 2015 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

	(Dollars in Thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016				
U. S. government agencies and government sponsored entities	$ 1,998	$ —	$ (41)	$ 1,957
Agency mortgage-backed securities: residential	28,148	99	(290)	27,957
State and municipal	21,310	216	(146)	21,380
Trust preferred security	1,884	—	(644)	1,240
Corporate bonds	1,000	13	—	1,013
Total Available-for-Sale Securities	$ 54,340	$ 328	$ (1,121)	$ 53,547
December 31, 2015				
U. S. government agencies and government sponsored entities	$ 2,998	$ 3	$ (7)	$ 2,994
Agency mortgage-backed securities: residential	29,446	259	(48)	29,657
State and municipal	24,641	615	(34)	25,222
Trust preferred security	1,880	—	(540)	1,340
Corporate bonds	1,000	—	(13)	987
Total Available-for-Sale Securities	$ 59,965	$ 877	$ (642)	$ 60,200

The proceeds from sales of securities and the associated gains are listed below:

	2016	2015
	(Dollars in Thousands)	
Sales of available for sale securities		
Proceeds	$ 4,358	$ 2,200
Gross gains	126	78
Gross losses	—	—

The tax provision related to these realized gains were $43,000 and $27,000, respectively.

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The amortized cost and fair value of investment securities at December 31, 2016 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	December 31, 2016 (Dollars in Thousands) Available-For-Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,264	$ 1,266
Due from one to five years	11,922	11,865
Due from five to ten years	8,606	8,675
Due after ten years	4,400	3,784
Agency mortgage-backed: residential	28,148	27,957
Total	$ 54,340	$ 53,547

Securities pledged at year end 2016 and 2015 had a carrying amount of $46.9 million and $56.0 million, respectively, and were pledged to secure public deposits.

At year end 2016 and 2015, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

The following table summarizes the investment securities with unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position:

	(Dollars in Thousands) Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2016:						
U.S. government agencies and government sponsored entities	$ 1,957	$ (41)	$ —	$ —	$ 1,957	$ (41)
Agency mortgage-backed: residential	16,722	(290)	—	—	16,722	(290)
State and municipal	9,399	(142)	293	(4)	9,692	(146)
Trust preferred security	—	—	1,240	(644)	1,240	(644)
Corporate Bonds	—	—	—	—	—	—
Total temporarily impaired	$ 28,078	$ (473)	$ 1,533	$ (648)	$ 29,611	$ (1,121)

	(Dollars in Thousands)					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015:						
U.S. government agencies and government sponsored entities	$ —	$ —	$ 992	$ (7)	$ 992	$ (7)
Agency mortgage-backed: residential	7,009	(25)	1,475	(23)	8,484	(48)
State and municipal	3,797	(19)	617	(15)	4,414	(34)
Trust preferred security	—	—	1,340	(540)	1,340	(540)
Corporate bonds	987	(13)	—	—	987	(13)
Total temporarily impaired	$ 11,793	$ (57)	$ 4,424	$ (585)	$ 16,217	$ (642)

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities classified as available for sale are generally evaluated for OTTI under ASC Topic 320, "Investments - Debt and Equity Securities."

In determining OTTI under the ASC Topic 320 model, management considers many factors, 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 affected by macroeconomic conditions, and (4) whether the entity has the

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intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other than temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

As of December 31, 2016, the Company's security portfolio consisted of $53.5 million fair value of securities, $29.6 million, or 51 securities, of which were in an unrealized loss position.

All rated securities are investment grade. For those that are not rated, the financial condition has been evaluated and no adverse conditions were identified related to repayment. Declines in fair value are a function of rate differences in the market and market illiquidity. The Company does not intend or is not expected to be required to sell these securities before recovery of their amortized cost basis.

The Company's unrealized losses 12 months or more relate primarily to its investment in an unrated single-issuer trust preferred security. No impairment charge is being taken as no loss of principal or interest is anticipated. All principal and interest payments are being received as scheduled. On a quarterly basis, we evaluate the creditworthiness of the issuer, a bank holding company with operations in the state of Kentucky. Based on the issuer's continued profitability and well-capitalized position, we do not deem that there is credit loss. The decline in fair value is primarily attributable to illiquidity affecting these markets and not the expected cash flows of the individual securities. We have evaluated the financial condition and near term prospects of the issuer and expect to fully recover our cost basis. This security continues to pay interest as agreed and future payments are expected to be made as agreed. This security is not considered to be other-than-temporarily impaired.

Note 3: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

	(Dollars in Thousands)	
	2016	2015
Commercial	$ 60,388	$ 53,516
Commercial real estate:		
Construction	38,168	24,167
Other	178,343	169,290
Residential real estate	78,422	79,680
Consumer:		
Auto	1,195	1,425
Other	2,875	2,704
Total Loans	359,391	330,782
Less: Allowance for loan losses	(4,854)	(4,916)

Net loans	$ 354,537	$ 325,866

Activity in the allowance for loan losses was as follows.

December 31, 2016	(Dollars in Thousands) Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 812	$ 3,431	$ 524	$ 28	$ 121	$ 4,916
Provision (credit) for loan losses	(232)	197	18	(17)	(51)	(85)
Loans charged-off	(109)	(52)	(39)	(2)	—	(202)
Recoveries	144	52	24	5	—	225
Total ending allowance balance	$ 615	$ 3,628	$ 527	$ 14	$ 70	$ 4,854

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December 31, 2015 (Dollars in Thousands)	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 1,029	$ 3,088	$ 582	$ 45	$ 141	$ 4,885
Provision (credit) for loan losses	(187)	358	(14)	(2)	(20)	135
Loans charged-off	(154)	(17)	(57)	(24)	—	(252)
Recoveries	124	2	13	9	—	148
Total ending allowance balance	$ 812	$ 3,431	$ 524	$ 28	$ 121	$ 4,916

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method as of December 31, 2016 and December 31, 2015. As of December 31, 2016 and December 31, 2015, accrued interest receivables of $1.3 million are not considered significant for purposes of the disclosure and therefore not included in the recorded investment in loans presented in the following tables. Net deferred loan fees of $322,000 and $367,000, respectively, are included in the following tables.

December 31, 2016 (Dollars in Thousands)	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 5	$ 192	$ —	$ 1	$ —	$ 198
Collectively evaluated	610	3,436	527	13	70	4,656
Total ending allowance balance	$ 615	$ 3,628	$ 527	$ 14	$ 70	$ 4,854
Loans:						
Individually evaluated for impairment	$ 60	$ 1,533	$ 837	$ 23	$ —	$ 2,453
Collectively evaluated	60,328	214,978	77,585	4,047	—	356,938
Total ending loans balance	$ 60,388	$ 216,511	$ 78,422	$ 4,070	$ —	$ 359,391

December 31, 2015 (Dollars in Thousands)	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						

Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 36	$ 377	$ 20	$ —	$ —	$ 433
Collectively evaluated	776	3,054	504	28	121	4,483
Total ending allowance balance	$ 812	$ 3,431	$ 524	$ 28	$ 121	$ 4,916
Loans:						
Individually evaluated for impairment	$ 145	$ 2,066	$ 807	$ 9	$ —	$ 3,027
Collectively evaluated	53,371	191,391	78,873	4,120	—	327,755
Total ending loans balance	$ 53,516	$ 193,457	$ 79,680	$ 4,129	$ —	$ 330,782

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The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2016, and 2015. In this table presentation the unpaid principal balance of the loans has not been reduced by partial net charge-offs. In this table presentation the recorded investment of the loans has been reduced by partial net charge-offs. There were no partial net charge-offs as of December 31, 2016.

	(Dollars in Thousands) December 31, 2016			(Dollars in Thousands) December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:						
Commercial	$ 53	$ 53	$ —	$ 61	$ 61	$ —
Commercial real estate:						
Construction	—	—	—	—	—	—
Other	579	579	—	643	643	—
Residential real estate	837	837	—	700	700	—
Consumer:						
Auto	—	—	—	—	—	—
Other	5	5	—	—	—	—
Subtotal	$ 1,474	$ 1,474	$ —	$ 1,404	$ 1,404	$ —
With an allowance recorded:						
Commercial	$ 7	$ 7	$ 5	$ 84	$ 84	$ 36
Commercial real estate:						
Construction	—	—	—	—	—	—
Other	954	954	192	1,423	1,423	377
Residential real estate	—	—	—	107	107	20
Consumer:						
Auto	—	—	—	—	—	—
Other	18	18	1	9	9	—
Subtotal	$ 979	$ 979	$ 198	$ 1,623	$ 1,623	$ 433
Total	$ 2,453	$ 2,453	$ 198	$ 3,027	$ 3,027	$ 433

Information on impaired loans for the years ended December 31, 2016 and 2015 is as follows:

	(Dollars in Thousands) December 31, 2016			(Dollars in Thousands) December 31, 2015		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized

Commercial	$ 67	$ 5	$ 5	$ 153	$ 12	$ 12
Commercial real estate:						
Construction	—	—	—	—	—	—
Other	1,580	82	82	1,762	74	66
Residential real estate	849	37	37	820	36	35
Consumer:						
Auto	—	—	—	—	—	—
Other	16	1	1	10	1	1
Total	$ 2,512	$ 125	$ 125	$ 2,745	$ 123	$ 114

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2016 and December 31, 2015:

	(Dollars in Thousands) December 31, 2016 Loans Past Due Over 90 Days and Still Accruing	Nonaccrual	(Dollars in Thousands) December 31, 2015 Loans Past Due Over 90 Days and Still Accruing	Nonaccrual
Commercial	$ —	$ —	$ —	$ —
Commercial real estate:				
Construction	—	—	—	—
Other	—	—	—	439
Residential real estate	—	23	—	98
Consumer:				
Auto	—	—	—	—
Other	—	—	—	—
Total	$ —	$ 23	$ —	$ 537

The following tables present the aging of the recorded investment in past due loans as of December 31, 2016 and 2015 by class of loans. Non-accrual loans are included and have been categorized based on their payment status:

	(Dollars in Thousands) 30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total
December 31, 2016						
Commercial	$ —	$ —	$ —	$ —	$ 60,388	$ 60,388
Commercial real estate:						
Construction	—	—	—	—	38,168	38,168
Other	—	—	—	—	178,343	178,343
Residential real estate	166	29	23	218	78,204	78,422
Consumer:						
Auto	1	—	—	1	1,194	1,195
Other	—	—	—	—	2,875	2,875
Subtotal	$ 167	$ 29	$ 23	$ 219	$ 359,172	$ 359,391

	(Dollars in Thousands) 30-59 Days Past	60-89 Days Past	Over 90 Days Past	Total Past Due	Current	Total

	Due	Due	Due			
December 31, 2015						
Commercial	$ —	$ —	$ —	$ —	$ 53,516	$ 53,516
Commercial real estate:						
Construction	—	—	—	—	24,167	24,167
Other	178	—	439	617	168,673	169,290
Residential real estate	329	—	98	427	79,253	79,680
Consumer:						
Auto	1	—	—	1	1,424	1,425
Other	—	—	—	—	2,704	2,704
Subtotal	$ 508	$ —	$ 537	$ 1,045	$ 329,737	$ 330,782

Troubled Debt Restructurings:

The Company reported total troubled debt restructurings of $2.3 million and $2.5 million as of December 31, 2016 and 2015, respectively. The Company has no commitments to lend additional amounts as of December 31, 2016 and 2015 to customers with outstanding loans that are classified as troubled debt restructurings. Troubled debt restructurings are evaluated along with other impaired loans. All 11 loans reported as troubled debt restructurings (TDRs) were on accrual status at December 31, 2016.

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During the years ending December 31, 2016 and 2015, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk. Troubled debt restructings of $3,000 were charged off during 2016. No troubled debt restructurings were charged off during 2015.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2016 and 2015:

	December 31, 2016			December 31, 2015		
	Number of Loans	(Dollars in Thousands) Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	(Dollars in Thousands) Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Commercial real estate:						
Other	—	—	—	2	1,547	1,547
Consumer	2	20	21	—	—	—
Total	2	$ 20	$ 21	2	$ 1,547	$ 1,547

The troubled debt restructurings referenced in the above table increased the allowance for loan losses by $1,000 and resulted in no charge-offs during the year ending December 31, 2016. The troubled debt restructurings described above had no effect on the allowance for loan losses and resulted in no charge-offs during the year ending December 31, 2015. Specific allocations of $199,000 and $235,000 were reported for troubled debt restructurings as of December 31, 2016 and 2015.

The terms of certain other loans were modified during the years ending December 31, 2016 and 2015 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2016 of $34.2 million and December 31, 2015 of $21.3 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company's internal underwriting policy.

Credit Quality Indicators:

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, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes commercial and commercial real estate loans with an outstanding balance greater than $25,000 and is reviewed on a monthly basis. For residential real estate and consumer loans, the analysis primarily involves monitoring the past due status of these loans and, at such time that these loans are past due, the Company evaluates the loans to determine if a change in risk category is warranted. The Company uses the following definitions for 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 repayment prospects for the loan or of the institution's credit position at some future date.

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 institution will sustain some loss if the deficiencies are not corrected.

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Doubtful. Loans classified as doubtful have all the weaknesses inherent in 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 that are analyzed individually as part of the above described process are considered to be Pass rated loans. All loans in all loan categories are assigned risk ratings. As of December 31, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans were as follows:

	(Dollars in Thousands)				
	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2016					
Commercial	$ 59,990	$ —	$ 398	$ —	$ 60,388
Commercial real estate:					
Construction	38,168	—	—	—	38,168
Other	174,507	741	3,095	—	178,343
Residential real estate	77,982	—	440	—	78,422
Consumer:					
Auto	1,195	—	—	—	1,195
Other	2,867	—	8	—	2,875
Total	$ 354,709	$ 741	$ 3,941	$ —	$ 359,391

	(Dollars in Thousands)				
	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2015					
Commercial	$ 53,316	$ —	$ 200	$ —	$ 53,516
Commercial real estate:					
Construction	24,167	—	—	—	24,167
Other	159,829	5,753	3,708	—	169,290
Residential real estate	79,033	—	647	—	79,680
Consumer:					
Auto	1,425	—	—	—	1,425
Other	2,697	—	7	—	2,704
Total	$ 320,467	$ 5,753	$ 4,562	$ —	$ 330,782

Note 4: Other Real Estate Owned

Activity in the Company's other real estate owned was as follows:

	(Dollars in Thousands) 2016	2015
Balance, beginning of year	$ 100	$ 198
Additions	66	111
Direct write-downs	—	(63)
Sales	(177)	(123)
Net gain (loss) on sales	11	(23)
Balance, end of year	$ —	$ 100

At December 31, 2016, the balance of real estate owned includes no foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2016, there is no recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process.

All expenses related to other real estate owned are recorded as they are incurred, and any deterioration in value is directly written down against the value of the property.

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Note 5: Fair Value

Fair value is the exchange 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 on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

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

Level 3: Significant unobservable inputs that are supported by little or no market activity, reflect a company's own assumptions about market participant assumptions of fair value, and are significant to the fair value of the assets or liabilities.

In determining the appropriate levels, the Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair value of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (level 2 inputs). The Company does not have any Level 1 securities. Level 2 securities include certain U.S. agency bonds, collateralized mortgage and debt obligations, corporate bonds and certain municipal securities. The Company has one Level 3 security. The value of this single issue trust preferred security is obtained on a quarterly basis directly from the originating broker.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for collateral-dependent impaired loans and real estate properties classified as other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by Bank management. The appraisal values for collateral-dependent impaired loans are discounted to allow for selling expenses and fees, the limited use nature of various properties, the age of the most recent appraisal, and additional discretionary discounts for location, condition, etc. The Bank annually obtains an updated current appraisal value for each OREO property to certify that the fair value has not declined. For each parcel of OREO that has declined in value, the Bank records the decline in value by a direct writedown of the asset.

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Assets measured at fair value on a recurring basis are summarized below.

	Fair Value Measurements at: (Dollars in Thousands) December 31, 2016			(Dollars in Thousands) December 31, 2015		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:						
Securities available-for-sale						
U. S. government agencies and government sponsored entities	—	$ 1,957	—	—	$ 2,994	—
Agency mortgage-backed securities-residential	—	27,957	—	—	29,657	—
State and municipal	—	21,380	—	—	25,222	—
Trust preferred security	—	—	1,240	—	—	1,340
Corporate bonds	—	1,013	—	—	987	—
Total investment securities	$ —	$ 52,307	$ 1,240	$ —	$ 58,860	$ 1,340

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31:

	Trust Preferred Security 2016	2015
Balance of recurring Level 3 assets at January 1	$ 1,340	$ 1,480
Total losses for the period:		
Included in other comprehensive income	(100)	(140)
Balance of recurring Level 3 assets at December 31	$ 1,240	$ 1,340

There were no financial assets measured at fair value on a non-recurring basis as of December 31, 2016. At December 31, 2015, there were significant unobservable inputs (level 3) of $260,000 impaired commercial real estate loans, $79,000 impaired residential real estate loans, and $100,000 in commercial real estate other real estate owned.

There were no impaired loans measured for impairment using the fair value of collateral for collateral dependent loans, no valuation allowance, and no resulting provision for loan losses for the year ending December 31, 2016. Impaired loans, which are measured for impairment using the fair value of collateral for collateral dependent loans, had a principal balance of $537,000 at December 31, 2015, with a valuation allowance of $198,000, resulting in an additional provision for loan losses of $198,000 for the year ending December 31, 2015.

Other real estate owned, which is measured at fair value less costs to sell, had a net carrying value of $0 and $100,000 at December 31, 2016 and December 31, 2015, respectively. Total write-downs of other real estate owned during the twelve months ended December 31, 2016 and December 31, 2015 were $0 and $63,000, respectively.

There were no loans measured for impairment using the fair value of collateral dependent loans and no other real estate owned as of December 31, 2016. At December 31, 2015, there were $260,000 in commercial real estate loans, $79,000 in residential real estate loans, and $100,000 in other real estate owned that had adjustments using sales comparison valuations techniques for limited use nature of certain properties, age of appraisal, location, and/or condition. The unobservable inputs resulted in adjustments of 50.0% (weighted average) for the commercial real estate loans, 20.0%-60.0% (30.0% weighted average) for residential real estate loans, and 8.0%-40.0% (33.65% weighted average) for other real estate loans using Level 3 fair value measurements for financial instruments measured on a non-recurring basis at December 31, 2015.

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The carrying amounts and estimated fair values of financial instruments at December 31, 2016 and 2015 are as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2016 Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 8,542	$ 8,542	$ —	$ —	$ 8,542
Interest-bearing deposits in other financial institutions	11,018	11,018	—	—	11,018
Available-for-sale-securities	53,547	—	52,307	1,240	53,547
Loans, net of allowance	354,537	—	—	354,300	354,300
Loans held for sale	264	—	266	—	266
Accrued interest receivable	1,622	16	268	1,338	1,622
Federal Home Loan Bank stock	2,025	—	—	—	N/A
Financial Liabilities					
Demand and savings deposits	$ 225,942	$ 225,942	$ —	$ —	$ 225,942
Time deposits	144,497	—	144,558	—	144,558
FHLB advances	35,000	—	34,897	—	34,897
Other borrowings	—	—	—	—	—
Subordinated debentures	5,000	—	—	2,495	2,495
Accrued interest payable	220	12	175	33	220

	Carrying Amount	Fair Value Measurements at December 31, 2015 Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 15,255	$ 15,255	$ —	$ —	$ 15,255
Interest-bearing deposits in other financial institutions	2,728	2,728	—	—	2,728
Available-for-sale-securities	60,200	—	58,860	1,340	60,200
Loans, net of allowance	325,866	—	—	325,866	325,866
Accrued interest receivable	1,680	16	321	1,343	1,680
Federal Home Loan Bank stock	2,025	—	—	—	N/A
Financial Liabilities					
Demand and savings deposits	$ 216,857	$ 216,857	$ —	$ —	$ 216,857
Time deposits	153,531	—	153,801	—	153,801
FHLB advances	13,000	—	12,902	—	12,902
Other borrowings	2,000	—	2,000	—	2,000
Subordinated debentures	5,000	—	—	2,434	2,434

Accrued interest payable	213	9	177	27	213

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.
(b) Interest Bearing Deposits in Other Financial Institutions: Fair values are based on quoted market prices.
(c) FHLB Stock: It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.
(d) Loans: Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent

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an exit price. The fair value of loans held for sale is estimated based upon binding contracts and quotes from first party investors resulting in a Level 2 classification.

(e) Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. The carrying amounts of variable rate certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(f) FHLB Advances and Other Borrowings/Subordinated Debentures: The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification. The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(g) Accrued Interest Receivable/Payable: The carrying amounts of accrued interest approximate fair value resulting in a classification consistent with the asset/liability they are associated with.

Note 6: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	(Dollars in Thousands)	
	2016	2015
Land and land improvements	$ 3,229	$ 3,330
Buildings and improvements	7,979	8,416
Leasehold improvements	307	307
Furniture and fixtures	840	834
Equipment and software	2,955	2,896
Automobiles	72	85
	15,382	15,868
Less accumulated depreciation	(5,992)	(5,870)
	$ 9,390	$ 9,998

Depreciation and amortization expense totaled $522,000 in 2016 and $551,000 in 2015.

Operating Leases

The Company leases certain branch properties and equipment under operating leases. Rent expense was $413,000 for 2016 and $444,000 for 2015. Rent commitments, before considering renewal options that generally are present, were as follows (in thousands):

	(Dollars In Thousands)
2017	$ 414
2018	418
2019	427
2020	334
2021	329
Thereafter	571
	$ 2,493

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Note 7: Goodwill and Intangible Assets

Goodwill

Management performs a goodwill impairment analysis on an annual basis, or more frequently if circumstances warrant. We engaged a third party firm to evaluate goodwill. We performed our annual goodwill impairment analysis in 2016 and 2015 which indicated no impairment. Goodwill balance was $4.1 million at year end 2016 and 2015.

Acquired Intangible Assets

Acquired intangible assets were as follows at year end:

	(Dollars in Thousands)	
	2016	2015
Core deposit intangibles:		
Gross carrying amount	$ 2,805	$ 2,805
Accumulated amortization	$ (2,611)	$ (2,540)

Amortization expense was $71,000 in 2016 and 2015. Estimated amortization expense for each of the next four years:

	(Dollars In Thousands)
2017	$ 71
2018	71
2019	52
2020	—

Note 8: Deposits

Time deposits that meet or exceed the FDIC insurance limit of $250,000 were $10.7 million and $11.5 million at December 31, 2016 and 2015, respectively. There were $1.9 million in brokered deposits at December 31, 2016 and $1.8 million at December 31, 2015.

At December 31, 2016, the scheduled maturities of time deposits were as follows:

2017	$ 90,530
2018	39,555
2019	4,787
2020	3,835
2021	5,790
	$ 144,497

At December 31, 2016, our ten largest customers accounted for approximately $49.8 million, or 13.5%, of total deposits whereas, at December 31, 2015, ten customers accounted for approximately $50.3 million, or 13.6% of total deposits.

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Note 9: Federal Home Loan Bank Advances, Letter of Credit and Borrowed Funds

At year-end, advances from the Federal Home Loan Bank ("FHLB") were as follows:

	(Dollars in thousands) 2016	2015
Matures May 2016, fixed rate at 0.99%	$ —	$ 3,000
Matures June 2016, fixed rate at 0.68%	—	2,000
Matures December 2016, fixed rate at .92%	—	5,000
Matures May 2017, fixed rate at 0.77%	5,000	—
Matures January 2017, fixed rate at 0.65%	5,000	—
Matures January 2017, fixed rate at 0.65%	2,000	—
Matures April 2017, fixed rate at 0.89%	5,000	—
Matures July 2017, fixed rate at 0.84%	3,000	—
Matures July 2017, fixed rate at 0.84%	3,000	—
Matures July 2017, fixed rate at 0.88%	4,000	—
Matures April 2018, fixed rate at 1.05%	5,000	—
Matures May 2019, fixed rate at 1.72%	3,000	3,000
Total	$ 35,000	$ 13,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $139.4 million and $127.5 million of first mortgage and commercial real estate loans under blanket lien arrangement for both year-end 2016 and 2015. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to an additional $40.3 million at year-end 2016.

Payment Information: Required payments over the next five years are

2017	27,000
2018	5,000
2019	3,000
	$ 35,000

Other Borrowed Funds

In 2016, we renewed a credit agreement with a community bank to be used for operating capital and general corporate purposes. The line has a total availability of $3.0 million, matures November 21, 2017, and bears interest at the prime rate as published in the Money Rates section of The Wall Street Journal, plus 0.25%, with interest payable monthly. The line has a floor rate of 4.5%. The line is secured by the Bank's common stock. As of December 31, 2016, the line did not have a balance. At December 31, 2015, the line had a balance of $2.0 million.

Letter of Credit

The Bank has an outstanding standby letter of credit with the Federal Home Loan Bank in the amount of $7.0 million and $2.0 million at December 31, 2016, and December 31, 2015, respectively. This letter of credit is used for public unit deposit collateralization.

Note 10: Subordinated Debentures

In October 2006, Citizens First Statutory Trust I, a trust formed by the Company, closed a pooled private offering of $5.0 million trust preferred securities with a liquidation amount of $1,000 per trust security. The Company issued $5.2 million of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. In accordance with accounting standards, the Company is not considered the primary beneficiary of this Trust (variable interest entity), the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Company's investment in the common stock of the trust was $155,000.

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The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $1,000 per trust security, on or after January 1, 2012 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on January 1, 2037. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years.

The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The securities have a stated maturity of thirty years and bear an interest rate of 165 basis points over the 3-month LIBOR rate. Our interest rate was 2.50% and 1.98% at December 31, 2016 and 2015, respectively.

Note 11: Employee Benefit Plans

The Company has adopted a 401(k) plan covering substantially all employees. Employees may contribute a portion of their compensation (based on regulatory limitations) with the Company matching 100% of the employee's contribution up to 4% of the employee's compensation. Employer contributions charged to expense for 2016 and 2015 were $202,000 and $182,000, respectively.

Note 12: Income Taxes

The provision for income taxes includes these components:

	(Dollars in Thousands) 2016	2015
Taxes currently payable	$ 1,580	$ 1,169
Deferred income taxes	215	248
Income tax expense	$ 1,795	$ 1,417

A reconciliation of the income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	(Dollars in Thousands)	
	2016	2015
Computed at the statutory rate	$ 2,046	$ 1,732
Tax-exempt interest	(204)	(247)
Bank owned-life insurance	(60)	(62)
Other	13	(6)
Actual tax expense	$ 1,795	$ 1,417

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The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	(Dollars in Thousands) 2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 887	$ 905
Unrealized losses on available-for-sale securities	270	0
Goodwill and core deposit	261	524
Deferred gain	29	34
Stock based compensation plans	43	25
Fair value adjustments related to business combinations	106	104
Accrued compensated absenses	86	85
Other	174	109
	1,856	1,786
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	0	(80)
Deferred loan fees/costs	(52)	(46)
FHLB stock dividends	(74)	(74)
Depreciation	(216)	(174)
Accretion on investment securities	(25)	(17)
Other	(25)	(67)
	(392)	(458)
Net deferred tax asset	$ 1,464	$ 1,328

The deferred tax asset is considered to be realizable based on our analysis of the evidence available. In performing this analysis, we consider all evidence currently available, both positive and negative, in determining whether based on the weight of that evidence, the deferred tax asset will be realized.

The Company does not have any beginning and ending unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. There were no interest and penalties recorded in the income statement or accrued for the year ending December 31, 2016 related to unrecognized tax benefits.

The Company files a consolidated U.S. federal income tax return, Kentucky income and franchise and Tennessee income tax returns. These returns are subject to examination by taxing authorities for all years after 2012.

As of December 31, 2016 and 2015, income taxes receivable were $27,000 and $34,000, respectively, and are included in other assets on the Consolidated Balance Sheet.

Note 13: Related Party Transactions

At December 31, 2016 and 2015, the Bank had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) in the amount of $15.0 million and $12.0 million, respectively. The following table shows the activity in the loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) during the year:

	(Dollars in Thousands)
Beginning balance	$ 11,997
New loans	5,040
Repayments	(2,059)
Ending balance	$ 14,978

Deposits from related parties held by the Bank at December 31, 2016 and 2015, respectively, totaled $7.0 million and $2.9 million, respectively.

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Note 14: Stock Based Compensation Plans

The 2015 Incentive Compensation Plan (the "Plan") provides that the Company may design and structure grants of stock options, stock units, stock appreciation rights, and other stock-based awards for selected individuals in the employ of the Company or the Bank. The Board believes that stock-based and other types of incentive compensation payable in stock and/or cash enables the Company to attract and retain talented employees and provide an incentive for those employees to increase our value. In addition, the Board believes stock ownership is important because it aligns employees' interests with the interests of shareholders. During 2016, 8,600 performance units were awarded to four executive officers to be distributed in 2019 in the form of shares of the Company's Common Stock, adjusted based on achievement of performance measures during 2016 to 2018. During 2015, 9,700 performance units were awarded to four executive officers to be distributed in 2018 in the form of shares of the Company's Common Stock, adjusted based on achievement of performance measures during 2015 to 2017.

Material terms of the Plan are summarized below:

Eligibility. The Compensation Committee of the Board, in its discretion, may grant an award under the Plan to any employee of the Company or an affiliate.

Common Shares Subject to the Plan. Subject to adjustment as described below, the maximum number of shares of the Company's Common Stock that may be issued or transferred pursuant to awards under the Plan is the sum of the following: 100,000 shares plus any shares covered by an award that are forfeited or remain unpurchased or undistributed upon termination or expiration of an award under the Plan.

Description of Award Types. Subject to the limits imposed by the Plan and described below, the Compensation Committee, in its discretion, may award any of the following types of awards to any employee: (i) incentive stock options, (ii) nonqualified stock options, (iii) stock appreciation rights, (iv) restricted shares, (v) unrestricted shares, (vi) performance shares, (vii) performance units, and (viii) restricted stock units.

Performance Measures. The Compensation Committee may condition awards on the achievement of certain objective performance measures ("Performance Measures") established by the Compensation Committee during the first 90 days of the award's performance period. The Performance Measures will be based on certain performance factors, alone or in combination, as determined by the Compensation Committee. Such factors may be applied on a corporate-wide or business-unit basis, include or exclude one or more of the Company's subsidiaries, may be in comparison with plan, budget or prior performance, and/or may be on an absolute basis or in comparison with peer-group performance. Performance Measures may differ from participant to participant and from award to award. The Plan provides for a number of factors; those selected as Performance Measures for the performance period of 2016 to 2018 and 2015 to 2017 included return on assets, net charge-offs and non-performing assets.

The fair value of performance units granted is estimated on the date of the grant. ASC 718 requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. For the years ended December 31, 2016 and 2015, employee compensation expense recorded associated with the performance units was \$84 and \$40. As of December 31, 2016, there is \$121 of unrecognized compensation expense associated with the performance units.

The Company previously maintained the 2002 Stock Option Plan, which terminated in December 2012, and the 2003 Stock Option Plan for Non-Employee Directors, which terminated in February 2015. All options have been exercised or

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expired as of December 31, 2016. A summary of the status of the plans at December 31, 2016, and changes during the period then ended is presented below:

	2016	
	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	26,571	$ 18.36
Granted	—	—
Exercised	(2,500)	13.00
Forfeited	—	—
Expired	(24,071)	18.92
Outstanding, end of year	—	$ —
Options exercisable, end of year	—	$ —

Note 15: Regulatory Capital Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks, (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2016, the Company and Citizens First Bank, Inc. met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2016 and 2015, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Under quantitative measures established by regulation to ensure capital adequacy, we are required to maintain minimum amounts and ratios of total Tier I capital to risk-weighted assets and to total assts. For 2016, interim Final Basel III rules require the Bank to maintain minimum amounts and ratios of common equity Tier I capital to risk-weighted assets. Under Basel II rules, the decision was made to opt-out of including accumulated other comprehensive income in computing regulatory capital. The rules also establish a “capital conservation buffer” of 2.5%, to be phased in through January 1, 2019, above the new regulatory minimum risk-based capital ratios. The buffer is 0.625% for 2016. The buffer could limit the payment of dividends and discretionary bonuses to officers if a bank fails to maintain required capital levels.

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The Company's and Citizens First Bank, Inc.'s actual capital amounts and ratios are also presented in the following table.

	(Dollars in Thousands)								
	Actual			For Capital Adequacy Purposes (1)			To Be Well Capitalized Under Prompt Corrective Action Provisions		
December 31, 2016	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk-Weighted Assets)									
Consolidated	$ 48,671	12.62	%	$ 30,848	8.00	%	N/A	N/A	
Citizens First Bank, Inc.	48,316	12.53	%	30,843	8.00	%	$ 38,554	10.00	%
Tier I Capital (to Risk-Weighted Assets)									
Consolidated	43,852	11.37	%	23,136	6.00	%	N/A	N/A	
Citizens First Bank, Inc.	43,497	11.28	%	23,132	6.00	%	30,843	8.00	%
Common Equity Tier I Capital (to Risk-Weighted Assets)									
Consolidated	31,585	8.19	%	17,352	4.50	%	N/A	N/A	
Citizens First Bank, Inc.	43,497	11.28	%	17,349	4.50	%	25,060	6.50	%
Tier I Leverage Capital to average assets									
Consolidated	43,852	9.97	%	17,600	4.00	%	N/A	N/A	
Citizens First Bank, Inc.	43,497	9.89	%	17,600	4.00	%	22,000	5.0	%

	(Dollars in Thousands)								
	Actual			For Capital Adequacy Purposes (1)			To Be Well Capitalized Under Prompt Corrective Action Provisions		
December 31, 2015	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk-Weighted Assets)									
Consolidated	$ 44,762	12.58	%	$ 28,463	8.0	%	N/A	N/A	
Citizens First Bank, Inc.	46,353	13.03	%	28,459	8.0	%	$ 35,573	10.0	%
Tier I Capital (to Risk-Weighted Assets)									
Consolidated	40,310	11.33	%	21,348	6.0	%	N/A	N/A	
Citizens First Bank, Inc.	41,901	11.78	%	21,344	6.0	%	28,459	8.0	%

Common Equity Tier I Capital (to Risk-Weighted Assets)									
Consolidated	27,650	7.77	%	16,011	4.5	%	N/A	N/A	
Citizens First Bank, Inc.	41,901	11.78	%	16,008	4.5	%	23,123	6.5	%
Tier I Leverage Capital to average assets									
Consolidated	39,365	9.46	%	13,961	4.0	%	N/A	N/A	
Citizens First Bank, Inc.	41,901	9.83	%	17,043	4.0	%	21,304	5.0	%

(1) When fully phased-in on January 1, 2019, Basel III Capital Rules will require banking organizations to maintain: a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer”; a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer; a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer; and a minimum ratio of Tier 1 capital to adjusted average consolidated assets of at least 4.0%.

Citizens First Bank, Inc. is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. During a profitable year, Citizens First Bank, Inc. could, without prior approval, declare dividends equal to any current and prior two years net profit retained to the date of the dividend declaration.

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Note 16: Loan Commitments and Other Related Activities

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

The following table outlines the contractual amounts of financial instruments (does not include standby letters of credit) with balance-sheet risk at year end, as follows:

	(Dollars in Thousands)			
	December 31, 2016		December 31, 2015	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unfunded commitments	$ 16,550	$ 3,500	$ 11,220	$ 6,303
Unused lines of credit	3,433	31,515	1,771	27,015

The fixed rate unused lines of credit have interest rates ranging from 2.5% to 21.0% and maturities ranging from 1 month to 23 years.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Fees for letters of credit are initially recorded by the Bank as deferred revenue and are included in earnings at the termination of the respective agreements.

Should the Bank be obligated to perform under the standby letters of credit, the Bank may seek recourse from the customer for reimbursement of amounts paid.

The Bank had total outstanding standby letters of credit amounting to $1.1 million and $333,000 at December 31, 2016 and 2015, respectively, with terms generally 20 months or less.

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Note 17: Condensed Financial Information (Parent Company Only)

Condensed Balance Sheets

	(Dollars in Thousands)	
	2016	2015
Assets		
Cash	$ 483	$ 622
Investment in Citizens First Bank, Inc.	47,009	46,116
Other assets	68	63
Total Assets	$ 47,560	$ 46,801
Liabilities		
Borrowings	$ 5,000	$ 7,000
Other liabilities	196	277
Total Liabilities	5,196	7,277
Stockholders' Equity	42,364	39,524
Total stockholders' equity	42,364	39,524
Total liabilities and stockholders' equity	$ 47,560	$ 46,801

Condensed Statement of Operations

	(Dollars in Thousands)	
	2016	2015
Dividend Income	$ 3,000	$ 2,250
Expenses		
Interest Expense	147	202
Professional fees	262	191
Other expenses	129	112
Total expenses	538	505
Income before income taxes and equity in undistributed income of subsidiary	2,462	1,745
Income tax benefit	(183)	(171)
Income before equity in undistributed income of subsidiary	2,645	1,916
Equity in undistributed income of subsidiary	1,572	1,691
Net Income	$ 4,217	$ 3,607

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Condensed Statements of Cash Flows

	(Dollars in Thousands) 2016	2015
Operating Activities		
Net income	$ 4,217	$ 3,607
Adjustments:		
Equity in undistributed income of subsidiary	(1,572)	(1,691)
Stock based compensation	84	40
Changes in:		
Other assets	(5)	(34)
Other liabilities	(80)	(127)
Net cash provided by operating activities	$ 2,644	$ 1,795
Financing Activities		
Payment of dividends on stock	(815)	(677)
Proceeds from other borrowings	—	1,500
Repayments of other borrowings	(2,000)	(1,000)
Repurchase of TARP warrants	—	(1,706)
Exercise of stock options	32	—
Net cash used in financing activities	(2,783)	(1,883)
(Decrease) increase in cash and cash equivalents	(139)	(88)
Cash and cash equivalents, beginning of year	622	710
Cash and cash equivalents, end of year	$ 483	$ 622

Note 18: Earnings Per Common Share

Basic earnings per common share is computed by dividing net income available for common shareholders by the weighted-average common shares outstanding. Diluted earnings per common share is computed the same as basic earnings per common share, and assumes the conversion of outstanding stock options and performance share units, convertible preferred stock and warrants, if dilutive. The following table reconciles basic and diluted earnings per common share for the years ending December 31, 2016 and 2015.

	Year ended December 31, 2016			Year ended December 31, 2015		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount

Basic earnings per share:						
Net income	$ 4,217			$ 3,607		
Dividends on preferred stock during the year	(495)			(520)		
Net income available to common shareholders	$ 3,722	1,998,401	$ 1.86	$ 3,087	1,968,777	$ 1.57
Effect of dilutive securities:						
Stock options	—	106		—	—	
Performance share units	—	5,153		—	3,486	
Warrants	—	—		—	43,523	
Convertible preferred stock	495	540,362		520	568,890	
Diluted earnings per share:						
Net income available to common stockholders and assumed conversions	$ 4,217	2,544,022	$ 1.66	$ 3,607	2,584,676	$ 1.40

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Stock options for 26,571 shares of common stock were not considered in computing diluted earnings per common share for 2015 because they were anti-dilutive.

Note 19: Preferred Stock

In 2004, the Company issued 250 shares of Cumulative Convertible Preferred Stock, stated value $31,992 per share (Cumulative Preferred Stock), for an aggregate purchase price of $7,998,000. The Cumulative Preferred Stock was sold for $31,992 per share, is entitled to quarterly cumulative dividends at an annual fixed rate of 6.5% and is convertible into shares of common stock of the Company at an initial conversion price per share of $15.50 (currently $14.06, adjusted for stock dividends) on and after three years after the date of issuance. As of December 31, 2016, 13 preferred shares have converted to 29,575 common shares.

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Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of these disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective in ensuring that all material information required to be filed in this report has been made known to them in a timely fashion.

There was no change in our internal control over financial reporting identified in connection with that evaluation that occurred during the quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. Management of Citizens First Corporation is responsible for establishing and maintaining adequate internal control over financial reporting and for establishing and maintaining adequate internal control over financial reporting that is designed to produce reliable financial statements in conformity with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the system of internal control over financial reporting as of December 31, 2016, in relation to criteria for effective internal control over financial reporting as described in the 2013 report Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission

(COSO). Based on this assessment, management concluded that, as of December 31, 2016, its system of internal control over financial reporting is effective based on those criteria.

This annual report does not include an audit report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to audit by our independent registered public accounting firm pursuant to exemptions for companies under rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B. Other Information

None.

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Part III

Item 10. Directors, Executive Officers, and Corporate Governance.

Certain information required by this Item appears under the headings "Section 16(a) Beneficial Ownership Reporting Compliance," "Corporate Governance", "Election of Directors" and "Executive Officers" in the Proxy Statement of the Company for the 2017 Annual Meeting of Shareholders to be held May 17, 2017, and is incorporated herein by reference. The Company has adopted a code of ethics that applies to the Company's principal executive officer, principal financial officer and persons performing similar functions. The Company will provide to any person without charge, upon request, a copy of the Company's code of ethics. Requests should be directed to the Secretary of Citizens First Corporation, 1065 Ashley Street, Suite 150, Bowling Green, Kentucky 42103. The Company's current directors and executive officers are as follows:

Directors of the Company

Name	Age	Occupation
Barry D. Bray	71	Retired; formerly, Vice President and Chief Credit Officer of Citizens First Corporation and Citizens First Bank
Kent Furlong	33	Owner of Hines Furlong Line, Inc.
Sarah Glenn Grise	60	Civic volunteer; formerly General Manager of TKR Cable of Southern Kentucky
Chris B. Guthrie	50	President of Trace Die Cast, Inc.
Jim Henderson	46	Judge Executive of Simpson County, Kentucky
James R. Hilliard	60	Regional President of Airgas USA, LLC
M. Todd Kanipe	48	President and Chief Executive Officer of Citizens First Corporation and Citizens First Bank
J. Steven Marcum	60	Executive Vice President and Chief Financial Officer of Citizens First Corporation and Citizens First Bank
Amy Milliken	45	County Attorney of Warren County, Kentucky
Jack Sheidler	60	Chairman of the Board of Directors of Citizens First Corporation and Citizens First Bank; Real estate developer and owner of Greenwood Properties, Inc.
John M. Taylor	78	President, Taylor Polson & Company, a certified public accounting firm
Dr. Kevin Vance	53	Senior Veterinarian and President of Hartland Animal Hospital

Executive Officers of the Company

Name	Age	Present Positions with the Company and the Bank
M. Todd Kanipe	48	President and Chief Executive Officer
J. Steven Marcum	60	Executive Vice President and Chief Financial Officer
Marc Lively	53	Executive Vice President and Chief Credit Officer
Kim M. Thomas	46	Executive Vice President, Retail Banking and Private Client Group

Item 11. Executive Compensation

The information required by this Item appears under the heading “Executive Compensation” and “Compensation of Directors” in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item appears under the heading “Share Ownership of Management and Certain Beneficial Owners” in the Proxy Statement and in Item 5 of this Annual Report, each of which is incorporated herein by reference.

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Item 13. Certain Relationships, Related Transactions and Director Independence

Information required by this Item appears under the headings “Election of Directors,” and “Corporate Governance” in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by this Item appears under the headings “Audit Committee Report” and “Ratification of the Appointment of the Independent Registered Public Accounting Firm,” in the Proxy Statement and is incorporated herein by reference.

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Part IV

Item 15. Exhibits, Financial Statement Schedules

Exhibit Index

3.1 Second Amended and Restated Articles of Incorporation of Citizens First Corporation, (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed November 24, 2015).

3.2 Amended and Restated Bylaws of Citizens First Corporation (incorporated by reference to Exhibit 3 of the Registrant's Current Report on Form 8-K filed March 22, 2017).

4.1 Second Amended and Restated Articles of Incorporation of Citizens First Corporation (see Exhibit 3.1).

4.2 Amended and Restated Bylaws of Citizens First Corporation (see Exhibit 3.2).

4.3 Copy of Registrants' Agreement Pursuant to Item 601(b) (4) (iii) (A) of Regulation S-K dated March 30, 2007 with respect to certain debt instruments (incorporated by reference to Exhibit 4.4 of the Registrant's Form 10K-SB dated March 31, 2007; file number 001-33126).

10.1 Employment Agreement between Citizens First Corporation and Matthew Todd Kanipe (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed July 21, 2014).*

10.2 2002 Stock Option Plan of Citizens First Corporation (incorporated by reference to Exhibit 10.13 of the Company's Registration Statement on Form SB-2 (No. 333-103238)).*

10.3 2003 Non-Employee Directors Stock Option Plan (incorporated by reference to Exhibit 10.14 of the Company's Registration Statement on Form SB-2 (No. 333-103238)).*

10.6 Amendment No. 1 to 2003 Non-Employee Stock Option Plan of Citizens First Corporation. (incorporated by reference to Exhibit 10.11 of the Registrant's Form 10-K dated December 31, 2008; file number 001-33126).*

10.8 Employment Agreement between Citizens First Corporation and J. Steven Marcum (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed July 21, 2014).*

10.9 Employment Agreement between Citizens First Corporation and Marc Lively (incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K filed July 21, 2014).*

10.10 Citizens First Corporation 2014 Management Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed November 14, 2014).*

10.11 Form of 2014 Management Incentive Plan Performance Based Award Agreement (incorporated by reference to Exhibit 10.11 of the Registrant's Form 10-K filed March 24, 2016).*

10.12 2015 Incentive Compensation Plan dated May 20, 2015 (incorporated by reference to Exhibit 10.1 of the Registrant's Form 10 of the Registrant's Form 10-Q dated June 30, 2015).*

10.13 Form of Citizens First Corporation Incentive Compensation Plan Performance Units Award Agreement (incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q dated June 30, 2015).*

21 Subsidiaries

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23.1 Consent of Crowe Horwath LLP.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section1350.

32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section1350.

101 Interactive data files: (i) Consolidated Balance Sheets at December 31, 2016 and December 31, 2015, (ii) the Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2016 and December 31, 2015, (iii) the Consolidated Statement of Stockholders' Equity for the years ended December 31, 2016 and December 31, 2015, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015, and (v) Notes to Consolidated Financial Statements.**

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* Denotes a management contract or compensatory plan or agreement.

** Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Citizens First Corporation

March 23, 2017	By:	/s/ M. Todd Kanipe M. Todd Kanipe President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ M Todd Kanipe M. Todd Kanipe President, Chief Executive Officer and Director	March 23, 2017
/s/ J. Steven Marcum J. Steven Marcum Executive Vice President and Chief Financial Officer and Director	March 23, 2017
/s/Barry D. Bray Barry D. Bray, Director	March 23, 2017
/s/Kent Furlong Kent Furlong, Director	March 23, 2017
/s/Sarah G. Grise Sarah G. Grise, Director	March 23, 2017
/s/Christopher B. Guthrie Christopher B. Guthrie, Director	March 23, 2017
/s/Jim Henderson Jim Henderson, Director	March 23, 2017
/s/J. Robert Hilliard J. Robert Hilliard, Director	March 23, 2017

/s/M. Todd Kanipe M. Todd Kanipe, Director	March 23, 2017
/s/J. Steven Marcum J. Steven Marcum, Director	March 23, 2017
/s/Amy H. Milliken Amy Milliken, Director	March 23, 2017
/s/Jack W. Sheidler Jack W. Sheidler, Director	March 23, 2017
/s/John M. Taylor John Taylor, Director	March 23, 2017
/s/R. Kevin Vance R. Kevin Vance, Director	March 23, 2017