FIRST FARMERS FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

FIRST FARMERS FINANCIAL CORPORATION
Converse, Indiana

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CONTENTS

BKD LLP
CPAs & Advisors

200 E. Main Street, Suite 700 // Fort Wayne, IN 46802-1900
260.460.4000 // fax 260.426.2235 // bkd.com

Independent Auditor's Report

Board of Directors and Stockholders
First Farmers Financial Corporation
Converse, Indiana

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Prior Year Audited by Other Auditors

The 2015 consolidated financial statements were audited by other auditors and their report thereon, dated March 17, 2016, expressed an unmodified opinion.

Report on Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, First Farmers Financial Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO) and our report dated March 7, 2017, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

BKD, LLP

Fort Wayne, Indiana
March 7, 2017

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015
(Dollar amounts in thousands except share and per share data)

	2016	2015
ASSETS		
Cash and due from financial institutions	$ 96,108	$ 38,758
Money market funds	10,979	6,097
Cash and cash equivalents	107,087	44,855
Interest-bearing deposits in other financial institutions	3,496	8,034
Securities available for sale	267,797	267,722
Securities held to maturity (fair value $6,867 in 2016 and $10,439 in 2015)	6,714	10,100
Restricted stock, at cost	8,001	6,962
Loans held-for-sale	7,523	2,655
Loans, net of allowance of $13,575 and $13,289	1,146,516	1,075,295
Premises and equipment, net	18,113	18,475
Goodwill	8,729	8,729
Core deposit and other intangibles	3,361	4,000
Bank-owned life insurance	4,977	4,865
Investments in affordable housing partnerships	13,120	8,935
Accrued interest receivable and other assets	19,010	19,574
	$1,614,444	$1,480,201
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-bearing deposits	$ 317,884	$ 290,672
Interest-bearing deposits	1,002,766	934,608
Total deposits	1,320,650	1,225,280
Federal Home Loan Bank (FHLB) advances	108,300	85,300
Notes payable	13,317	16,012
Subordinated debentures	18,558	18,558
Accrued interest payable and other liabilities	17,985	10,540
Total liabilities	1,478,810	1,355,690
Stockholders' equity		
Common stock, $1 stated value, 5,000,000 shares authorized, 3,580,923 issued and 3,580,031 outstanding in 2016; 3,575,033 issued and 3,574,648 outstanding in 2015	3,581	3,575
Additional paid-in capital	4,278	3,893
Retained earnings	129,822	117,447
Treasury Stock (892 shares in 2016 and 385 shares in 2015)	(45)	(18)
Accumulated other comprehensive loss	(2,002)	(386)
Total stockholders' equity	135,634	124,511
	$1,614,444	$1,480,201

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2016 and 2015
(Dollar amounts in thousands except share and per share data)

	2016	2015
Interest and dividend income		
Loans, including fees	$ 55,271	$ 51,325
Securities		
Taxable	2,901	2,859
Non-taxable	2,234	1,897
Other	223	171
	60,629	56,252
Interest expense		
Deposits	4,251	3,303
Short-term borrowings	5	3
Notes payable and FHLB advances	2,289	1,897
Subordinated debentures	578	521
	7,123	5,724
Net interest income	53,506	50,528
Provision for loan losses	3,475	1,650
Net interest income after provision for loan losses	50,031	48,878
Other income		
Trust and investment product fees	798	739
Service charges on deposit accounts	2,917	2,705
Interchange income	2,635	2,527
Net gain on sale and redemption of securities	192	16
Net gain on sale of loans	4,108	3,617
Other income	2,843	3,196
	13,493	12,800
Other expenses		
Salaries and employee benefits	22,850	22,868
Occupancy and equipment expense	5,361	4,982
Amortization of intangible assets	1,138	1,129
FDIC insurance	817	898
Expenses incidental to business combinations	1,723	394
Other operating expenses	9,082	8,291
	40,971	38,562
Income before income taxes	22,553	23,116
Provision for income taxes	5,520	6,309
Net income	$ 17,033	$ 16,807
Basic and diluted earnings per common share	$ 4.76	$ 4.70
Basic and diluted average common shares outstanding	3,578,915	3,572,654

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2016 and 2015
(Dollar amounts in thousands except share and per share data)

	2016	2015
Net income	$ 17,033	$ 16,807
Other comprehensive loss:		
Change in securities available for sale:		
Unrealized holding losses on securities available for sale	(2,998)	(112)
Reclassification adjustments for gains later recognized in income	(192)	(16)
Net unrealized losses	(3,190)	(128)
Tax effect	1,116	44
Net of tax amount	(2,074)	(84)
Cash flow hedges:		
Change in fair value of derivatives used for cash flow hedges	747	(819)
Reclassification adjustment for losses realized in income	43	13
Net unrealized gains/(losses)	790	(806)
Tax effect	(332)	333
Net of tax amount	458	(473)
Other comprehensive loss, net of tax	(1,616)	(557)
Comprehensive income	$ 15,417	$ 16,250

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2016 and 2015
(Dollar amounts in thousands except share and per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at January 1, 2015	$ 3,572	$ 3,626	$ 104,861	$ (86)	$ 171	$ 112,144
Net income			16,807			16,807
Other comprehensive loss					(557)	(557)
Purchase of treasury stock, 385 shares				(18)		(18)
Retirement of treasury stock, 150 shares			(5)	5		-
Restricted stock awards, 3,054 shares from treasury, 421 issued	-	(86)		86		-
Stock-based compensation, net of 150 shares forfeited		178		(5)		173
Stock activity under incentive compensation plan		41				41
Common stock issued, 2,950 shares	3	134				137
Dividends declared ($1.18 per share)			(4,216)			(4,216)
Balance at December 31, 2015	3,575	3,893	117,447	(18)	(386)	124,511
Net income			17,033			17,033
Other comprehensive loss					(1,616)	(1,616)
Purchase of treasury stock, 892 shares				(45)		(45)
Retirement of treasury stock, 1,025 shares	(1)		(40)	41		-
Restricted stock awards, 385 shares from treasury, 4,315 issued	4	(22)		18		-
Stock-based compensation, 1,025 net of shares forfeited		219		(41)		178
Stock activity under incentive compensation plan		59				59
Common stock issued, 2,600 shares	3	129				132
Dividends declared ($1.29 per share)			(4,618)			(4,618)
Balance at December 31, 2016	$ 3,581	$ 4,278	$ 129,822	$ (45)	$ (2,002)	$ 135,634

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015
(Dollar amounts in thousands except share and per share data)

	2016	2015
Cash flows from operating activities		
Net income	$ 17,033	$ 16,807
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,620	1,537
Amortization of intangible assets	1,138	1,129
Net securities amortization	667	495
Deferred income tax benefit	(9)	(257)
Servicing rights amortization and impairment	1,022	901
Stock-based compensation	178	173
Provision for loan losses	3,475	1,650
Net gain on sale of loans	(4,108)	(3,617)
Net gain on sale and redemption of securities	(192)	(16)
Net loss on sale and write-down of premises and equipment	20	11
Net (gain)/loss on sale and write-down of other real estate	(27)	38
Impairment of branch facility	15	-
Earnings on bank owned life insurance	(113)	(117)
Bargain purchase gain	(200)	(133)
Pass thru losses in affordable housing partnerships	815	663
Loans originated for resale	(87,866)	(66,709)
Proceeds from sale of loans	85,842	70,207
Changes in assets and liabilities		
Interest receivable and other assets	(516)	(2,724)
Interest payable and other liabilities	4,640	(1,584)
Net cash from operating activities	23,434	18,454
Cash flows from investing activities		
Net change in interest-bearing deposits in other financial institutions	9,957	20,226
Securities available for sale		
Proceeds from sales	66,628	-
Purchases	(104,501)	(64,641)
Proceeds from principal payments, calls and maturities	50,725	64,523
Securities held-to-maturity		
Proceeds from principal payments, calls and maturities	3,380	4,150
Loans made to customers, net of payments received	(49,059)	(60,525)
Net cash received in acquisition	1,559	9,224
Premises and equipment expenditures	(1,273)	(2,184)
Investments in affordable housing partnerships	(479)	(479)
Proceeds from the sale of other real estate owned	583	1,636
Redemptions of excess restricted stock	-	857
Purchase of restricted stock	(919)	(321)
Net cash from investing activities	(23,399)	(27,534)
Cash flows from financing activities		
Net change in deposit accounts	46,340	(23,798)
Advances from notes payable	-	7,500
Payments on notes payable	(2,694)	(2,372)
Payments on FHLB advances	(181,027)	(88,450)
Proceeds from FHLB advances	204,000	88,500
Purchase of treasury stock	(45)	(18)
Issuance of common stock	132	137
Dividends paid	(4,509)	(4,179)
Net cash from financing activities	62,197	(22,680)
Net change in cash and cash equivalents	62,232	(31,760)
Cash and cash equivalents at beginning of year	44,855	76,615
Cash and cash equivalents at end of year	$ 107,087	$ 44,855

(Continued)

	2016	2015
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 5,679	$ 5,752
Income taxes	2,920	8,320
Supplemental non-cash disclosures		
Transfers from premises and equipment to real estate owned	171	-
Real estate acquired in satisfaction of debts previously contracted	314	420
Assets acquired	57,164	163,891
Liabilities assumed	(49,445)	(147,842)

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations: The consolidated financial statements of First Farmers Financial Corporation ("Corporation") include its wholly-owned subsidiaries, First Farmers Bank & Trust ("Bank"), First Farmers Risk Management, Inc. and 46992 Holdings, LLC and the Bank's wholly-owned subsidiaries Security Capital, Inc. ("SCI"), Mark Tully Investments II, Inc. ("MTII"), Mark Tully Holdings II, Inc. ("MTHI"), Mark Tully II, LLC ("MTL"), and Mark Tully Properties, Inc. ("MTP"). Security Capital Inc. originates and services leases on behalf of Midwestern financial institutions. First Farmers Risk Management, Inc. is a captive reinsurance subsidiary. MTII owns 100% of MTHI, and MTII and MTHI own 1% and 99% of MTL, which manages investment securities, and 100% of MTP which manages loans secured by real estate. All significant intercompany transactions and balances have been eliminated in consolidation.

The Corporation and Bank operate primarily in the banking industry. The Bank makes commercial, installment and mortgage loans to and receives deposits from customers through its offices located in the Indiana counties of Miami, Grant, Hamilton, Howard, Huntington, Johnson, Tipton, Madison, Cass, Carroll, Clay, Marshall, Starke, Sullivan, Vermillion, Vigo and Wabash; and Illinois counties of Coles, Edgar and Vermilion. Although the overall loan portfolio is diversified, a substantial portion of its debtors' ability to honor their contracts is dependent upon the agricultural industry. The majority of the Corporation's loans are secured by specific items of collateral including business assets, consumer assets and real property.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through March 7, 2017, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America 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 are defined as cash and deposits with other financial institutions with maturities of less than 90 days, money market funds and federal funds sold. Net cash flows are reported for customer loan and deposit transactions and federal funds purchased.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, 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.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates securities for other than temporary impairment ("OTTI") on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that 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 Corporation has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery in fair value.

<u>Loans Held for Sale</u>: The Corporation sells certain mortgage and guaranteed loans on the secondary market. Loans held for sale are carried at the lower of cost or estimated fair value, in aggregate. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

<u>Loans</u>: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income on loans is accrued over the term of the loans based on the principal outstanding. Loan fees, net of certain direct loan origination costs, are deferred and recognized as an element of interest income over the term of the loan using the level yield method.

For all classes of loans, interest income is discontinued when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. Past due status is based on the contractual terms of the loan. Loans are placed on non-accrual or charged off at an earlier date if collection of principal and interest is considered doubtful. 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. A loan is moved to non-accrual status in accordance with the Corporation's policy, typically after 90 days of non-payment.

For all classes of loans, 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.

<u>Certain Purchased Loans</u>: The Corporation has purchased certain loans which have shown evidence of credit deterioration since origination. These purchased loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses will be recognized by an increase in the allowance for loan losses.

Such purchased loans are accounted for individually or aggregated into pools of loans based on loan type. The Corporation estimates the amount and timing of expected cash flows for each purchased loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded as a provision for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance For Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Charge-offs of the commercial, agriculture, and real estate portfolio segments are recognized when the loss is confirmed and the amount of the charge-off is the difference in the recorded investment in the loan and the discounted collateral value or the discounted future cash flows, whichever is deemed to be the most likely source of repayment. Loans in the other portfolio segment are typically charged-off no later than 120 days past due. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance 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 or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

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 Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment including consideration of the following: trends in delinquencies and adversely classified loans; trends and conditions in the local and national economies; and industry-specific economic trends and conditions where credit concentrations to the industry are material. The following portfolio segments have been identified: Commercial; Agriculture; Residential Mortgage; and Other.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each of these portfolio segments has different risk characteristics and the allowance for loan loss methodology addresses these risks as follows:

Commercial loans include those secured by pledged assets of the customer's business (such as inventories, property and equipment, or accounts receivable), those secured by mortgages or other liens on real property, and those that are unsecured. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from the cash flow from the business operations of the customer. In underwriting these types of loans, the customer's ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the business operations of the borrowers, which is impacted by various factors including the industry in which the customer operates and the general economy.

Agriculture loans are secured by farm real estate, farm equipment or other farm business assets such as crops or livestock. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from farm operations of the customer. In underwriting these types of loans, the customer's ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the farm operations of the borrowers, which can be impacted by various factors including the price of agricultural commodities, machinery, real estate, and the general economy.

Residential Mortgage loans are those that are secured by senior or junior liens on residential property. This portfolio segment includes fixed-and adjustable-rate mortgage loans that provide for the full amortization of principal and home equity lines of credit. Repayment of real estate loans is primarily dependent upon the personal income of the borrowers, which can be impacted by the economic conditions in their market area. The Corporation seeks to mitigate the risk of the uncertainty of economic conditions with its current underwriting standards, which include a required loan-to-value ratio of at least 80% of each loan originated. The losses experienced within this segment will be impacted by changes in real estate values for the collateral securing these loans.

The Other portfolio segment includes consumer installment loans and leases. Repayment of the consumer loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates. The repayment of the loans in this segment is dependent upon the willingness and ability of the customers to repay any outstanding balance. Leases are generally secured by commercial or agriculture-related equipment and repayment is expected to come primarily from the business or farm operations, and secondarily from the residual value of the equipment. Management tracks the risk in this segment based on the level of past due loans and the actual net charge-offs experienced.

<u>Direct Financing Leases</u>: Direct financing leases are recorded at the aggregate future minimum lease payments plus estimated residual value of leased assets less unearned income. Income on direct financing leases is recognized by a method that approximates a level rate of return. Leases are included in Loans on the consolidated balance sheet.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Assets: Servicing assets are recognized separately when they are acquired through sales of loans. For sales of mortgage loans, servicing assets are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. All servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Servicing assets are $3,260 and $3,202 at December 31, 2016 and 2015, respectively, and are included in accrued interest receivable and other assets in the consolidated balance sheets.

Servicing assets are evaluated for impairment based upon the fair value of the assets as compared to carrying amount. Impairment is determined by stratifying assets into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with other income on the income statement. The fair values of servicing assets are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income which is reported on the income statement as other income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of servicing assets is netted against loan servicing fee income. Servicing fees totaled $1,713 and $1,859 for the years ended December 31, 2016 and 2015. Late fees and ancillary fees related to loan servicing are not material.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. The balance of foreclosed assets was $219 and $381 at December 31, 2016 and 2015, respectively and is included in accrued interest receivable and other assets in the consolidated balance sheets.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Premises and equipment are depreciated primarily on the straight-line method over the estimated useful lives of the assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

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 restricted stock on the consolidated balance sheets, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Reserve Bank (FRB) Stock: The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as restricted stock on the consolidated balance sheets, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income.

Bank-Owned Life Insurance: The Corporation acquired life insurance policies on certain key executives through acquisitions in 2009 and 2012. 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: Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. 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 any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Corporation has selected June 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Core deposit intangible and other intangible assets arise from bank branch and other business acquisitions. They are initially measured at fair value and then are amortized on a straight line or accelerated method over their estimated useful lives, which range from 4 to 10 years for core deposit intangibles.

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.

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 are now 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 stockholders. Additionally, the Corporation may not declare dividends if it has deferred interest payments or is in default on its subordinated debentures.

Treasury Stock
Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Limited Partnership/Investments in Affordable Housing Partnerships
The investments in limited partnerships are recorded using the equity method of accounting. Losses due to impairment are recorded when it is determined that the investment no longer has the ability to recover its carrying amount. The benefits of low income housing tax credits associated with the investment are accrued when earned.

Derivatives: At the inception of a derivative contract, the Corporation designates the derivative as one of three types based on the Corporation's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

Stock Based Compensation: Compensation cost is recognized for restricted stock awards issued to employees, based on the market price of the Corporation's common stock at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share: Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the year. All outstanding unvested share-based payment awards contain rights to nonforfeitable dividends and are considered participating securities for this calculation so there is no difference between dilutive and basic earnings per share. All share and per share data are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Comprehensive Income: 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 and unrealized gains and losses on cash flow hedges, which are also recognized as separate components of equity.

Fair Values 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.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Reclassification: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Adoption of New Accounting Standards and Newly Issued Not Yet Effective Accounting Standards

FASB ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amendments provide guidance on the following eight specific cash flow issues:

- Debt Prepayment or Debt Extinguishment Costs;
- Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing;
- Contingent Consideration Payments Made after a Business Combination;
- Proceeds from the Settlement of Insurance Claims;
- Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned;
- Life Insurance Policies;
- Distributions Received from Equity Method Investees;
- Beneficial Interests in Securitization Transactions; and
- Separately Identifiable Cash Flows and Application of the Predominance Principle.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period.

FASB ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

In June 2016, FASB issued 2016-13, *Financial Instruments – Credit Losses Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration.

The ASU is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities) and is effective for public business entities that are not SEC filers for fiscal years beginning after December 31, 2020 (i.e., January 1, 2021, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FASB ASU No. 2016-09*, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*

In March 2016, FASB issued 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This ASU will simplify Employee Share-Based Payment Accounting. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. In addition to those simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. This should not result in a change in practice because the guidance that is being superseded was never effective.

The amendments are effective for public business entities' annual periods beginning after December 15, 2016, and interim periods within those annual periods.

FASB ASU No. 2016-08, *Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*

In March 2016, FASB issued *2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net).* This ASU clarifies the implementation guidance on principal versus agent considerations.

The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue From Contracts With Customers (Topic 606).* Public entities should apply the amendments in ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity).

FASB ASU No. 2016-07, *Investments — Equity Method and Joint Ventures (Topic 323)*

In March 2016, FASB issued 2016-07, *Equity Method and Joint Ventures.* This ASU will simplify the accounting for equity method investments. The amendments in the Update eliminate the requirement in Topic 323 that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting.

The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting.

The amendments in this Update are effective for all entities' annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FASB ASU No. 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*

In March 2016, FASB issued 2016-06, *Contingent Put and Call Options in Debt Instruments*. This ASU requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the "clearly and closely related" criterion. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options.

The amendments in this Update effective for public business entities' annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years.

All entities have the option of adopting the new requirements early, including adoption in an interim period. If an entity early adopts the new requirements in an interim period, it must reflect any adjustments as of the beginning of the fiscal year that includes that interim period.

FASB ASU No. 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*

In March 2016, FASB issued 2016-05, *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.* In this ASU the term novation refers to replacing one counterparty to a derivative instrument with a new counterparty. That change occurs for a variety of reasons, including financial institution mergers, intercompany transactions, an entity exiting a particular derivatives business or relationship, an entity managing against internal credit limits or in response to laws or regulatory requirements.

The amendments in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815, does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.

The amendments in this Update effective for public business entities' annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments may be applied on either a prospective basis or a modified retrospective basis.

FASB ASU No. 2016-02, *Leases (Topic 842)*

In February 2016, FASB issued 2016-02, *Leases (Topic 842).* This ASU creates Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue From Contracts With Customers.*

The amendments in this Update are affective for public business entities' annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early adoption is permitted.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

FASB ASU No. 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

In January 2016, FASB issued 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this Update eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities.

The amendments in this Update effective for public business entities' annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 2 - SECURITIES

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

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agency securities	$ 55,165	$ 103	$ (247)	$ 55,021
Obligations of states and political subdivisions	112,711	395	(1,782)	111,324
Mortgage-backed securities, residential	102,498	268	(1,367)	101,399
Marketable equity securities	9	44	-	53
	$ 270,383	$ 810	$ (3,396)	$ 267,797

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agency securities	$ 118,530	$ 107	$ (610)	$ 118,027
Obligations of states and political subdivisions	89,279	1,338	(70)	90,547
Corporate obligations	750	2	-	752
Mortgage-backed securities, residential	58,549	290	(470)	58,369
Marketable equity securities	9	18	-	27
	$ 267,117	$ 1,755	$ (1,150)	$ 267,722

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

	2016			
	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Obligations of states and political subdivisions	$ 6,714	$ 153	$ -	$ 6,867

	2015			
	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Obligations of states and political subdivisions	$ 10,100	$ 339	$ -	$ 10,439

Securities with a carrying value of $121,330 and $108,305 were pledged to secure other borrowings at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in any amount greater than 10% of stockholders' equity.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 2 - SECURITIES (Continued)

Proceeds from sales of securities available for sale during 2016 and 2015 were $66,628 and $0, respectively. There were no held to maturity securities sold in 2016 and 2015. Gross gains of $222 and $0 and gross losses of $(32) and $0 were recognized on the sales of securities available for sale during 2016 and 2015, respectively. During 2016 and 2015, an additional $2 and $16, respectively, in gains resulted from net redemption premiums on called securities.

The amortized cost and fair value of investment securities by contractual maturity are shown below. Securities not due at a single maturity date or with no maturity date, primarily mortgage-backed and marketable equity securities are shown separately.

	2016			
	Held to Maturity		Available for Sale	
	Carrying Value	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,500	$ 1,512	$ 11,502	$ 11,545
Due after one year through five years	5,054	5,195	93,066	92,843
Due after five years through ten years	90	90	53,760	52,794
Due after ten years	70	70	9,548	9,163
Mortgage-backed securities and marketable equity securities	-	-	102,507	101,452
	$ 6,714	$ 6,867	$ 270,383	$ 267,797

Securities with unrealized losses at December 31, 2016 and 2015 are as follows, presented by length of the time the securities have been in an unrealized loss position.

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2016						
U.S. treasury and government agency	$ 31,737	$ (247)	$ -	$ -	$ 31,737	$ (247)
Obligations of states and political subdivisions	73,158	(1,768)	552	(14)	73,710	(1,782)
Mortgage-backed securities, residential	67,456	(1,279)	5,011	(88)	72,467	(1,367)
Total temporarily impaired	$172,351	$ (3,294)	$ 5,563	$ (102)	$177,914	$ (3,396)

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 2 - SECURITIES (Continued)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2015						
U.S. treasury and government agency	$ 71,220	$ (463)	$ 11,852	$ (147)	$ 83,072	$ (610)
Obligations of states and political subdivisions	15,525	(62)	2,073	(8)	17,598	(70)
Mortgage-backed securities, residential	26,048	(292)	8,189	(178)	34,237	(470)
Total temporarily impaired	$ 112,793	$ (817)	$ 22,114	$ (333)	$134,907	$ (1,150)

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015, was $177,914 and $134,907, which is approximately 65% and 48%, respectively, of the Corporation's available for sale and held to maturity investment portfolio.

Unrealized losses on certain U.S. treasury and government agency, obligations of states and political subdivisions, and mortgage-backed securities have not been recognized into income because the issuers are insured or of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to market interest rates and other economic factors. The fair value is expected to recover as the investments approach their maturity date and/or market rates change.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are comprised of the following:

	2016	2015
Commercial		
Commercial real estate	$ 166,740	$ 168,128
Commercial & industrial	214,891	196,831
Construction & development	20,384	16,040
Agriculture		
Farm real estate	308,000	283,821
Other	281,035	268,682
Residential Mortgage		
Residential real estate	110,245	99,453
Other		
Leases	41,802	40,169
Consumer & other	16,994	15,460
Subtotal	1,160,091	1,088,584
Less: Allowance for loan losses	(13,575)	(13,289)
Loans, net	$1,146,516	$1,075,295

Lease financing consists of the following:

	2016	2015
Total minimum lease payments receivable	$ 38,275	$ 37,815
Total residual	8,639	7,681
Unearned income	(5,112)	(5,327)
Total lease financing	$ 41,802	$ 40,169

Minimum lease payments receivable are as follows:

Year Ending December 31,	
2017	$ 12,149
2018	9,107
2019	6,817
2020	4,547
2021	2,217
Thereafter	3,438
	$ 38,275

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The Corporation has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows:

	2016	2015
Commercial	$ 2,911	$ 3,344
Residential Mortgage	-	743
Outstanding balance	$ 2,911	$ 4,087
Carrying amount, net of allowance of $0 and $8	$ 1,255	$ 1,814

Accretable yield, or income expected to be collected, is as follows:

	2016	2015
Balance at January 1	$ 340	$ 477
Accretion of income	(359)	(818)
Reclassifications from non-accretable difference	197	695
Disposals	-	(14)
Balance at December 31	$ 178	$ 340

For those purchased credit impaired loans disclosed above, the Corporation increased the allowance for loan losses during 2016 and 2015 by $0 and $8, respectively.

There were no loans with evidence of deterioration of credit quality acquired during the years ended December 31, 2016 and 2015.

Income is not recognized on certain purchased loans if the Corporation cannot reasonably estimate cash flows expected to be collected. During the years ended December 31, 2016 and 2015 the Corporation had no such loans.

Certain directors, executive officers and principal stockholders of the Corporation, including their immediate families and companies in which they are principal owners, were loan customers of the Bank. At December 31, 2016 and 2015, loans to these individuals totaled approximately $14,886 and $20,277.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2016 and 2015:

	Commercial	Agriculture	Residential Mortgage	Other	Unallocated	Total
December 31, 2016						
Allowance for loan losses						
Beginning balance	$ 2,608	$ 8,993	$ 568	$ 118	$ 1,002	$ 13,289
Provision (credit) for loan losses	2,297	1,470	104	14	(410)	3,475
Loans charged-off	(2,742)	(669)	(39)	(38)	-	(3,488)
Recoveries	260	2	13	24	-	299
Ending balance	$ 2,423	$ 9,796	$ 646	$ 118	$ 592	$ 13,575
December 31, 2015						
Allowance for loan losses						
Beginning balance	$ 3,174	$ 7,212	$ 535	$ 146	$ 1,260	$ 12,327
Provision (credit) for loan losses	480	1,461	(146)	113	(258)	1,650
Loans charged-off	(1,252)	-	(90)	(173)	-	(1,515)
Recoveries	206	320	269	32	-	827
Ending balance	$ 2,608	$ 8,993	$ 568	$ 118	$ 1,002	$ 13,289

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2016 and 2015:

	Commercial	Agriculture	Residential Mortgage	Other	Unallocated	Total
December 31, 2016						
Allowance for loan losses						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 26	$ 1,404	$ 146	$ -	$ -	$ 1,576
Collectively evaluated for impairment	2,397	8,392	500	118	592	11,999
Total ending allowance balance	$ 2,423	$ 9,796	$ 646	$ 118	$ 592	$ 13,575
Loans						
Loans individually evaluated for impairment	$ 14,755	$ 36,029	$ 1,525	$ 111	$ N/A	$ 52,420
Loans collectively evaluated for impairment	387,260	553,006	108,720	58,685	N/A	1,107,671
Total ending loans balance	$ 402,015	$ 589,035	$ 110,245	$ 58,796	$ N/A	$ 1,160,091
December 31, 2015						
Allowance for loan losses						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 201	$ 26	$ 167	$ 4	$ -	$ 398
Collectively evaluated for impairment	2,407	8,967	401	114	1,002	12,891
Total ending allowance balance	$ 2,608	$ 8,993	$ 568	$ 118	$ 1,002	$ 13,289
Loans						
Loans individually evaluated for impairment	$ 12,878	$ 30,391	$ 1,706	$ 111	$ N/A	$ 45,086
Loans collectively evaluated for impairment	368,121	522,112	97,747	55,518	N/A	1,043,498
Total ending loans balance	$ 380,999	$ 552,503	$ 99,453	$ 55,629	$ N/A	$ 1,088,584

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2016						
With no related allowance recorded:						
Commercial						
Commercial real estate	$ 7,147	$ 7,144	$ -	$ 8,003	$ 338	$ 284
Commercial & industrial	7,016	6,973	-	7,370	23	28
Construction & development	134	341	-	389	68	68
Agricultural						
Farm real estate	18,013	17,997	-	21,370	454	526
Other	2,535	2,535	-	14,065	373	372
Residential Mortgage	565	565	-	616	35	36
Other						
Leases	111	111	-	111	-	-
Subtotal	35,521	35,666	-	51,924	1,291	1,314
With an allowance recorded:						
Commercial						
Commercial real estate	$ 145	$ 145	$ 16	$ 150	$ 8	$ 8
Commercial & industrial	152	152	10	166	7	7
Agricultural						
Farm real estate	7,652	7,642	470	7,908	532	496
Other	7,856	7,855	934	6,055	177	145
Residential Mortgage	962	960	146	977	38	39
Subtotal	16,767	16,754	1,576	15,256	762	695
Total	$ 52,288	$ 52,420	$ 1,576	$ 67,180	$ 2,053	$ 2,009

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2015						
With no related allowance recorded:						
Commercial						
Commercial real estate	$ 9,426	$ 9,383	$ -	$ 9,636	$ 8	$ 8
Commercial & industrial	750	750	-	1,008	8	8
Construction & development	524	524	-	970	-	-
Agricultural						
Farm real estate	10,548	10,537	-	12,343	153	113
Other	12,358	12,281	-	17,476	383	343
Residential Mortgage	443	442	-	1,146	16	16
Other						
Leases	-	-	-	335	9	9
Subtotal	34,049	33,917	-	42,914	577	497
With an allowance recorded:						
Commercial						
Commercial real estate	$ 909	$ 909	$ 18	$ 920	$ 49	$ 49
Commercial & industrial	1,312	1,312	183	1,324	50	61
Agricultural						
Farm real estate	7,584	7,573	26	7,622	406	407
Residential Mortgage	1,267	1,264	167	1,288	65	64
Other						
Leases	111	111	4	111	1	1
Subtotal	11,183	11,169	398	11,265	571	582
Total	$ 45,232	$ 45,086	$ 398	$ 54,179	$ 1,148	$ 1,079

The recorded investment in loans includes loan origination fees, net and purchase related discounts.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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.

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 2015:

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2016	2015	2016	2015
Commercial				
Commercial real estate	$ 2,827	$ 9,334	$ -	$ -
Commercial & industrial	6,890	1,312	72	770
Agriculture				
Farm real estate	15,541	8,209	-	2,010
Other	178	4,047	-	-
Residential Mortgage				
Residential real estate	708	305	264	616
Other				
Leases	148	172	-	-
Consumer & other	20	-	-	17
Total	$ 26,312	$ 23,379	$ 336	$ 3,413

As of December 31, 2016 and 2015, nonaccrual loans of $10,006 and $10,941 are wholly or partially guaranteed by the U.S. Government.

As of December 31, 2016 and 2015, loans past due greater than 90 days and still accruing of $47 and $622 are wholly or partially guaranteed by the U.S. Government.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2016 and 2015 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2016						
Commercial						
Commercial real estate	$ 349	$ 4,050	$ 2,845	$ 7,244	$ 159,496	$ 166,740
Commercial & industrial	356	207	6,885	7,448	207,443	214,891
Construction & development	567	-	89	656	19,728	20,384
Agriculture						
Farm real estate	1,628	206	14,672	16,506	291,494	308,000
Other	1,591	3,660	178	5,429	275,606	281,035
Residential Mortgage						
Residential real estate	1,349	388	967	2,704	107,541	110,245
Other						
Leases	44	-	116	160	41,642	41,802
Consumer & other	64	23	13	100	16,894	16,994
Total	$ 5,948	$ 8,534	$ 25,765	$ 40,247	$1,119,844	$1,160,091
December 31, 2015						
Commercial						
Commercial real estate	$ 9,618	$ 4,080	$ 73	$ 13,771	$ 154,357	$ 168,128
Commercial & industrial	2,853	8	1,332	4,193	192,638	196,831
Construction & development	-	221	-	221	15,819	16,040
Agriculture						
Farm real estate	3,396	3,498	8,759	15,653	268,168	283,821
Other	157	81	4,047	4,285	264,397	268,682
Residential Mortgage						
Residential real estate	1,598	675	891	3,164	96,289	99,453
Other						
Leases	336	22	122	480	39,689	40,169
Consumer & other	20	25	17	62	15,398	15,460
Total	$ 17,978	$ 8,610	$ 15,241	$ 41,829	$1,046,755	$1,088,584

Troubled Debt Restructurings:

As of December 31, 2016 and 2015, the Corporation has a recorded investment in troubled debt restructurings of $32,733 and $31,472, respectively. The Corporation has allocated $185 and $392 of specific reserves for those loans at December 31, 2016 and 2015, and has no commitments under the terms of the restructured loans to lend to these borrowers at either period.

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 or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 month to 15 years. Modifications involving an extension of the maturity date were for periods ranging from 3 months to 15 years.

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

	Number of of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2016			
Troubled Debt Restructurings:			
Commercial			
Commercial real estate	2	$ 3,651	$ 3,651
Commercial & industrial	4	264	264
Agriculture			
Farm real estate	3	1,921	2,002
Other	11	7,789	7,518
Residential Mortgage			
Residential real estate	1	229	244
Total	21	$ 13,854	$ 13,679

The troubled debt restructurings described above increased the allowance for loan losses by $41 and resulted in charge offs of $235 during the year ending December 31, 2016.

	Number of of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2015			
Troubled Debt Restructurings:			
Commercial			
Commercial & industrial	2	561	561
Agriculture			
Farm real estate	8	9,187	9,316
Other	6	10,856	10,856
Other			
Leases	6	444	445
Consumer & other	1	92	92
Total	23	$ 21,140	$ 21,270

The troubled debt restructurings described above increased the allowance for loan losses by $46 and resulted in charge offs of $0 during the year ending December 31, 2015.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2015:

	Number of Loans	Recorded Investment
December 31, 2015		
Commercial & industrial	2	$ 562
Agriculture – Other	1	4,026
Leases	1	111
Total	4	$ 4,699

The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by $27 and resulted in charge offs of $0 during the year ending December 31, 2015.

There were no loans modified as a troubled debt restructuring during the year ending December 31, 2016 that had a payment default within twelve months following the modification.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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 Corporation's internal underwriting policy.

Credit Quality Indicators:

The Corporation 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 Corporation analyzes loans individually by classifying the loans as to credit risk. All loans are graded at origination. On a quarterly basis, all loans with exposure greater than $1,000 or graded special mention, substandard or doubtful are reviewed for potential grade changes. Other loans outside of this scope are re-graded only as additional financial information is received or delinquency status changes. The Corporation uses the following definitions for risk ratings:

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Special Mention: Loans which exhibit significant potential weaknesses or unsatisfactory characteristics that jeopardize future collection of the debt if not corrected. Typically, these loans exhibit more severe and sustained negative trends, or possess a larger potential loss upon default due to loan structure or exceptions of any type. Some conditions that typically warrant a "special mention" rating include:

- Adverse economic or market conditions which in the future may affect the borrower's ability to repay.
- An adverse trend in the borrower's financial condition that has not yet reached the point where the original payment terms are jeopardized, but where essentially no margin exists to handle uncertainties relating to future performance.
- Loans with collateral values such that there is little margin between liquidation value and the amount of the loan commitment.
- A business that is vulnerable to economic adversity due to technical obsolescence or from competitive pressures.
- Loans with loan policy, credit, or documentation exceptions that are material in nature and that may increase loss potential given a default scenario.

Substandard: Loans that are inadequately protected by the current sound net worth, paying capacity of the borrower, or pledged collateral. Substandard loans exhibit one or more well-defined credit weaknesses that jeopardize repayment of the debt.

Doubtful: The possibility of loss is extremely high, but because of pending factors that may work to strengthen the credit, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral, or refinancing plans. Borrowers in this category usually exhibit multiple operating losses, minimal to no liquidity, negative cash flow and high leverage. The value of collateral and support of a guarantor may not be adequate to reasonable insure repayment in full of the borrower's loan. Deterioration has led to the possibility of a present or future loss.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2016 and 2015 is as follows:

	Pass	Special Mention	Substandard	Doubtful
December 31, 2016				
Commercial				
Commercial real estate	$ 161,002	$ 1,957	$ 3,781	$ -
Commercial & industrial	209,649	3,903	1,339	-
Construction & development	20,295	-	89	-
Agriculture				
Farm real estate	262,195	24,194	21,611	-
Other	246,100	24,898	10,037	-
Residential Mortgage	108,035	1,237	973	-
Other				
Leases	40,269	1,385	148	-
Consumer & Other	16,973	-	21	-
Total	$1,064,518	$ 57,574	$ 37,999	$ -
December 31, 2015				
Commercial				
Commercial real estate	$ 159,415	$ 4,295	$ 4,418	$ -
Commercial & industrial	191,239	3,940	1,652	-
Construction & development	15,516	524	-	-
Agriculture				
Farm real estate	239,870	24,518	19,433	-
Other	247,818	8,006	12,858	-
Residential Mortgage	97,941	719	793	-
Other				
Leases	39,291	-	878	-
Consumer & Other	15,451	3	6	-
Total	$1,006,541	$ 42,005	$ 40,038	$ -

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 4 - PREMISES AND EQUIPMENT

A summary of premises and equipment is detailed below as of December 31:

	2016	2015
Land	$ 3,629	$ 3,619
Buildings and improvements	17,286	17,000
Furniture and equipment	10,550	10,255
Total cost	31,465	30,874
Accumulated depreciation	(13,621)	(12,458)
	17,844	18,416
Buildings and equipment in process	269	59
	$ 18,113	$ 18,475

During 2016, the Corporation recognized an impairment charge of $15 on branch facilities. During 2015, the Corporation did not recognize an impairment charge on branch facilities.

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill

The balance in goodwill was $8,729 at December 31, 2016 and 2015, respectively, and no impairment in either year was recognized.

Acquired Intangible Assets

	2016		2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	$ 12,891	$ 9,530	$ 12,392	$ 8,392

Aggregate amortization expense for 2016 and 2015 was $1,138 and $1,129.

Estimated amortization expense for each of the next five years:

2017	$ 971
2018	802
2019	649
2020	395
2021	264

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 6 – INVESTMENTS IN AFFORDABLE HOUSING PARTNERSHIPS

The Corporation invests in qualified affordable housing projects. At December 31, 2016 and 2015, the balance of the investment for qualified affordable housing projects was $13,120 and $8,935, respectively. These balances are reflected in the investments in affordable housing partnerships line on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $5,084 and $557 at December 31, 2016 and 2015. The Corporation expects to fulfill these commitments during the year ending 2032.

During the years ended December 31, 2016 and 2015, the Corporation recognized expense of $815 and $662, respectively, which was included within pretax income on the consolidated statements of income.

Additionally, during the years ended December 31, 2016 and 2015, the Corporation recognized tax credits and other benefits from its investment in affordable housing tax credits of $1,489 and $1,445, respectively. During the years ending December 31, 2016 and 2015, the Corporation incurred impairment losses of $289 and $0, respectively. The impairment losses were a result of the Corporation being ineligible to redeem the tax credits due to loss of qualification related to required occupancy levels.

NOTE 7 - SERVICING ASSETS

Loans and leases serviced for others are not reported as assets of the Corporation and total $693,046 and $649,768 at December 31, 2016 and 2015.

Activity for capitalized loan servicing assets (included in accrued interest receivable and other assets on the consolidated balance sheets) and the related valuation allowance follow.

	2016	2015
Servicing assets		
Beginning of year	$ 4,455	$ 4,152
Additions	1,080	1,273
Direct write-downs	(157)	(155)
Amortized to expense	(682)	(815)
End of year	$ 4,696	$ 4,455
	2016	2015
Valuation allowance		
Beginning of the year	$ 1,253	$ 1,322
Direct write-downs	(157)	(155)
Net additions expensed	340	86
End of year	$ 1,436	$ 1,253
Net servicing assets	$ 3,260	$ 3,202

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 7 - SERVICING ASSETS (Continued)

The fair value of servicing assets for 2016 and 2015 was approximately $3,260 and $3,230. Fair value at year-end 2016 and 2015 was primarily determined based on a valuation model that calculates the present value of estimated net servicing income. Fair value at year-end 2016 was determined using a weighted average discount rate of 7.30% and an immediate and long-term weighted average prepayment speed of 11.9% and 11.1% respectively. Fair value at year-end 2015 was determined using a weighted average discount rate of 7.01% and an immediate and long-term weighted average prepayment speed of 10.2% and 9.3% respectively.

The weighted average amortization period is 6 years. Estimated amortization expense for each of the next five years is:

2017	$ 579
2018	494
2019	420
2020	356
2021	300

NOTE 8 - INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following at December 31:

	2016	2015
Interest-bearing demand deposits	$ 407,901	$ 418,884
Savings	283,674	261,183
Time deposits over $250,000	85,170	66,218
Other time deposits	226,021	188,323
	$1,002,766	$ 934,608

At December 31, 2016, stated maturities of time deposits were:

2017	$ 130,645
2018	58,653
2019	82,334
2020	22,088
2021	16,579
Thereafter	892
	$ 311,191

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES

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

	2016	2015
Maturity of October 2026, with a current fixed rate of 1.18%. The Federal Home Loan Bank controls the option to put this advance in October 2021.	$ 5,000	-
Maturities from July 2019 through August 2020, symmetrical advances with fixed rates from 1.64% to 1.98%, with a weighted average rate of 1.74% at December 31, 2016 and December 31, 2015.	22,000	22,000
Maturities from May 2017 through July 2021, with fixed rates from 0.91% to 2.70%, with a weighted average rate of 1.50% at December 31, 2016. Maturities from March 2016 through July 2021, with fixed rates from 0.60% to 2.70%, with a weighted average rate of 1.52% at December 31, 2015.	34,300	50,300
Maturities from July 2017 through June 2021, with a floating rate tied to 3 month LIBOR plus spreads that range from 0.15% to 0.30% with quarterly reset dates, with rates from 1.03% to 1.26% with a weighted average rate of 1.14% as of December 31, 2016. Maturity of December 2019, with a floating rate tied to 3 month LIBOR with a spread of 0.17% with quarterly reset dates, with a rate of 0.68% as of December 31, 2015. These advances are tied to interest rate swaps; see Note 15 Derivatives and Hedging Activities for additional information on these transactions.	15,000	5,000
Maturities from June 2018 through December 2021, with a floating rate tied to 1 month LIBOR plus spreads that range from 0.21% to 0.45% with monthly reset dates, with rates from 0.91% to 1.15% with a weighted average rate of 1.09% as of December 31, 2016. Maturity of June 2018, with a floating rate tied to 1 month LIBOR plus a spread of 0.21% with monthly reset dates, with a rate of 0.54% as of December 31, 2015. These advances are tied to interest rate swaps; see Note 15 Derivatives and Hedging Activities for additional information on these transactions.	29,000	5,000
Maturity of September 2017 with a floating rate tied to 3 month LIBOR plus a spread of 0.25% capped at 2.25% with quarterly reset dates, with a rate of 1.19% and 0.66% as of December 31, 2016 and 2015, respectively.	3,000	3,000
Total	$ 108,300	$ 85,300

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES (Continued)

Maturities and scheduled principal reductions are as follows:

2017	$ 13,300
2018	19,000
2019	21,000
2020	24,000
2021	26,000
Thereafter	5,000
	$ 108,300

The Bank has entered into a series of forward starting swaps designated as cash flow hedges to convert the floating interest payments to a fixed rate on a series of future floating rate FHLB advances summarized below. See Note 15 Derivatives and Hedging Activities for additional information on these transactions.

As of December 31, 2016					
Amount of Future Advance	**Index**	**Swap Trade Date**	**Forward Start Date of Swap**	**Date of FHLB Advance**	**Maturity Date**
$ 4,000,000	1 mo. LIBOR	01/21/2015	01/17/2017	Future	01/18/2022
$ 5,000,000	1 mo. LIBOR	02/12/2016	03/15/2017	Future	03/15/2023
$ 5,000,000	1 mo. LIBOR	01/21/2016	04/18/2017	Future	04/15/2022
$ 14,000,000					

As of December 31, 2015					
Amount of Future Advance	**Index**	**Swap Trade Date**	**Forward Start Date of Swap**	**Date of FHLB Advance**	**Maturity Date**
$ 5,000,000	1 mo. LIBOR	08/15/2014	02/16/2016	Future	02/16/2021
5,000,000	1 mo. LIBOR	10/09/2014	04/15/2016	Future	04/15/2021
5,000,000	1 mo. LIBOR	06/12/2015	06/15/2016	Future	06/15/2020
4,000,000	1 mo. LIBOR	01/21/2015	07/15/2016	Future	07/15/2020
5,000,000	1 mo. LIBOR	12/14/2015	12/15/2016	Future	12/15/2021
4,000,000	1 mo. LIBOR	01/21/2015	01/17/2017	Future	01/18/2022
$ 28,000,000					

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances and the floating advances tied to 3 month LIBOR except for those payments made on various contractual prepayment dates. The advances were collateralized by $177,532 and $175,091 under a blanket lien arrangement at December 31, 2016 and 2015. At December 31, 2016 outstanding advances are secured by specific securities totaling $63,414 and a blanket pledge of all qualifying one-to-four family real estate loans totaling $46,353, qualifying multifamily loans totaling $583 qualifying commercial real estate loans totaling $31,817, qualifying small business loans totaling $5,646, and qualifying small farm loans totaling $32,157. Based on this collateral and the Corporation's holdings of FHLB stock, the Corporation is eligible to borrow up to a total of $29,657 at December 31, 2016.

(Continued)

NOTE 10 – NOTES PAYABLE

On April 14, 2015 the Corporation entered into a term loan agreement for $7,500 with a fixed rate of 3.90%. The payments for the $7,500 loan are based on a 7 year amortization schedule with quarterly payments of $307 including principal and interest with a balloon payment of $2,639 to be paid in full by April 14, 2020. The proceeds from this loan of $7,494 were invested directly into the Bank. Fees of $6 including legal fees and commitment fees were capitalized and are being amortized over five years.

On September, 30, 2014 the Corporation entered into a term loan agreement for $2,500 with a fixed rate of 3.95%. The payments for the $2,500 loan are based on a 7 year amortization schedule with quarterly payments of $103 including principal and interest with a balloon payment of $894 to be paid in full by September 30, 2019. The proceeds from this loan of $2,499 were invested directly into the Bank. Legal fees of $1 were expensed.

On September 5, 2013 the Corporation entered into a term loan agreement for up to $10,000. At that time the Corporation advanced $8,000 with a fixed rate of 3.85%. The payments for the $8,000 loan are based on a seven year amortization schedule with quarterly payments of $327 including principal and interest with a balloon payment of $2,852 to be paid in full by September 5, 2018. On December 27, 2013 the Corporation exercised its option to draw the additional $2,000 term loan with a fixed rate of 3.89%. This loan is also based on a seven year amortization schedule with quarterly payments of $85 including principal and interest with a balloon payment of $731 to be paid in full by September 5, 2018.

The combination of the $8,000 and $2,000 loans were used to pay off an existing loan with a balance of $3,765 including principal and interest while the remaining $6,223 was invested directly into the Bank.

As of December 31, 2016 and 2015 the balance on the term loans totaled $13,317 and $16,012 respectively.

On September 19, 2016 the Corporation executed renewal of the $1,500 revolving credit line extending the credit line to September 5, 2017. On November 10, 2015 the Corporation reduced the original $5,000 revolving credit line to $1,500 amending the maturity date to September 5, 2016. Legal fees of $2 were expensed. Going forward the $1,500 revolving credit line will have a 25 basis point non-usage fee charged against the line quarterly on a pro-rata basis. As of December 31, 2016 and 2015 the revolving line had not been drawn on.

The term loans and the revolving credit line have covenants related to earnings, asset quality and capitalization for which the Corporation was in compliance as of December 31, 2016 and 2015.

NOTE 11 - SUBORDINATED DEBENTURES

In December 2004, a trust formed by the Corporation issued $5,155 of fixed to floating rate trust preferred securities as part of a pooled offering of such securities. The Corporation issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Corporation may redeem the subordinated debentures, in whole but not in part, any time after 2009 at face value. The subordinated debentures must be redeemed no later than 2034. On December 15, 2009 the fixed rate period expired and the floating rate commenced based on 3-month LIBOR plus 2.10%. As of December 31, 2016 and 2015, the variable rate of the debentures was 3.03% and 2.61%, respectively. Interest payments are payable quarterly in arrears and the Corporation has the option to defer interest payments from time to time for a period not to exceed 20 consecutive quarters.

(Continued)

NOTE 11 - SUBORDINATED DEBENTURES (Continued)

On February 13, 2014 the Corporation executed an interest rate cap designated as a cash flow hedge on the $5,000 subordinate debenture. The interest rate cap is effective from December 15, 2014 through December 15, 2019. See Note 15 - Derivatives and Hedging Activities for additional information on this transaction.

In May 2007, a second trust formed by the Corporation issued $13,403 of fixed to floating rate trust preferred securities as part of a pooled offering of such securities. The Corporation issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Corporation may redeem the subordinated debentures, in whole but not in part, any time after 2012 at face value. The subordinated debentures must be redeemed no later than 2037. On June 15, 2012, the fixed rate period expired and the floating rate period commenced based on 3-month LIBOR plus 1.48%. As of December 31, 2016 and 2015 the variable rate of the debentures was 2.41% and 1.99%. Interest payments are payable quarterly in arrears and the Corporation has the option to defer interest payments from time to time for a period not to exceed 20 consecutive quarters.

On February 4, 2013, the Corporation executed an interest rate cap designated as a fair value hedge on the first $5,000 of the $13,000 subordinated debentures. The interest rate cap is effective from March 15, 2013 through December 15, 2019. Subsequently on February 14, 2013, the Corporation entered into an interest rate swap designated as a cash flow hedge to convert the floating interest payments to a fixed rate on the remaining $8,000 of the $13,000 subordinated debentures beginning December 15, 2014 until December 15, 2019. See Note 15 Derivatives and Hedging Activities for additional information on these transactions.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Corporation maintains a 401(k) profit sharing plan, covering employees who have completed six months of service. Employer contributions to the plan are at the discretion of the board of directors. In addition, the plan provides for the Corporation to match employee 401(k) contributions at a percentage determined annually by the board of directors. Employer contributions charged to operations were $885 and $957 for 2016 and 2015.

Under employment agreements with certain executives, certain events leading to separation from the Corporation could result in cash payments equal to 2 times the average of the employee’s base pay plus any cash bonuses for the last 3 complete calendar years preceding the employee’s termination of employment. The President will receive 2.99 times the average base pay plus any cash bonuses.

As a result of the April 1, 2016 acquisition of Century Bancorp, the Corporation entered into a non-competition agreement with one of the individuals.

As a result of the May 1, 2012 acquisition of First Citizens of Paris, Inc., the Corporation has assumed obligations under a Supplemental Executive Retirement Plan (SERP) for certain senior officers of Citizens National Bank of Paris. Under the provisions of the SERP, each participant will receive at retirement an annual benefit for a fifteen-year period as stated in the agreement. Participants who were not yet fully vested as of May 1, 2012 fully vested based on the terms of their SERP agreement. Total expense of $13 and $5 was recorded during 2016 and 2015, respectively. As of December 31, 2016 and 2015, accrued benefits payable totaled $432 and $467, respectively.

(Dollar amounts in thousands except share and per share data)

NOTE 12 - EMPLOYEE BENEFIT PLANS (Continued)

As a result of the December 4, 2009 acquisition of C.B. Bankshares, Inc., the Corporation has assumed obligations under a Supplemental Executive Retirement Plan (SERP) for certain senior officers of Central Bank. Under the provisions of the SERP, each participant will receive at retirement an annual benefit for a ten-year period as stated in the agreement. Participants fully vested upon the acquisition date. Total expense of $29 and $32 was recorded during 2016 and 2015, respectively. As of December 31, 2016 and 2015, accrued benefits payable totaled $1,159 and $1,230, respectively.

As a result of the December 4, 2009 acquisition of C.B. Bankshares, Inc., the Corporation entered a seven year non-competition agreement with one of the individuals.

NOTE 13 - STOCK-BASED COMPENSATION

The Corporation has adopted a Restricted Stock Plan (“RSP”) which provides for the issuance of shares to officers and employees. Compensation expense is recognized over the vesting period of the shares based on the market value of the shares at issue date. The market value of the stock was determined using an independent appraisal, which is performed at least annually. Annually, the Corporation may issue up to 6,000 shares, although shares not issued during the year are not available to be granted in future periods. RSP grants cliff vest over a four year period. 4,700 and 3,475 shares were granted during 2016 and 2015 with a fair value per share of $50.75 and $46.50, respectively. Compensation expense of $178 and $173 was recorded during 2016 and 2015 for shares granted.

A summary of changes in the Corporation’s nonvested shares for the year follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2016	20,525	$ 34.62
Granted	4,700	
Vested	(6,100)	
Forfeited	(1,025)	
Nonvested at December 31, 2016	18,100	$ 40.82

As of December 31, 2016 and 2015, there was $328 and $314, respectively of total unrecognized compensation cost related to non-vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.8 years.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 14 - INCOME TAXES

The provision for income taxes consists of the following:

	2016	2015
Current payable	$ 5,529	$ 6,566
Deferred income tax (benefit)	(9)	(257)
	$ 5,520	$ 6,309

	2016	2015
Income tax provision computed at statutory federal rate of 35%	$ 7,894	$ 8,091
Tax effect of:		
Income from tax exempt securities and loans	(912)	(776)
State income tax (net of federal tax effect)	545	778
Tax credits	(1,656)	(1,445)
Other	(351)	(339)
	$ 5,520	$ 6,309

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

	2016	2015
Deferred tax asset		
Allowance for loan losses	$ 5,127	$ 5,032
Net unrealized loss on available for sale securities and derivatives	1,023	238
SERP liabilities	645	695
Nonaccrual loan interest income	471	354
Deferred loan fees	456	507
Stock based compensation	172	153
Accrued expenses	165	131
Other	202	207
Deferred tax liabilities		
Lease activity	(4,755)	(4,227)
Amortization of intangibles	(1,455)	(1,634)
Mortgage servicing rights	(920)	(918)
Prepaid expenses	(704)	(707)
Accumulated differences on partnership investments	(498)	(574)
Depreciation	(347)	(435)
Other	(276)	(310)
Net deferred tax liability	$ (694)	$ (1,488)

The Corporation recognized $0 in interest and penalties during the year ended December 31, 2016. The Corporation recognized $27 in interest and penalties during the year ended December 31, 2015.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Indiana, Illinois and Florida. The Corporation is no longer subject to examination by federal or state taxing authorities for years before 2013.

(Continued)

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES

The Corporation uses various derivative instruments, including designated and non-designated hedge instruments. These derivative instruments may include interest rate caps, floors and swaps. The corporation does not use derivatives for speculative purposes.

While authorized to use a variety of derivative products the Corporation primarily utilizes interest rate swaps as a means to offer borrowers credit-based products that meet their needs and may from time to time utilize interest rate swaps to manage the macro interest rate risk profile of the Corporation. The interest rate swaps are used to mitigate overall risk to changes in interest rates during the life of the swaps and are a component of the Corporation's asset liability management strategy to reduce the risk that changes in interest rates will change net interest margin.

The interest rate swap agreement establishes the basis on which interest rate payments are exchanged with counterparties, referred to as the notional amount. The notional amount of the interest rate swaps do not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the interest rate swap.

The Corporation's exposure to credit loss, in the event of nonperformance by a borrower or counterparty, is limited to the market value of the derivative instrument associated with that borrower or counterparty as provided in regulatory guidance as calculated by the Remaining Maturity Method. The Corporation monitors its derivative credit exposure to borrowers by monitoring the creditworthiness of the related loan customers through the normal credit review process the Corporation performs on all borrowers. The Corporation manages the market value credit risk of the counterparty through the Regulation F compliance review and the quarterly derivative review.

All swaps are determined to be fully effective at inception and are expected to remain effective at December 31, 2016 and 2015.

In connection with its use of derivative instruments, the Corporation is required from time to time to post collateral with its counterparties to offset its market position. The Corporation had pledged short-term certificates of deposit, cash and securities with a carrying value of $8,073 and $3,789, at December 31, 2016 and 2015, respectively, in satisfaction of credit support agreements with derivative counterparties.

(Continued)

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The following tables summarize the notional values of the derivative financial instruments utilized by the Corporation at December 31, 2016 and 2015 respectively. The instruments are broken out by their designation.

					December 31, 2016							
										Rate		
(Dollars in thousands)		Index	Original Date	Maturity Date	Notional Amount	Maturity (years)	Fair Value A/(L)	YTD OCI	Interest Expense	Receive	Pay	Strike Rate
Non-Designated Hedge Instruments												
S-1	Interest Rate Swaps/matched to prepayment penalty*		various	various	13,143	2.86	2	N/A	-	2.05	4.64	-
S-1	Prepayment penalty of matched loans				-	-	(2)	N/A	-	-	-	-
	Total Non Designated Hedge Instruments				$ 13,143		$ -	$ -	$ -			
Designated as Cash Flow Hedge Instruments												
C-2	Interest Rate Cap #15118 - sub. debt	3 mo LIBOR	2/13/2014	12/15/2019	$ 5,000	2.96	$ 34	$ 2	$ -	0.00%	0.00%	2.00%
C-3	Interest Rate Cap #13336 - sub. debt	3 mo LIBOR	2/4/2013	12/15/2019	5,000	2.96	43	1	-	-	-	1.80
S-2	Interest Rate Swap #13335 - sub. debt	3 mo LIBOR + 148bp	2/14/2013	12/15/2019	8,000	2.96	(97)	(41)	112	2.44	3.54	-
S-3	Interest Rate Swap #15542 - FHLB	3 mo LIBOR	6/18/2014	12/16/2019	5,000	2.96	(135)	(40)	96	0.96	2.57	-
S-4	Interest Rate Swap #15706 - FHLB	1 mo LIBOR	8/15/2014	2/16/2021	5,000	4.13	(163)	(36)	89	0.70	2.48	-
S-5	Interest Rate Swap #15849 - FHLB	1 mo LIBOR	10/9/2014	4/15/2021	5,000	4.29	(164)	(27)	72	0.70	2.48	-
S-6	Interest Rate Swap #13473 - FHLB	1 mo LIBOR	2/27/2013	6/15/2018	5,000	1.45	(3)	(1)	34	0.70	1.15	-
S-7	Interest Rate Swap #16024 - FHLB	1 mo LIBOR	1/21/2015	7/15/2020	4,000	3.54	(33)	(4)	24	0.70	1.83	-
S-8	Interest Rate Swap #16025 - FHLB	1 mo LIBOR	1/21/2015	1/18/2022	4,000	5.05	(50)	6	-	(f-4)	2.06	-
S-9	Interest Rate Swap #16385 - FHLB	1 mo LIBOR	6/12/2015	6/15/2020	5,000	3.46	(91)	(11)	44	0.70	2.11	-
S-10	Interest Rate Swap #16723 - FHLB	1 mo LIBOR	12/14/2015	12/15/2021	5,000	4.96	(19)	6	3	0.70	1.86	-
S-11	Interest Rate Swap #16753 - FHLB	1 mo LIBOR	1/21/2016	4/15/2022	5,000	5.29	62	(36)	-	(f-8)	1.62	-
S-12	Interest Rate Swap #16779 - FHLB	1 mo LIBOR	2/12/2016	3/15/2023	5,000	6.21	152	(88)	-	(f-7)	1.42	-
S-13	Interest Rate Swap #16876 - FHLB	3 mo LIBOR	6/15/2016	6/15/2021	5,000	4.46	155	(90)	10	0.96	1.15	-
S-14	Interest Rate Swap #16896 - FHLB	3 mo LIBOR	6/27/2016	3/15/2021	5,000	4.21	170	(99)	5	0.88	1.00	-
	Total Cash Flow Hedge Instruments				$ 76,000		$ (139)	$ (458)	$ 489			
	Total				$ 89,143		$ (139)	$ (458)	$ 489			
	*** Wt. avg. maturity and rates**											
	(f-4) Forward starting 01/17/17		**(f-7) Forward starting 03/15/17**					**(f-8) Forward starting 04/18/17**				

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)

					December 31, 2015							
										Rate		
	(Dollars in thousands)	Index	Original Date	Maturity Date	Notional Amount	Maturity (years)	Fair Value A/(L)	YTD OCI	Interest Expense	Receive	Pay	Strike Rate
Non-Designated Hedge Instruments												
C-1	Interest Rate Cap #2010_0805	3 mo LIBOR	8/5/2010	8/5/2015	$ -	-	$ -	$ -	$ -	0.00%	0.00%	0.00%
S-1	Interest Rate Swaps/matched to prepayment penalty*		various	various	21,756	1.88	(384)	N/A	-	1.71	3.85	-
S-1	Prepayment penalty of matched loans				-	-	384	N/A	-	-	-	-
	Total Non Designated Hedge Instruments				$ 21,756		$ -	$ -	$ -			
Designated as Cash Flow Hedge Instruments												
C-2	Interest Rate Cap #15118 - sub. debt	3 mo LIBOR	2/13/2014	12/15/2019	$ 5,000	3.96	$ 57	$ 46	$ -	0.00%	0.00%	2.00%
C-3	Interest Rate Cap #13336 - sub. debt	3 mo LIBOR	2/4/2013	12/15/2019	5,000	3.96	68	45	-	-	-	1.80
S-2	Interest Rate Swap #13335 - sub. debt	3 mo LIBOR + 148bp	2/14/2013	12/15/2019	8,000	3.96	(168)	20	148	1.99	3.54	-
S-3	Interest Rate Swap #15542 - FHLB	3 mo LIBOR	6/18/2014	12/16/2019	5,000	3.96	(205)	62	5	0.51	2.57	-
S-4	Interest Rate Swap #15706 - FHLB	1 mo LIBOR	8/15/2014	2/16/2021	5,000	5.13	(224)	82	-	(f-1)	2.48	-
S-5	Interest Rate Swap #15849 - FHLB	1 mo LIBOR	10/9/2014	4/15/2021	5,000	5.29	(210)	83	-	(f-2)	2.48	-
S-6	Interest Rate Swap #13473 - FHLB	1 mo LIBOR	2/27/2013	6/15/2018	5,000	2.46	(6)	18	48	0.33	1.15	-
S-7	Interest Rate Swap #16024 - FHLB	1 mo LIBOR	1/21/2015	7/15/2020	4,000	4.54	(39)	23	-	(f-3)	1.83	-
S-8	Interest Rate Swap #16025 - FHLB	1 mo LIBOR	1/21/2015	1/18/2022	4,000	6.05	(40)	23	-	(f-4)	2.06	-
S-9	Interest Rate Swap #16385 - FHLB	1 mo LIBOR	6/12/2015	6/15/2020	5,000	4.46	(111)	65	-	(f-5)	2.11	-
S-10	Interest Rate Swap #16723 - FHLB	1 mo LIBOR	12/14/2015	12/15/2021	5,000	5.96	(8)	5	-	(f-6)	1.86	-
	Total Cash Flow Hedge Instruments				$ 56,000		$ (886)	$ 472	$ 201			
	Total				$ 77,756		$ (886)	$ 472	$ 201			
	*** Wt. avg. maturity and rates**											
	(f-1) Forward starting 02/16/16		**(f-3) Forward starting 07/15/16**					**(f-5) Forward starting 06/15/16**				
	(f-2) Forward starting 04/15/16		**(f-4) Forward starting 01/17/17**					**(f-6) Forward starting 12/15/16**				

Non-Designated Hedge Instruments

The Corporation's one interest rate cap agreement (Table Reference C-1) was considered a non-designated hedging instrument maturing August 2015. The Corporation paid $281 to enter into this transaction in 2010.

Certain interest rate swaps (Table Reference S-1) entered into during 2016 and prior were also classified as non-designated hedge instruments due to their offsetting matched terms with prepayment penalties on the associated loans. The offsetting changes in the fair value of these instruments are reflected in earnings. The Corporation entered into one new non-designated interest rate swap during 2016, while there were no new non-designated interest rate swaps during 2015.

Cash Flow Hedge Instruments

The Corporation has two interest rate cap agreements designated as cash flow hedge instruments for portions of the Corporation's subordinated debentures.

(Dollar amounts in thousands except share and per share data)

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The Corporation entered into a forward starting interest rate cap agreement (Table Reference C-2) designated as a cash flow hedge instrument against the Corporations subordinated debenture issued in December 2004. The effective date of the cap was December 15, 2014 the Corporation paid $253 to enter into this transaction in 2014.

The Corporation has another interest rate cap agreement (Table reference C-3) also designated as a cash flow hedge instrument against a portion of the Corporations subordinated debenture issued in May 2007. The effective date of the cap was March 15, 2013 the Corporation paid $222 to enter into this transaction in 2013.

The Corporation has entered into an interest rate swap designated as a cash flow hedges against a portion of the Corporation's subordinated debentures (Table Reference S-2). Interest expense on the swap transaction is reported as a component of interest expense on subordinated debentures.

See Note 11 Subordinated Debentures for additional information on these transactions.

Interest Rate Swaps Designated as Cash Flow Hedges of certain Federal Home Loan Bank Advances

The Corporation entered into a series of interest rate swaps starting in February 2013 through December 2016 (Table Reference S-3 through S-14) to hedge against exposure to variability in cash flows related to changes in projected interest payments caused by changes in the underlying index associated with concurrent and future Federal Home Loan Bank advances. These interest rate swaps are designated as cash flow hedges against concurrent and future floating rate Federal Home Loan Bank advance. The interest expense associated with the swap transaction is reported as a component of interest expense on FHLB debt.

NOTE 16 - COMMITMENTS

	2016	2015
Unused lines of credit	$ 248,186	$ 195,255
Commercial letters of credit	5,006	4,524
Commitment to sell loans	7,524	2,655

At December 31, 2016 and 2015, the Bank was required to maintain $3,708 and $3,232, respectively, on deposit with the Federal Reserve or as cash on hand. These reserves earned interest at a rate of 0.75% and 0.50% at December 31, 2016 and 2015, respectively.

(Dollar amounts in thousands except share and per share data)

NOTE 17 - REGULATORY 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 various 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 Corporation 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. Under the Basel III rules, the Corporation must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.5% by 2019.

The capital conservation buffer for 2016 is 0.625%. Management believes as of December 31, 2016, the Corporation and Bank meet all capital adequacy requirements to which they are 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 plans for capital restoration 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 the notifications that management believes changed the institution's category. Actual consolidated and Bank capital levels and minimum required levels were as follows.

	Actual		Required (1) For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2016						
Total capital to risk weighted assets						
Consolidated	$ 160,499	12.7%	$109,016	8.6%	N/A	
Bank	168,654	13.3	109,055	8.6	$126,440	10.0%
Tier 1 capital to risk weighted assets						
Consolidated	$ 146,924	11.6%	$ 83,737	6.6%	N/A	
Bank	155,079	12.3	83,767	6.6	$101,152	8.0%
Common Tier 1 (CET 1)						
Consolidated	$ 128,924	10.2%	$ 64,777	5.1%	N/A	
Bank	155,079	12.3	64,801	5.1	$ 82,186	6.5%
Tier 1 capital to average assets						
Consolidated	$ 146,924	9.2%	$ 64,004	4.0%	N/A	
Bank	155,079	9.7	63,865	4.0	$ 79,832	5.0%

(1) – Disclosure includes capital conservation buffer of 0.625%.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 17 – REGULATORY MATTERS (Continued)

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2015						
Total capital to risk weighted assets						
Consolidated	$ 147,713	12.7%	$ 93,050	8.0%	N/A	
Bank	158,542	13.6	92,994	8.0	$116,242	10.0%
Tier 1 capital to risk weighted assets						
Consolidated	$ 134,424	11.6%	$ 69,788	6.0%	N/A	
Bank	145,253	12.5	69,745	6.0	$ 92,994	8.0%
Common Tier 1 (CET 1)						
Consolidated	$ 116,424	10.0%	$ 52,341	4.5%	N/A	
Bank	145,253	12.5	52,309	4.5	$ 75,557	6.5%
Tier 1 capital to average assets						
Consolidated	$ 134,424	9.0%	$ 59,550	4.0%	N/A	
Bank	145,253	9.8	59,413	4.0	$ 74,266	5.0%

NOTE 18 - FAIR VALUES

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

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

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

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

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of asset or liability carried at fair value:

The fair values 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 widely used 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).

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 18 - FAIR VALUES (Continued)

Derivative instruments consist of interest rate swaps and interest rate caps. The Corporation obtains fair values from financial institutions that use internal models with observable market inputs to estimate the values of these instruments (Level 2 inputs).

The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Corporation is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

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 appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain 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.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Corporation has elected the fair value option, are summarized below:

	Fair Value Measurements at December 31, 2016 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Investment securities available for sale:			
U.S. treasury and government agency securities	$ -	$ 55,021	$ -
Obligations of states and political subdivisions	-	111,324	-
Mortgage-backed securities, residential	-	101,399	-
Marketable equity securities	53	-	-
Total investment securities available for sale	$ 53	$ 267,744	$ -
Derivatives	$ -	$ 618	$ -
Financial Liabilities:			
Derivatives	$ -	$ 757	$ -

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 18 - FAIR VALUES (Continued)

	Fair Value Measurements at December 31, 2015 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Investment securities available for sale:			
U.S. treasury and government agency securities	$ -	$ 118,027	$ -
Obligations of states and political subdivisions	-	90,547	-
Corporate obligations	-	752	-
Mortgage-backed securities, residential	-	58,369	-
Marketable equity securities	27	-	-
Total investment securities available for sale	$ 27	$ 267,695	$ -
Derivatives	$ -	$ 509	$ -
Financial Liabilities:			
Derivatives	$ -	$ 1,395	$ -

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2016 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Servicing rights	$ -	$ 3,213	$ -
Impaired loans			
Commercial	-	-	271
Agriculture	-	-	14,104
Residential Mortgage	-	-	816

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 18 - FAIR VALUES (Continued)

	Fair Value Measurements at December 31, 2015 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Servicing rights	$ -	$ 2,828	$ -
Impaired loans			
Commercial	-	-	2,020
Agriculture	-	-	7,558
Residential Mortgage			1,100
Other	-	-	107
Other real estate owned			
Residential	-	-	184

Appraisals or brokers-price-opinions for both collateral-dependent impaired loans and 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 the Corporation. Once received, a member of the Loan Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. After the review of the appraisal, the Corporation typically applies a discount for liquidation and other considerations. For collateral dependent impaired loans this discount ranges from 0-20% for Agriculture and 10%-35% for Commercial and Residential Mortgage. For other real estate owned this discount ranges from 0-25%.

The following represent impairment charges recognized during the period:

Mortgage servicing rights, which are carried at lower of cost or fair value, included a portion carried at their fair value of $3,213, which is made up of the outstanding balance of $4,806 net of a valuation allowance of $1,593 at December 31, 2016, resulting in a $340 impairment charge for the year ending December 31, 2016. At December 31, 2015, mortgage servicing rights included a portion carried at their fair value of $2,828 which is made up of the outstanding balance of $4,236 net of a valuation allowance of $1,408, resulting in a $86 impairment charge for the year ending December 31, 2015.

Collateral dependent impaired loans include loans which are measured for impairment using the fair value of the collateral and loans that have been charged down to the fair value of the collateral. These loans had a carrying amount of $16,767, with a valuation allowance of $1,576 at December 31, 2016, resulting in an additional provision for loan losses of $1,377 for the year ending December 31, 2016. At December 31, 2015, impaired loans had a carrying amount of $11,169, with a valuation allowance of $398, resulting in an additional provision for loan losses of $45 for the year ending December 31, 2015.

At December 31, 2016, there was no other real estate owned measured at fair value less costs to sell. At December 31, 2015, other real estate owned measured at fair value less costs to sell had a net carrying amount of $184, which is made up of the outstanding balance of $200, net of a valuation allowance of $16. This resulted in a write-down of $16 for the year ended December 31, 2015.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 18 - FAIR VALUES (Continued)

The following tables present fair values of the Corporation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall as of December 31, 2016 and 2015.

	Fair Value Measurements at December 31, 2016			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents and interest bearing deposits in other financial institutions	$ 110,583	$ 110,583	$ -	$ -
Securities available for sale	267,797	-	267,797	-
Securities held-to-maturity	6,714	-	6,867	-
Restricted stock	8,001	-	8,001	-
Loans held-for-sale	7,523	-	-	7,733
Loans, net	1,146,516	-	-	1,146,303
Accrued interest receivable	9,316	-	9,316	-
Derivatives	618	-	618	-
Financial liabilities				
Noninterest-bearing deposits	(317,884)	(317,884)	-	-
Interest-bearing deposits	(1,002,766)	-	(1,004,606)	-
FHLB advances	(108,300)	-	(108,195)	-
Notes payable	(13,317)	-	(13,317)	-
Subordinated debentures	(18,558)	-	-	(12,042)
Accrued interest payable	(290)	-	(290)	-
Derivatives	(757)	-	(757)	-

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 18 - FAIR VALUES (Continued)

		Fair Value Measurements at December 31, 2015		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents and interest bearing deposits in other financial institutions	$ 52,889	$ 52,889	$ -	$ -
Securities available for sale	267,722	-	267,722	-
Securities held-to-maturity	10,100	-	10,439	-
Restricted stock	6,962	-	6,962	-
Loans held-for-sale	2,655	-	-	2,698
Loans, net	1,075,295	-	-	1,077,436
Accrued interest receivable	8,615	-	8,615	-
Derivatives	509	-	509	-
Financial liabilities				
Noninterest-bearing deposits	$ (290,672)	$ (290,672)	$ -	$ -
Interest-bearing deposits	(934,608)	-	(935,947)	-
FHLB advances	(85,300)	-	(85,099)	-
Notes payable	(16,012)	-	(16,012)	-
Subordinated debentures	(18,558)	-	-	(11,546)
Accrued interest payable	(230)	-	(230)	-
Derivatives	(1,395)	-	(1,395)	-

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

Carrying amount is the estimated fair value for cash and cash equivalents and interest bearing deposits in other financial institutions, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities held to maturity is consistent with the methods for securities available for sale, which was described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted stock due to restrictions placed on its transferability. The carrying value (zero) of off-balance-sheet items is considered to be a reasonable estimate of fair value of these instruments.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 19 - BUSINESS COMBINATION

On April 1, 2016, the Corporation acquired 100% of the outstanding common shares of Century Bancorp and its wholly-owned subsidiary Citizens Exchange Bank in exchange for $7,519. Acquisition-related costs of $1,697 and $17 are included in expenses incidental to business combinations in the Corporation's income statement for the year ended December 31, 2016 and 2015, respectively.

Under the acquisition method of accounting, the total estimated purchase price is allocated to the net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change, the purchase price for the acquisitions is allocated as follows:

Fair value of total cash consideration transferred	$ 7,519
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 9,078
Interest-bearing deposits in other financial institutions	5,418
Securities	15,414
Loans	25,933
Restricted stock	120
Premises and equipment	177
Core deposit intangible	499
Accrued interest receivable and other assets	525
Total assets acquired	57,164
Deposits	49,029
Federal Home Loan Bank (FHLB) advance	27
Accrued expenses and other liabilities	389
Total liabilities assumed	49,445
Total identifiable net assets acquired	7,719
Bargain purchase gain	200
	$ 7,519

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 19 - BUSINESS COMBINATION (Continued)

On April 18, 2015, the Corporation acquired three commercial banks in Illinois, which resulted in the addition of 5 branches. The Corporation acquired First National Bank of Chrisman, United Community Bank, and Community Bank. These branches are located in the communities of Chrisman, Danville, Hoopeston, and Oakwood, Illinois and were acquired through a purchase and assumption agreement. Acquisition-related costs of $25 and $346 are included in expenses incidental to business combinations in the Corporation's income statement for the year ended December 31, 2016 and 2015, respectively.

Under the acquisition method of accounting, the total purchase price is allocated to the net tangible and intangible assets based on their fair values on the date of the acquisition. The following table summarizes the consideration paid for First National Bank of Chrisman, United Community Bank, and Community Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Fair value of total cash consideration transferred	$ 15,936
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 25,160
Interest-bearing deposits with banks	25,340
Securities	51,816
Loans	57,791
Restricted stock	21
Premises and equipment	1,139
Core deposit intangible	2,008
Accrued interest receivable and other assets	616
Total assets acquired	163,891
Deposits	147,683
Accrued expenses and other liabilities	159
Total liabilities assumed	147,842
Total identifiable net assets acquired	16,049
Bargain purchase gain	113
	$ 15,936

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 20 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 3,045	$ 2,878
Investment in subsidiaries	164,680	156,139
Dividend receivable	1	1
Other assets	786	1,040
	$ 168,512	$ 160,058
Liabilities		
Notes payable	$ 13,317	$ 16,012
Dividend payable and other liabilities	1,003	977
Subordinate debentures payable to:		
First Farmers Statutory Trust II	5,155	5,155
First Farmers Statutory Trust III	13,403	13,403
	32,878	35,547
Shareholders’ equity	135,634	124,511
	$ 168,512	$ 160,058

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2016 and 2015

	2016	2015
Dividends from subsidiaries	$ 15,375	$ 7,875
Other income	36	30
Interest expense	(1,185)	(1,139)
Other operating expenses	(482)	(589)
Income tax benefit	613	660
Equity in undistributed income (excess distributions) of subsidiaries	2,676	9,970
Net Income	$ 17,033	$ 16,807
Comprehensive income	$ 15,417	$ 16,250

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 20 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net income	$ 17,033	$ 16,807
Adjustments to reconcile net income to net cash from operating activities		
Equity in (undistributed income) excess distributions of subsidiaries	(2,676)	(9,970)
Stock-based compensation	178	173
Change in other assets and liabilities	267	(488)
Net cash from operating activities	14,802	6,522
Cash flows from investing activities		
Investments in subsidiaries	(7,519)	(7,500)
Net cash used in investing activities	(7,519)	(7,500)
Cash flows from financing activities		
Advances from notes payable	-	7,500
Payments on notes payable	(2,694)	(2,371)
Dividends paid	(4,509)	(4,179)
Purchase of treasury stock	(45)	(18)
Proceeds from issuance of common stock	132	137
Net cash from (used in) financing activities	(7,116)	1,069
Net change in cash	167	91
Beginning cash	2,878	2,787
Ending cash	$ 3,045	$ 2,878

(Continued)

NOTE 21 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The tables below present changes in accumulated other comprehensive income (loss) by component, net of tax, for the year ending December 31, 2016 and 2015:

December 31, 2016	Gains and Losses on Derivatives	Unrealized Gains and Losses On Available-for-Sale Securities	Total
Beginning balance	$ (780)	$ 394	$ (386)
Other comprehensive income/ (loss) before reclassification	432	(1,956)	(1,524)
Amounts reclassified from accumulated other comprehensive (income)/loss	26	(118)	(92)
Net current period other comprehensive income/(loss)	458	(2,074)	(1,616)
Ending balance	$ (322)	$ (1,680)	$ (2,002)

December 31, 2015	Gains and Losses on Derivatives	Unrealized Gains and Losses On Available-for-Sale Securities	Total
Beginning balance	$ (307)	$ 478	$ 171
Other comprehensive loss before reclassification	(481)	(74)	(555)
Amounts reclassified from accumulated other comprehensive (income)/loss	8	(10)	(2)
Net current period other comprehensive loss	(473)	(84)	(557)
Ending balance	$ (780)	$ 394	$ (386)

(Continued)

NOTE 21 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

The tables below present significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2016 and 2015:

December 31, 2016

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Losses on cash flow hedges		
Interest rate contracts	$ (43)	Interest expense
	(43)	Total before tax
	17	Tax (expense) or benefit
	(26)	
Unrealized gains and losses on available for sale securities		
	$ 192	Net gain on sale and redemption of securities
	192	Total before tax
	(74)	Tax (expense) or benefit
	$ 118	Net of tax

December 31, 2015

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Losses on cash flow hedges		
Interest rate contracts	$ (13)	Interest expense
	(13)	Total before tax
	5	Tax (expense) or benefit
	(8)	
Unrealized gains and losses on available for sale securities		
	$ 16	Net gain on sale and redemption of securities
	16	Total before tax
	(6)	Tax (expense) or benefit
	$ 10	Net of tax

NOTE 22 – SUBSEQUENT EVENT

On October 4, 2016, the Corporation announced the signing of a definitive agreement with Horizon Bank, NA, to sell certain loans and deposits held at the branch location in Bargersville, Indiana. The sale closed on February 3, 2017. The Corporation estimates that the settlement of the transaction will include $3,000 (unaudited) in loans and $15,000 (unaudited) in deposits.