CITBA

2016

Annual Report

HERE'S TO PEOPLE

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OUR MISSION

Building customer relationships to maximize shareholder value.

To our Shareholders:

2016 was another year of improved earnings for the Corporation, with the Bank experiencing moderate loan growth that contributed to increased Net Interest Income. In addition, we were effective in controlling expenses, adding to the Bank's improved Net Income. This allowed the dividend payment for the fourth quarter to be increased by 15.4%, or 2¢ per share, over December 2015. With the slower loan growth in 2016 as compared to 2015, we have been able to improve our Capital Ratios to ensure we are at appropriate levels for today's regulatory requirements and well-positioned for the increasing capital requirements that will be phased in over the next few years.

As we have done in the past, we will continue to evaluate the dividend payout amount each quarter, taking into consideration the many factors that affect this decision, including, but not limited to, capital levels, profitability, changing regulatory requirements, anticipated future growth and shareholder return.

Long-time Director and former Chairman of the Board Steve Mills retired in January 2017, with the Board of Directors selecting Jennifer Andres as his successor. Jennifer has been a positive addition to the Board with her legal, business and community experience in both Hendricks and Marion Counties, and we are excited to have her as a member of the Board. Please join us in thanking Steve for his many years of service to Citizens Bank and his guidance through the most challenging economic environment the industry has seen in our lifetime.

During 2016, the Bank initiated and completed several projects, including system conversions for online banking, documentation, imaging and our employee 401-k plan. In most cases, these projects position the Bank to provide improved service at a more cost effective rate.

We are excited to announce that we have acquired a former bank building located at 99 South Dan Jones Road in Avon, Indiana to house our Avon operations. We will be relocating our current Avon Branch located in the Kroger Center at 100 N SR 267, Avon, Indiana to this new location mid-year 2017.

In December of 2016 we witnessed the first Fed Funds Rate change since December of 2015. We predicted additional rate increases during 2016 after the 2015 rate increase, and we were wrong. Even with our inability to accurately predict rates for 2016, it is our opinion that we will see rate increases throughout 2017. As has been discussed in previous quarterly letters, we expect this to tighten our Net Interest Margin initially, but over time should allow us to expand the margin and improve our earnings.

Enclosed is our Company's Annual Report listing comparable figures for 2016 and 2015. The statements presented contain consolidated results for CITBA Financial Corporation and its wholly owned subsidiary, Citizens Bank, Mooresville.

Net income in 2016 was $3,197,251, which is an increase of $154,197, compared to net income of $3,043,054 in 2015. The increase in income was achieved through strategic cost reduction and growth in the consumer and commercial loans. Due to the growth in loans, the provision for loan losses in 2016 was $337,000, compared to $656,800 in 2015 for a year-over-year decrease of $319,800.

Total assets increased 4.7%, ending the year at $446,889,071, and total deposits increased by 5.2%, ending the year at $377,768,719. Total loans, net of the allowance for loan loss, increased 3.1%, ending at $322,401,027.

The Board was pleased to be able to return a consistent amount of capital to our shareholders in the form of four quarterly dividends totaling $0.56 per share in 2016. This dividend amount represents an increase of 14.3% compared to the amount paid in 2015. As the capital-to-asset ratio increases and the financial performance continue to improve, the Board will continue to evaluate appropriate capital distributions for 2017 and beyond.

These have been challenging times to navigate but with these challenges we are also presented with the opportunity to improve. We, the Board of Directors and the entire staff, work every day to make Citizens Bank a better company and fulfill our mission of “Building Customer Relationships to Maximize Shareholder Value”.

Keith Lindauer	Larry Heydon
President	Chairman of the Board

FINANCIAL HIGHLIGHTS

AT YEAR END	2016	2015	Increase (Decrease)
Total Deposits	$377,768,719	$359,138,439	5.19%
Total Assets	446,889,071	426,840,403	4.70%
Loans	326,927,927	316,892,973	3.17%
Total Stockholder's Equity	42,697,937	40,527,829	5.35%
Book Value Per Share	46.06	43.72	5.35%

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FOR THE YEAR

Net Income	$3,197,251	$3,043,054	5.07%
Net Income Per Share	3.45	3.28	5.18%
Cash Dividends Paid	519,105	454,221	14.28%
Dividends Paid Per Share	0.56	0.49	14.29%

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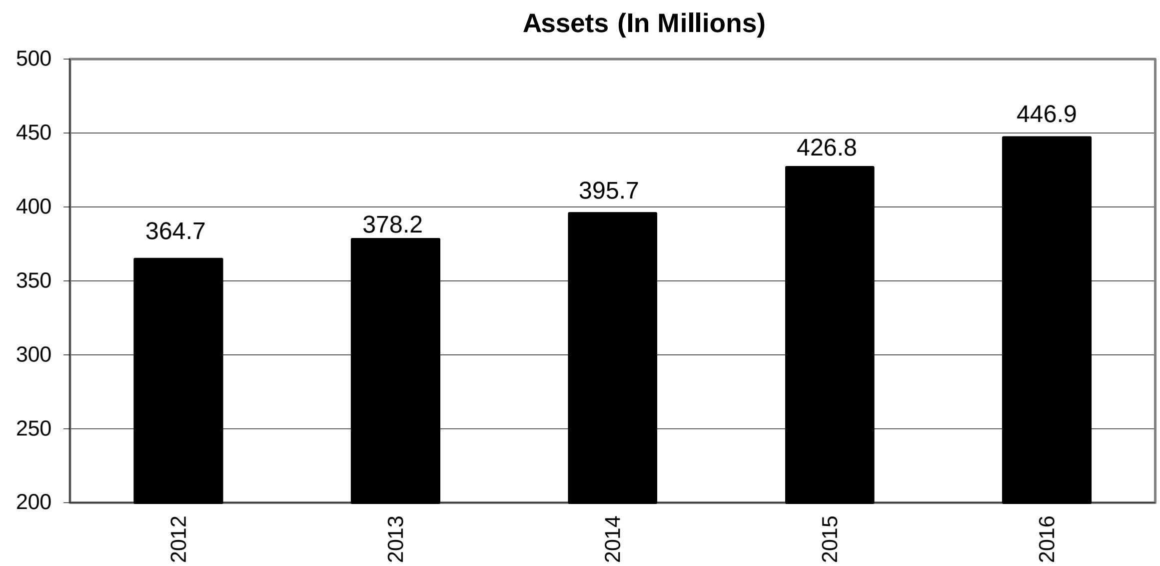
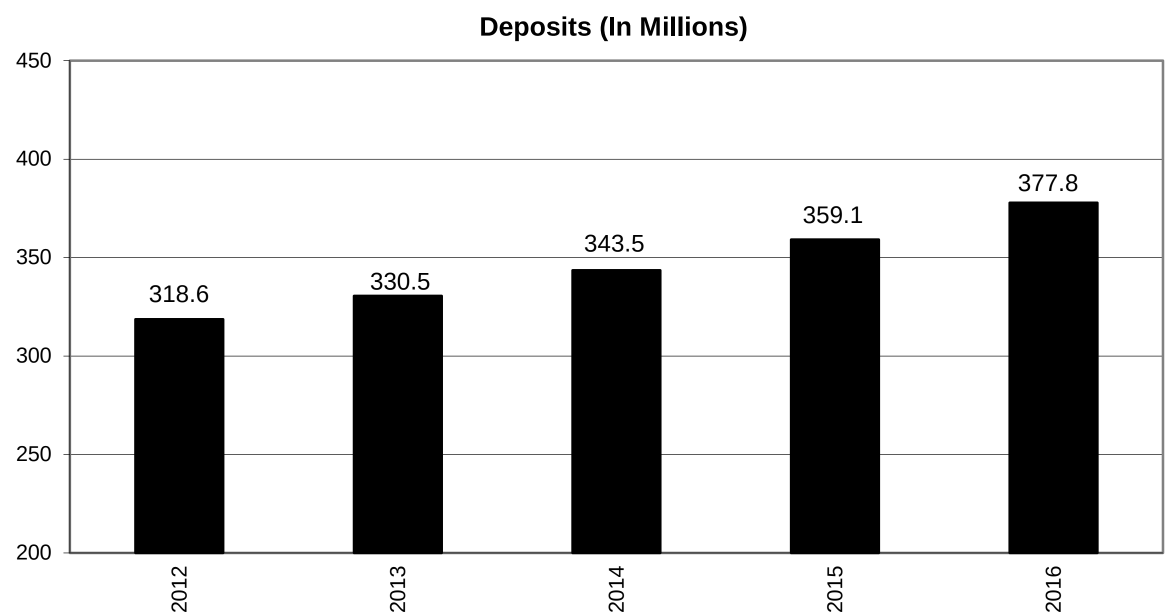
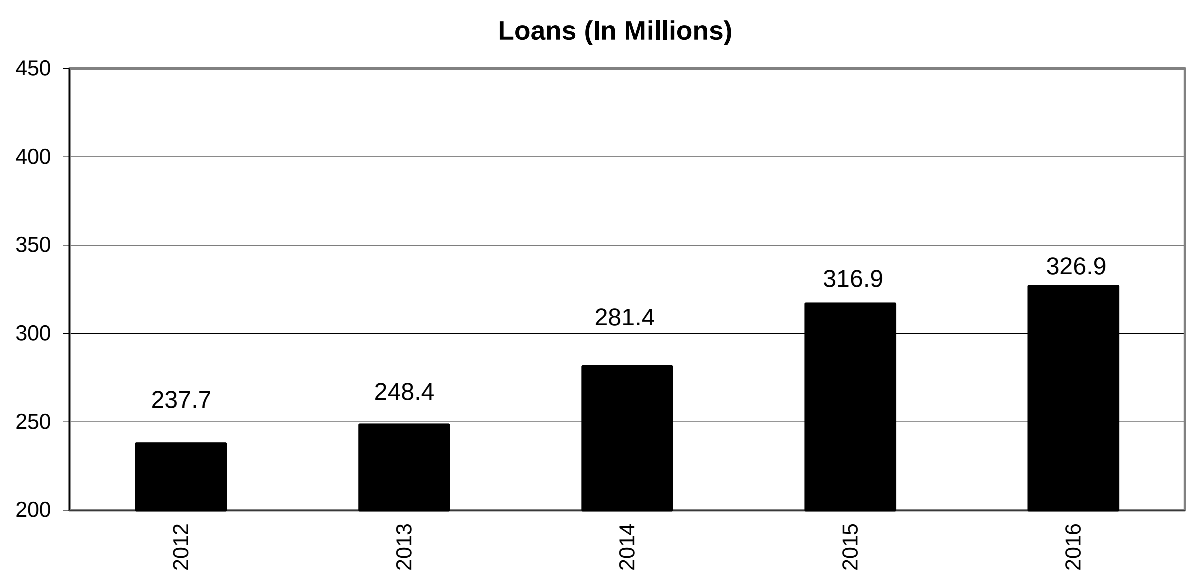
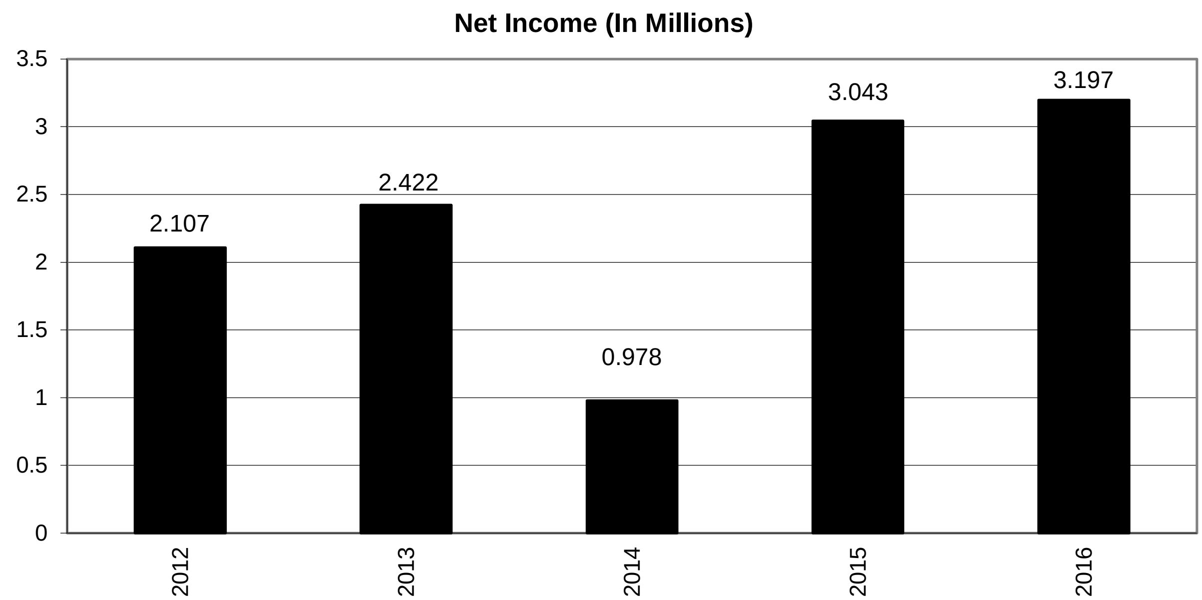
FINANCIAL RATIOS

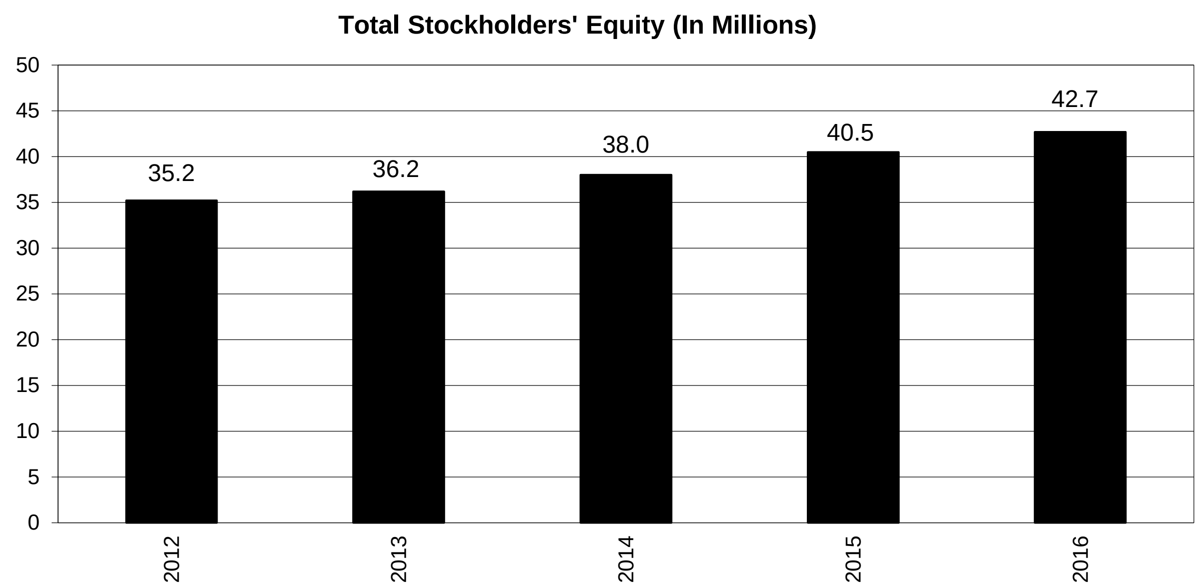
Return on Average Assets	0.74%	0.72%	2.78%
Return on Average Stockholder's Equity	7.46%	7.64%	(2.36%)

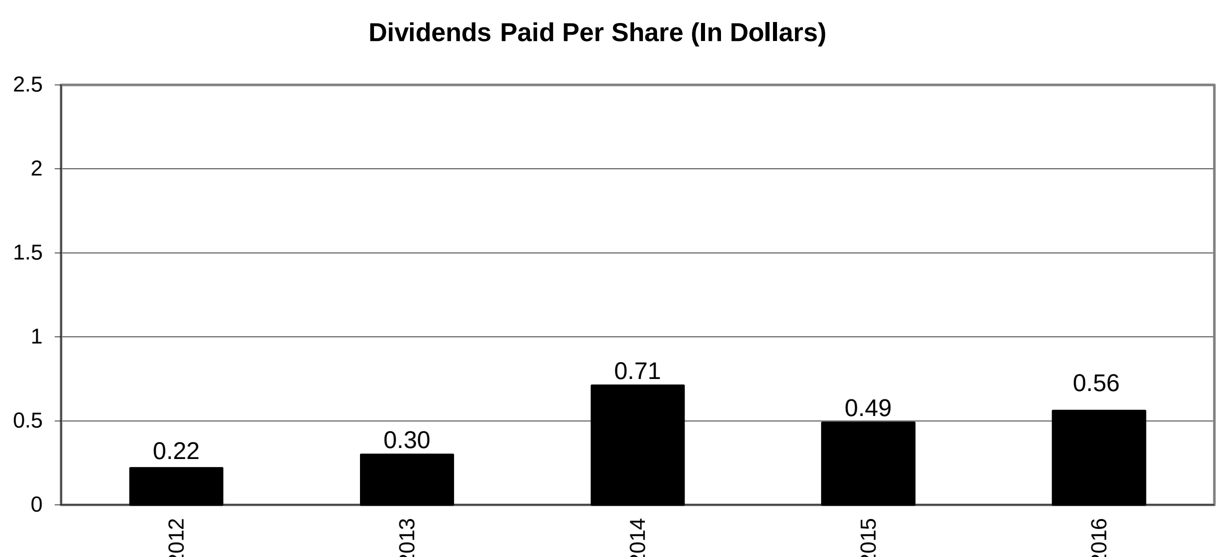

Assets (In Millions)
500
450
400
350
300
250
200
364.7
378.2
395.7
426.8
446.9
2012
2013
2014
2015
2016


Deposits (In Millions)
450
400
350
300
250
200
318.6
330.5
343.5
359.1
377.8
2012
2013
2014
2015
2016

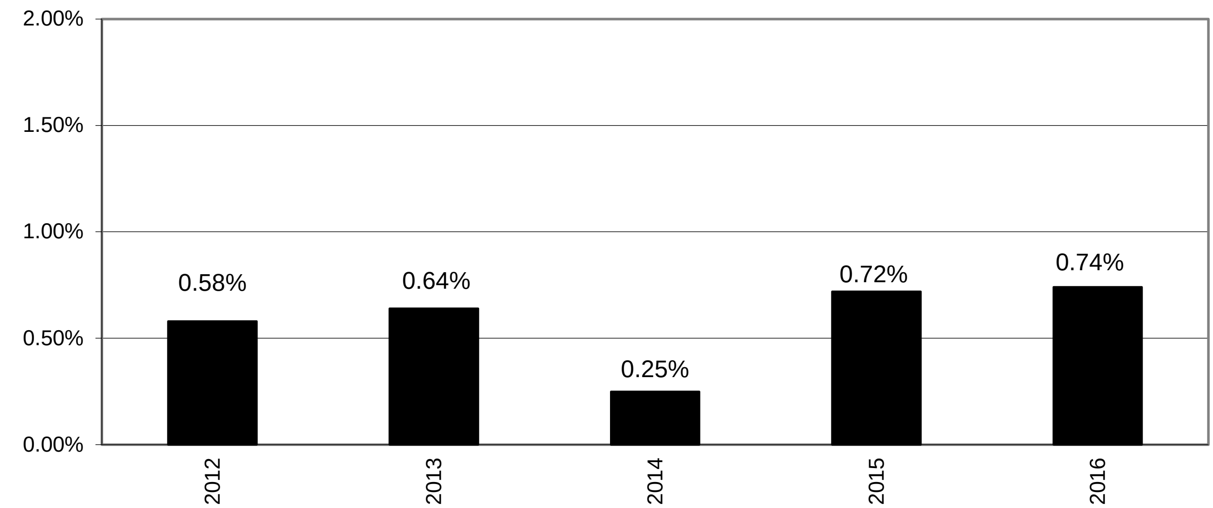

Loans (In Millions)
450
400
350
300
250
200
237.7
248.4
281.4
316.9
326.9
2012
2013
2014
2015
2016


Net Income (In Millions)
3.5
3
2.5
2
1.5
1
0.5
0
2.107
2.422
0.978
3.043
3.197
2012
2013
2014
2015
2016

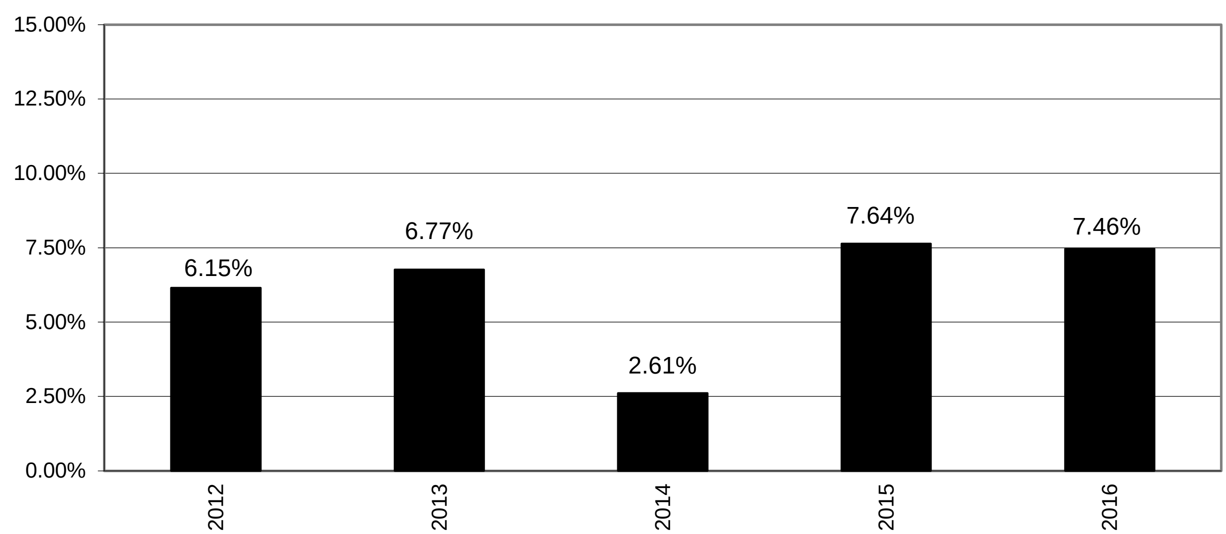

Total Stockholders' Equity (In Millions)
50
45
40
35
30
25
20
15
10
5
0
35.2
36.2
38.0
40.5
42.7
2012
2013
2014
2015
2016


Dividends Paid Per Share (In Dollars)
2.5
2
1.5
1
0.5
0
0.22
0.30
0.71
0.49
0.56
2012
2013
2014
2015
2016

Return on Average Assets (Percentage)



Return on Average Shareholders' Equity (Percentage)



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Independent Auditor's Report

Board of Directors
CITBA Financial Corporation
Mooresville, Indiana

We have audited the accompanying consolidated financial statements of CITBA Financial Corporation and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 CITBA Financial Corporation and its subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
February 22, 2017

CITBA Financial Corporation

Consolidated Balance Sheets
December 31, 2016 and 2015

Assets

	2016	2015
Cash and due from banks	$ 4,004,806	$ 3,588,291
Interest-bearing demand deposits	18,846,566	9,747,123
Cash and cash equivalents	22,851,372	13,335,414
Investment securities		
Available for sale	91,277,062	89,047,877
Held to maturity (fair value of $1,149,569 and $2,760,478)	1,144,118	2,712,282
Total investment securities	92,421,180	91,760,159
Loans, net of allowance for loan losses of $4,526,900 and $4,220,528	322,401,027	312,672,445
Federal Home Loan Bank stock	1,642,500	1,642,500
Premises and equipment	4,361,450	4,659,800
Interest receivable	1,428,221	1,388,076
Foreclosed assets held for sale	256,506	198,780
Other assets	1,526,815	1,183,229
Total assets	$ 446,889,071	$ 426,840,403

Liabilities and Stockholders' Equity

	2016	2015
Liabilities		
Deposits		
Noninterest-bearing	$ 92,227,642	$ 85,069,433
Interest-bearing	285,541,077	274,069,006
Total deposits	377,768,719	359,138,439
Borrowings	25,085,000	25,906,000
Interest payable	18,292	19,339
Other liabilities	1,319,123	1,248,796
Total liabilities	404,191,134	386,312,574
Stockholders' Equity		
Preferred stock, nonvoting $10 par value		
Authorized and unissued - 35,000 shares		
Common stock, $1 stated value		
Authorized - 1,000,000 shares		
Issued and outstanding - 926,977 and 926,977 shares	926,977	926,977
Additional paid-in capital	4,452,750	4,452,750
Retained earnings	37,114,803	34,436,657
Accumulated other comprehensive income	203,407	711,445
Total stockholders' equity	42,697,937	40,527,829
Total liabilities and stockholders' equity	$ 446,889,071	$ 426,840,403

CITBA Financial Corporation

Consolidated Statements of Income
Years Ended December 31, 2016 and 2015

	2016	2015
Interest Income		
Loans receivable	$ 12,706,907	$ 12,685,948
Investment securities		
Taxable	2,026,831	2,198,622
Tax-exempt	125,850	172,723
Other	38,953	8,015
Dividends	85,998	80,241
Total interest income	14,984,539	15,145,549
Interest Expense		
Deposits	793,441	912,944
Short-term borrowings	40,334	101,010
Total interest expense	833,775	1,013,954
Net Interest Income	14,150,764	14,131,595
Provision for loan losses	337,000	656,800
Net Interest Income After Provision for Loan Losses	13,813,764	13,474,795
Other Income		
Service charges on deposit accounts	1,248,434	1,370,450
Card services income	1,265,880	1,190,920
Other customer fees	499,412	553,818
Gain on loans sold	313,430	244,728
Gain (loss) on other assets	155,748	(22,132)
Other income	20,007	23,930
Total other income	3,502,911	3,361,714
Other Expense		
Salaries and employee benefits	6,478,995	6,427,869
Premises and equipment expenses	1,103,506	1,175,242
Data processing fees	1,231,285	1,181,650
Deposit insurance premium	223,327	271,757
Printing and office supplies	189,001	183,036
Postage and courier services	212,937	227,904
Card services expense	381,723	288,042
Marketing	282,038	157,503
Loan expense	222,688	193,145
Telephone expenses	149,145	279,252
Internet banking expense	415,555	507,310
Other expenses	1,437,923	1,309,556
Total other expense	12,328,123	12,202,266
Income Before Income Tax	4,988,552	4,634,243
Income tax expense	1,791,301	1,591,189
Net Income	$ 3,197,251	$ 3,043,054
Net Income Per Share	$ 3.45	$ 3.28
Weighted-Average Shares Outstanding	926,977	926,977

CITBA Financial Corporation

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

	2016	2015
Net Income	$ 3,197,251	$ 3,043,054
Other Comprehensive Loss		
Unrealized depreciation on available-for-sale securities, net of tax benefit of $261,717 and $54,130 for 2016 and 2015, respectively	(508,038)	(105,075)
Comprehensive Income	$ 2,689,213	$ 2,937,979

CITBA Financial Corporation
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2016 and 2015

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income	Total
Balance, January 1, 2015	926,977	$ 926,977	$ 4,452,750	$ 31,847,824	$ 816,520	$ 38,044,071
Net income				3,043,054		3,043,054
Other comprehensive loss					(105,075)	(105,075)
Dividends, $0.49 per share				(454,221)		(454,221)
Balance, December 31, 2015	926,977	926,977	4,452,750	34,436,657	711,445	40,527,829
Net income				3,197,251		3,197,251
Other comprehensive loss					(508,038)	(508,038)
Dividends, $0.56 per share				(519,105)		(519,105)
Balance, December 31, 2016	926,977	$ 926,977	$ 4,452,750	$ 37,114,803	$ 203,407	$ 42,697,937

CITBA Financial Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Net income	$ 3,197,251	$ 3,043,054
Items not requiring (providing) cash		
Provision for loan losses	337,000	656,800
Depreciation and amortization	309,349	338,532
Deferred income taxes	(90,194)	439,702
Investment securities amortization, net	429,469	401,927
(Gain) loss on other assets	(155,748)	22,132
Changes in		
Interest receivable	(40,145)	62,692
Interest payable	(1,047)	(11,762)
Other adjustments	65,188	437,550
Net cash provided by operating activities	4,051,123	5,390,627
Investing Activities		
Purchases of securities available for sale	(12,646,849)	(4,982,690)
Proceeds from maturities of securities available for sale	9,219,603	10,280,000
Proceeds from maturities and paydowns of securities held to maturity	1,567,000	3,994,250
Proceeds from sale of Federal Home Loan Bank stock	-	191,500
Proceeds from sale of real estate owned	361,940	327,704
Net change in loans	(10,271,319)	(36,048,582)
Purchase of premises and equipment	(129,731)	(109,133)
Proceeds from sale of premises and equipment	55,476	-
Net cash used in investing activities	(11,843,880)	(26,346,951)
Financing Activities		
Net change in		
Noninterest-bearing, interest-bearing demand and savings deposits	20,161,637	20,915,262
Certificates and other time deposits	(1,531,357)	(5,268,967)
Short-term borrowings	10,179,000	6,682,000
Proceeds from Federal Home Loan Bank advances	46,300,000	159,600,000
Paydowns of Federal Home Loan Bank advances	(57,300,000)	(153,400,000)
Cash dividends	(500,565)	(444,951)
Net cash provided by financing activities	17,308,715	28,083,344
Net Change in Cash and Cash Equivalents	9,515,958	7,127,020
Cash and Cash Equivalents, Beginning of Year	13,335,414	6,208,394
Cash and Cash Equivalents, End of Year	$ 22,851,372	$ 13,335,414
Additional Cash Flows Information		
Interest paid	$ 834,822	$ 1,025,716
Income taxes paid	2,036,038	1,152,205
Transfers to other real estate from loans	481,817	341,775

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

The accounting and reporting policies of CITBA Financial Corporation (Company), its wholly owned subsidiary, Citizens Bank, Mooresville (Bank), and the Bank's wholly owned subsidiaries, CITBA Investments, Inc. and Citizens Insurance Services, Inc., conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, loan servicing rights and fair values of financial instruments.

The Company is a bank holding company whose principal activity is the ownership and management of the Bank. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to the regulation of the Department of Financial Institutions, the State of Indiana and the Federal Deposit Insurance Corporation.

The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Morgan County, Indiana and surrounding counties. The Bank's loans are generally secured by specific items of collateral including real property, consumer assets and business assets.

Consolidation - The consolidated financial statements include the accounts of the Company and Bank after elimination of all material intercompany transactions.

Cash and Cash Equivalents - The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2016, the Company's cash accounts exceeded federally insured limits by approximately $15,396,000, which included approximately $14,389,000 on deposit with the Federal Reserve Bank and the Federal Home Loan Bank of Indianapolis as of December 31, 2016, which are not federally insured.

Investment Securities - Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive loss. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive loss for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

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

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

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except residential and consumer loans, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges off residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance, which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value, less costs to sell when the loan is 120 days past due, charge-off of unsecured open-end loans when the loan is 180 days past due, and charge down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

For all loan classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with the renegotiated terms for a period of at least six months.

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical charge-off experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the prior five years. Management believes the five year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. If the most recent appraisal is over a year old and a new appraisal is not performed, due to lack of comparable values or other reasons, the existing appraisal is utilized and discounted 20% - 40% based on the age of the appraisal, condition of the subject property and overall economic conditions. After determining the collateral value as described, the fair value is calculated based on the determined collateral value, less selling expenses. The potential for outdated appraisal values is considered in the determination of the allowance for loan losses through analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Company.

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

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring ("TDR") has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status, and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan.

It is the Company's policy to have any restructured loans, which are on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance, at which time management would consider its return to accrual status. If a loan is accruing at the time of restructuring, the Company reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

With regard to determination of the amount of the allowance for credit losses, troubled debt restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously.

Federal Home Loan Bank Stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula carried at cost and evaluated for impairment.

Premises and Equipment are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line and declining-balance methods based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

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

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

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries.

Comprehensive Income - Comprehensive income consists of net income and other comprehensive loss, net of applicable income taxes. Other comprehensive loss includes unrealized depreciation on available-for-sale securities.

Note 2: Restrictions on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2016 was $566,000.

(Table Dollar Amounts in Thousands)

Note 3: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities				
December 31, 2016				
U.S. Government-sponsored agencies	$ 47,425	$ 182	$ (205)	$ 47,402
State and political subdivisions	42,626	843	(472)	42,997
Mortgage-backed securities - government-sponsored agencies	918	-	(40)	878
	$ 90,969	$ 1,025	$ (717)	$ 91,277
December 31, 2015				
U.S. Government-sponsored agencies	$ 50,719	$ 302	$ (70)	$ 50,951
State and political subdivisions	37,251	1,090	(244)	38,097
	$ 87,970	$ 1,392	$ (314)	$ 89,048

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities				
December 31, 2016				
State and political subdivisions	$ 1,144	$ 6	$ -	$ 1,150
December 31, 2015				
State and political subdivisions	$ 2,712	$ 48	$ -	$ 2,760

(Table Dollar Amounts in Thousands)

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

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 1,144	$ 1,150	$ 10,079	$ 10,096
One to five years	-	-	43,294	43,778
Five to ten years	-	-	30,777	30,769
Over ten years	-	-	5,901	5,756
	1,144	1,150	90,051	90,399
Mortgage-backed securities - government-sponsored agencies	-	-	918	878
Totals	$ 1,144	$ 1,150	$ 90,969	$ 91,277

Securities with a carrying value of $70,882,000 and $73,513,000 were pledged at December 31, 2016 and 2015, respectively, to secure certain deposits and for other purposes as permitted or required by law.

There were no sales of securities available for sale during 2016 or 2015.

Certain investments in debt securities have a fair value, less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015 was $26,303,000 and $22,184,000, respectively, which is approximately 28% and 24% of the Bank's available-for-sale and held-to-maturity investment portfolios. These declines primarily resulted from increases in market interest rates and failure of certain investments to maintain consistent credit quality ratings.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in either net income or accumulated other comprehensive income in the period the other-than-temporary impairment is identified.

(Table Dollar Amounts in Thousands)

The following tables show the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015:

	2016					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
U.S. Government-sponsored agencies	$ 11,034	$ (205)	$ -	$ -	$ 11,034	$ (205)
State and political subdivisions	12,996	(396)	1,395	(76)	14,391	(472)
Mortgage-backed securities - government-sponsored agencies	878	(40)	-	-	878	(40)
Total temporarily impaired	$ 24,908	$ (641)	$ 1,395	$ (76)	$ 26,303	$ (717)

	2015					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
U.S. Government-sponsored agencies	$ 11,199	$ (56)	$ 1,499	$ (14)	$ 12,698	$ (70)
State and political subdivisions	6,869	(114)	2,617	(130)	9,486	(244)
Total temporarily impaired	$ 18,068	$ (170)	$ 4,116	$ (144)	$ 22,184	$ (314)

U.S. Government-Sponsored Agencies and State and Political Subdivisions

The unrealized losses on the Company's investments in direct obligations of U.S. Government-sponsored agencies and state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

(Table Dollar Amounts in Thousands)

Mortgage-Backed Securities - Government-Sponsored Agencies

The unrealized losses on the Company's investment in mortgage-backed securities were caused by interest rate increases. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in the market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2016.

Note 4: Loans and Allowance

Classes of loans at December 31, include:

	2016	2015
Commercial	$ 14,487	$ 12,716
Commercial real estate	91,490	86,196
Residential	26,200	29,082
Home equity	19,394	21,205
Consumer	175,357	167,694
Subtotal	326,928	316,893
Less: allowance for loan losses	(4,527)	(4,221)
Loans, net	$ 322,401	$ 312,672

Risk characteristics applicable to each segment of the loan portfolio are described as follows:

<u>Commercial, including Agricultural</u>

Commercial and agricultural loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial Real Estate, Including Construction

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, construction loans are underwritten utilizing feasibility studies, independent appraisal reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential, Consumer and Home Equity

Residential and consumer loans consist of two segments - residential mortgage loans and consumer loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(Table Dollar Amounts in Thousands)

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

2016	Commercial	Commercial Real Estate	Residential	Consumer	Total
Beginning Balance	$ 99	$ 1,634	$ 680	$ 1,808	$ 4,221
Provision	23	(16)	(103)	433	337
Loans charged off	-	(9)	(130)	(327)	(466)
Recoveries	3	255	34	143	435
Ending Balance	$ 125	$ 1,864	$ 481	$ 2,057	$ 4,527

2015	Commercial	Commercial Real Estate	Residential	Consumer	Total
Beginning Balance	$ 96	$ 1,551	$ 615	$ 1,476	$ 3,738
Provision	15	40	30	572	657
Loans charged off	(14)	-	(1)	(320)	(335)
Recoveries	2	43	36	80	161
Ending Balance	$ 99	$ 1,634	$ 680	$ 1,808	$ 4,221

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

2016	Commercial	Commercial Real Estate	Residential	Consumer	Total
Allowance Balances:					
Individually evaluated for impairment	$ 15	$ 273	$ 151	$ 10	$ 449
Collectively evaluated for impairment	110	1,591	330	2,047	4,078
Total allowance for loan losses	$ 125	$ 1,864	$ 481	$ 2,057	$ 4,527
Loan Balances:					
Individually evaluated for impairment	$ 94	$ 2,533	$ 1,009	$ 32	$ 3,668
Collectively evaluated for impairment	14,393	88,957	44,585	175,325	323,260
Total loan balances	$ 14,487	$ 91,490	$ 45,594	$ 175,357	$ 326,928

(Table Dollar Amounts in Thousands)

	2015				
	Commercial	Commercial Real Estate	Residential	Consumer	Total
Allowance Balances:					
Individually evaluated for impairment	$ 15	$ 250	$ 321	$ 3	$ 589
Collectively evaluated for impairment	84	1,384	359	1,805	3,632
Total allowance for loan losses	$ 99	$ 1,634	$ 680	$ 1,808	$ 4,221
Loan Balances:					
Individually evaluated for impairment	$ 95	$ 3,320	$ 1,244	$ 19	$ 4,678
Collectively evaluated for impairment	12,621	82,876	49,043	167,675	312,215
Total loan balances	$ 12,716	$ 86,196	$ 50,287	$ 167,694	$ 316,893

Internal Risk Categories

Loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grade of 5, or Watch or Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, or Substandard, and 7, or Doubtful, refer to assets that are classified. The use and application of these grades by the Company will be uniform and shall conform to the Company's policy.

Prime (1) Loans are of superior quality with excellent credit strength and repayment ability providing a nominal credit risk.

Good (2) Loans are of above average credit strength and repayment ability providing only a minimal credit risk.

Satisfactory (3) Loans are of reasonable credit strength and repayment ability providing an average credit risk due to one or more underlying weaknesses.

Acceptable (4) Loans are of the lowest acceptable credit strength and weakened repayment ability providing a cautionary credit risk due to one or more underlying weaknesses.

Special Mention (5) A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

(Table Dollar Amounts in Thousands)

Substandard (6) Loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful (7) Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (8) Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2016 and 2015:

	2016					
	Commercial	Commercial Real Estate	Residential	Home Equity	Consumer	Total
Grade:						
Pass (1-4)	$ 13,949	$ 88,808	$ 24,867	$ 19,332	$ 174,935	$ 321,891
Special mention (5)	-	840	301	-	142	1,283
Substandard (6)	538	1,842	1,032	62	280	3,754
Doubtful (7)	-	-	-	-	-	-
Loss (8)	-	-	-	-	-	-
Total	$ 14,487	$ 91,490	$ 26,200	$ 19,394	$ 175,357	$ 326,928

	2015					
	Commercial	Commercial Real Estate	Residential	Home Equity	Consumer	Total
Grade:						
Pass (1-4)	$ 12,099	$ 79,569	$ 27,612	$ 20,998	$ 167,299	$ 307,577
Special mention (5)	535	5,231	312	-	216	6,294
Substandard (6)	82	1,396	1,158	207	179	3,022
Doubtful (7)	-	-	-	-	-	-
Loss (8)	-	-	-	-	-	-
Total	$ 12,716	$ 86,196	$ 29,082	$ 21,205	$ 167,694	$ 316,893

(Table Dollar Amounts in Thousands)

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2016 and 2015:

2016

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	$ 45	$ -	$ 94	$ 139	$ 14,348	$ 14,487	$ -
Commercial real estate	72	-	1,611	1,683	89,807	91,490	-
Residential	580	145	-	725	25,475	26,200	-
Home equity	-	-	-	-	19,394	19,394	-
Consumer	1,131	150	109	1,390	173,967	175,357	19
Total	$ 1,828	$ 295	$ 1,814	$ 3,937	$ 322,991	$ 326,928	$ 19

2015

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	$ 64	$ -	$ -	$ 64	$ 12,652	$ 12,716	$ -
Commercial real estate	-	13	-	13	86,183	86,196	-
Residential	809	94	45	948	28,134	29,082	-
Home equity	82	-	120	202	21,003	21,205	54
Consumer	1,098	158	122	1,378	166,316	167,694	69
Total	$ 2,053	$ 265	$ 287	$ 2,605	$ 314,288	$ 316,893	$ 123

The following table presents the Company's nonaccrual loans at December 31, 2016 and 2015:

	2016	2015
Commercial	$ 94	$ -
Commercial real estate	1,728	193
Residential	783	977
Home equity	63	153
Consumer	213	143
Total nonaccrual loans	$ 2,881	$ 1,466

(Table Dollar Amounts in Thousands)

The following tables present impaired loans for the years ended December 31, 2016 and 2015:

2016	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	922	935	-	1,133	48
Residential	420	436	-	412	28
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
	$ 1,342	$ 1,371	$ -	$ 1,545	$ 76
Impaired loans with a specific valuation allowance:					
Commercial	$ 94	$ 94	$ 15	$ 94	$ -
Commercial real estate	1,611	1,611	273	1,690	2
Residential	589	769	151	627	30
Home equity	-	-	-	31	5
Consumer	32	32	10	28	2
	$ 2,326	$ 2,506	$ 449	$ 2,470	$ 39
	$ 3,668	$ 3,877	$ 449	$ 4,015	$ 115

(Table Dollar Amounts in Thousands)

	2015				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	1,565	1,880	-	1,678	101
Residential	390	407	-	412	39
Home equity	-	-	-	5	-
Consumer	-	-	-	-	-
	$ 1,955	$ 2,287	$ -	$ 2,095	$ 140
Impaired loans with a specific valuation allowance:					
Commercial	$ 95	$ 95	$ 15	$ 58	$ 3
Commercial real estate	1,755	1,755	250	1,697	97
Residential	764	858	284	776	-
Home equity	90	92	37	33	-
Consumer	19	19	3	4	-
	$ 2,723	$ 2,819	$ 589	$ 2,568	$ 100
	$ 4,678	$ 5,106	$ 589	$ 4,663	$ 240

The Company had two residential loans during 2016 that were classified as new troubled debt restructurings with a combined pre-modification balance of $778,000 and a post-modification balance of $670,000. Upon restructuring, $108,000, which was reserved in a prior year, was charged off. The modifications of these loans included extensions on the due date of the next payment and term of the loans.

The Company had one residential loan during 2015 that was classified as a new troubled debt restructuring with a pre and post-modification balance of $24,000. The modification of this loan included an extension on the due date of the next payment and term of the loan. The Company had one commercial real estate loan during 2015 that was classified as a new troubled debt restructuring with a pre and post-modification balance of $1,535,000. The modification of this loan included a change in terms from monthly principal and interest payments to interest only for a period of six months.

At December 31, 2016, the Company had $142,000 of residential loans in process of foreclosure. There were no residential loans in process of foreclosure at December 31, 2015.

(Table Dollar Amounts in Thousands)

Note 5: Premises and Equipment

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

	2016	2015
Land	$ 1,772	$ 1,905
Buildings	5,869	6,451
Leasehold improvements	59	59
Equipment	3,546	3,918
Construction in progress	4	11
Total cost	11,250	12,344
Accumulated depreciation and amortization	(6,889)	(7,684)
Net	$ 4,361	$ 4,660

At December 31, 2016, the Company had a commitment to purchase a bank branch facility for approximately $1,950,000. The transaction was completed on January 10, 2017.

Note 6: Deposits

	2016	2015
Noninterest-bearing	$ 92,228	$ 85,069
Money market checking accounts	108,070	108,039
Money market savings accounts	52,376	47,489
Savings deposits	66,442	58,357
Certificates and other time deposits of $250,000 or more	9,827	6,829
Other certificates and time deposits	48,826	53,355
Total deposits	$ 377,769	$ 359,138

Certificates and other time deposits maturing in:

2017	$ 18,083
2018	14,711
2019	7,210
2020	7,128
2021	5,996
Thereafter	5,525
	$ 58,653

(Table Dollar Amounts in Thousands)

Note 7: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $67,249,000 and $69,561,000 at December 31, 2016 and 2015, respectively.

The aggregate fair value of capitalized mortgage-servicing rights at December 31, 2016 and 2015 were immaterial to the consolidated financial statements taken as a whole.

Note 8: Borrowings

	2016	2015
Securities sold under repurchase agreements	$ 25,085	$ 14,906
Federal Home Loan Bank advances	-	11,000
Total borrowings	$ 25,085	$ 25,906

Federal Home Loan Bank advances outstanding at December 31, 2015 matured during 2016 and carried a weighted-average interest rate of 0.58%. At December 31, 2016, loans totaling $99,963,000 and specific investment securities with a carrying value of $9,448,000 were pledged to the Federal Home Loan Bank for future advances.

Securities sold under agreements to repurchase consist of obligations of the Bank to other parties. The obligations are secured by federal agency securities, and such collateral is held in safekeeping by another financial institution. The maximum amount of outstanding agreements at any month-end during 2016 and 2015 totaled $28,463,000 and $21,372,000, respectively, and the daily average of such agreements totaled $18,926,000 and $12,845,448, respectively. The agreements at December 31, 2016 and 2015, mature daily.

Securities sold under agreements to repurchase are secured by U.S. government-sponsored agencies. The Company may be required to provide additional collateral securing the borrowings in the event of a decrease in the market value of the pledged securities. The Company mitigates this risk by monitoring the market value and liquidity of the collateral and ensuring that it holds a sufficient level of eligible securities to cover potential increases in collateral requirements.

(Table Dollar Amounts in Thousands)

The following tables represent the remaining contractual maturity of repurchase agreements disaggregated by the class of securities pledged as of December 31.

	2016				
	Overnight & Continuous	< 30 Days	30-90 Days	> 90 Days	Total
U.S. Government-sponsored agencies	$ 25,085	$ -	$ -	$ -	$ 25,085

	2015				
	Overnight & Continuous	< 30 Days	30-90 Days	> 90 Days	Total
U.S. Government-sponsored agencies	$ 14,906	$ -	$ -	$ -	$ 14,906

Note 9: Income Tax

The Company files income tax returns in the U.S. federal jurisdiction and Indiana jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2012.

	2016	2015
Income tax expense		
Currently payable		
Federal	$ 1,684	$ 1,136
State	197	15
Deferred		
Federal	(101)	250
State	11	190
Total income tax expense	$ 1,791	$ 1,591
Reconciliation of federal statutory to actual tax expense		
Federal statutory income tax at 34%	1,696	$ 1,576
Tax-exempt interest	(46)	(63)
Effect of state income taxes	137	135
Other	4	(57)
Actual tax expense	$ 1,791	$ 1,591

(Table Dollar Amounts in Thousands)

A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	2016	2015
Assets		
Allowance for loan losses	$ 1,173	$ 1,059
Depreciation and amortization	-	18
Employee benefits	196	185
Net operating loss	-	6
Other	91	114
Total assets	1,460	1,382
Liabilities		
Mortgage-servicing rights	(134)	(142)
Depreciation and amortization	(24)	-
State income tax	(108)	(112)
Unrealized gain on securities available for sale	(105)	(367)
Loan fees	-	(3)
FHLB stock dividend	(9)	(9)
Prepaid expense	(67)	(89)
Total liabilities	(447)	(722)
	$ 1,013	$ 660

Management believes that no valuation allowance was necessary during 2016 or 2015.

Note 10: Employee Benefits

The Bank has a retirement savings 401(k) plan in which substantially all employees may participate. For 2016 and 2015, the Bank matched employees’ contributions at the rate of 100% for the first 3% of base salary contributed by participants, and matched at the rate of 50% for the next 2% of base salary contributed by participants, a total of 4%. The Bank’s expense for the plan was $143,000 for 2016 and $143,000 for 2015.

(Table Dollar Amounts in Thousands)

Note 11: Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	2016	2015
Net unrealized gain on securities available for sale	$ 308	$ 1,078
Tax effect	(105)	(367)
Net-of-tax amounts	$ 203	$ 711

Note 12: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of December 31 were as follows:

	2016	2015
Commitments to extend credit	$ 44,097	$ 42,519
Standby letters of credit	945	446

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

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

Note 13: Dividends and Capital Restrictions

Without prior approval, current regulations allow the Bank to pay dividends to the Company not exceeding net profits (as defined) for the current year plus those for the previous two years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

Note 14: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies and is assigned to a capital category. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Bank meets all capital adequacy requirements to which it is subject.

(Table Dollar Amounts in Thousands)

As of December 31, 2016, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

	Actual		Minimum Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2016						
Total capital[1] (to risk-weighted assets)	$ 46,763	13.4%	$ 27,986	8.0%	$ 34,983	10.0%
Tier I capital[1] (to risk-weighted assets)	42,389	12.1%	20,990	6.0%	27,986	8.0%
Common Equity Tier I capital [1] (to risk-weighted assets)	42,389	12.1%	15,742	4.5%	22,739	6.5%
Tier I capital[1] (to average assets)	42,389	9.7%	17,554	4.0%	21,943	5.0%
2015						
Total capital[1] (to risk-weighted assets)	$ 43,939	13.0%	$ 27,113	8.0%	$ 33,891	10.0%
Tier I capital[1] (to risk-weighted assets)	39,718	11.7%	20,335	6.0%	27,113	8.0%
Common Equity Tier I capital [1] (to risk-weighted assets)	39,718	11.7%	15,251	4.5%	22,029	6.5%
Tier I capital[1] (to average assets)	39,718	9.2%	17,256	4.0%	21,569	5.0%

[1] As defined by regulatory agencies

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer was 0.625% at December 31, 2016. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Basel III Capital Rules

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Note 15: Disclosures About Fair Values of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

(Table Dollar Amounts in Thousands)

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

		2016 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored agencies	$ 47,402	$ -	$ 47,402	$ -
State and political subdivisions	42,997	-	42,997	-
Mortgage-backed securities - government-sponsored agencies	878	-	878	-
	$ 91,277	$ -	$ 91,277	$ -

		2015 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored agencies	$ 50,951	$ -	$ 50,951	$ -
State and political subdivisions	38,097	-	38,097	-
	$ 89,048	$ -	$ 89,048	$ -

(Table Dollar Amounts in Thousands)

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

Available-for-Sale Securities - Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Level 2 securities include U.S. Government-sponsored agency securities, obligations of state and political subdivisions and mortgage-backed securities - government sponsored agencies. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Impaired loans	$ 1,798	$ -	$ -	$ 1,798
December 31, 2015				
Impaired loans	$ 1,671	$ -	$ -	$ 1,671

(Table Dollar Amounts in Thousands)

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-Dependent Impaired Loans, Net of ALLL

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

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Controller's office. Appraisals are reviewed for accuracy and consistency by the Controller's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Controller's office by comparison to historical results.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
December 31, 2016				
Collateral-dependent impaired loans	$ 1,798	Market comparable properties	Marketability discount and selling costs	15% - 20% (19%)
December 31, 2015				
Collateral-dependent impaired loans	$ 1,671	Market comparable properties	Marketability discount and selling costs	10% - 15% (12%)

Following is a description of the valuation methodologies used to estimate fair value for assets and liabilities of all other financial instruments in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents - The fair value of cash and cash equivalents approximates carrying value.

Held-to-Maturity Securities - Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans - For both short-term loans and variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for other fixed-rate loans is estimated using discounted cash flow analyses and interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank Stock - The fair value of Federal Home Loan Bank stock is based on the price at which it may be resold to the Federal Home Loan Bank.

Interest Receivable/Payable - The fair values of interest receivable/payable approximate carrying values.

Deposits - The fair values of noninterest-bearing, interest-bearing demand and savings accounts are equal to the amount payable on demand at the balance sheet date. Fair values for fixed-rate certificates and time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

Federal Home Loan Bank Advances - Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Short-Term Borrowings - The carrying amounts approximate fair value.

(Table Dollar Amounts in Thousands)

The estimated fair values of the Company's financial instruments are as follows:

		December 31, 2016 Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 22,851	$ 22,851	$ -	$ -
Securities held to maturity	1,144	-	1,150	-
Loans, net	322,401	-	-	321,658
Federal Home Loan Bank stock	1,643	-	1,643	-
Interest receivable	1,428	-	1,428	-
Liabilities				
Deposits	377,769	319,116	58,170	-
Short-term borrowings	25,085	-	25,085	-
Interest payable	18	-	18	-

		December 31, 2015 Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 13,335	$ 13,335	$ -	$ -
Securities held to maturity	2,712	-	2,760	-
Loans, net	312,672	-	-	314,864
Federal Home Loan Bank stock	1,643	-	1,643	-
Interest receivable	1,388	-	1,388	-
Liabilities				
Deposits	359,138	298,954	60,014	-
Federal Home Loan Bank advances	11,000	-	10,998	-
Short-term borrowings	14,906	-	14,906	-
Interest payable	19	-	19	-

(Table Dollar Amounts in Thousands)

Note 16: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	December 31, 2016	December 31, 2015
Assets		
Cash	$ 19	$ 23
Investment in common stock of subsidiary	42,593	40,430
Other	229	199
Total assets	$ 42,841	$ 40,652
Liabilities - other	$ 143	$ 124
Stockholders' Equity	42,698	40,528
Total liabilities and stockholders' equity	$ 42,841	$ 40,652

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2016	Years Ended December 31, 2015
Income		
Dividends from subsidiary	$ 542	$ 488
Other income	5	7
Total income	547	495
Expenses	21	22
Income before equity in undistributed income of subsidiary	526	473
Equity in undistributed income of subsidiary	2,671	2,570
Net Income	$ 3,197	$ 3,043
Comprehensive Income	$ 2,689	$ 2,938

(Table Dollar Amounts in Thousands)

Condensed Statements of Cash Flows

	Years Ended December 31, 2016	2015
Operating Activities		
Net income	$ 3,197	$ 3,043
Items not providing cash	(2,700)	(2,583)
Net cash provided by operating activities	497	460
Financing Activity - cash dividends	(501)	(445)
Net Change in Cash	(4)	15
Cash at Beginning of Year	23	8
Cash at End of Year	$ 19	$ 23

Note 17: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the consolidated financial statements were available to be issued.

CITBA FINANCIAL CORPORATION

Directors

Jennifer A. Andres
Jeffrey A. Banning
Christopher J. Branson
Larry R. Heydon
Thomas A. Hubbard
William R. “Chip” Keller
Keith A. Lindauer
Calvin A. Persohn
John P. Wilkowski

Officers

Larry R. Heydon, Chairman
Thomas A. Hubbard, Vice Chairman
Keith A. Lindauer, President
William R. “Chip” Keller, Secretary
John Fleener, Treasurer

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449
www.amstock.com

JENNIFER A. ANDRES

Director since 2017; Member of the Corporate Governance and Loan & Investment Committees

Jennifer Andres is an attorney in private practice with The Andres Group, LLC, where she focuses on assisting small businesses and non-profit entities with their legal needs, as well as providing elder law advice to individuals. She was previously employed as an attorney with Bamberger, Foreman, Oswald & Hahn, LLP, as well as serving as Senior Counsel at Ice Miller, LLP. Prior to her legal career, she worked as an Enforcement Case Manager with the Indiana Department of Environmental Management and as a Health Inspector with the Putnam County Health Department. Jennifer is active in several professional associations and community activities, including the Air & Waste Management Association (East Central Section – Chair), the Town of Plainfield Redevelopment Commission (President), the St. Susanna School Commission (Vice President), a member of the Plainfield Chamber of Commerce, as well as serving in a volunteer capacity with Leadership Hendricks County. She also volunteers with the Indianapolis Bar Association Hospice Program, Low Income Will Workshop and Ask a Lawyer. She holds a B.S. degree in Public Affairs (Business Certificate) from Indiana University and a J.D. degree from the Indiana University School of Law. Jennifer is married with two children and lives in Plainfield.

JEFFREY A. BANNING

Director since 2010; Chair of the Compensation Committee; Member of ALCO

Jeff Banning founded Banning Engineering 23 years ago and serves as its President. He is regularly involved in economic development, parks and recreation, municipal and private infrastructure and site design projects. He is Board President of the Parks Foundation of Hendricks County, serves as Secretary for the Board of the Indiana Economic Development Association (IEDA), and holds memberships with the Hendricks, Johnson, Knox, and Morgan County EDC's. Jeff is a member of The Plainfield and Avon Chambers of Commerce, the Builders Association of Greater Indianapolis and Plainfield Christian Church. Jeff is highly involved in running, promoting the Park2Park Relay and facilitating a training program for the Mini Marathon. Jeff graduated from the University of Evansville with a B.S. degree in Civil Engineering. He is married with four children and lives in the Mooresville/Plainfield area.

CHRISTOPHER J. BRANSON

Director since 2015; Member of the Audit and Loan & Investment Committees

Chris Branson began working in the funeral industry at Leppert Mortuary in Indianapolis when he was 17 and rose to the position of general manager. He resigned from Leppert Mortuary in 2005 and purchased Carlisle & Son Funeral Chapel in 2007, establishing the county's only onsite crematory. The company rebranded as Carlisle-Branson Funeral Service & Crematory in 2010. Chris serves on the Board of the Community Foundation of Morgan County, the Mooresville Chamber of Commerce and the Mooresville Senior Center. He is a member of the Mooresville Kiwanis Club, the Mooresville Lions Club, Mooresville Masonic Lodge #78 and the St. Thomas More Knights of Columbus. He is also actively involved with Saints Francis and Clare School in Greenwood. Professionally, Chris is an active member of Selected Independent Funeral Homes and a member of the Indiana Funeral Directors Association and the National Funeral Directors Association. He earned a B.S.B.A. degree in Entrepreneurial Studies from Xavier University and graduated from Worsham College of Mortuary Science in Chicago. Chris is married with two children and lives in Mooresville.

LARRY R. HEYDON

Director since 2012; Chairman of the Board; Chair of the CEO Performance Committee; Member of ALCO and the Corporate Governance Committee

Larry Heydon serves as President/CEO of Johnson Memorial Health and previously served as Chief Financial Officer of the hospital. He also is the former Chief Executive of St. Francis Hospital, Mooresville. He began his career at Ernst and Young and developed a passion for the banking industry through his assignment on many bank consulting and audit engagements. He serves with the Johnson County Development Corporation, Aspire Johnson County, the JMH Foundation, the Indiana Hospital Association Government Relations Council and Rotary International. Larry holds a B.S. degree in Accounting from Butler University and an M.B.A. degree from Indiana Wesleyan. He also holds an inactive license as a certified public accountant (CPA). He is married with two children and lives in Greenwood.

THOMAS A. HUBBARD

Director since 1998; Vice Chairman of the Board; Chair of the Corporate Governance Committee; Member of the CEO Performance Committee

Tom Hubbard raises both soybeans and corn on his family farm, where he serves as President of Windridge Farms, Inc. He also works as the Central Indiana Sales Manager of Sunrise Energy Systems. He formerly worked with his father at the Hubbard Grain & Feed Mill for many years, and eventually took over as the fourth generation owner of the company. He attended Purdue University, completing the agriculture short course program in 1986. Tom is married with one son and lives in Monrovia.

WILLIAM R. "CHIP" KELLER

Director since 2010; Secretary of the Board; Chair of the Audit Committee; Member of the CEO Performance Committee

Chip Keller is President of Keller Office Supply in Martinsville. He previously worked at Olive, LLP (now BKD, LLP) CPA firm in Indianapolis, where he specialized in financial institution audit and consulting work. He is very active in his local community, serving as President of the Martinsville Redevelopment Commission and is a member of both the City of Martinsville Common Council and the Morgan County Economic Development Corporation. He is also an active member of the Martinsville Rotary Club, the Martinsville and Mooresville Chambers of Commerce, AICPA Society, the Audit Committee of Martinsville Wellspring Center and the Steering Committee of River Valley Christian Church. Chip holds a B.S. degree in Accounting from Butler University and an inactive Indiana CPA license. He is married with two children and lives in Martinsville.

KEITH A. LINDAUER

Director since 2014; President; Chair of the Loan & Investment Committee; Member of ALCO and the CEO Performance Committees

Keith Lindauer was named President and CEO of Citizens Bank and CITBA Financial Corporation on October 22, 2014. With 30 years of banking experience in Central Indiana, he began his career with The National Bank of Greenwood, where he held a variety of positions in the consumer and commercial areas. He also worked for First Community Bank and Trust, where he was an Executive Vice President and Senior Loan Officer. In 2003, he transitioned to MainSource Bank as Senior Vice President and Director of Commercial Lending, eventually being promoted to Senior Commercial Banker. He joined Citizens Bank as Senior Vice President, Chief Lending Officer in 2012. He is a member of the Knights of Columbus, and serves on the Board of Directors of the Community Foundation of Morgan County and the Morgan County Economic Development Corporation. Keith graduated from Purdue University with a B.S. degree in Agriculture Finance and earned his MBA from the University of Indianapolis. Keith is married with two children and lives in Franklin.

CALVIN A. PERSOHN

Director since 2004; Member of the Audit and Compensation Committees

Cal Persohn is a retired partner of BKD, LLP (through merger and previously Olive, LLP and Geo. S. Olive & Co.), a Midwest regional certified public accounting firm. The majority of his 34 year career with BKD was spent serving the financial services industry and gaining an understanding of operating and reporting issues facing the industry. He is currently registered as a CPA on inactive status and a retired member of the American Institute of Certified Public Accountants. Cal holds a B.S. degree in Accounting from Indiana State University. He is married with two children and six grandchildren and lives in Indianapolis.

JOHN P. WILKOWSKI

Director since 2016; Member of the Audit and Compensation Committees

John Wilkowski is a lawyer and partner with Williams Barrett & Wilkowski, LLP, practicing since 1994. His personal practice is centered on corporations, business transactions, real estate, estate and business succession planning and general business law. Before admission to the bar, Wilkowski worked in the financial services industry as both a Commercial Credit Analyst and a Corporate Lender. He currently serves on the Bargersville Plan Commission. He holds a B.S. degree in Finance (minor in Economics) from the University of Tennessee (Magna Cum Laude) and a J.D. degree from Indiana University School of Law (Magna Cum Laude). John is married with two children and lives in Bargersville.

CITIZENS BANK

Directors

Larry R. Heydon, Chairman
Thomas A. Hubbard, Vice Chairman
William R. “Chip” Keller, Secretary

Jennifer A. Andres
Jeffrey A. Banning
Christopher J. Branson
Keith A. Lindauer
Calvin A. Persohn
John P. Wilkowski

Officers & Staff

Keith Lindauer, President & CEO
John Fleener, Sr. Vice President, Chief Financial Officer
Mark Lemieux, Sr. Vice President, Retail & Marketing Officer
Cory Palmer, Sr. Vice President, Technology Officer
Michael Polley, Sr. Vice President, Operations
John Purdie, Sr. Vice President, Sr. Commercial Lender & Chief Credit Officer
Pennie Stancombe, Sr. Vice President, Human Resources Director
Melissa Duke, Vice President, Commercial Lending Officer
James Ellis, Vice President, Sr. Consumer Lender
Shelley Ferrand, Vice President, Compliance
Michael Hein, Vice President, Consumer Loan Officer
Stephen Kaiser, Vice President, Commercial Loan Officer
John Morin, Vice President, Sr. Commercial Lender
Beth Mulbarger, Vice President, Controller & Cashier
Tim Sichting, Vice President, Sr. Consumer Loan Officer
Randy Stephens, Vice President, Mortgage Lending
Ramona Davis, Assistant Vice President, Loan Operations
Thomas Eineman, Assistant Vice President, Assistant Controller & Assistant Cashier
Kimberly Harmon, Assistant Vice President, Branch & Retail Operations Manager
Jacqueline Hoff, Assistant Vice President, Loan Officer
Sara Parks, Assistant Vice President, Branch Operations & Security Officer
Vanessa Scott, Assistant Vice President, Mortgage Originator
Chris Zike, Assistant Vice President, Deposit & Electronic Operations
Sharon Saucerman, Assistant Cashier & Branch Manager
Rachel Barnhart, Branch Manager
Tonya Dagostino, Branch Manager
Lacey Halterman, Branch Manager
Lauren Harmon, Branch Manager
Matthew Montgomery, Mortgage Originator
Marlene Moorman, Collections Officer
Patricia Wilson, Branch Manager

Bank Family

Bonnie Almon
Julia Alward
Angela Amos
Trent Baker
Sharon Barnes
Dawn Best
Amy Bohanon
Millie Bowen
Phyllis Brightwell
Robin Brinkley
Taylor Brooks
Heather Brown
Pamela Chilcote
Randi Clark
Virginia Coffee
Judy Cummings
Pam Davis
Debra Defur
Colt Duke
Cathy Earles
Patricia Enochs
Holly Erickson
Tiffani Farmer
Pam Ferguson
Barbara Fines
Jim Fitch
Jennifer Franklin
Diana Gaskin
Becky Gibbs
Teresa Goss
Debra Hacker
Mari Hackett
Dan Hames
Emily Hammer
Shelley Himes
Alyssa Hitch
Floyd Hubbard
Kristin Irvine
Chris Joslin
Carla Keen
Tina Kinnett
Christy Kirk
Lori Kreamer
Tiffiny Lawrence
Carissa Lovelace
Brooke Martin
Alicia Mason
Kayce Mattingly
Alexis McGregor
Autumn McWhirter
Madelyn Melson
Sandra Miracle
Megan Mursener
Nina Mynatt
Laura Noe
Patti Okerson
Norita Palmore
Carolyn Parmerlee
Meredith Pierson
Carolyn Polson
Brian Popenfoose
Savana Postlewait
Jacclyn Pridemore
Terri Priest
Ashley Rhea
Kellie Rhodes
Amanda Riddle
Jill Ruberson
Fred Schoon
Jessica Scott
Kaitlin Shanafelt
Kia Short
Danielle Sims
Diane Sims
Shawn Smalling
Emily Snyder
Kim Squires
Mary Stahl
Nicole Stropes
Brenda Tapp
Amanda Thompson
Carl Vandeventer
Vicki Vanzant
Lisa Waters
Mary Weber
Sue Wise

CITBA FINANCIAL CORPORATION
AND CITIZENS BANK
CORPORATE GOVERNANCE POLICY

The Board of Directors has established the following guidelines that it follows in corporate governance:

I. Role of the Board

The Directors are elected by the shareholders to oversee the actions and results of the Company's management. Each Director owes a duty of loyalty to the Company and is expected to act in the best interest of the shareholders as a whole. The responsibilities of the Directors include:

- providing general oversight of the business;
- approving corporate strategy and major management initiatives;
- providing oversight of legal and ethical conduct;
- selecting and compensating the Chief Executive Officer and compensating other senior officers;
- nominating, compensating, and evaluating Directors;
- evaluating Board processes and performance;
- appointing, compensating and providing oversight of the Company's independent auditors.

II. Independence of Directors

To increase the effectiveness of the Board of Directors in carrying out their responsibilities, a majority of the Board Members will be independent Directors.

Criteria to Qualify as an Independent Director

A Director is considered independent if he or she is not an employee or has not been an employee for at least five years, has no material relationship with the Company as a substantial supplier of or customer for goods or services, and does not obtain compensation from the Company other than Director's compensation and dividends.

Conflicts of Interest

Occasionally a Director's business or personal relationships may give rise to a material interest that conflicts, or appears to conflict, with the interests of the Company. The Board will take appropriate steps to ensure that all Directors voting on an issue do not possess conflicts of interest. In appropriate cases, the affected Director will be excused from discussions on the issue.

To avoid any appearance of a conflict, Board decisions on certain matters of corporate governance are made solely by the independent Directors. These include Director nominations and the selection, evaluation, compensation and removal of the Chief Executive Officer.

III. Director Tenure

The corporate governance guidelines establish the requirement that Directors will resign from the Board following their 70th birthday at the end of their elected three-year term.

IV. Responsibilities and Functioning of the Board

A. Evaluation of Chief Executive Officer

The Chairperson of the CEO Performance Committee leads the independent Directors annually in assessing the performance of the Chief Executive Officer. The results of this review are discussed with the Chief Executive Officer and considered by the CEO Performance Committee in establishing the CEO's compensation for the next year.

B. Management Succession

The Company has plans in place that include succession planning for the position of Chief Executive Officer and the Board of Directors. These plans are reviewed annually by the Board.

C. Executive Sessions of Directors

At least quarterly, and at other times as they see fit, the non-employee Directors will meet in Executive Session.

D. Board Committees

The Chairperson of the Board of Directors annually appoints members to the six committees of the Board and names the committee chairpersons, subject to Board approval. Committee membership selection is based upon the talents, interests and availability of the members. The Board establishes committees under the corporate governance guidelines listed above. The current committees are shown below:

- ALCO
- Audit Committee
- CEO Performance
- Compensation Committee
- Corporate Governance Committee
- Loan and Investment Committee

Avon
100 N SR 267
Avon, IN 46123
317-272-6175

County Line Road
2334 E. County Line Rd.
Indianapolis, IN 46227
317-881-8045

East Morgan
1360 E. Morgan St.
Martinsville, IN 46151
765-342-3303

Eminence
6497 State Rd. 42
Eminence, IN 46125
765-528-2205

Heartland Crossing
10503 Heartland Blvd.
Camby, In 46113
317-856-9800

Morton Avenue
1098 SR 39 Bypass
Martinsville, IN 46151
765-342-6600

Monrovia
35 W. Washington St.
Monrovia, IN 46157
317-996-2250

Plainfield
2402 E. Main St.
Plainfield, IN 46168
317-839-9899

Main Office
33 N. Indiana St.
Mooresville, IN 46158
317-831-0110

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