

First Advantage Bancorp
Consolidated Financial Statements
Years Ended December 31, 2016 and 2015

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Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
First Advantage Bancorp
Clarksville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Advantage Bancorp and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the related consolidated statements of income, comprehensive income, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 of 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 provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2015, and the results of its operations, comprehensive income, stockholders' equity and its cash flows for the years then ended are in conformity with accounting principles generally accepted in the United States of America.

HORNE LLP

Jackson, Tennessee

March 8, 2017

First Advantage Bancorp

Consolidated Balance Sheets

(Dollars in thousands, except share and per share amounts)

	December 31,	
	2016	2015
Assets		
Cash and due from banks	\$ 7,996	\$ 7,313
Interest-bearing demand deposits with banks	13,664	1,903
Federal funds sold	8,975	1,200
Cash and cash equivalents	<u>30,635</u>	<u>10,416</u>
Available-for-sale securities, at fair value	46,489	48,635
Loans held for sale, at lower of cost or fair value	1,186	1,850
Loans, net of allowance for loan losses of \$6,498 and \$5,937 at December 31, 2016 and 2015, respectively	417,244	397,036
Premises and equipment, net	8,018	8,376
Foreclosed assets held for sale	845	640
Federal Home Loan Bank stock, at cost	2,988	2,988
Accrued interest receivable	2,392	2,045
Bank owned life insurance	13,745	12,775
Deferred tax asset, net	2,061	1,482
Other assets	2,837	1,130
Total assets	<u>\$ 528,440</u>	<u>\$ 487,373</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand	\$ 45,120	\$ 42,535
Savings, checking and money market	206,250	162,168
Time certificates	165,558	157,561
Total deposits	<u>416,928</u>	<u>362,264</u>
Short-term borrowings	10,000	23,002
Long-term borrowings	32,113	33,000
Other liabilities	3,853	2,935
Total liabilities	<u>462,894</u>	<u>421,201</u>
Commitments and contingencies	-	-
Shareholders' Equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding at December 31, 2016 or 2015	-	-
Common stock, \$0.01 par value, 50,000,000 shares authorized, 3,762,497 shares issued and 3,546,176 outstanding at December 31, 2016; 3,875,601 issued and 3,628,389 outstanding at December 31, 2015	38	39
Additional paid-in-capital	36,079	37,298
Common stock held by:		
Nonqualified Deferred Compensation Plan	(2,169)	(2,024)
Employee Stock Ownership Plan	(1,562)	(1,439)
2008 Equity Incentive Plan	(408)	(420)
Retained earnings	33,573	32,205
Accumulated other comprehensive (loss) income, net	(5)	513
Total shareholders' equity	<u>65,546</u>	<u>66,172</u>
Total liabilities and shareholders' equity	<u>\$ 528,440</u>	<u>\$ 487,373</u>

First Advantage Bancorp
Consolidated Statements of Income

(Dollars in thousands, except share and per share amounts)

	Years Ended December 31,	
	2016	2015
Interest and dividend income		
Loans	\$ 21,754	\$ 20,283
Investment securities	1,424	1,655
Other	268	177
Total interest and dividend income	<u>23,446</u>	<u>22,115</u>
Interest expense		
Deposits	2,989	2,023
Borrowings	998	883
Total interest expense	<u>3,987</u>	<u>2,906</u>
Net interest income	<u>19,459</u>	<u>19,209</u>
Provision for loan losses	815	1,235
Net interest income after provision for loan losses	<u>18,644</u>	<u>17,974</u>
Non-interest income		
Service charges on deposit accounts and other fees	1,156	1,122
Loan servicing and other fees	61	61
Net gains on sales of mortgage loans held for sale	888	1,006
Net loss on sales of other real estate owned	-	(13)
Net realized gain on sales of available-for-sale securities	45	165
Insurance and brokerage commissions	90	58
Net realized gain on sales of other assets held-for-sale	-	11
Income from bank owned life insurance	346	365
Other	41	38
Total non-interest income	<u>2,627</u>	<u>2,813</u>
Non-interest expense		
Salaries and employee benefits	10,179	9,039
Net occupancy expense	1,080	986
Equipment expense	1,266	1,050
Data processing fees	1,327	1,245
Professional fees	1,014	905
Marketing expense	47	405
Supplies and communication	444	433
Loan collection and repossession expense	65	199
Other	1,760	1,715
Total non-interest expense	<u>17,182</u>	<u>15,977</u>
Income before income taxes	<u>4,089</u>	<u>4,810</u>
Provision for income taxes	1,195	1,453
Net income	<u>\$ 2,894</u>	<u>\$ 3,357</u>
Per common share:		
Basic net income per common share	<u>\$ 0.80</u>	<u>\$ 0.92</u>
Diluted net income per common share	<u>\$ 0.73</u>	<u>\$ 0.85</u>
Dividends declared per common share	<u>\$ 0.40</u>	<u>\$ 0.40</u>
Basic weighted average common shares outstanding	<u>3,606,441</u>	<u>3,637,581</u>
Diluted weighted average common shares outstanding	<u>3,985,425</u>	<u>3,965,607</u>

First Advantage Bancorp
Consolidated Statements of Comprehensive Income
(Dollars in thousands)

	Years Ended	
	December 31,	
	2016	2015
Net income	\$ 2,894	\$ 3,357
Net change in unrealized (loss) on available-for-sale securities	(904)	(568)
Net change in unrealized gain (loss) on swap derivatives	109	(82)
Reclassification adjustment for realized gains included in income	(45)	(165)
Other comprehensive loss before tax effect	(840)	(815)
Tax benefit	(322)	(311)
Other comprehensive loss	(518)	(504)
Comprehensive income	<u>\$ 2,376</u>	<u>\$ 2,853</u>

First Advantage Bancorp
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2016 and 2015
(Dollars in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Common Stock Acquired by Benefit Plans	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount					
Balance at January 1, 2015	3,961,287	\$ 40	\$ 38,347	\$ 30,414	\$ (4,135)	\$ 1,017	\$ 65,683
Net income	-	-	-	3,357	-	-	3,357
Change in fair market value of available-for-sale securities & swap derivatives, net of tax	-	-	-	-	-	(504)	(504)
Treasury stock purchase/retire	(90,686)	(1)	(1,314)	-	-	-	(1,315)
Treasury stock reinstated to fund stock option exercises	5,000	-	64	-	-	-	64
Dividends paid (\$0.40 per common share)	-	-	-	(1,566)	-	-	(1,566)
Purchase of shares by employee benefit plans	-	-	191	-	(191)	-	-
Release of shares by employee benefit plans	-	-	(357)	-	357	-	-
Stock-based compensation	-	-	367	-	86	-	453
Balance at December 31, 2015	3,875,601	\$ 39	\$ 37,298	\$ 32,205	\$ (3,883)	\$ 513	\$ 66,172
Net income	-	-	-	2,894	-	-	2,894
Change in fair market value of available-for-sale securities & swap derivatives, net of tax	-	-	-	-	-	(518)	(518)
Treasury stock purchase/retire	(140,667)	(1)	(2,256)	-	-	-	(2,257)
Treasury stock reinstated to fund stock option exercises	27,563	-	283	-	-	-	283
Dividends paid (\$0.40 per common share)	-	-	-	(1,526)	-	-	(1,526)
Purchase of shares by employee benefit plans	-	-	160	-	(160)	-	-
Release of shares by employee benefit plans	-	-	(320)	-	320	-	-
Adjustment of ESOP shares	-	-	489	-	(489)	-	-
Stock-based compensation	-	-	425	-	73	-	498
Balance at December 31, 2016	3,762,497	\$ 38	\$ 36,079	\$ 33,573	\$ (4,139)	\$ (5)	\$ 65,546

First Advantage Bancorp
Consolidated Statements of Cash Flows

(Dollars in thousands)

	Years Ended December 31,	
	2016	2015
Operating Activities		
Net income	\$ 2,894	\$ 3,357
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	815	1,235
Depreciation, amortization and accretion	1,043	981
Deferred income taxes	(257)	(125)
Funding of mortgage loans held for sale	(28,618)	(28,028)
Proceeds from sales of mortgage loans held for sale	30,170	27,732
Net gains on sales of mortgage loans held for sale	(888)	(1,006)
Net gains on sale of available-for-sale securities	(45)	(165)
Net writedown and gains on sale of other real estate owned	-	96
Net gain on sale of repossessed assets	-	11
Stock-based compensation	498	453
Bank owned life insurance	(345)	(366)
Increase in other assets	(1,944)	(337)
Increase in other liabilities	918	1,075
Net cash provided by operating activities	<u>4,241</u>	<u>4,913</u>
Investing Activities		
Purchases of securities available-for-sale	(18,197)	(13,925)
Proceeds from call/maturities and repayments of securities available-for-sale	12,652	3,820
Proceeds from sales of securities available-for-sale	6,588	2,892
Net increase in loans	(21,229)	(37,980)
Purchase of premises and equipment	(487)	(527)
Purchase of bank owned life insurance	(625)	(758)
Proceeds from sale of other real estate owned	1	796
Net cash used in investing activities	<u>(21,297)</u>	<u>(45,682)</u>
Financing Activities		
Net increase in demand deposits, savings, checking, and money market accounts	46,667	11,933
Net increase in time deposits	7,997	20,831
Net (decrease) increase in short-term borrowings	(13,002)	5,511
Net (decrease) increase in long-term borrowings	(887)	5,000
Cash paid for dividends	(1,526)	(1,566)
Stock repurchased/retired - repurchase program	(2,257)	(1,315)
Proceeds from stock option exercises	283	64
Net cash provided by financing activities	<u>37,275</u>	<u>40,458</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>20,219</u>	<u>(311)</u>
Cash and Cash Equivalents, Beginning of Year	<u>10,416</u>	<u>10,727</u>
Cash and Cash Equivalents, End of Year	<u>\$ 30,635</u>	<u>\$ 10,416</u>
Supplemental Cash Flow Information		
Interest paid	\$ 3,864	\$ 2,808
Income taxes paid	\$ 1,585	\$ 1,175
Other real estate owned acquired through foreclosure of real estate loans	\$ 116	\$ 830

First Advantage Bancorp
Notes to Consolidated Financial Statements
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Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

First Advantage Bancorp is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, First Advantage Bank. The Bank has one inactive wholly owned subsidiary, First Financial Mortgage Corporation. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Clarksville and Nashville, Tennessee, and in October 2016, opened a second full service branch location in Franklin, Tennessee. The Bank also operates a loan production office in Knoxville, TN engaged in specialized lending.

The Bank is subject to the regulation of certain state and federal agencies and undergoes periodic examinations by those regulatory authorities. In May 2013, the Company chose to de-list its publicly traded stock on the NASDAQ exchange and began trading over the counter in the OTC-QB marketplace until February 2015, when the stock was promoted to the OTC-QX for Banks market platform. The stock trades under ticker symbol: FABK.

Basis of Presentation

The accounting and financial reporting policies the Company follows conform, in all material respects, to accounting principles generally accepted in the United States of America. Certain items in prior period financial statements have been reclassified to conform to the current presentation although not impacting the annual report for net income or stockholder's equity.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank and its wholly owned subsidiary First Financial Mortgage Corporation (collectively referred to as the "Company"). All significant inter-company accounts and transactions have been eliminated in consolidation. First Financial Mortgage Corporation is an inactive subsidiary and, therefore, its operations are not material to the consolidated financial statements.

Use of Estimates

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. Examples of numbers relying on management estimates include Allowance for Loan and Lease Loss, OREO resale values, the useful lives of fixed assets, and fair market value of securities.

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents.

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Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income. The Company does not hold any held-to-maturity securities, which would include any security for which the Company has the positive intent and ability to hold until maturity. The Company does not hold any trading securities, which would include any security held for resale in anticipation of short-term market movements. Management determines the appropriate classification of securities at the time of purchase.

Interest income includes amortization of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Declines in fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

Mortgage loans held for sale 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 income. Gains and losses are realized at the time consideration is received and all other criteria for sales treatment have been met.

Loans

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoffs, are reported at their outstanding unpaid principal balances and adjusted for any charge-offs net of the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term.

Generally, the accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Prior to 2004, the Bank sold mortgage loans to the Government National Mortgage Association (GNMA) in the normal course of business and retained the servicing rights. The GNMA programs under which the loans were sold allowed us to repurchase individual delinquent loans that meet certain criteria from the securitized loan pool. At the Bank's option, and without GNMA's prior authorization, the Bank may repurchase a delinquent loan for an amount equal to 100% of the remaining principal balance on the loan. Once the Bank has the unconditional ability to repurchase a delinquent loan, the Bank is deemed to have regained effective control over the loan and the Bank is required to recognize the loan on the balance sheet and record an offsetting liability, regardless of the intent to repurchase the loan. At December 31, 2016 residential real estate portfolio loans included \$74 of loans available for repurchase under the GNMA optional repurchase programs with the offsetting liability recorded within other short-term borrowings.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others, with mortgage servicing rights fully amortized, were \$5,537 and \$6,592 at December 31, 2016 and December 31, 2015, respectively.

Part of the Bank's loan portfolio is pledged as collateral for borrowing arrangements with the Federal Home Loan Bank and the Federal Reserve. These loans must meet certain requirements to qualify as pledged. At December 31, 2016 the total of pledged loans was \$334,296.

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Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have been incurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability 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 represents management's best estimate of probable losses inherent in the loan portfolio. An allowance is established for loans that are not currently considered impaired in order to recognize the inherent or incurred losses associated with lending activities. This historical valuation allowance is determined through two steps. First, an estimate of potential losses on the portfolio is created by analyzing historical losses for each loan category. Historical losses are calculated using both internal and peer group loss information. Internal loss history is calculated using the average of five years of actual losses. This is combined with the peer group loss data to create a range from which the Company selects a reserve amount for each portfolio based upon management's professional judgment and experience within the particular segment. Second, additional significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date are considered. These significant factors may include changes in lending policies and procedures; international, national, regional and local economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management; changes in the volume of past dues, non-accruals and classified assets; changes in the quality of the loan review system; changes in the value of underlying collateral for collateral dependent loans; concentrations of credit, and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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 and interest when due according to the contractual terms of the loan agreement. Accrual of interest and subsequent cash receipts on impaired loans are generally recorded in the same manner as nonaccrual loans. Loans are charged-off when the loss is confirmed. Factors considered by management in determining impairment include payment status, collateral value, overall industry trends, customer management experience, balance sheet ratios, guarantor credit scores and the probability of collecting scheduled principal and interest payments when due. Loans are considered for impairment when they reach "substandard" or "doubtful" classification (see further discussion of these classifications in Note 5) or when management becomes aware of conditions existing at the balance sheet date that would make it probable that a loss has been incurred. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and 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.

Management may consider restructuring debt if, for economic or legal reasons related to the borrower's financial difficulties, the Bank grants a concession in rate or term to the borrower that it would not otherwise consider. To determine whether or not a borrower is experiencing financial difficulties, management would consider the following factors: whether the borrower is in default, whether the borrower has declared (or will declare) bankruptcy, whether there is significant doubt about continuity of the borrower's business, whether borrower's cash flows are sufficient to service debt with existing terms, whether borrower is able to obtain funds from another bank at current market rates, and whether borrower's securities are under threat of delisting from exchange if applicable. All Troubled Debt Restructures must be approved by the Executive Committee.

The Company evaluates individual loans from all portfolio segments for potential impairment. Groups of homogenous loans with balances considered too small to be evaluated individually are collectively assessed and impaired as necessary.

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Specific risk characteristics relevant to each portfolio segment are as follows:

One-to-four family loans - A portion of the one-to-four family loans have adjustable-rates. While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate mortgages, an increased monthly mortgage payment required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans make our asset base more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

Multi-family and nonresidential real estate loans - Loans secured by multi-family and nonresidential real estate generally have larger balances and involve a greater degree of risk than one-to-four family residential mortgage loans. Of primary concern in multi-family and nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors, if any, to provide annual financial statements on multi-family and nonresidential real estate loans. In reaching a decision on whether to make a multi-family or nonresidential real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. An environmental survey or environmental risk insurance is obtained when the possibility exists that hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials.

Construction and Land loans - Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment if liquidation is required. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, speculative construction loans, which are loans made to home builders who, at the time of loan origination, have not yet secured an end buyer for the home under construction, typically carry higher risks than those associated with traditional construction loans. These increased risks arise because of the risk that there will be inadequate demand to ensure the sale of the property within an acceptable time. As a result, in addition to the risks associated with traditional construction loans, speculative construction loans carry the added risk that the builder will have to pay the property taxes and other carrying costs of the property until an end buyer is found. Land loans have substantially similar risks to speculative construction loans.

Consumer loans - Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are secured by assets that depreciate rapidly, such as motor vehicles. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. Consumer loan collections depend on the borrower's continuing financial stability and, therefore, are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial loans - Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment income or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of

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higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Monitoring

The Company monitors the credit quality of its loan portfolio on an ongoing basis. The responsibility to monitor credit quality of the loan portfolio begins with the Company's board of directors. This is accomplished by the following as it relates specifically to the loan portfolio's credit quality: review and approve a quarterly schedule of reports on portfolio composition and credit quality provided by management, review charge-offs as proposed by management, review and approve reports from the loan review function, and review and approve the adequacy of the Company's allowance for loan losses and related provision.

The board of directors also created an Asset Quality Review Committee ("AQRC") comprised of appropriate and qualified management personnel from executive management including the Chief Executive Officer, President, Chief Lending Officer, Chief Credit Officer, Chief Financial Officer, and the senior commercial lending officers. This management committee was created with the purpose of managing the quality of the loan portfolio of the Company and keeps the board of directors informed of any changes in risk levels. The AQRC monitors standard indicators of risk such as past dues, credit extensions, policy exceptions, concentrations of industry and loan types, concentrations to individual borrowers and other relevant statistical measures of asset quality. The AQRC is also responsible for recommending and approving loan risk rating changes. The AQRC approves all charge-offs as recommended by the Chief Credit Officer and reports these to the board of directors. Each quarter the committee reviews troubled loans, with the assistance of loan officers, in order to understand and approve the proposed action plans and the projection of the future balance of assets adversely classified. The results and action plans along with the projected balances are reported to the board of directors.

The board of directors also has established, for purposes of monitoring credit quality of the loan portfolio, a credit administration function which is headed by the Chief Credit Officer ("CCO"). The CCO is the custodian of the Company's credit quality and is the chairperson of the AQRC. The CCO is responsible for portfolio monitoring and reporting which includes: policy compliance, approval and tracking of policy exceptions, portfolio composition, concentrations, asset quality ratings, criticized loans, delinquencies, nonaccruals and charge-offs. The CCO also determines the adequacy of the allowance for loan losses and leads problem loan resolution.

The final item that the board of directors initiated in regards to monitoring credit quality of the loan portfolio is to hire an independent loan review function ("Loan Review"). The purpose of Loan Review is to conduct periodic loan reviews and an annual review of loan policies and procedures, and report any findings to the audit committee of the board of directors. Annually, Loan Review prepares and presents to the AQRC the Loan Review Plan to define the scope of the review to independently assure the following: timely and accurate assignment of asset quality ratings, compliance with the Company's loan policies and procedures, accuracy of portfolio information and credit statistics provided to the Board, adequacy of the allowance for loan losses, documentation and enforceability of borrower obligations and the Company's interest in underlying collateral.

Derivatives

The Bank enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. Accordingly, such commitments are recorded at estimated fair value with changes in fair value recorded in "Net gains on sales of loans held for sale" on the Consolidated Statements of Operations and do not qualify for hedge accounting. The Bank also has corresponding forward sale commitments related to these interest rate lock commitments, which are recorded at fair value with changes in fair value recorded in "Net gains on sales of loans held for sale" on the Consolidated Statements of Operations and do not qualify for hedge accounting.

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In May 2015, the bank entered into a swap agreement with FTN Financial. The swap functions as a cash flow hedge to protect the Bank against interest rate risk on a \$10,000 advance obtained from Federal Home Loan Bank at a floating, LIBOR based interest rate. The hedge is considered to be highly effective. The swap derivative is reported at fair value based on monthly reports provided by FTN Financial.

See Note 16 for additional information related to derivatives.

Premises and Equipment

Land is carried at cost. Building and improvements, and furniture and equipment are carried at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

Rental Expense

The Bank leases four of its branch locations as well as a loan production office. At December 31, 2016, rental expense was \$452 compared to \$385 at December 31, 2015.

The following table shows future contractual lease obligations:

	0-1 Year	1-3 Years	3-5 Years	Over 5 Years
1206 Hwy 48, Clarksville, TN	\$ 56	\$ 65	\$ -	\$ -
3100 West End Avenue, Nashville, TN	212	244	-	-
1212 Murfreesboro Rd, Franklin, TN	43	92	92	39
170 Market Place Blvd, Knoxville, TN	88	183	149	-
101 International Dr, Franklin, TN	144	288	288	792
Equipment Rentals	24	-	-	-
Total Lease Obligations	\$ 567	\$ 872	\$ 529	\$ 831

One branch, located at 1206 Hwy 48, is leased from a partnership involving an outside director of the Bank and was renewed for a five year period in March 2014. The original lease included the option to renew for four five-year periods with incremental rent increases. The original leases for 3100 West End Avenue and 1212 Murfreesboro Road expire in 2017. The Bank has negotiated a renewal for eighteen months at West End Avenue and exercised a five-year renewal option at Murfreesboro Rd with one five-year option remaining. Both renewals involve incremental rent increases. The lease at 101 International Blvd was effective September 2016 for an initial period of ten years with renewal options for four five-year terms. The Knoxville location is under lease for a period of five years beginning July 2016 with renewal options for two additional three-year periods.

Federal Home Loan Bank Stock

Federal Home Loan Bank ("FHLB") stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula. The Bank reports its investment in the FHLB stock at cost and evaluates for impairment based on the ultimate recoverability of the investment.

Other Real Estate Owned

Other real estate owned and repossessed assets acquired through, or in lieu of, foreclosure are held for sale and initially recorded at fair value, less estimated selling cost when acquired, establishing a new cost basis. Costs after acquisition are generally expensed. Any decline in fair value of the asset is recorded through expense. The valuation of other real estate owned is subjective in nature and may be adjusted in the future because of changes in economic conditions.

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Securities Sold Under Agreements to Repurchase

The Company sells certain securities under agreements to repurchase. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated balance sheets. The dollar amount of the securities underlying the agreements remains in the asset accounts.

Advertising and Marketing Expenses

Advertising and marketing costs are expensed as incurred. At December 31, 2016 marketing expense was \$47 compared to \$405 at December 31, 2015. In December 2016, \$225 received as a promotional incentive for debit card branding was recognized as an offset to marketing expense.

Income Taxes

Income tax expense is the total of the current year's income tax due or refundable and the change in deferred tax assets and liabilities (excluding components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. The Company and its subsidiaries recognize tax expense based on income attributable to each and for 2016 will file consolidated income tax returns.

Rabbi Trust

The Company established a rabbi trust to fund its Nonqualified Deferred Compensation Plan. The Company accounts for these plans in accordance with FASB's ASC 718 "Share-Based Payment." Until the plan benefits are paid, creditors may make claims against the assets if the Company becomes insolvent. See Note 13 for additional information.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans in accordance with FASB's ASC 718 "Share-Based Payment." Compensation expense for stock options, non-vested stock awards and restricted stock is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. The fair value of stock options granted is estimated using the Black-Scholes option-pricing model. The fair value of non-vested stock awards and restricted stock is generally the market price of the Company's stock. Forfeited and expired options and forfeited shares of restricted stock become available for future grants. See Note 13 for additional information.

Comprehensive Income

Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Besides net income, other components of the Company's comprehensive income include after tax effect of changes in the net unrealized gain/loss on securities available for sale and net unrealized gain/loss on derivatives.

Bank Owned Life Insurance

The Company has purchased single-premium life insurance policies on certain key employees and former directors of the Company. The "Bank owned life insurance" asset totals the net cash surrender value of those policies. Changes in the value of the insurance policies are recorded in non-interest income.

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Transfers of Financial Assets

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

Fair Value Measurements

FASB's ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is primarily determined by matrix pricing, and in some cases, fair value is determined by an independent third party. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Earnings Per Common Share

Basic earnings per share ("EPS") is calculated by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted EPS is computed in a manner similar to that of basic EPS except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares (computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents (such as stock options and unvested restricted stock) were vested during the period. The weighted average common shares outstanding equals the gross number of common shares issued less unallocated shares held by the ESOP, non-vested restricted stock awards under the Company's 2007 Deferred Compensation Plan and non-vested restricted stock awards under the Company's 2008 Equity Incentive Plan. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares to be issued include any restricted shares authorized under the Company's 2007 Deferred Compensation Plan and the 2008 Equity Incentive Plan. Unallocated common shares held by the ESOP are shown as a reduction in stockholders' equity and are included in the weighted-average number of common shares outstanding for diluted EPS calculations as they are committed to be released.

Recently Issued Accounting Standards

In December 2016, the FASB issued a technical corrections and improvements accounting standards update which makes minor amendments to the FASB Accounting Standards Codification. The four general topics covered in the guidance include: (1) amendments related to differences between original guidance and the codification, (2) guidance clarification and reference corrections, (3) simplification, and (4) minor improvements. The amendments that require transition guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments that require transition guidance are not applicable to the Corporation. All other amendments were effective upon the issuance of this update in December 2016. The Corporation adopted the accounting standard during the fourth quarter of 2016, as required, with no material impact on its results of operations, financial position, or liquidity.

In March 2016, the FASB issued an amendment involving several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Entities should apply the amendment related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the

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guidance is adopted. Entities should apply the amendment related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement retrospectively. The amendment requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. The Corporation early adopted the accounting standard during the fourth quarter of 2016 and recognized a \$37,161 reduction in income taxes for the excess tax benefits on stock-based compensation. The remaining provisions of this accounting standard did not have a material impact.

On January 5, 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Liabilities). The new guidance is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; eliminating the requirement for non-public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is to be required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements. Our preliminary finding is that the new pronouncement will not have a significant impact on our Statement of Operations. The pronouncement will require some revision to our disclosures within the consolidated financial statements and we are currently evaluating the impact.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements. Our preliminary finding is that the new pronouncement will not have a significant impact on our consolidated financial statements as the projected minimum lease payments under existing leases subject to the new pronouncement are less than one percent of our current total assets.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). These amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements. We are currently evaluating various loss methodologies to determine their correlation to our various loan categories historical performance.

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In January 2015, the FASB issued an amendment to eliminate from U.S. GAAP the concept of extraordinary items. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The amended guidance prohibits separate disclosure of extraordinary items in the income statement. This amendment was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Corporation adopted the accounting standard during the first quarter of 2016, as required, with no material impact.

Note 2: Earnings Per Common Share

The following table presents the calculation of basic and diluted earnings per common share.

	Year Ended December 31,	
	2016	2015
Net income	\$ 2,894	\$ 3,357
Weighted-average shares - Basic EPS	3,606,441	3,637,581
Weighted-average restricted shares - 2008 Equity Incentive Plan	145,022	127,175
Weighted-average shares - ESOP committed to be released - diluted EPS	233,962	200,851
Weighted-average shares - Diluted EPS	3,985,425	3,965,607
Basic earnings per common share	\$ 0.80	\$ 0.92
Diluted earnings per common share	\$ 0.73	\$ 0.85

As of December 31, 2016 and December 31, 2015, options to purchase 10,000 shares and 0 shares, respectively, were outstanding but were not included in the computation of diluted EPS because the options' common stock equivalents were antidilutive.

Note 3: Restriction on Cash and Due From Banks

At times, the Bank may be required to maintain reserve funds in cash and/or on deposits for certain correspondent relationships. There was no reserve required at December 31, 2016 or 2015.

The Company holds amounts with correspondent institutions in the form of due from cash accounts. At times, these amounts exceed the federally insured limits. The bank held \$ 2,256 in 2016 and \$-0- in 2015 in excess of the federally insured limit with correspondent institutions.

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Note 4: Securities

The amortized cost and approximate fair values of available-for-sale securities as of December 31, 2016 and 2015 are summarized below:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Approximate Fair Value</u>
<u>December 31, 2016</u>				
U.S. Treasury	\$ -	\$ -	\$ -	\$ -
U.S. Government agencies and corporations	-	-	-	-
Mortgage-backed securities	19,306	526	(327)	19,505
State and political subdivisions	27,218	198	(432)	26,984
Total	<u>\$ 46,524</u>	<u>\$ 724</u>	<u>\$ (759)</u>	<u>\$ 46,489</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Approximate Fair Value</u>
<u>December 31, 2015</u>				
U.S. Treasury	\$ 4,505	\$ 40	\$ -	\$ 4,545
U.S. Government agencies	7,999	14	(217)	7,796
Mortgage-backed securities	12,098	672	(44)	12,726
State and political subdivisions	23,119	512	(63)	23,568
Total	<u>\$ 47,721</u>	<u>\$ 1,238</u>	<u>\$ (324)</u>	<u>\$ 48,635</u>

The mortgage-backed securities are backed by the Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal National Mortgage Association ("Fannie Mae") and Government National Mortgage Association ("GNMA"). None of the mortgage-backed securities are privately issued.

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

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Within one year	\$ 467	\$ 479	\$ 5,842	\$ 5,912
One to five years	2,139	2,213	1,832	1,951
Five to ten years	4,560	4,597	3,612	3,732
After ten years	20,052	19,695	24,337	24,314
	<u>27,218</u>	<u>26,984</u>	<u>35,623</u>	<u>35,909</u>
Mortgage-backed securities	19,306	19,505	12,098	12,726
Total	<u>\$ 46,524</u>	<u>\$ 46,489</u>	<u>\$ 47,721</u>	<u>\$ 48,635</u>

The carrying value of securities pledged as collateral to secure public deposits, borrowings and for other purposes, was \$20,393 at December 31, 2016, and \$39,669 at December 31, 2015.

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Gross gains of \$45 and \$165 resulting from sales of securities were realized for the years ended December 31, 2016 and 2015, respectively. Taxes on gross gains on the sale of securities were \$17 and \$63 for the years ended December 31, 2016 and December 31, 2015, respectively.

Declines in fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Based on an evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value of the Company's mortgage-backed securities and investments in state and political subdivisions are temporary.

The Company continuously assesses individual securities as part of its ongoing portfolio management, including the identification of other-than-temporary declines in fair value. The other-than-temporary assessment includes reviewing the extent and duration of declines in fair values of investments, the seniority and duration of the securities, historical and projected company financial performance, company-specific news and other developments, the outlook for industry sectors, credit ratings and macro-economic changes, including government policy initiatives.

As of December 31, 2016, management does not have the intent to sell any of the securities classified as available-for-sale in the table below and believes that it is more likely than not that the Company will not have to sell any such securities before recovery of fair value. The unrealized losses are largely due to increases in market interest rates over yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2016, management believes the impairments detailed in the table below are temporary and no other-than-temporary impairment should be recorded in the Company's consolidated financial statements.

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The following table shows the gross unrealized losses and fair value of securities, 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:

Description of Securities	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U. S. Government agencies and corporations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	11,822	(327)	-	-	11,822	(327)
State and political subdivisions	12,089	(432)	-	-	12,089	(432)
Total	<u>\$ 23,911</u>	<u>\$ (759)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,911</u>	<u>\$ (759)</u>

Description of Securities	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	\$ -	\$ -	\$ 4,282	\$ (217)	\$ 4,282	\$ (217)
Mortgage-backed securities	1,815	(16)	1,121	(28)	2,936	(44)
State and political subdivisions	5,616	(63)	-	-	5,616	(63)
Total	<u>\$ 7,431</u>	<u>\$ (79)</u>	<u>\$ 5,403</u>	<u>\$ (245)</u>	<u>\$ 12,834</u>	<u>\$ (324)</u>

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Note 5: Loans and Allowance for Loan Losses

Loans as of December 31, 2016 and 2015 are summarized below:

	At December 31,			
	2016		2015	
	Amount	Percent	Amount	Percent
Real estate loans:				
Permanent loans:				
One-to-four family	\$ 65,421	15.4 %	\$ 68,882	17.1 %
Multi-family	35,306	8.3	30,421	7.5
Nonresidential	146,103	34.4	130,259	32.2
Construction loans:				
One-to-four family	29,764	7.0	35,898	8.9
Multi-family	5,254	1.2	13,796	3.4
Nonresidential	7,459	1.8	6,607	1.6
Land loans	14,771	3.5	19,921	4.9
Total real estate loans	<u>304,078</u>	<u>71.6</u>	<u>305,784</u>	<u>75.6</u>
Consumer:				
Home equity loans and lines of credit	21,103	5.0	21,271	5.3
Auto loans	116	-	182	0.1
Deposit loans	326	-	121	-
Overdrafts	55	-	42	-
Other	53,421	12.6	28,058	6.9
Total consumer loans	<u>75,021</u>	<u>17.6</u>	<u>49,674</u>	<u>12.3</u>
Commercial loans	<u>45,943</u>	<u>10.8</u>	<u>48,477</u>	<u>12.1</u>
Total loans	425,042	100.0 %	403,935	100.0 %
Allowance for loan losses	(6,498)		(5,937)	
Net deferred loan fees	(1,300)		(962)	
Loans receivable, net	<u>\$ 417,244</u>		<u>\$ 397,036</u>	

The following table details allowance for loan losses and recorded investment in loans by portfolio segment for the years ended December 31, 2016 and 2015:

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Allowance for Credit Losses and Recorded Investment in Financing Receivables

	One-to-Four Family	Multi-family/ Nonresidential	Construction	Land	Consumer and Other	Commercial	Unallocated	Total
Year Ended December 31, 2016								
Allowance for credit losses:								
Beginning balance	\$ 450	\$ 2,033	\$ 172	\$ 165	\$ 577	\$ 2,540	\$ -	\$ 5,937
Charge offs	(53)	-	-	-	(76)	(240)	-	(369)
Recoveries	5	-	-	-	28	82	-	115
Provision (Credit)	(90)	246	(5)	(45)	515	194	-	815
Ending balance	<u>\$ 312</u>	<u>\$ 2,279</u>	<u>\$ 167</u>	<u>\$ 120</u>	<u>\$ 1,044</u>	<u>\$ 2,576</u>	<u>\$ -</u>	<u>\$ 6,498</u>
Year Ended December 31, 2015								
Allowance for credit losses:								
Beginning balance	\$ 467	\$ 1,992	\$ 400	\$ 347	\$ 444	\$ 1,616	\$ -	\$ 5,266
Charge offs	(20)	(417)	-	-	(37)	(104)	-	(578)
Recoveries	6	-	-	-	4	4	-	14
Provision (Credit)	(3)	458	(228)	(182)	166	1,024	-	1,235
Ending balance	<u>\$ 450</u>	<u>\$ 2,033</u>	<u>\$ 172</u>	<u>\$ 165</u>	<u>\$ 577</u>	<u>\$ 2,540</u>	<u>\$ -</u>	<u>\$ 5,937</u>

Allowance for Loan Losses and Recorded Investment in Loans

As of December 31, 2016

(Dollars in thousands)

	One-to-Four Family	Multi-family/ Nonresidential	Construction	Land	Consumer and Other	Commercial	Unallocated	Total
Allowance for loan losses:								
Ending balance individually evaluated for impairment	\$ 39	\$ 240	\$ 25	\$ -	\$ 169	\$ 711	\$ -	\$ 1,184
Ending balance collectively evaluated for impairment	273	2,039	142	120	875	1,865	-	5,314
Ending Balance	<u>\$ 312</u>	<u>\$ 2,279</u>	<u>\$ 167</u>	<u>\$ 120</u>	<u>\$ 1,044</u>	<u>\$ 2,576</u>	<u>\$ -</u>	<u>\$ 6,498</u>
Loans:								
Ending balance individually evaluated for impairment	\$ 1,282	\$ 2,974	\$ 25	\$ 381	\$ 957	\$ 3,469	\$ -	\$ 9,088
Ending balance collectively evaluated for impairment	64,139	178,435	42,452	14,390	74,064	42,474	-	\$ 415,954
Ending balance	<u>\$ 65,421</u>	<u>\$ 181,409</u>	<u>\$ 42,477</u>	<u>\$ 14,771</u>	<u>\$ 75,021</u>	<u>\$ 45,943</u>	<u>\$ -</u>	<u>\$ 425,042</u>

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Allowance for Loan Losses and Recorded Investment in Loans

As of December 31, 2015

(Dollars in thousands)

	One-to-Four Family	Multi-family/ Nonresidential	Construction	Land	Consumer and Other	Commercial	Unallocated	Total
Allowance for loan losses:								
Ending balance individually evaluated for impairment	\$ 63	\$ 122	\$ -	\$ -	\$ 9	\$ 705	\$ -	\$ 899
Ending balance collectively evaluated for impairment	387	1,911	172	165	568	1,835	-	5,038
Ending Balance	<u>\$ 450</u>	<u>\$ 2,033</u>	<u>\$ 172</u>	<u>\$ 165</u>	<u>\$ 577</u>	<u>\$ 2,540</u>	<u>\$ -</u>	<u>\$ 5,937</u>
Loans:								
Ending balance individually evaluated for impairment	\$ 818	\$ 3,933	\$ 939	\$ 216	\$ 382	\$ 3,792	\$ -	\$ 10,080
Ending balance collectively evaluated for impairment	68,064	156,747	55,362	19,705	49,292	44,685	-	393,855
Ending balance	<u>\$ 68,882</u>	<u>\$ 160,680</u>	<u>\$ 56,301</u>	<u>\$ 19,921</u>	<u>\$ 49,674</u>	<u>\$ 48,477</u>	<u>\$ -</u>	<u>\$ 403,935</u>

The following table shows credit quality indicators at December 31, 2016 and 2015:

Credit Quality Indicators as of December 31, 2016

	One-to-Four Family	Multi-family/ Nonresidential	Construction	Land	Consumer and Other	Commercial	Total
Grade:							
Pass	\$ 63,755	\$ 173,877	\$ 42,452	\$ 14,237	\$ 73,953	\$ 41,165	\$ 409,439
Special mention	-	-	-	-	-	1,235	1,235
Substandard	1,666	7,532	25	534	1,068	3,543	14,368
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 65,421</u>	<u>\$ 181,409</u>	<u>\$ 42,477</u>	<u>\$ 14,771</u>	<u>\$ 75,021</u>	<u>\$ 45,943</u>	<u>\$ 425,042</u>

Credit Quality Indicators as of December 31, 2015

	One-to-Four Family	Multi-family/ Nonresidential	Construction	Land	Consumer and Other	Commercial	Total
Grade:							
Pass	\$ 67,427	\$ 152,020	\$ 55,360	\$ 19,130	\$ 49,275	\$ 44,495	\$ 387,707
Special mention	421	-	-	389	187	149	1,146
Substandard	1,034	8,660	941	402	212	3,833	15,082
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 68,882</u>	<u>\$ 160,680</u>	<u>\$ 56,301</u>	<u>\$ 19,921</u>	<u>\$ 49,674</u>	<u>\$ 48,477</u>	<u>\$ 403,935</u>

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Credit risk by internally assigned grade

Loans assigned a grade of "Pass" range from loans with virtually no risk of default to loans including some or all of the following characteristics: borrower generally generates sufficient but strained cash flows to fund debt service, key ratios are generally slightly worse than peers, earnings may be trending downward, borrower is currently performing as agreed, risk of default is higher than normal but with prospects for improved financial performance, some borrower management team weaknesses may be evident, loans are protected by collateral that can be liquidated, industry outlook may be trending down but is generally acceptable.

Loans assigned a grade of "Special mention" characteristics include, but are not limited to, the following: weakened due to negative trends in the balance sheet and income statement, current cash flow may be insufficient to meet debt service, existence of documentation deficiencies, potential risk of payment default, collateral coverage is minimal, financial information may be inadequate to show the recent condition of the borrower, management of the borrower may not be adequately qualified or have limited experience, turnover in key positions and industry outlook is generally negative with reasonable expectations of a turnaround within 12 to 18 months.

Loans assigned a grade of "Substandard" characteristics include, but are not limited to, the following: payment default and /or loss is possible but not yet probable, cash flow is insufficient to service debt, there is a likelihood that the collateral will have to be liquidated and/or the guarantor will be called upon to repay the debt, collateral coverage is marginal or nonexistent, guarantor has limited outside worth and is highly leveraged, management of the borrower has no prior experience with similar activities, capital base is weak and insufficient to absorb continuing losses and industry outlook is generally negative with reasonable expectations of a turnaround within 18 to 24 months.

Loans assigned a grade of "Doubtful" include all of the characteristics of "Substandard", but available information suggests it is unlikely that the loan will be paid back in its entirety. Cash flows are insufficient to service the debt, the borrower has had a series of substantial losses, key ratios are at unacceptable levels, and industry outlook is negative with an undeterminable recovery time. If the current adverse trends continue, it is unlikely the borrower will have the ability to meet the terms of the loan agreement. The probability of incurring a loss is greater than 50%. All loans classified as doubtful are placed on nonaccrual status.

These internally assigned grades are updated on a continual basis throughout the course of the year and represent management's most updated judgment regarding grades at December 31, 2016.

Credit risk by payment activity

Loans that do not receive an internally assigned grade are separated into two categories: performing and nonperforming. Performing loans are generally abiding by the terms of their loan contract and are less than 90 days past due. Loans are deemed nonperforming typically when they reach nonaccrual status or are 90 days past due or greater. The information presented by payment activity is updated as of December 31, 2016 based upon past due status as of that date.

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The following table shows an aging analysis of past due loans as of December 31, 2016 and 2015:

Age Analysis of Past Due Loans

As of December 31, 2016

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Loans >90 Days and Accruing</u>
One-to-four family	\$ 537	\$ 459	\$ 298	\$ 1,294	\$ 64,127	\$ 65,421	\$ -
Multifamily/nonresidential	-	-	609	609	180,800	181,409	-
Construction	-	-	-	-	42,477	42,477	-
Land	-	-	-	-	14,771	14,771	-
Consumer and other	335	65	652	1,052	73,969	75,021	-
Commercial	-	27	291	318	45,625	45,943	-
Total	<u>\$ 872</u>	<u>\$ 551</u>	<u>\$ 1,850</u>	<u>\$ 3,273</u>	<u>\$ 421,769</u>	<u>\$ 425,042</u>	<u>\$ -</u>

Age Analysis of Past Due Loans

As of December 31, 2015

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Loans >90 Days and Accruing</u>
One-to-four family	\$ 737	\$ -	\$ 144	\$ 881	\$ 68,001	\$ 68,882	\$ -
Multifamily/nonresidential	309	166	1,403	1,878	158,802	160,680	-
Construction	-	-	834	834	55,467	56,301	-
Land	-	-	-	-	19,921	19,921	-
Consumer and other	651	-	74	725	48,949	49,674	-
Commercial	1,193	-	553	1,746	46,731	48,477	-
Total	<u>\$ 2,890</u>	<u>\$ 166</u>	<u>\$ 3,008</u>	<u>\$ 6,064</u>	<u>\$ 397,871</u>	<u>\$ 403,935</u>	<u>\$ -</u>

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The following tables set forth details regarding impaired loans at December 31, 2016 and 2015:

Impaired Loans

For the Year Ended December 31, 2016

(Dollars in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Year To Date	Interest Income Recognized Year To Date
With no related allowance recorded:					
One-to-four family	\$ 890	\$ 890	\$ -	\$ 908	\$ -
Multifamily/nonresidential	1,486	1,486	-	1,483	10
Construction	-	-	-	-	-
Land	381	381	-	390	-
Consumer and other	295	300	-	305	-
Commercial	168	183	-	197	-
Subtotal	<u>3,220</u>	<u>3,240</u>	<u>-</u>	<u>3,283</u>	<u>10</u>
With an allowance recorded:					
One-to-four family	392	392	68	395	12
Multifamily/nonresidential	1,488	1,488	288	1,512	-
Construction	25	25	25	15	-
Land	-	-	-	-	-
Consumer and other	662	662	140	665	33
Commercial	3,301	3,324	663	3,579	14
Subtotal	<u>5,868</u>	<u>5,891</u>	<u>1,184</u>	<u>6,166</u>	<u>59</u>
Total:					
One-to-four family	1,282	1,282	68	1,303	12
Multifamily/nonresidential	2,974	2,974	288	2,995	10
Construction	25	25	25	15	-
Land	381	381	-	390	-
Consumer and other	957	962	140	970	33
Commercial	3,469	3,507	663	3,776	14
Total	<u>\$ 9,088</u>	<u>\$ 9,131</u>	<u>\$ 1,184</u>	<u>\$ 9,449</u>	<u>\$ 69</u>

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Impaired Loans

For the Year Ended December 31, 2015

(Dollars in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Year To Date	Interest Income Recognized Year To Date
With no related allowance recorded:					
One-to-four family	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily/nonresidential	1,884	1,913	-	1,921	50
Construction	939	939	-	774	19
Land	216	315	-	1,152	-
Consumer and other	-	-	-	-	-
Commercial	444	463	-	556	16
Subtotal	<u>3,483</u>	<u>3,630</u>	<u>-</u>	<u>4,403</u>	<u>85</u>
With an allowance recorded:					
One-to-four family	818	947	63	1,058	4
Multifamily/nonresidential	2,049	2,063	122	2,143	109
Construction	-	-	-	-	-
Land	-	-	-	-	-
Consumer and other	382	394	9	409	5
Commercial	3,348	3,348	705	3,378	137
Subtotal	<u>6,597</u>	<u>6,752</u>	<u>899</u>	<u>6,988</u>	<u>255</u>
Total:					
One-to-four family	818	947	63	1,058	4
Multifamily/nonresidential	3,933	3,976	122	4,064	159
Construction	939	939	-	774	19
Land	216	315	-	1,152	-
Consumer and other	382	394	9	409	5
Commercial	3,792	3,811	705	3,934	153
Total	<u>\$ 10,080</u>	<u>\$ 10,382</u>	<u>\$ 899</u>	<u>\$ 11,391</u>	<u>\$ 340</u>

At December 31, 2016 and 2015, \$0 and \$181, respectively, of interest was recognized on impaired loans on a cash basis.

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The following table sets forth loans on nonaccrual status as of December 31, 2016 and 2015:

Nonaccrual Loans

	December 31,	
	2016	2015
Non-accrual loans:		
One-to four-family	\$ 1,282	\$ 818
Multi-family and nonresidential	2,974	3,933
Construction	25	939
Land	381	216
Consumer and other	957	382
Commercial	3,469	3,792
Total	<u>\$ 9,088</u>	<u>\$ 10,080</u>

Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations, which typically occurs when principal and interest payments are 90 days past due. Had non-accrual loans performed in accordance with their original contract terms, the Company would have recognized additional interest income, net of tax, of approximately \$157 in 2016 and \$224 in 2015.

The following tables set forth information about modifications which were considered troubled debt restructurings ("TDRs") as of December 31, 2016 and December 31, 2015.

Modifications
As of December 31, 2016

	Number of	Pre-Modification	Post-
	Contracts	Outstanding	Modification
		Recorded	Outstanding
		Investment	Recorded
			Investment
Troubled debt restructurings			
One-to-four family	2	\$ 204	\$ 108
Multi-family and nonresidential	2	1,103	1,059
Land	2	1,529	193
Consumer and Other	1	29	14
Commercial	6	1,183	979
Total	<u>13</u>	<u>\$ 4,048</u>	<u>\$ 2,353</u>

	Number of	Pre-Modification
	Contracts	Outstanding
		Recorded
		Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Troubled debt restructurings		
Commercial	-	\$ -

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Modifications
As of December 31, 2015

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled debt restructurings			
One-to-four family	2	\$ 204	\$ 118
Multi-family and nonresidential	-	-	-
Land	2	1,529	216
Consumer and Other	2	37	30
Commercial	6	1,183	1,095
Total	12	\$ 2,953	\$ 1,459

	Number of Contracts	Pre-Modification Outstanding Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Troubled debt restructurings		
Commercial	-	\$ -

Loans characterized as TDRs totaled \$2,353 at December 31, 2016, compared to \$1,459 at December 31, 2015. The allowance allocated to TDRs, excluding specifically-impaired loans referred to above, totaled \$0 at both December 31, 2016 and 2015. The TDR total at December 31, 2016 is comprised of 13 nonperforming loans. Two of these loans, both CRE loans totaling \$1,059, were newly restructured in 2016. The payment structure on these loans were altered due to financial difficulties experienced by the borrower. This loan is on non-accrual status as of 12/31/2016. TDRs, like all other loans, are placed on nonaccrual status at management discretion or upon becoming ninety days past due.

Changes in the Company's restructured loans are set forth in the table below:

	Recorded Investment
Totals at January 1, 2016	\$ 1,459
Additional loans with concessions	1,059
Reductions due to:	
Charge-offs	-
Transfer to foreclosed real estate	-
Principal paydowns	(165)
Change in ownership	-
Lapse of concession period	-
Total at December 31, 2016	\$ 2,353

The allocated allowance for loan losses attributable to restructured loans was \$249 and \$242 at December 31, 2016 and December 31, 2015, respectively. The Company had no remaining availability under commitments to lend additional funds on these restructured loans at either December 31, 2016 or December 31, 2015.

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Note 6: Premises and Equipment

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

	Estimated Useful Lives	<u>December 31,</u>	
		<u>2016</u>	<u>2015</u>
Land		\$ 2,214	\$ 2,214
Land improvements	7 to 15 years	110	110
Buildings and improvements	7 to 40 years	6,190	6,165
Furniture, fixtures and equipment	3 to 10 years	6,053	5,650
Construction in progress		-	-
		<u>14,567</u>	<u>14,139</u>
Less accumulated depreciation and amortization		<u>6,549</u>	<u>5,763</u>
Net premises and equipment		<u>\$ 8,018</u>	<u>\$ 8,376</u>

Note 7: Other Assets Held for Sale

The Company had other assets held for sale of \$305 and \$288 as of December 31, 2016 and 2015 respectively. At December 31, 2016, the balance in other assets held for sale consists of a tract of land in Pleasant View, Tennessee, formerly used as a branch location.

Note 8: Deposits

Year-end deposits were as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Non-interest bearing demand deposits	\$ 45,120	\$ 42,535
Interest bearing deposits:		
Savings	39,306	42,311
Checking	67,604	69,248
Money market	99,340	50,609
Time deposits	165,558	157,561
Total interest bearing deposits	<u>371,808</u>	<u>319,729</u>
Total deposits	<u>\$ 416,928</u>	<u>\$ 362,264</u>

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Presented below is a summary of interest expense by each significant category of deposits:

	December 31,	
	2016	2015
NOW	\$ 341	\$ 343
Money market	533	248
Savings	169	188
Time deposits	1,946	1,244
Total interest expense	<u>\$ 2,989</u>	<u>\$ 2,023</u>

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

2017	\$ 93,469
2018	17,981
2019	7,329
2020	10,798
2021 and thereafter	35,980
	<u>\$ 165,557</u>

Scheduled maturities of jumbo time deposits at December 31, 2016, were as follows:

Due within three months or less	\$ 17,135
Due after three months and within six months	14,521
Due after six months and within twelve months	36,542
Due after twelve months	49,242
	<u>\$ 117,440</u>

Time deposits held over the FDIC insurance limit of \$250 totaled \$31,620 and \$29,104 at December 31, 2016 and 2015, respectively.

Note 9: Short-term Borrowings

Short-term borrowings at December 31 consist of the following:

	December 31,	
	2016	2015
Securities sold under agreements to repurchase	\$ -	\$ 2
FHLB overnight advances	-	13,000
Other FHLB short-term advances	10,000	10,000
	<u>\$ 10,000</u>	<u>\$ 23,002</u>

Securities sold under agreements to repurchase consist of customer funds that are invested overnight in investment securities. US agency securities underlying the repurchase agreements had a fair value of \$0 and \$504 and a book value of \$0 and \$503 as of December 31, 2016 and 2015 respectively.

Federal Home Loan Bank ("FHLB") overnight advances are not being used as of December 31, 2016. They carried an interest rate of .34% as of December 31, 2015.

Other FHLB short-term advances consists of one advance with a rate of .967% as of December 31, 2016 and maturing on May 1, 2017.

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Notes to Consolidated Financial Statements
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Note 10: Long-term Borrowings

At December 31, 2016, the Company had long-term borrowings as follows:

	December 31,	
	2016	2015
FHLB advance, interest rate 1.56% at December 31, 2016, maturing January 14, 2020	\$ 13,000	\$ 13,000
FHLB advance, interest rate 1.61%, at December 31, 2016, maturing January 1, 2021, monthly amortization	4,113	5,000
Repurchase agreement, interest rate 3.28% at December 31, 2016 and 2015, maturing April 30, 2018 callable after April 30, 2011	10,000	10,000
Repurchase agreement, interest rate 2.96% at December 31, 2016 and 2015, maturing April 30, 2018 callable after April 30, 2010	5,000	5,000
	<u>\$ 32,113</u>	<u>\$ 33,000</u>

U.S. agency pass-through mortgage backed securities pledged as collateral on the repurchase agreements had a fair value of \$16,082 and \$16,795 and a book value of \$15,871 and \$16,399 as of December 31, 2016 and 2015, respectively.

Maturities of long-term borrowings following December 31, 2016 are as follows:

Years Ending December 31,	
2017	\$ -
2018	15,000
2019	-
2020	13,000
2021	4,113
Thereafter	-
	<u>\$ 32,113</u>

Note 11: Income Taxes

The Company files federal and Tennessee state income tax returns. When income and expenses are recognized in different periods for tax purposes, applicable deferred taxes are provided in the consolidated financial statements. If necessary, we recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income tax accounts. As of December 31, 2016, the Company did not have any liabilities recorded for uncertain tax positions.

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Income tax expense consists of the following:

	Year Ended December 31,	
	2016	2015
Current income taxes:		
Federal	\$ 1,177	\$ 1,283
State	275	295
Deferred income taxes:		
Federal	(221)	(114)
State	(36)	(11)
Income tax expense	\$ 1,195	\$ 1,453

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

	Year Ended December 31,			
	2016		2015	
	Dollars	%	Dollars	%
Taxes calculated at statutory rate	\$ 1,391	34.00%	\$ 1,635	34.00%
Increase (decrease) resulting from:				
State income taxes, net of Federal effect	158	3.85%	183	3.81%
Tax-Exempt interest income, net	(226)	-5.53%	(184)	-3.82%
Tax credit in lieu of interest on qualified zone bond	-	0.00%	(69)	-1.44%
Other	(128)	-3.12%	(112)	-2.34%
	\$ 1,195	29.20%	\$ 1,453	30.21%

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

	December 31,	
	2016	2015
Deferred tax assets:		
Allowance for loan losses	\$ 2,488	\$ 2,273
Deferred compensation	950	833
Other	602	556
	4,040	3,662
Deferred tax liabilities:		
FHLB dividends	(953)	(953)
Unrealized gains on available-for-sale securities & swap agreement	3	(319)
Depreciation	(531)	(539)
Deferred Loan Fees	(498)	(369)
	(1,979)	(2,180)
Net deferred tax asset	\$ 2,061	\$ 1,482

No valuation allowance for deferred tax assets was recorded at December 31, 2016 and 2015 as management believes it is more likely than not that all of the deferred tax assets will be realized through either recoverable taxes paid in prior years or off-set of future earnings.

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Retained earnings at December 31, 2016 and 2015 include approximately \$3,633 of which no provision for federal income taxes has been made. This amount represents the tax bad debt reserve at December 31, 1987, defined as the base year reserve, which pursuant to the Tax Reform Act of 1986 was not required to be recaptured into taxable income. If this portion of retained earnings is used in the future for any other purpose than to absorb bad debts, the amount used will be added to future taxable income. The deferred tax liability on the above amount at December 31, 2016 and 2015, if recorded, would be approximately \$1,224.

Note 12: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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 regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is subject to restrictions on the amount of dividends it may declare without the prior approval of the TDFI. Under Tennessee law, the amount of dividends that may be paid in any year is limited to that year's net income, combined with the retained net income of the preceding two years. As of December 31, 2016, the Bank would have the ability to pay \$3,413 in dividends to the Company, without regulatory approval.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum capital amounts and ratios (set forth in the table below). Management believes, as of December 31, 2016 and 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016 and 2015, the most recent notification from the regulatory agencies 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, Tier I risk-based, Common Equity Tier I risk-based, 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.

The Bank's actual capital amounts and ratios are presented in the table below.

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	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2016</u>						
Total risk-based capital (to risk-weighted assets)						
First Advantage Bancorp and subsidiary	\$ 71,384	15.29 %	\$ 37,338	8.00 %	\$ 46,673	10.00 %
First Advantage Bank	68,229	14.62	37,338	8.00	46,673	10.00
Tier I capital (to risk-weighted assets)						
First Advantage Bancorp and subsidiary	65,542	14.04	28,004	6.00	37,338	8.00
First Advantage Bank	62,387	13.37	28,004	6.00	37,338	8.00
Common Equity Tier 1 capital (to risk-weighted assets)						
First Advantage Bancorp and subsidiary	65,542	14.04	21,003	4.50	30,337	6.50
First Advantage Bank	62,387	13.37	21,003	4.50	30,337	6.50
Tier I capital (to average total assets)						
First Advantage Bancorp and subsidiary	65,542	12.52	20,948	4.00	26,185	5.00
First Advantage Bank	62,387	11.91	20,948	4.00	26,185	5.00
<u>As of December 31, 2015</u>						
Total risk-based capital (to risk-weighted assets)						
First Advantage Bancorp and subsidiary	\$ 71,255	15.93 %	\$ 35,792	8.00 %	\$ 44,741	10.00 %
First Advantage Bank	67,559	15.10	35,792	8.00	44,741	10.00
Tier I capital (to risk-weighted assets)						
First Advantage Bancorp and subsidiary	65,658	14.68	26,844	6.00	35,792	8.00
First Advantage Bank	61,963	13.85	26,844	6.00	35,792	8.00
Common Equity Tier 1 capital (to risk-weighted assets)						
First Advantage Bancorp and subsidiary	65,658	14.68	20,133	4.50	29,081	6.50
First Advantage Bank	61,963	13.85	20,133	4.50	29,081	6.50
Tier I capital (to average total assets)						
First Advantage Bancorp and subsidiary	65,658	13.51	19,445	4.00	24,306	5.00
First Advantage Bank	61,963	12.75	19,445	4.00	24,306	5.00

Note 13: Related-Party Transactions

At December 31, 2016 and 2015, the Bank had loans outstanding to executive officers, directors and their related interests (related parties), in the amount of \$3,943 and \$7,563, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

	December 31,	
	2016	2015
Beginning balance	\$ 7,563	\$ 8,187
New loans and advances	1,777	4,532
Repayments	(5,397)	(5,156)
Ending balance	\$ 3,943	\$ 7,563

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Excluding the holding company demand deposit account, deposits from related parties held by the Bank, at December 31, 2016 and 2015, totaled \$1,570 and \$3,312, respectively.

Note 14: Employee Benefits

First Advantage Bank 401(k) and Profit Sharing Plan

The Bank has a retirement savings 401(k) and profit-sharing plan covering substantially all employees. Employees may contribute up to 100% of their compensation, up to allowable limits, with the Bank matching up to three percent on a discretionary basis (no required contributions) based on profitability and other factors. Participants are fully vested in any deferrals and vest in any employer contributions at a rate of 20% per year of service, with full vesting after five years of service. Employer contributions charged to expense for the years ended December 31, 2016 and 2015 were \$165 and \$144, respectively. The plan was established in 2005.

First Advantage Bank Deferred Compensation Plans

1998 Nonqualified Deferred Compensation Plan

The Bank has a nonqualified deferred compensation plan for certain active and retired directors and certain active and retired officers. Interest accrues on the deferred amounts at a rate tied to the rate paid by the Bank on one year certificate accounts at the beginning of each plan year. During the initial public offering, participants were given a one-time option to move from the 1998 Nonqualified Deferred Compensation Plan to the new Nonqualified Deferred Compensation Plan. All active participants elected the one-time option. The remaining retired directors and officers are receiving annual payments under the terms of the deferred compensation plan. The charge to expense for the agreement was \$0 and \$0 for the years ended December 31, 2016 and 2015, respectively. Deferred compensation payable for this plan totaled \$16 and \$63 as of December 31, 2016 and 2015, respectively.

2007 Deferred Incentive Plan

On January 1, 2007, the Bank implemented a nonqualified deferred compensation agreement with certain executive officers, senior management and other key employees. The agreement provides the Bank will make contributions to the plan that will vest over a three to five year period. During the initial public offering participants were given a one-time option to move from the 2007 Deferred Incentive Plan to the new Nonqualified Deferred Compensation Plan. All participants elected to participate in the Nonqualified Deferred Compensation Plan. The 2007 Deferred Incentive Plan had no participants during the years ended December 31, 2016 and 2015.

Nonqualified Deferred Compensation Plan

Effective October 1, 2007, the Bank implemented a deferral plan with certain directors, executive officers, senior management and other key employees. The plan allowed participants the option to convert other cash based deferred compensation plan awards to the new Nonqualified Deferred Compensation Plan. Amounts transferred into the new Nonqualified Deferred Compensation Plan from the Bank's other deferred compensation plans, which were approximately \$1,500, were used by the plan to purchase shares of the Company's stock from its initial public offering. The provision of the conversion was a one-time event for previous plans. Additionally directors can elect to contribute fees earned to the plan and are 100% vested. Employees will vest based on the vesting requirements of the 2007 Deferred Incentive Plan. The amount recorded as a contra equity account was \$2,169 and \$2,024 as of December 31, 2016 and 2015, respectively, of which \$1,887 and \$1,752 was 100% vested by participants as of December 31, 2016 and 2015, respectively. Total shares purchased were 237,134 and 226,604 as of December 31, 2016 and 2015, respectively. All participants were 100% vested as of December 31, 2016 and 2015. At December 31, 2016 there were 23,974 shares available for award under the plan.

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	Number of Shares Awarded	Weighted-Average Fair Value
Non-vested stock as of January 1, 2015	-	\$ -
Purchased	12,240	15.00
Vested	12,240	15.00
Forfeited	-	-
Non-vested stock as of December 31, 2015	-	-
Purchased	10,530	16.64
Vested	10,530	16.64
Forfeited	-	-
Non-vested stock as of December 31, 2016	-	\$ -

The Nonqualified Deferred Compensation Plan provides for fixed payments or a lump sum payment in shares of common stock of the Company after termination from service as defined under Section 409A of the Internal Revenue Code. The common stock purchased for this Nonqualified Deferred Compensation Plan is maintained in a Rabbi Trust ("Trust"), on behalf of the participants. The assets of the Trust are subject to the claims of general creditors of the Company. Dividends payable on the common stock held by the Trust are reinvested in additional shares of common stock of the Company and held in the Trust for the benefit of the participants. Since the Nonqualified Deferred Compensation Plan does not provide for diversification of the Trust's assets and can only be settled with a fixed number of shares of the Company's common stock, the deferred compensation obligation is classified as a component of shareholders' equity. Subsequent changes in the fair value of common stock are not reflected in earnings or shareholders' equity of the Company. The obligations of the Company under the Nonqualified Deferred Compensation Plan, and the shares held by the Trust, have no effect on net income.

Employee Stock Ownership Plan (ESOP)

The Bank sponsors a leveraged ESOP that covers substantially all employees who meet certain age and eligibility requirements. As part of the initial public offering the ESOP purchased 421,174 shares, or approximately 8% of the 5,264,683 shares issued in the offering with the proceeds of a 20-year loan from the Company which is payable in annual installments and bears interest at a rate of 7.5% per annum.

The Bank has committed to make contributions to the ESOP sufficient to support the debt service of the loan. The loan is secured by the unallocated shares, which are held in a suspense account, and are allocated among the participants as the loan is repaid. Cash dividends paid on allocated shares are distributed to the participants and cash dividends paid on unallocated shares are used to repay the outstanding debt of the ESOP.

ESOP shares are held by the plan trustee in a suspense account until allocated to participant accounts. Shares released from the suspense account are allocated to participants on the basis of their relative compensation in the year of allocation. Participants become vested in the allocated shares over a period of six years. Any forfeited shares are allocated to other participants in the same proportion as contributions. The Bank is obligated at the option of each beneficiary to pay out their vested allocations in either shares or cash upon the beneficiary's termination or after retirement.

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As ESOP shares are earned by the participants, the Company recognizes compensation expense equal to the fair value of the earned ESOP shares. Total compensation expense for the years ended December 31, 2016 and 2015 was \$341 and \$306, respectively. The ESOP shares as of December 31, 2016 and 2015 were as follows:

	2016	2015
Allocated shares	171,540	147,226
Repurchased shares of beneficiaries	(10,250)	(5,193)
Shares committed to be allocated	29,253	29,507
Unreleased shares	156,766	186,019
Total ESOP shares	347,309	357,559
Fair value of unreleased shares at December 31	\$ 2,822	\$ 3,051

2008 Equity Incentive Plan

The First Advantage Bancorp 2008 Equity Incentive Plan ("the 2008 Plan") was approved by the Company's stockholders at the annual meeting of stockholders held on June 11, 2008. Under the terms of the 2008 Plan, the Company may grant stock awards and stock options to its employees, officers and directors. The purpose of the 2008 Plan is to promote the success of the Company by linking the personal interests of its employees, officers and directors to the interests of the Company's shareholders, and by providing participants with an incentive for remarkable performance. All of the Company's employees, officers and directors are eligible to participate in the 2008 Plan. A committee appointed by the Board of Directors of the Company (which consists of at least two independent directors) (the "Committee") serves as administrator of the 2008 Plan. The Committee has sole authority to designate participants; determine the type or types of awards to be granted to each participant and the number, terms and conditions of awards; establish, adopt or revise any rules and regulations as it may deem advisable to administer the 2008 Plan; and make all other decisions and determinations that may be required under the 2008 Plan.

The restricted common stock awards vest either at a rate of 20% per year from the date of grant or on a five-year cliff vesting schedule. The fair market value of the stock awards is based on the market price of the company's stock at the date of grant.

There were 27,563 stock options exercised during 2016. There were 5,000 stock options exercised during 2015. The total intrinsic value of options exercised during the year ended 2016 and 2015 was \$162 and \$15, respectively. The weighted-average grant-date fair value of options granted was \$2.50 and \$2.47 for 2016 and 2015, respectively. We use shares repurchased under a repurchase program for share issuances upon exercise of options.

Both incentive stock options and non-qualified stock options were granted under the Plan. The exercise price for each option was equal to the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. The vesting period for most options is five years from the date of grant. The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

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A summary of the activity in the 2008 Plan as of December 31, 2016, is presented in the following table:

	Shares Available for Grant	Non-Vested Stock Awards Outstanding		Stock Options Outstanding	
		Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Exercise Price
Balance, January 1, 2015	100,293	3,800	\$ 12.25	400,389	\$ 10.65
Granted	(22,000)	5,000	14.37	17,000	14.11
Stock options exercised	-	-	-	(5,000)	12.65
Stock awards vested	-	(1,075)	12.33	-	-
Forfeited	5,000	-	-	(5,000)	13.84
Balance, December 31, 2015	<u>83,293</u>	<u>7,725</u>	\$ 13.46	<u>407,389</u>	\$ 10.73
Granted	(21,000)	11,000	16.15	10,000	16.20
Stock options exercised	-	-	-	(27,563)	10.30
Stock awards vested	-	(1,075)	12.33	-	-
Forfeited	26,500	(1,500)	13.81	(25,000)	12.42
Balance, December 31, 2016	<u>88,793</u>	<u>16,150</u>	\$ 15.33	<u>364,826</u>	\$ 10.80

Other information regarding options outstanding and exercisable as of December 31, 2016, is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Number of Shares	Weighted-Average Exercise Price
\$10.03 - \$16.20	364,826	\$ 10.79	2.48	332,526	\$ 10.44

The fair value of the 2008 Plan stock options granted is estimated on the measurement date, which, for the Company, is the date of grant using the Black-Scholes option-pricing model. The weighted-average assumptions used to determine the fair value of options granted in 2016 are detailed in the table below:

Risk-free interest rate	1.68%
Dividend yield	2.47%
Expected market price volatility	35.62%
Expected life	7.0 Years

The total intrinsic value of vested stock options at December 31, 2016 was \$2,513. The total intrinsic value of non-vested stock options at December 31, 2016 was \$116.

The fair value of non-vested restricted stock awards for the purposes of recognizing stock-based compensation expense is the market price of the stock award on the measurement date, which, for the Company, is the date of the award.

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Stock-based compensation expense totaled \$84 in 2016 and \$61 in 2015. Stock-based compensation is recognized ratably over the requisite service period for all awards. The total income tax benefit recognized in the accompanying consolidated statements of income related to stock-based compensation was approximately \$32 in 2016 and \$23 in 2015. Unrecognized stock-based compensation expense related to stock options totaled \$90 at December 31, 2016. At December 31, 2016, the weighted-average period over which the unrecognized expense related to stock options was expected to be recognized was 2.92 years. Unrecognized stock-based compensation expense related to non-vested restricted awards was \$200 at December 31, 2016. At December 31, 2016, the weighted-average period over which unrecognized expense related to restricted stock awards was expected to be recognized was 3.84 years.

Supplemental Executive Retirement Plan

The Bank has established supplemental executive retirement plans to benefit certain executives and employees. The plans provide 17 officers of the Bank a set amount of compensation to be paid annually beginning at a projected retirement date and continuing for ten years after retirement. An anticipated total of \$8,450 is set to begin paying out in 2019 and will continue through 2062. The plans are funded by bank-owned life insurance held on the participants. BOLI held on participants to fund the plan had a cash surrender value of \$13,121 as of December 31, 2016. Expense recorded for this plan was \$218 in 2016 compared with \$284 in 2015. Outstanding liability recorded for future payoffs was \$579 at December 31, 2016 and \$361 at December 31, 2015. The plans are not qualified under section 401 of the Internal Revenue Code.

Note 15: Disclosures About Fair Value of Financial Instruments

FASB's ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is primarily determined by matrix pricing, and in some cases, fair value is determined by an independent third party. Valuation adjustments may be made to ensure that financial statements are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The fair value hierarchy gives the highest priority to a valuation based on quoted prices in active markets for identical assets and liabilities (Level 1), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable in the market (Level 2), and the lowest priority to a valuation based on assumptions that are not observable in the market (Level 3). The following methods and assumptions are used by the Company to estimate the fair values of the Company's financial assets and liabilities on a recurring basis:

Available-for-Sale Securities

The fair values of securities available for sale are determined by a matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 2 securities include U. S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, asset-backed and other securities. Level 3 securities include preferred term securities that are not traded in an active market with a fair value determined by an independent third party.

Swap Derivative

The fair value of the swap derivative is provided by a third-party and based on current market interest rates.

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Fair Value of Assets Measured on a Recurring Basis

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

December 31, 2016	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities:				
U.S. Treasury	\$ -	\$ -	\$ -	\$ -
U.S. Government agencies	-	-	-	-
Mortgage-backed securities	19,505	-	19,505	-
State and political subdivisions	26,984	-	26,984	-
Swap derivative	27		27	

December 31, 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities:				
U.S. Treasury	\$ 4,545	\$ 4,545	\$ -	\$ -
U.S. Government agencies	7,796	-	7,796	-
Mortgage-backed securities	12,726	-	12,726	-
State and political subdivisions	23,568	-	23,568	-
Swap derivative	82		82	

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Fair Value of Assets Measured on a Nonrecurring Basis

Certain assets may be recorded at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically result from the application of lower of cost or market accounting or a write-down occurring during the period. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2016 and December 31, 2015.

December 31, 2016	Level 1	Level 2	Level 3	Nonrecurring Fair Value Adjustments Twelve Months Ended December 31, 2016
Impaired loans			\$ 5,867	\$ (406)

December 31, 2015	Level 1	Level 2	Level 3	Nonrecurring Fair Value Adjustments Twelve Months Ended December 31, 2015
Impaired loans			\$ 584	\$ (191)

The following methods and assumptions are used by the Company to estimate the fair values of the Company's financial assets and liabilities on a nonrecurring basis:

Other Real Estate Owned and Repossessed Assets

Other real estate owned and repossessed assets are carried at lower of cost or estimated fair value. The estimated fair value of the real estate or repossessed asset is determined through current appraisals or management's best estimate of the value and adjusted as necessary, by management, to reflect current market conditions. As such, other real estate owned and repossessed assets are generally classified as Level 3.

Impaired Loans

While the overall loan portfolio is not carried at fair value, the Company periodically records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In determining the value of real estate collateral, the Company relies on external appraisals and assessment of property values by its internal staff. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists. Because many of these inputs are not observable, the measurements are classified as Level 3.

The "Fair Value Measurement and Disclosures" topic of the FASB ASC requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The estimated fair value approximates carrying value

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for cash and cash equivalents and the cash surrender value of life insurance policies. The methodologies for other financial assets and financial liabilities are discussed below.

The year-end estimated fair values of financial instruments were as follows for the dates indicated:

At December 31, 2016

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	\$ 30,635	\$ 30,635	\$ 30,635	\$ -	\$ -
Available-for-sale securities	46,489	46,489	-	46,489	-
Loans held for sale	1,186	1,186	-	1,186	-
Loans, net of allowance for loan losses	417,244	422,625	-	422,625	-
FHLB stock	2,988	2,988	-	2,988	-
Interest receivable	2,392	2,392	-	2,392	-
Mortgage derivative assets	-	2	-	2	-
Swap derivative assets	27	27	-	27	-
Financial liabilities					
Deposits	\$ 416,928	\$ 417,604	\$ -	\$ 417,604	\$ -
Securities sold under agreement to repurchase	-	-	-	-	-
Interest payable	465	465	-	465	-
FHLB advances - short term	10,000	10,000	-	10,000	-
FHLB advances - long term	17,113	17,120	-	17,120	-
Other borrowings	15,000	15,465	-	15,465	-
Mortgage derivative liabilities	-	1	-	1	-
Swap derivative liabilities	-	-	-	-	-

At December 31, 2015

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	\$ 10,416	\$ 10,416	\$ 10,416	\$ -	\$ -
Available-for-sale securities	48,635	48,635	4,545	44,090	-
Loans held for sale	1,850	1,850	-	1,850	-
Loans, net of allowance for loan losses	397,036	396,440	-	396,440	-
FHLB stock	2,988	2,988	-	2,988	-
Mortgage derivative assets	2,045	2,045	-	2,045	-
	-	1	-	1	-
Financial liabilities					
Deposits	\$ 362,264	\$ 362,577	\$ -	\$ 362,577	\$ -
Securities sold under agreement to repurchase	2	2	-	2	-
Interest payable	345	345	-	345	-
FHLB advances - short term	23,000	23,000	-	23,000	-
FHLB advances - long term	18,000	18,001	-	18,001	-
Other borrowings	15,000	15,726	-	15,726	-
Mortgage derivative liabilities	-	5	-	5	-

General

For short-term financial instruments realizable in three months or less, the carrying amount approximates fair value.

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Cash and Cash Equivalents

The carrying amount approximates fair value, primarily due to their short-term nature. Cash and cash equivalents are classified within Level 1 of the fair value hierarchy.

Federal Home Loan Bank Stock

The fair value of stock in the Federal Home Loan Bank equals the carrying value reported in the balance sheet. This stock is redeemable at full par value only by the Federal Home Loan Bank. The Company's Federal Home Loan Bank stock is classified within Level 2 of the fair value hierarchy.

Available-for-Sale Securities

The fair values of securities available for sale are determined by a matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include U.S. Treasury securities. Level 2 securities include U. S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, asset-backed and other securities.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. These are classified within Level 2 of the fair value hierarchy.

Deposits

The fair values disclosed for demand deposits, both interest-bearing and noninterest-bearing, are, by definition, equal to the amount payable on demand at the reporting date. The fair values of certificates of deposit and individual retirement accounts are estimated using a discounted cash flow based on currently effective interest rates for similar types of accounts. Deposits are classified within Level 2 of the fair value hierarchy.

Securities Sold Under Agreement to Repurchase

Securities sold under agreement to repurchase are transacted with customers as a way to enhance our customers' interest-earning ability. The Company does not consider customer repurchase agreements to be a wholesale funding source, but rather an additional treasury management service provided to our customer base. Our customer repurchase agreements are based on an overnight investment sweep that can fluctuate based on our customers' operating account balances. These are classified within Level 2 of the fair value hierarchy.

Short-term borrowings

Short-term borrowings consist of securities sold under agreements to repurchase, FHLB overnight advances, and other FHLB advances. The fair value of these short-term borrowings approximates the carrying value of the amounts reported in the consolidated balance sheets for each respective account, due to the short-term nature of these liabilities.

Long-term borrowings

Long-term borrowings consist of FHLB advances and multiple rate repurchase agreements. Rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt. These are classified within Level 2 of the fair value hierarchy.

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Other Borrowings

On April 30, 2008, the Bank entered into two balance sheet leverage transactions whereby it borrowed a total of \$35,000 in multiple rate repurchase agreements and invested the proceeds in U. S. Agency pass-through Mortgage Backed Securities, which were pledged as collateral. Of this total, \$15,000 remains outstanding at December 31, 2016. The fair values disclosed are based on third party modeling of the debt structure. The Company's other borrowings are classified within Level 2 of the fair value hierarchy.

Swap Derivative

The Company uses an interest rate swap commitment to manage financial risks related to the interest rate for variable rate debt with the FHLB. The Company's interest rate lock commitment is valued using current market prices for similar instruments and is categorized within Level 2.

Mortgage Derivative

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. These are classified within Level 2 of the fair value hierarchy.

Note 16: Commitments and Credit Risk

Commitments to Originate Loans

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

At December 31, 2016 and 2015, the Bank had outstanding commitments to originate loans aggregating \$15,400 and \$8,472, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Mortgage loans in the process of origination represents amounts that the Bank plans to fund within a normal period of 60 to 90 days, and which are intended for sale to investors in the secondary market. Total mortgage loans in the process of origination amounted to approximately \$551 and \$2,200, and mortgage loans held for sale amounted to \$1,186 and \$1,850 at December 31, 2016 and 2015, respectively.

The Bank had recourse commitments on loans sold on the secondary market of approximately \$9,970 and \$6,386 at December 31, 2016 and 2015, respectively. Recourse provisions expire within one to six months from the date of transfer.

Standby Letters of Credit

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

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essentially the same as that involved in extending loans to customers. Should the Bank be obligated to perform under the standby letters of credit, the Bank may seek recourse from the customer for reimbursement of amounts paid.

The Bank had total outstanding standby letters of credit amounting to \$2,849 and \$2,856 at December 31, 2016 and 2015, respectively, with terms generally ranging from 30 days to 34 months.

Lines of Credit

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

At December 31, 2016, the Bank had granted unused lines of credit to borrowers aggregating approximately \$54,424 and \$14,388 for commercial lines and open-end consumer lines, respectively. At December 31, 2015, the Bank had granted unused lines of credit to borrowers aggregating approximately \$54,947 and \$14,141 for commercial lines and open-end consumer lines, respectively.

Note 17: Derivatives

The Bank enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Bank had \$1,949 and \$2,076 in total notional amount of interest rate lock commitments with a fair value of \$0 and \$2 at December 31, 2016 and December 31, 2015, respectively. The Bank manages market risk on the interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments, which are recorded at fair value with changes to fair value recorded in net gains on sales of loans held for sale. The Bank had \$2,530 and \$4,066 in total notional amount related to these forward sale commitments with a fair value of \$0 and \$2 at December 31, 2016 and December 31, 2015, respectively. Changes in fair value are recorded in other assets or other liabilities on the consolidated balance sheet, depending on their balance. The adjustment to net gains on mortgage loans held for sale as a result of interest rate lock commitments and forward sale commitments was \$0 for December 31, 2016 and December 31, 2015, respectively.

In 2015, the Bank entered into a swap agreement with FTN Financial to hedge a \$10,000 Federal Home Loan Bank advance with a variable, LIBOR-based interest rate against interest rate risk. The Bank pays FTN Financial a weighted average fixed interest rate of 1.98% on \$10,000 principal to avoid risks associated with rising interest rates. The principal is broken into four separate agreements with a weighted average original maturity of 9.44 years. The hedge is evaluated for effectiveness monthly using the cumulative hypothetical derivative method and is deemed to be 100% effective. Therefore, changes in fair value are reported on the balance sheet as Other Comprehensive Income, net of deferred tax. There are no charges to income. The fair value of the swap was \$27 and \$82 at December 31, 2016 and December 31, 2015, respectively.

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Note 18: Parent Company Condensed Financial Statements

The condensed year-end 2016 and 2015 financial statements, pertaining only to First Advantage Bancorp, are as follows:

<u>Balance Sheet</u>	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(Dollars in thousands)	
Assets		
Cash and cash equivalents	\$ 1,016	\$ 1,589
Investment in subsidiaries	62,383	62,476
ESOP trust loan receivable	1,872	2,170
Other assets	275	-
Total Assets	<u>\$ 65,546</u>	<u>\$ 66,235</u>
Liabilities and Stockholders' Equity		
Other liabilities	\$ -	\$ 63
Stockholders' equity	65,546	66,172
Total Liabilities and Stockholder's Equity	<u>\$ 65,546</u>	<u>\$ 66,235</u>

Condensed Statement of Income

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	(Dollars in thousands)	
Income		
Dividend from subsidiary	\$ 3,000	\$ 1,500
ESOP loan interest	163	185
Total income (eliminated in consolidation)	<u>3,163</u>	<u>1,685</u>
Operating expenses	<u>194</u>	<u>203</u>
Gain (loss) before equity in undistributed net loss of subsidiaries	<u>2,969</u>	<u>1,482</u>
Equity in undistributed net income of subsidiaries	<u>(75)</u>	<u>1,875</u>
Net income	<u>\$ 2,894</u>	<u>\$ 3,357</u>

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<u>Statement of Cash Flows</u>	<u>Year Ended</u> <u>December 31, 2016</u>	<u>Year Ended</u> <u>December 31, 2015</u>
	<u>(Dollars in thousands)</u>	
Operating Activities		
Net income	\$ 2,894	\$ 3,357
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	75	(1,875)
Change in other assets	(275)	612
Change in other liabilities	(63)	(7)
Net cash provided by operating activities	2,631	2,087
Investing Activities		
Proceeds from repayment of ESOP loan from subsidiary	296	288
Net cash provided by investing activities	296	288
Financing Activities		
Stock purchased/retired - repurchase program	(2,257)	(1,315)
Cash received upon exercise of employee stock options	283	64
Cash paid for dividends	(1,526)	(1,566)
Net cash used in financing activities	(3,500)	(2,817)
Decrease in cash and cash equivalents	(573)	(442)
Cash and cash equivalents, beginning of year	1,589	2,031
Cash and cash equivalents, end of year	\$ 1,016	\$ 1,589

Note 19: Subsequent Events

The Company has evaluated, for consideration of recognition or disclosure, subsequent events that have occurred through March 8, 2017, the date of issuance of its financial statements. There were no material subsequent events that required recognition of additional disclosure in these financial statements.