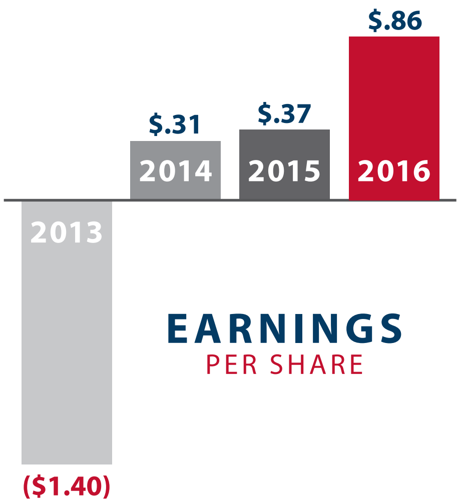
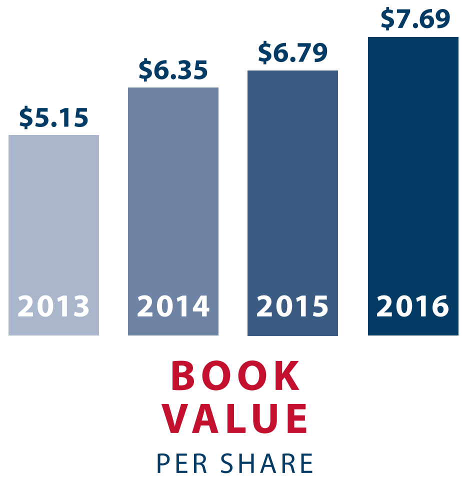
Committed to Community

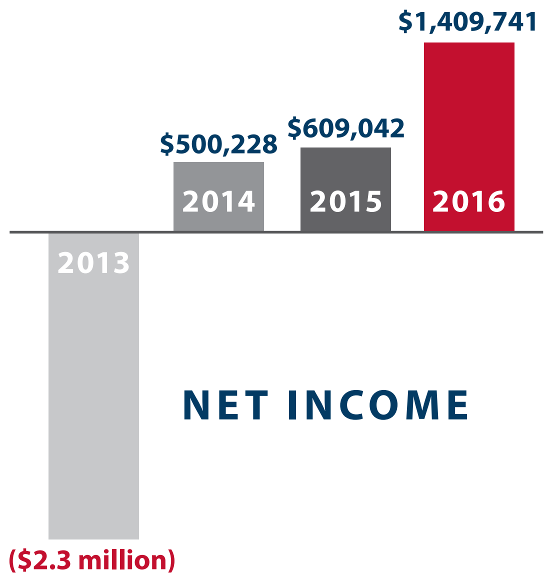
First Community Corporation

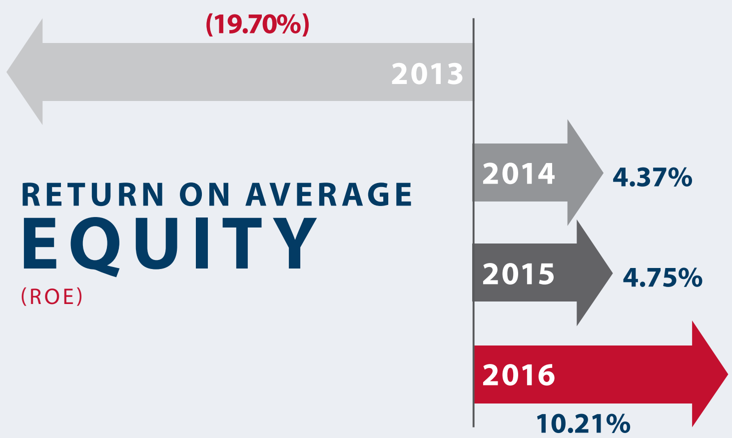
2016 ANNUAL REPORT

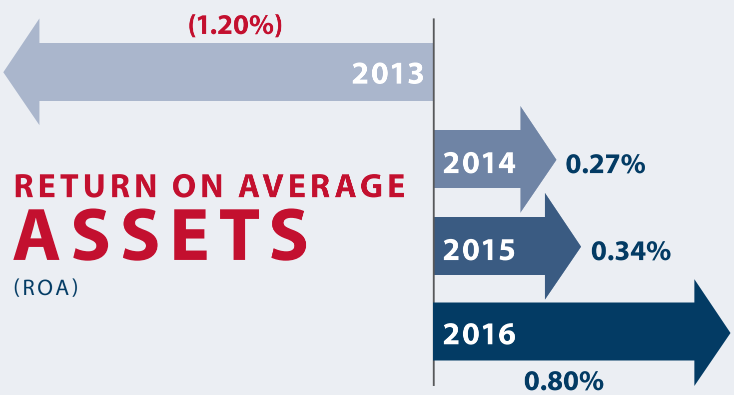
2016 Financial Performance

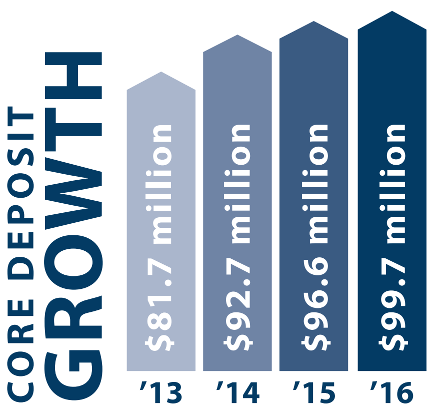


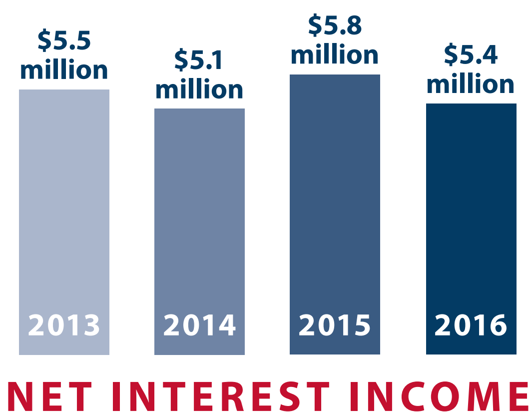












Dear Shareholder:

Robert K. Greenleaf first coined the phrase "servant leadership" back in 1970. He said a servant-leader focuses primarily on the growth and well-being of people and the communities to which they belong. At First Community Bank, our customers and our communities are at the heart of everything we do. While we are pleased to share the details of another year of profitability with you, we also want to show you some of the ways the bank and our employees serve the communities in which we work.

Let's start with a look back at the 2016 financial performance of the corporation. The corporation earned $1,409,741, an increase of 131.5% over 2015. This equated to $0.86 in earnings per share. The book value per share was $7.69, a 13.3% increase over 2015.

Last year First Community Bank was honored to have so many opportunities to give back to the communities where we live and work. The Church Hill branch hosted several fundraising efforts last year – including two different events for a pair of sisters with a heart for service.

Myka Coward, a fifth grader at Church Hill Intermediate School, held her annual Lemonade for Lunches at the Church Hill branch on July 8. She sold lemonade for donations to the "hot lunch" fund at Church Hill Elementary and Church Hill Intermediate School for kids who forget their lunch money. She raised a record-breaking $514 which equated to 257 lunches for students.

Joey-Lynne, Myka's sister, followed in the footsteps of her big sister philanthropist by starting her own fundraising effort last year. She founded Joey-Lynne's Toy Bin by teaming up with Of One Accord Ministries of Hawkins County. Her toy gathering campaign at our Church Hill, East Main, and West Main locations helped local children have a better Christmas.

The Church Hill branch employees were also able to partner with Hawkins County native and former Miss Kingsport Jacquelyn Crawford to raise funds for a weekend food bag initiative. Crawford, coordinator for the Church Hill Lunch Box Summer Food Program, wanted to raise funds to provide weekend meals for those children who need them most. A food collection barrel was set up inside the branch, and monetary donations were also accepted.

Tyler Clinch, FCB President and CEO, participated in the 6th Annual Ride Like Hale event. She completed a 62 mile Metric Century ride in support of the Chip Hale Center in Rogersville. FCB served as a sponsor for the event donating $500 to the United Way Agency.

continued...

Committed to Community

Also in 2016, First Community Bank became the title sponsor for the Chili Cook-Off held during Heritage Days in Rogersville. The event was a tremendous success, and we look forward to continuing our support of this time-honored tradition. We also participated in Trunk or Treat and the Cruise-In, both held on Main Street in downtown Historic Rogersville. All of these events were supported by the staff members of our Rogersville branches at West Main, East Main, and Walmart.

Artwork by area students was proudly displayed at our Colonial Heights, Kingsport, Church Hill, East Main, and West Main locations throughout the year. Families were invited to visit the branches for a viewing and photo opportunity. We hope to expand our support of the arts in our local schools in the coming year by continuing to offer our branch locations as exhibit venues.

Last year the bank supported many other civic groups within our communities with both financial and service commitments. This support includes:

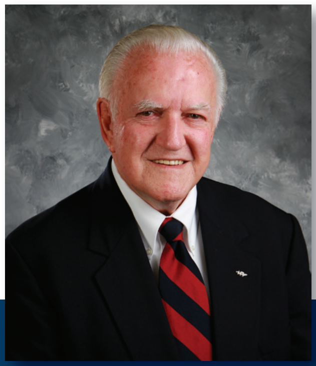
- Hawkins County School System In-Service Event
- Hawkins County Teacher of the Year Banquet
- Sponsorship of an ETSU banking student to the annual TBA Credit Conference
- Down payment assistance facilitation from the FHLB Affordable Housing program for two area homeowners
- Imagination Library: Hawkins County
- Price Public Community Center
- Leadership Hawkins
- Leadership Kingsport
- CASA of Hawkins and Sullivan County
- Kingsport Ballet sponsorship
- And many more!

We are excited to see where 2017 takes our corporation and our community. We look forward to serving our customers both inside and outside our branch walls. Thank you for your commitment to First Community Corporation, and thank you for doing business with First Community Bank.

Sincerely,

Tommy W. Young

Tommy W. Young
Chairman of
First Community Corporation



Tyler K. Clinch

Tyler K. Clinch
Chairman of
First Community Bank,
President & CEO

first Community Corporation

Volunteer High School
FCB employees visiting with students to talk about personal finance

The Lunch Box
FCB employees helping raise awareness for the Lunch Box program in Hawkins County

Myka's Lemonade for Lunches
Myka Coward's fundraiser provided more than 250 hot lunches to Church Hill students

Joey-Lynne's Toy Bin for Kids
Joey-Lynne Sturgill raising money and toys for Of One Accord Ministries and their Christmas program

Art Displays
Students from Church Hill Elementary, Hawkins Elementary, John F. Kennedy Elementary, and Sullivan South High School displayed artwork at FCB locations in Kingsport and Hawkins County

Trunk or Treat
Allison Ball and Rachel Manning celebrate Halloween in downtown Rogersville

FCB's Great Chili Cook Off
FCB staff and Board Chair Tommy Young celebrate Heritage Days in Rogersville

Ride Like Hale
FCB President & CEO Tyler Clinch preparing to ride 62 miles for the Chip Hale Center

Board of Directors and Officers

L. to R.: Steve L. Droke, Dr. David R. Johnson, David L. Lunceford,
James B. Maddox, Sidney K. Lawson, Tyler K. Clinch, Tommy W. Young

BOARD OF DIRECTORS

Tommy W. Young
Chairman/Secretary
Vice Chairman of the Hawkins County Industrial Commission
Commissioner & Secretary for Hawkins County Gas Utility
Board of Directors - Wellmont Hawkins County Memorial Hospital

Tyler K. Clinch
President
CEO of First Community Bank of East Tennessee

Steve L. Droke
Executive Vice President
Chief Lending Officer

Dr. David R. Johnson
Staff Veterinarian

Sidney K. Lawson
President and CEO of
Lawson Construction Company, Inc.

David L. Lunceford
Retired
Board of Directors - Meals on Wheels of Kingsport

OFFICERS

Tommy W. Young
Chairman of the Board and Secretary

Tyler K. Clinch
President

James B. Maddox
Treasurer

Shareholder Information

www.fcbanktn.com

423-272-5800

(ask for Jim Maddox for Shareholder Support)

American Stock Transfer and Trust (AST)

As a shareholder we encourage you to access your account(s) online at www.amstock.com. You can update your mailing address, access statement information, print a duplicate 1099 tax form, consolidate accounts, download stock transfer forms, etc.

All Shareholder Inquiries:	(800) 937-5449
Shareholder Services: (AST's Call Center is open Monday through Friday, 8am to 8pm ET.)	(718) 921-8124
TTY: (Teletypewriter for the hearing impaired)	(718) 921-8386 (866) 703-9077

Raymond James

Market Maker for First Community Corporation stock:

Raymond James and Associates, Inc.
Lou C. Coines
Financial Institutions Sales & Trading
222 South Riverside Plaza, 7th Floor
Chicago, Illinois 60606
(800) 800-4693
Lou.Coines@raymondjames.com

OTCMarkets

OTCMarkets contains information about First Community Corporation stock (Profile, Prices, etc.)

http://www.otcmarkets.com/home

Stock Symbols

FCCT	First Community Corporation (Common)
FCCTP	First Community Corporation (Preferred A)
FCCTO	First Community Corporation (Preferred B)

FIRST COMMUNITY CORPORATION
COMMON STOCK AND DIVIDEND INFORMATION
Years Ended December 31, 2015 and 2016

First Community Corporation has only one class of common stock authorized, issued and outstanding. In December 2006, the Company listed its stock on the Over-The-Counter Bulletin Board (OTCBB) quotation service. This company transitioned to the OTC Markets Group quotation service in early 2012. First Community Corporation has appointed Raymond James & Associates, Inc. as the principal market maker for the stock. Information about the stock may be obtained at the OTC Markets Group website at www.otcmarkets.com, under the symbol FCCT. In addition, anyone wishing to buy or sell shares of First Community Corporation stock may contact Raymond James & Associates at 1-800-800-4693. However, there can be no assurance that, at any given time, any persons will be interested in acquiring shares of the Company's common stock.

On February 23, 2007, the Shareholders of First Community Corporation approved a reclassification transaction whereby holders of fewer than 1,500 shares of common stock had their shares exchanged for either Series A Preferred or Series B Preferred stock. An amendment to the Company's Charter was also filed on February 23, 2007, creating these two new classes of stock.

The Company pays dividends from time to time on the outstanding shares of our stock as determined by the Board of Directors in its discretion based on the Company's financial performance and condition. It has been the practice of the Board of Directors to declare cash dividends on a quarterly basis when dividends are declared. Future dividends will depend upon our earnings, financial position, cash requirements and such other factors as the Board of Directors may deem relevant. The following table sets forth the cash dividends declared per share of the Corporation's common stock and the highest and lowest per share prices at which the Corporation's common stock has actually traded in private transactions during the periods indicated. To the best of management's knowledge, such prices do not include any retail mark-up, mark-down or commission. Shares may have been sold in transactions, the price and terms of which are not known to the Corporation. Therefore, the per share prices at which the Corporation's common stock has previously traded may not necessarily be indicative of the true market value of the shares.

2016	High	Low	Dividends per share
First quarter	$ 4.00	3.90	.00
Second quarter	4.25	4.10	.00
Third quarter	4.35	4.13	.00
Fourth quarter	4.75	4.15	.00

2015	High	Low	Dividends per share
First quarter	$ 3.00	2.73	.00
Second quarter	3.55	3.30	.00
Third quarter	3.75	3.30	.00
Fourth quarter	4.00	3.60	.00

The authorized common stock of the Corporation consists of 10,000,000 shares of common stock, no par value per share, of which 1,630,812 were outstanding at December 31, 2016. There were 20,000 shares of the Corporation's common stock that are subject to outstanding options, warrants or securities convertible into common stock. The Corporation had approximately 186 common shareholders of record as of December 31, 2016.

KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660

PUGH CPAs
PUGH & COMPANY, P.C.
www.pughcpas.com

OAK RIDGE OFFICE:
800 OAK RIDGE TURNPIKE – SUITE A404
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-769-1657

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Senior Management
First Community Corporation
Rogersville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Community Corporation and First Community Bank of East Tennessee which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Community Corporation and First Community Bank of East Tennessee as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 15, 2017

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED BALANCE SHEETS

As of December 31,	2016	2015
ASSETS		
Cash and Due from Banks	$ 20,782,411	$ 15,069,872
Securities Available for Sale, at Fair Value	22,613,599	29,772,451
Loans, Net	110,087,853	107,679,750
Premises and Equipment, Net	4,514,449	4,743,816
Accrued Interest Receivable	326,493	421,910
Restricted Equity Investments, at Cost	1,810,800	1,810,800
Cash Surrender Value of Life Insurance	6,768,551	6,912,204
Foreclosed Real Estate	1,420,914	2,880,492
Deferred Income Tax Benefit	1,896,469	1,934,157
Other Assets	618,952	472,940
Total Assets	$ 170,840,491	$ 171,698,392
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 28,727,858	$ 26,162,638
Interest-bearing	106,377,993	109,582,178
Total Deposits	135,105,851	135,744,816
Securities Sold under Agreements to Repurchase	5,585,184	7,000,294
Federal Home Loan Bank Advances	6,226,444	6,270,063
Subordinated Debentures	7,217,000	7,217,000
Accrued Interest Payable	89,135	88,968
Other Liabilities	2,192,140	2,428,440
Total Liabilities	156,415,754	158,749,581
SHAREHOLDERS' EQUITY		
Preferred Stock Class A, $8.05 par value. Authorized 400,000 shares; issued 220,080; outstanding 211,672 shares in 2016 and 2015	1,776,474	1,776,474
Preferred Stock Class B, $8.05 par value. Authorized 200,000 shares; issued 30,071; outstanding 29,846 shares in 2016 and 2015	242,072	242,072
Common Stock, no par value. Authorized 10,000,000 shares; issued 1,679,244; outstanding 1,630,812 shares in 2016 and 2015	5,599,948	5,599,948
Treasury Stock, at Cost	(946,998)	(946,998)
Retained Earnings	7,999,202	6,589,461
Accumulated Other Comprehensive Income (Loss)	(245,961)	(312,146)
Total Shareholders' Equity	14,424,737	12,948,811
Total Liabilities and Shareholders' Equity	$ 170,840,491	$ 171,698,392

The accompanying notes are an integral part of these consolidated financial statements.

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2016	2015
INTEREST INCOME		
Loans, including Fees	$ 5,504,014	$ 5,713,359
Securities		
Taxable	316,421	584,508
Non-taxable	78,249	47,136
Federal Funds Sold and Other	167,867	105,601
Total Interest Income	6,066,551	6,450,604
INTEREST EXPENSE		
Deposits	179,332	240,211
Federal Home Loan Bank Advances	290,380	292,693
Subordinated Debentures	190,035	154,476
Other	3,216	3,431
Total Interest Expense	662,963	690,811
NET INTEREST INCOME	5,403,588	5,759,793
PROVISION FOR LOAN LOSSES	550,000	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,953,588	5,759,793
NONINTEREST INCOME		
Service Charges on Deposit Accounts	486,784	542,368
Net Gain (Loss) on Sales and Redemptions of Securities Available for Sale	34,534	15,550
Increase in Cash Surrender Value of Life Insurance	446,313	209,781
Other	491,188	645,632
Total Noninterest Income	1,458,819	1,413,331
NONINTEREST EXPENSE		
Salaries and Employee Benefits	2,911,007	2,950,507
Occupancy	527,029	536,355
Data Processing	423,500	408,697
Furniture and Equipment	189,915	210,359
Advertising and Public Relations	38,667	21,506
Professional Services	213,242	236,391
Foreclosed Real Estate	601,380	927,207
Operating Supplies	66,558	81,971
Computer Software Depreciation	29,492	36,826
Software Maintenance	65,875	69,105
Telephone and Data Communications	118,447	114,750
Director and Committee Fees	42,975	57,375
FDIC and State Assessments	151,460	272,704
Other	624,482	638,504
Total Noninterest Expense	6,004,029	6,562,257
INCOME (LOSS) BEFORE INCOME TAXES	1,408,378	610,867
INCOME TAXES (EXPENSE) BENEFIT	1,363	(1,825)
NET INCOME (LOSS)	$ 1,409,741	$ 609,042

The accompanying notes are an integral part of these consolidated financial statements.

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,	2016	2015
NET INCOME (LOSS)	$ 1,409,741	$ 609,042
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Investment Securities Available for Sale	141,786	175,928
Reclassification Adjustment for Realized Gains Included in Net Income (Loss) Above	(34,534)	(15,550)
Other Comprehensive Income (Loss) Before Income Taxes	107,252	160,378
Income (Taxes) Benefit Related to Items of Other Comprehensive Income	(41,067)	(61,409)
Other Comprehensive Income (Loss), Net of Income Taxes	66,185	98,969
COMPREHENSIVE INCOME (LOSS)	$ 1,475,926	$ 708,011

The accompanying notes are an integral part of these consolidated financial statements.

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2016 and 2015

	Preferred Stock A	Preferred Stock B	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCES, JANUARY 1, 2015	$ 1,776,474	$ 242,072	$ 5,599,948	$ (946,998)	$ 5,980,419	$ (411,115)	$ 12,240,800
Net Income (Loss)	0	0	0	0	609,042	0	609,042
Other Comprehensive Income (Loss)	0	0	0	0	0	98,969	98,969
BALANCES, DECEMBER 31, 2015	1,776,474	242,072	5,599,948	(946,998)	6,589,461	(312,146)	12,948,811
Net Income (Loss)	0	0	0	0	1,409,741	0	1,409,741
Other Comprehensive Income (Loss)	0	0	0	0	0	66,185	66,185
BALANCES, DECEMBER 31, 2016	$ 1,776,474	$ 242,072	$ 5,599,948	$ (946,998)	$ 7,999,202	$ (245,961)	$ 14,424,737

The accompanying notes are an integral part of these consolidated financial statements.

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2016	2015
Cash Flows from Operating Activities:		
Net Income (Loss)	$ 1,409,741	$ 609,042
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	265,923	289,928
Net Amortization of Securities	156,963	69,375
Provision for Loan Losses	(550,000)	0
(Gain) Loss of Sales of Foreclosed Real Estate	(3,962)	(1,743)
(Gain) Loss of Sales of Premises and Equipment	0	(1,568)
Write-downs of Foreclosed Real Estate	304,090	639,285
Deferred Income Taxes (Benefit)	(3,379)	0
Gain (Loss) on Sales and Redemptions of Securities Available for Sale	(34,534)	(15,550)
(Increase) Decrease in Cash Surrender Value of Company Owned Life Insurance	(446,313)	(207,541)
Change in Accrued Interest Receivable and Other Assets	(50,595)	168,791
Change in Accrued Interest Payable and Other Liabilities	(252,927)	(679,491)
Net Cash Provided by (Used in) Operating Activities	795,007	870,528
Cash Flows from Investing Activities:		
Purchases of Securities Available for Sale	(13,539,400)	(31,356,617)
Proceeds from Maturities, Redemptions, and Paydowns of Securities Available for Sale	15,680,220	21,860,991
Proceeds from Sales of Securities Available for Sale	5,002,855	8,471,513
Net (Increase) Decrease in Loans	(1,858,103)	(4,792,464)
Proceeds from Sales of Foreclosed Real Estate	1,258,632	915,047
Capital Improvements to Foreclosed Real Estate	(99,182)	0
Proceeds from Company Owned Life Insurance	606,760	0
Proceeds from Sales of Premises and Equipment	0	128,000
Purchases of Premises and Equipment	(36,556)	(53,093)
Net Cash Provided by (Used in) Investing Activities	7,015,226	(4,826,623)
Cash Flows from Financing Activities:		
Repayments of FHLB Advances	(43,619)	(41,426)
Change in Checking, Savings and Money Market Accounts	3,091,962	3,969,841
Increase (Decrease) in Time Deposits	(3,730,927)	(15,580,750)
Change in Securities Sold under Agreements to Repurchase	(1,415,110)	419,478
Net Cash Provided by (Used in) Financing Activities	(2,097,694)	(11,232,857)
Net Change in Cash and Cash Equivalents	5,712,539	(15,188,952)
Cash and Cash Equivalents at Beginning of Period	15,069,872	30,258,824
Cash and Cash Equivalents at End of Period	$ 20,782,411	$ 15,069,872
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	$ 662,796	$ 1,429,505
Income Taxes	300	16,825
Supplemental Noncash Disclosures:		
Transfers from Loans to Foreclosed Real Estate	$ 0	$ 1,230,437
Change in Unrealized Gains/Losses on Securities Available for Sale	107,252	160,378
Change in Deferred Income Taxes Associated with Unrealized Gains/Losses on Securities Available for Sale	41,067	61,409
Change in Unrealized Gains/Losses on Securities Available for Sale, Net of Deferred Income Taxes	66,185	98,969

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: First Community Corporation (the Holding Company), through its wholly owned subsidiary, First Community Bank of East Tennessee (the Bank), provides a variety of banking services to individuals and businesses from its banking offices in Rogersville, Church Hill, and Kingsport, Tennessee. Its primary deposit products are demand and savings deposits and certificates of deposit, and its primary lending products are commercial, residential real estate and consumer loans. The accounting principles followed and the methods of applying those principles conform with accounting principles generally accepted in the United States of America (GAAP) and to general practices in the banking industry. The significant policies are summarized as follows:

Basis of Presentation: The accompanying consolidated financial statements include the accounts of First Community Corporation, a one-bank holding company and its wholly-owned subsidiary, First Community Bank of East Tennessee, together referred to as “the Company”. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: To prepare consolidated financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of financial instruments, the valuation of real estate acquired through foreclosures, and deferred compensation related to retirement plan liabilities are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for loan, deposit and securities sold under agreements to repurchase transactions.

Cash and Due from Banks: Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks. Cash on hand or on deposit with correspondent banks of $1,392,000 and $1,303,000 was required to meet regulatory reserve and clearing requirements at December 31, 2016 and 2015, respectively. These balances do not earn interest. The Bank also maintains cash deposits with the Federal Reserve Bank, which totaled approximately $15,450,000 and $11,845,000 as of December 31, 2016 and 2015, respectively, and with the Federal Home Loan Bank of Cincinnati, which totaled approximately $185,000 and $188,000 as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, balances in correspondent bank accounts in excess of FDIC insurance limits totaled approximately $99,000 and $0, respectively.

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

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary (see Note 2).

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company’s ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in the fair value (see Note 2).

Restricted Equity Investments: The Company’s restricted equity investment represents a required investment in the Federal Home Loan Bank (FHLB) of Cincinnati, which is pledged as collateral for FHLB advances (see Note.11). This investment is carried at cost because it does not have a readily determinable fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of an estimated allowance for loan losses.

Interest income is reported on the simple interest accrual method. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

Estimated Allowance for Loan Losses: The estimated allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other trends and conditions. The entire estimated allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the estimated allowance when management believes the uncollectibility of a loan balance is confirmed.

A general reserve is established that evaluates unimpaired loans by category. Each loan within a group has similar risk characteristics. When estimating credit losses on each group of loans, management considers the bank's historical loss experience on the group, adjusted for changes in trends, conditions, and other relevant factors that affect repayment of the loans as of the evaluation date. These loans are collectively evaluated for estimated credit losses.

Another component of the ALLL is an allocated reserve on individually evaluated loans, as judgmentally determined by management to be impaired. A loan is considered impaired when based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. If a loan is impaired, an allocated allowance is established so that the loan is reported at the net present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation is computed principally on the straight-line method over the estimated useful lives of the assets, which range as follows: building-40 years, equipment-3 to 15 years. Computer software is amortized using the straight-line method over the useful life of the asset and ranges from 3 to 10 years.

Foreclosed Real Estate: Real estate acquired through or instead of loan foreclosure is initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition that do not increase the property's value are expensed. The Company's current average holding period for such properties is approximately 56 months.

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key executives and bank officers. Company owned life insurance is recorded at its net cash surrender value, or the amount that can be realized if surrendered.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities Sold Under Agreements to Repurchase: Repurchase agreements are treated as financing transactions and are carried at the amounts at which the securities will be subsequently reacquired, as specified in the respective agreements. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Stock-Based Compensation: Compensation cost is recognized for stock options issued to employees and directors. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Advertising and Public Relations: Advertising and public relations costs are expensed as incurred.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates.

Employee Benefits: The Company maintains a 401(k) profit-sharing plan that covers substantially all employees. The Company matches a portion of the employee's contribution and records the expense in the period the employee contribution is withheld. The Company has a non-qualified deferred compensation arrangement with certain current and former officers. A contribution may be made or accrued each year based on future benefits to be paid under the arrangement, at the discretion of the Board of Directors if certain financial goals are met.

Consolidated Statement of Comprehensive Income: The objective of this statement is to report a measure of all changes in equity of an enterprise that results from transactions and other economic events of the period other than transactions with owners. Items included in comprehensive income include revenues, gains and losses that under generally accepted accounting principles are directly charged to equity. Examples include foreign currency translations, pension liability adjustments and unrealized gains and losses on investment securities available for sale. The Company has included its comprehensive income in a separate financial statement as part of its consolidated financial statements.

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

Evaluation of Subsequent Events: The Company's management has evaluated subsequent events through March 15, 2017, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure..

NOTE 2 - SECURITIES

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

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Small Business Admin. Securities	$ 2,162,146	$ 4,897	$ (73,632)	$ 2,093,411
U.S. Government Agency Securities	3,499,897	0	(69,802)	3,430,095
Residential Mortgage-backed Securities	7,841,756	12,777	(164,828)	7,689,705
Taxable Municipal Securities	398,213	0	(12,157)	386,056
Tax Exempt Municipal Securities	9,110,161	816	(96,645)	9,014,332
Total	$ 23,012,173	$ 18,490	$ (417,064)	$ 22,613,599
2015				
U.S. Treasury Securities	$ 996,260	$ 0	$ (750)	$ 995,510
Small Business Admin. Securities	2,532,565	5,306	(57,980)	2,479,891
U.S. Government Agency Securities	16,715,511	1,600	(330,829)	16,386,282
Residential Mortgage-backed Securities	5,697,883	3,816	(146,573)	5,555,126
Tax Exempt Municipal Securities	4,336,058	23,429	(3,845)	4,355,642
Total	$ 30,278,277	$ 34,151	$ (539,977)	$ 29,772,451

The amortized cost and fair value of securities at December 31, 2016, by contractual maturity is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due through One Year	$ 2,416,808	$ 2,414,759
Due after One through Five Years	9,132,771	8,999,177
Due after Five through Ten Years	1,458,692	1,416,547
Residential Mortgage-backed and SBA Securities	10,003,902	9,783,116
Total	$ 23,012,173	$ 22,613,599

For purposes of the above maturity table, mortgage-backed securities and Small Business Administration securities, which are not due at a single maturity date, are presented on a separate line item.

Proceeds from sales of investment securities available for sale were $5,002,855 and $8,471,513 during the years ended December 31, 2016 and 2015, respectively. The Company recognized gross gains and losses of $14,916 and $0, respectively, from the sales of investment securities in 2016 ($17,183 and $1,633 in 2015).

Securities pledged to secure public deposits and repurchase agreements at December 31, 2016 and 2015 had a carrying amount of approximately $22,614,000 and $22,389,000, respectively.

NOTE 2 - SECURITIES (Continued)

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2016						
Small Business Admin. Securities	$ 1,758,437	$ (73,632)	$ 0	$ 0	$ 1,758,437	$ (73,632)
U.S. Government Agency Securities	3,430,095	(69,802)	0	0	3,430,095	(69,802)
Residential Mortgage-backed Securities	2,465,255	(34,874)	2,575,323	(129,954)	5,040,578	(164,828)
Taxable Municipal Securities	386,056	(12,157)	0	0	386,056	(12,157)
Tax Exempt Municipal Securities	8,812,200	(96,645)	0	0	8,812,200	(96,645)
Total Temporarily Impaired	$ 16,852,043	$ (287,110)	$ 2,575,323	$ (129,954)	$ 19,427,366	$ (417,064)
2015						
U.S. Treasury Securities	$ 995,510	$ (750)	$ 0	$ 0	$ 995,510	$ (750)
Small Business Admin. Securities	0	0	2,019,476	(57,980)	2,019,476	(57,980)
U.S. Government Agency Securities	5,153,477	(88,036)	10,231,204	(242,793)	15,384,681	(330,829)
Residential Mortgage-backed Securities	5,477,508	(146,573)	0	0	5,477,508	(146,573)
Tax Exempt Municipal Securities	1,532,672	(3,845)	0	0	1,532,672	(3,845)
Total Temporarily Impaired	$ 13,159,167	$ (239,204)	$ 12,250,680	$ (300,773)	$ 25,409,847	$ (539,977)

Unrealized losses on securities have not been recognized into income because the issuer(s) securities are of higher credit quality (rated A3 or higher), management has the intent and ability to hold them for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates change.

At December 31, 2016, the 45 investment securities in an unrealized loss position have depreciated approximately 2% from the Company's amortized cost basis. This unrealized loss relates principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

NOTE 3 - LOANS

A summary of loans outstanding by category at December 31, 2016 and 2015 follows:

	2016	2015
Secured by Real Estate:		
Commercial - Owner-Occupied	$ 18,115,200	$ 20,754,701
Commercial - Other	29,385,601	30,004,897
Construction, Land Development and Vacant Land	10,213,539	9,378,671
Residential Properties	30,203,986	29,236,718
Commercial, Financial and Agricultural	17,686,097	18,915,958
Consumer	6,319,443	1,512,127
	111,923,866	109,803,072
Less: Allowance for Loan and Lease Losses	(1,836,013)	(2,123,322)
Loans, Net	$ 110,087,853	$ 107,679,750

NOTE 4 - LOAN QUALITY

Management performs a quarterly evaluation of the adequacy of the allowance for loan and lease losses (ALLL). Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, the adequacy of the underlying collateral (if collateral dependent) and other relevant factors. It is management's general practice to obtain a new appraisal or asset valuation for any loan that it has rated as substandard or lower, including loans on nonaccrual of interest. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on other factors including, but not limited to, the economy, maintenance and general condition of the collateral, industry, type of property/equipment/vehicle, and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value to the Company.

Certain factors involved in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

For financial statement presentation, the Company segregates its loan portfolio into the following segments based primarily on the type of supporting collateral: commercial – owner-occupied; commercial – other; construction; residential; commercial, financial and agricultural; and consumer loans. The construction and land development segment contains loans to individuals to construct their own homes as well as loans to contractors and developers to construct homes or buildings for resale or develop residential or commercial real estate. This segment has its own unique risk characteristics including the need to periodically inspect the property during construction to ensure the funds disbursed are used properly and the real estate held for collateral maintains its value in relation to the amount owed on it. The construction and land development segment also has risk characteristics related to the probability of eventual sale of the finished project or the ability to generate sufficient rental income to service the debt. The residential real estate segment is segregated from the commercial real estate segment due to the obvious differences in inherent risks in each of these types of properties and borrower types. Consumer loans have risk characteristics including the volatility of the collateral's value and the inherent risk of loaning on collateral that is mobile and subject to damage without proper insurance coverage.

The analysis for determining the ALLL is consistent with guidance set forth in generally accepted accounting principles (GAAP) and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has two components: specific and general allocations. The specific component addresses specific reserves established for loans that were individually evaluated and deemed to be impaired. For these impairment evaluations, the Company assesses loan relationships with balances exceeding $100,000 that show signs of possible impairment based on the payment status, internal risk ratings, or other credit quality factors. A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement. Expected cash flow or collateral values discounted for market conditions and selling costs are used to establish specific allocations. Loans measured for the ALLL under the specific allocation method normally tend to be impaired construction, real estate, vehicle or unsecured loans.

The general component addresses the reserves established for pools of homogenous loans, including primarily non-classified loans. The general component includes a quantitative and qualitative analysis. The quantitative analysis includes the Company's historical loan loss experience (weighted towards most recent periods) and other factors derived from economic and market conditions that have been determined to have an effect on the probability and magnitude of a loss. The qualitative analysis utilizes factors such as: loan volume, loan collateral, management characteristics, levels of nonperforming loans, results of the loan review process, specific credit concentrations, and legal and regulatory issues. Input for these factors is determined on the basis of management's observation, judgment and experience. As a result of this input, additional loss percentages can be assigned to each pool of loans.

NOTE 4 - LOAN QUALITY (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Cash payments received on impaired loans on which the accrual of interest has been discontinued are applied to principal until the loans are returned to accrual status.

The following table presents, by loan segment, the ALLL and changes to the ALLL for the years ended December 31, 2016 and 2015 with the ALLL allocated based on the segment loan volumes:

	Secured by Real Estate							
	Commercial - Owner-Occupied	Commercial - Other	Construction, Land Dev. & Vacant Land	Residential Properties	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
Allowance at December 31, 2014	$ 293,391	$ 451,085	$ 549,591	$ 448,374	$ 182,790	$ 16,002	$ 784,520	$ 2,725,753
Provision	193,140	423,567	(134,386)	(218,392)	61,872	(1,247)	(324,554)	0
Charge-offs	0	(596,599)	0	(66,611)	0	(1,321)	0	(664,531)
Recoveries	42,217	0	0	8,314	10,250	1,319	0	62,100
Allowance at December 31, 2015	528,748	278,053	415,205	171,685	254,912	14,753	459,966	2,123,322
Provision	(349,230)	(202,099)	29,606	237,068	(46,662)	64,034	(282,717)	(550,000)
Charge-offs	0	0	0	(56,967)	(838)	(1,611)	0	(59,416)
Recoveries	38,982	275,175	0	100	7,850	0	0	322,107
Allowance at December 31, 2016	$ 218,500	$ 351,129	$ 444,811	$ 351,886	$ 215,262	$ 77,176	$ 177,249	$ 1,836,013

NOTE 4 - LOAN QUALITY (Continued)

The following tables present, by loan segment, loans that were evaluated for the ALLL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31, 2016 and 2015.

	Secured by Real Estate							
	Commercial - Owner-Occupied	Commercial - Other	Construction, Land Dev. & Vacant Land	Residential Properties	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
December 31, 2016								
Loans Evaluated for Allowance:								
Individually	$ 163,137	$ 536,528	$ 992,089	$ 607,643	$ 0	$ 0	$ 0	$ 2,299,397
Collectively	17,952,063	28,849,073	9,221,450	29,596,343	17,686,097	6,319,443	0	109,624,469
Total	$ 18,115,200	$ 29,385,601	$ 10,213,539	$ 30,203,986	$ 17,686,097	$ 6,319,443	$ 0	$ 111,923,866
Allowance Established for Loans Evaluated:								
Individually	$ 0	$ 0	$ 324,234	$ 0	$ 0	$ 0	$ 0	$ 324,234
Collectively	218,500	351,129	120,577	351,886	215,262	77,176	177,249	1,511,779
Allowance at December 31, 2016	$ 218,500	$ 351,129	$ 444,811	$ 351,886	$ 215,262	$ 77,176	$ 177,249	$ 1,836,013
December 31, 2015								
Loans Evaluated for Allowance:								
Individually	$ 175,122	$ 571,658	$ 1,161,344	$ 195,337	$ 0	$ 0	$ 0	$ 2,103,461
Collectively	20,579,579	29,433,239	8,217,327	29,041,381	18,915,958	1,512,127	0	107,699,611
Total	$ 20,754,701	$ 30,004,897	$ 9,378,671	$ 29,236,718	$ 18,915,958	$ 1,512,127	$ 0	$ 109,803,072
Allowance Established for Loans Evaluated:								
Individually	$ 0	$ 0	$ 413,462	$ 0	$ 0	$ 0	$ 0	$ 413,462
Collectively	528,748	278,053	1,743	171,685	254,912	14,753	459,966	1,709,860
Allowance at December 31, 2015	$ 528,748	$ 278,053	$ 415,205	$ 171,685	$ 254,912	$ 14,753	$ 459,966	$ 2,123,322

NOTE 4 - LOAN QUALITY (Continued)

The following tables show additional information about those loans considered to be impaired at December 31, 2016 and 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
For the Year Ended December 31, 2016					
Impaired Loans with No Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 163,137	$ 163,137	$ 0	$ 169,863	$ 11,189
Commercial - Other	536,528	696,587	0	554,105	23,983
Construction, Land Development & Vacant Land	285,255	285,255	0	321,255	10,441
Residential:					
1 - 4 Family	607,643	607,643	0	608,331	28,217
Total Impaired Loans with No Specific Allowance	$ 1,592,563	$ 1,752,622	$ 0	$ 1,653,554	$ 73,830
Impaired Loans with Specific Allowance:					
Loans Secured by Real Estate:					
Construction, Land Development & Vacant Land	$ 706,834	$ 706,834	$ 324,234	$ 719,469	$ 25,186
Total Impaired Loans with Specific Allowance	$ 706,834	$ 706,834	$ 324,234	$ 719,469	$ 25,186
Total Impaired Loans	$ 2,299,397	$ 2,459,456	$ 324,234	$ 2,373,023	$ 99,016
For the Year Ended December 31, 2015					
Impaired Loans with No Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 175,122	$ 175,122	$ 0	$ 181,221	$ 12,004
Commercial - Other	571,658	724,881	0	588,469	31,858
Residential:					
1 - 4 Family	195,337	195,337	0	199,884	12,318
Total Impaired Loans with No Specific Allowance	$ 942,117	$ 1,095,340	$ 0	$ 969,574	$ 56,180
Impaired Loans with Specific Allowance:					
Loans Secured by Real Estate:					
Construction, Land Development & Vacant Land	$ 1,161,344	$ 1,161,344	$ 413,462	$ 1,242,305	$ 40,739
Total Impaired Loans with Specific Allowance	$ 1,161,344	$ 1,161,344	$ 413,462	$ 1,242,305	$ 40,739
Total Impaired Loans	$ 2,103,461	$ 2,256,684	$ 413,462	$ 2,211,879	$ 96,919

NOTE 4 - LOAN QUALITY (Continued)

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or management watch are reviewed regularly by the Company to determine if appropriately classified or to determine if the loan is impaired. The Company's loan portfolio is reviewed for credit quality with samples being selected based on loan size, credit grades, etc., to ensure that the Company's management is properly applying credit risk management processes.

Loans excluded from the scope of the annual review process are generally classified as pass credit until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Company uses the following definitions for risk ratings:

Pass – Strong credit with no existing or known potential weaknesses deserving management's close attention.

Management Watch – Loans included in this category are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but do not presently expose the Company to a sufficient degree of risk to warrant adverse classification. As a general rule, for the purpose of calculating a loan loss reserve, loans in this category will have the historical loss reserve percentage applied and will remain in a pool with loans that are considered acceptable or better when determining the general valuation reserves. Loans classified as management watch have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable or improbable, based on currently existing facts, condition, and values.

Loss – Loans classified as losses are uncollectible or no longer a bankable asset. This classification does not mean that the asset has absolutely no recoverable value. Certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

NOTE 4 - LOAN QUALITY (Continued)

The following table shows the Company's credit quality indicators by type of loan as of December 31, 2016 and 2015:

As of December 31, 2016	Pass	Management Watch	Substandard	Doubtful	Total Loans
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 13,603,749	$ 4,180,191	$ 331,260	$ 0	$ 18,115,200
Commercial - Other	25,537,935	3,847,666	0	0	29,385,601
Construction, Land Development & Vacant Land	9,221,450	0	992,089	0	10,213,539
Residential:					
Construction	685,201	0	0	0	685,201
1 - 4 Family	22,415,626	3,146,574	801,767	0	26,363,967
Other	3,154,818	0	0	0	3,154,818
Other Loans:					
Commercial, Financial and Agricultural	16,473,152	1,212,795	150	0	17,686,097
Consumer	6,319,443	0	0	0	6,319,443
Total Loans	$ 97,411,374	$ 12,387,226	$ 2,125,266	$ 0	$ 111,923,866

As of December 31, 2015	Pass	Management Watch	Substandard	Doubtful	Total Loans
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 16,241,718	$ 4,129,076	$ 383,907	$ 0	$ 20,754,701
Commercial - Other	24,957,742	5,047,155	0	0	30,004,897
Construction, Land Development & Vacant Land	8,217,327	0	1,161,344	0	9,378,671
Residential:					
1 - 4 Family	21,752,012	3,811,016	429,254	0	25,992,282
Other	3,244,436	0	0	0	3,244,436
Other Loans:					
Commercial, Financial and Agricultural	17,804,331	1,111,627	0	0	18,915,958
Consumer	1,508,625	3,502	0	0	1,512,127
Total Loans	$ 93,726,191	$ 14,102,376	$ 1,974,505	$ 0	$ 109,803,072

NOTE 4 - LOAN QUALITY (Continued)

The following table provides an aging analysis of the Company's loans as of December 31, 2016 and 2015:

	Current	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due and Nonaccrual	Total Loans
As of December 31, 2016						
Loans Secured by Real Estate:						
Commercial - Owner-Occupied	$ 18,087,861	$ 0	$ 0	$ 27,339	$ 27,339	$ 18,115,200
Commercial - Other	29,317,032	68,569	0	0	68,569	29,385,601
Construction, Land Development & Vacant Land	10,213,539	0	0	0	0	10,213,539
Residential:						
Construction	685,201	0	0	0	0	685,201
1 - 4 Family	26,025,217	144,626	0	194,124	338,750	26,363,967
Other	3,154,818	0	0	0	0	3,154,818
Other:						
Commercial, Financial and Agricultural	17,611,516	74,581	0	0	74,581	17,686,097
Consumer	6,300,379	9,382	0	150	9,532	6,319,443
Total Loans	$ 111,395,563	$ 297,158	$ 0	$ 221,613	$ 518,771	$ 111,923,866
As of December 31, 2015						
Loans Secured by Real Estate:						
Commercial - Owner-Occupied	$ 20,612,938	$ 0	$ 0	$ 141,763	$ 141,763	$ 20,754,701
Commercial - Other	28,019,836	1,985,061	0	0	1,985,061	30,004,897
Construction, Land Development & Vacant Land	9,378,671	0	0	0	0	9,378,671
Residential:						
1 - 4 Family	25,742,515	139,581	0	110,186	249,767	25,992,282
Other	3,244,436	0	0	0	0	3,244,436
Other:						
Commercial, Financial and Agricultural	18,915,958	0	0	0	0	18,915,958
Consumer	1,511,168	959	0	0	959	1,512,127
Total Loans	$ 107,425,522	$ 2,125,601	$ 0	$ 251,949	$ 2,377,550	$ 109,803,072

Certain loan modifications are considered troubled debt restructurings (TDRs) when the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company uses various restructuring techniques, including, but not limited to, deferral of past due interest or principal, implementing A/B note structure, redeeming past due taxes, reduction of interest rates, extending maturities and modification of amortization schedules. The Company typically does not forgive principal balances or past due interest prior to pay off or surrender of the collateral. Loans considered to be TDRs are classified as impaired loans for purposes of determination of the allowance for loans losses, until the Company determines the loans are performing based on terms specified by the restructuring agreements. The allowance for these loans is calculated in the same manner as other impaired loans, as described above. As of December 31, 2016 and 2015, the Company had no commitments to lend funds to borrowers whose terms have been modified as TDRs. Additionally, for the years ending December 31, 2016 and 2015, the Company had no loans modified as TDRs within the previous 12 months for which there was a payment default during the period.

NOTE 4 - LOAN QUALITY (Continued)

The following tables present information about TDRs that were modified during the years ending December 31, 2016 and 2015:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
For the Year Ended December 31, 2016			
Troubled Debt Restructurings			
Modified During the Year Ended by			
Type of Modification:			
Reduction of Rate			
Loans Secured by Real Estate:			
Residential - 1-4 Family	1	$ 582,696	$ 582,696
For the Year Ended December 31, 2015			
Troubled Debt Restructurings			
Modified During the Year Ended by			
Type of Modification:		None	

NOTE 5 - PREMISES AND EQUIPMENT

Following is a summary of premises and equipment at December 31:

	2016	2015
Land	$ 1,249,742	$ 1,249,742
Building	6,298,224	6,295,319
Furniture and Equipment	1,984,602	1,966,170
Computer Software	1,095,837	1,088,325
	10,628,405	10,599,556
Less: Accumulated Depreciation and Amortization	(6,113,956)	(5,855,740)
	$ 4,514,449	$ 4,743,816

Depreciation and amortization expense totaled $265,923 and $289,928 for 2016 and 2015.

The Company leases space for one of its branches under an operating lease. Rental expense was $40,313 for 2016 and 2015. Annual rent commitments under the non-cancelable operating lease are $40,313. The lease was renewed in February 2012 under the first 5-year renewal option, for the period March 2012 – February 2017.

NOTE 6 - FORECLOSED REAL ESTATE

Foreclosed real estate is carried at estimated fair value less costs to sell the property. An analysis of foreclosed real estate for the years ended December 31, 2016 and 2015 follows:

	2016	2015
Balance at Beginning of Year	$ 2,880,492	$ 3,202,644
Additions to Foreclosed Real Estate	99,182	1,230,437
Foreclosed Real Estate Sold	(1,254,670)	(913,304)
Write-downs of Foreclosed Real Estate	(304,090)	(639,285)
Balance at End of Year	$ 1,420,914	$ 2,880,492

Expenses applicable to foreclosed real estate for the years ended December 31, 2016 and 2015 include the following:

	2016	2015
Net (Gain) Loss on Sales of Foreclosed Real Estate	$ (3,962)	$ (1,743)
Write-downs of Foreclosed Real Estate	304,090	639,285
Operating Expenses	301,252	289,665
Total	$ 601,380	$ 927,207

NOTE 7 - DEPOSITS

A summary of deposits at December 31 follows:

	2016	2015
Noninterest-Bearing	$ 28,727,858	$ 26,162,638
NOW & MMDA	45,064,394	44,805,520
Savings	25,838,582	25,570,714
Certificates of Deposit of $250,000 or More	4,135,589	3,307,753
Other Time Deposits	31,339,428	35,898,191
	$ 135,105,851	$ 135,744,816

Scheduled maturities of time deposits for the next five years are as follows at December 31, 2016:

2017	$ 29,355,098
2018	4,521,589
2019	620,556
2020	423,658
2021	554,116
	$ 35,475,017

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are financing arrangements that do not have a stated maturity, but may be cancelled by either party with a five-day written notice. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2016	2015
Average Daily Balance during the Year	$ 6,402,000	$ 6,858,000
Average Interest Rate during the Year	0.05%	0.05%
Maximum Month-End Balance during the Year	$ 7,000,300	$ 7,000,000
Weighted Average Interest Rate at Year-End	0.05%	0.05%

NOTE 9 - INCOME TAX EXPENSE (BENEFIT)

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not accrued or expensed any amounts for interest or penalties associated with income taxes for the years ended December 31, 2016 and 2015.

Income tax expense (benefit) as shown in the consolidated statements of operations differs from the amount computed using the statutory federal income tax rate follows:

	2016		2015	
	Amount	Pretax Income	Amount	Pretax Income
Federal Income Tax at Statutory Rate	$ 478,849	34.0 %	$ 207,695	34.0 %
State Income Tax, Net	41,300	2.9	18,905	3.1
Tax Exempt Interest	(47,583)	-3.4	(37,999)	-6.2
Other Nontaxable Income	(157,456)	-11.2	(70,564)	-11.6
Nondeductible Expenses	6,591	0.5	4,603	0.8
Credits and Other, Net	(22,191)	-1.6	(2,977)	-0.5
Change in Valuation Allowance	(300,873)	-21.4	(117,838)	-19.3
	$ (1,363)	-0.1 %	$ 1,825	0.3 %

Income Taxes (Benefit) Consist of:	2016	2015
Current (Benefit)	$ 2,016	$ 1,825
Deferred (Benefit)	(3,379)	0
	$ (1,363)	$ 1,825

The components of net deferred tax assets as of December 31 were as follows:

	2016	2015
Deferred Tax Assets	$ 4,169,205	$ 4,449,019
Deferred Tax Liabilities	(739,841)	(681,094)
Net Deferred Tax Assets before Valuation Allowance	3,429,364	3,767,925
Valuation Allowance	(1,532,895)	(1,833,768)
Net Deferred Tax Assets after Valuation Allowance	$ 1,896,469	$ 1,934,157

The deferred tax assets above relate primarily to the provision for loan losses, unrealized losses on foreclosed real estate and investment securities available for sale, and net operating loss carry-forwards, and are reduced by a valuation allowance since their realization in the future is uncertain. The deferred tax liabilities relate primarily to depreciation of fixed assets, FHLB stock dividends and certain prepaid expenses.

NOTE 9 - INCOME TAX EXPENSE (BENEFIT) (Continued)

Included in the 2016 deferred tax assets above is $152,614 of deferred tax effect on the net unrealized loss on securities available for sale ($193,681 in deferred tax assets on the net unrealized loss in 2015).

Federal net operating loss carry-forwards are approximately $6.5 million, which expire at various dates from 2031 to 2035, and state net operating loss carry-forwards are approximately $6.7 million at December 31, 2016, which expire at various dates from 2026 to 2030.

NOTE 10 - RELATED PARTY TRANSACTIONS

The amount of loans to principal officers, directors, and their affiliates at December 31, 2016 and 2015 totaled approximately $108,000 and $139,000, respectively.

Deposit account balances owned by principal officers, directors, and their affiliates at December 31, 2016 and 2015 were approximately $2,706,000 and $2,800,000, respectively.

NOTE 11 - FEDERAL HOME LOAN BANK ADVANCES

The following table is a maturity schedule of advances from the Federal Home Loan Bank as of December 31, 2016:

Date of Advance	Interest Rate	Final Maturity Date	Amount Outstanding at 12/31/16
02/13/07	4.45%	02/13/17	$ 1,000,000
06/01/07	4.58%	06/01/17	4,300,000
12/21/05	5.17%	01/01/31	926,444
			$ 6,226,444

Interest expense associated with the advances from the FHLB totaled $290,380 for the year ended December 31, 2016 ($292,693 in 2015). Pursuant to collateral agreements with the FHLB, the advances are secured by the Company's FHLB stock and certain qualifying residential first mortgage loans totaling approximately $15,700,000 as of December 31, 2016 ($15,600,000 in 2015), and commercial real estate loans totaling approximately $10,300,000 as of December 31, 2016 ($10,900,000 in 2015). All of the fixed rate advances have a prepayment penalty. The prepayment penalty would be based on the market rates and the length of time remaining until maturity at the time of payoff.

Additionally, the Company maintains a line of credit advance agreement with the FHLB which allows borrowings up to $13,000,000. This line was undrawn as of December 31, 2016 and 2015. The Company also maintains a letter of credit line for the collateralization of public unit deposits up to $10,000,000, for which balances outstanding as of December 31, 2016 and 2015 were $500,000 and $0 respectively.

NOTE 12 - SUBORDINATED DEBENTURES AND OTHER DEBT

On September 20, 2004, the Company borrowed $3,000,000 of floating rate mandatory redeemable securities through a special purpose entity, Rogersville Statutory Trust II, as part of a private offering. The rate, which varies quarterly with LIBOR, was 3.15% at December 31, 2016. The securities mature on September 20, 2034; however, the maturity may be shortened on a quarterly basis, subject to approval of a repayment or refinancing plan by the Federal Reserve.

On December 14, 2006, the Company borrowed $4,000,000 of floating rate mandatory redeemable securities through a special purpose entity, Rogersville Statutory Trust III, as part of a private offering. The rate, which varies quarterly with LIBOR, was 2.54% at December 31, 2016. The securities mature on December 14, 2036; the maturity may be shortened on a quarterly basis, subject to approval of a repayment or refinancing plan by the Federal Reserve.

The Company has provided a full, irrevocable, and unconditional guarantee on a subordinated basis of the obligations of the Trusts under the preferred securities in the event of a default, as defined in such guarantees. These subordinated debentures allow the Company to defer the payment of quarterly interest payments for up to 20 consecutive quarters without creating an event of default. Pursuant to the debentures, the Company and its affiliates cannot declare or pay any dividends or distributions on their capital stock (other than the payment of dividends or distributions from the Bank to the Holding Company), or repurchase, redeem, or acquire their capital stock during an interest deferred period until the unpaid interest payments have been paid. Accrued but unpaid interest totaled $8,839 at December 31, 2016 ($6,493 at December 31, 2015).

These securities are presented as liabilities on the Company’s balance sheet and count as Tier 1 and Tier 2 capital for regulatory capital purposes. In accordance with GAAP, the Trusts are not consolidated with the Company. Accordingly, the Company reports as liabilities the subordinated debentures issued by the Company and held by the Trusts. The Company’s equity investment in the Trusts ($217,000) is included in other assets at year-end 2016 and 2015.

The Company also has available federal funds lines (or equivalent thereof) with correspondent banks totaling $15,750,000 and $14,000,000 as of December 31, 2016 and 2015, respectively. None of these lines had balances outstanding as of December 31, 2016 and 2015. No collateral was pledged related to these lines as of December 31, 2016 and 2015.

NOTE 13 - SHAREHOLDERS' EQUITY

As of December 31, 2016 and 2015, the Company's charter authorized the issuance of up to 10,000,000 shares of common stock, no par value, 1,000,000 shares of preferred stock, no par value, and 400,000 shares of Series A and 200,000 shares of Series B Preferred Stock, at a par value of $8.05.

The Series A and Series B preferred stock are noncumulative, have no voting rights, have a dividend and liquidation preference to the common stock, and participate equally with the common stock in a sale or change in control of the Company. The two classes of preferred stock offer different dividends. Series A and Series B preferred stock have no redemption rights.

Treasury stock includes 48,432 shares of common stock at a cost of $809,687; 8,408 shares of Series A preferred stock at a cost of $133,742; and 225 shares of Series B preferred stock at a cost of $3,569 at December 31, 2016 and 2015.

NOTE 14 - REGULATORY CAPITAL REQUIREMENTS

The Bank and Holding Company are subject to various regulatory capital requirements administered by their primary federal regulator. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken could have a direct material effect on the Bank and on the Holding Company's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and Holding Company must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's and Holding Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

In 2013, the Office of the Comptroller, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (together, the agencies) adopted a final rule that revises their risk-based and leverage capital requirements for banking organizations. The regulatory capital rule is effective for the Holding Company and Bank on January 1, 2015, with certain transition provisions through December 31, 2017. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement, a higher minimum Tier 1 capital requirement, and amends the methodologies for determining risk-weighted assets. The final rule incorporates these new requirements into the agencies' prompt corrective action (PCA) framework. In addition, the final rule establishes limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank and Holding Company to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 Capital (as defined in the regulations) to Risk-Weighted Assets (as defined), Common Equity Tier 1 Capital (as defined) to Total Risk-Weighted Assets (as defined), and of Tier 1 Capital (as defined) to Average Assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Bank and Holding Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2016 and 2015, the Bank is categorized 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 1 Risk-Based Capital, and Tier I Leverage ratios as set forth in the table below. There are no conditions or events since that date that management believes have changed the Bank's category.

NOTE 14 - REGULATORY CAPITAL REQUIREMENTS (Continued)

The Holding Company's and Bank's actual capital amounts and ratios as of December 31, 2016 and 2015, are also presented in the following table. All dollar amounts are in thousands of dollars.

			For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 22,455	17.78%	$ 10,102	8.00%	N/A	N/A
Bank	$ 22,493	17.81%	$ 10,101	8.00%	$ 12,626	10.00%
Common Equity Tier I Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 11,990	9.49%	$ 5,683	4.50%	N/A	N/A
Bank	$ 20,908	16.56%	$ 5,682	4.50%	$ 8,207	6.50%
Tier I Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 17,538	13.89%	$ 7,577	6.00%	N/A	N/A
Bank	$ 20,908	16.56%	$ 7,576	6.00%	$ 10,101	8.00%
Tier I Capital (to Average Assets):						
Holding Company (Consolidated)	$ 17,538	10.15%	$ 6,912	4.00%	N/A	N/A
Bank	$ 20,908	12.10%	$ 6,910	4.00%	$ 8,638	5.00%
As of December 31, 2015						
Total Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 21,147	17.19%	$ 9,841	8.00%	N/A	N/A
Bank	$ 21,045	17.12%	$ 9,833	8.00%	$ 12,292	10.00%
Common Equity Tier I Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 10,718	8.71%	$ 5,535	4.50%	N/A	N/A
Bank	$ 19,496	15.86%	$ 5,531	4.50%	$ 7,990	6.50%
Tier I Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 15,913	12.94%	$ 7,381	6.00%	N/A	N/A
Bank	$ 19,496	15.86%	$ 7,375	6.00%	$ 9,833	8.00%
Tier I Capital (to Average Assets):						
Holding Company (Consolidated)	$ 15,913	9.32%	$ 6,832	4.00%	N/A	N/A
Bank	$ 19,496	11.42%	$ 6,829	4.00%	$ 8,537	5.00%

The Bank and Holding Company are also subject to federal and state regulations restricting the amount of dividends payable.

NOTE 15 - STOCK COMPENSATION PLANS

The Company has two stock option plans, the 1994 Employee Stock Option Plan (the employee plan), and the 1994 Outside Directors' Stock Option Plan (the directors' plan), which are described below. The exercise price is the market price at date of grant. In accordance with GAAP, the fair value of any options granted after January 1, 2006 will be recognized as an expense in the income statement, as services by employees and Directors are performed for the Company. All options expire within ten years from the date of grant.

1994 Employee Stock Option Plan - This plan provides for the granting of options to purchase up to 475,000 shares by officers and key employees of the Company. No options were granted in 2016 or 2015.

NOTE 15 - STOCK COMPENSATION PLANS (Continued)

Outside Directors' Stock Option Plan - Adopted in 1994, this plan originally provided for the granting of options to purchase up to 150,000 (as adjusted for stock split) shares of Common Stock by non-employee directors of the Company. These options became exercisable over 5 years. In 2006 this plan was amended upon approval of the shareholders to increase the number of shares of Common Stock that may be issued pursuant to options from 150,000 to 225,000 shares. This Plan has also been amended to extend the Plan through June 30, 2026. No options were granted in 2016 or 2015. As of December 31, 2016, there are 123,000 options remaining to be granted under this plan.

A summary of the status of the Company's stock option plans for the two years ended December 31, 2016 and the changes during those years is presented below:

	Total Option Shares Outstanding	Average Exercise Price	Exercisable Options Outstanding
Options Outstanding at January 1, 2015	33,750	$ 10.30	33,750
Options Granted	0		0
Options which became Exercisable	0		0
Options Expired or Rescinded	(13,750)	18.36	(13,750)
Options Exercised	0		0
Options Outstanding at December 31, 2015	20,000	4.75	20,000
Options Granted	0		0
Options which became Exercisable	0		0
Options Expired or Rescinded	0		0
Options Exercised	0		0
Options Outstanding at December 31, 2016	20,000	4.75	20,000

The following table summarizes information about the stock options outstanding under the Company's plans at December 31, 2016:

Exercise Price	Number Outstanding	Average Remaining Life	Number Exercisable
$ 4.75	20,000	5 years	20,000

NOTE 16 - EMPLOYEE BENEFITS

The Company maintains a 401(k) plan for all employees who have attained the age of 21 and have at least three months of service. The plan provides for a discretionary employer matching contribution, in which the employee is 100% vested. The Company may also make additional discretionary contributions (qualified non-elective or profit sharing contributions) as determined by the Board of Directors. For these contributions, employees begin to vest in the second year and are fully vested after six years. The Company's employer matching contribution to the 401(k) plan amounted to $37,714 in 2016 and $39,446 in 2015.

The Company is providing post-retirement pension benefits to a former employee. A present value based charge, which is included in non-interest expense, is made each year based on the future benefits to be paid to the employee (or beneficiary) under the plan. Total amounts paid or accrued during the year under such arrangements amounted to approximately $42,000 in both 2016 and 2015. A discount rate of 6.75% is used to compute the liability.

NOTE 16 - EMPLOYEE BENEFITS (Continued)

The Company has a Supplemental Executive Retirement Plan for key officers and employees. A contribution may be made or accrued each year at the discretion of the board of directors based on future benefits to be paid to the officers under the plan. The plan contains certain financial goals, which must be achieved annually before a contribution is required. This plan offers retirement and death benefits to these officers. The accrued retirement liability for this plan was $1,709,672 at December 31, 2016 ($1,766,684 at December 31, 2015). Expense related to this plan was $58,982 in 2016 and $114,528 in 2015, and is included in salaries and employee benefits expense.

The Company also provides life insurance benefits to certain employees under split-dollar insurance contracts. Accrued liabilities were $211,153 at December 31, 2016 ($199,016 at December 31, 2015). Expense related to this plan was $12,137 in 2016 and $8,791 in 2015, and is included in salaries and employee benefits expense.

NOTE 17 - OFF-BALANCE SHEET ACTIVITIES

Certain financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The approximate contractual amounts of financial instruments with off-balance sheet risk were as follows at December 31:

	2016		2015	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to Make Loans	$ 3,415,000	$ 15,525,000	$ 3,784,000	$ 10,788,000
Unused Letters of Credit	0	520,000	0	219,000

Commitments to make loans are generally made for periods of 1 year or less. The fixed rate loan commitments have interest rates ranging from 3.75% to 7.24% and maturities ranging from 1 year to 10 years. Approximately $11,228,000 of the commitments to make loans were collateralized, primarily by real estate, at December 31, 2016 ($7,243,000 at December 31, 2015).

NOTE 18 - FAIR VALUE DISCLOSURES

GAAP establishes a framework for using fair value. It also defines fair value rules as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. The Company did not elect to adopt the fair value option for any financial instruments. However, other accounting pronouncements require the Company to measure certain financial instruments at fair value as described below.

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

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset and liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

A description of valuation methodologies used for assets and liabilities recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is shown below. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

<u>Investment Securities Available for Sale</u> - Investment securities available for sale are recorded at fair value in accordance with GAAP on a recurring basis. Fair value measurement for these securities is based upon quoted prices of like or similar securities, utilizing Level 2 inputs. These measurements are obtained from a service provider who considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the securities’ terms and conditions, among other things.

<u>Impaired Loans</u> - The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired in accordance with GAAP and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. The fair value of individually identified impaired loans is measured based on the present value of expected payments or the collateral value if the loan is collateral dependent. Impaired loans are classified within Level 3 of the valuation hierarchy.

<u>Foreclosed Real Estate</u> - Foreclosed real estate is recorded at fair value on a nonrecurring basis. Fair value measurement is based on management’s estimate of the amount that will be realized when the property is sold and is classified within Level 3 of the valuation hierarchy.

NOTE 18 - FAIR VALUE DISCLOSURES (Continued)

Assets Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets measured at fair value:

	Carrying Amount in the Balance Sheet	Fair Value Measurements Using: Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2016				
Small Business Admin. Securities	$ 2,093,411	$ 0	$ 2,093,411	$ 0
U.S. Government Agency Securities	3,430,095	0	3,430,095	0
Residential Mortgage-backed Securities	7,689,705	0	7,689,705	0
Taxable Municipal Securities	386,056		386,056	
Tax Exempt Municipal Securities	9,014,332	0	9,014,332	0
Investment Securities Available for Sale	$ 22,613,599	$ 0	$ 22,613,599	$ 0
As of December 31, 2015				
U.S. Treasury Securities	$ 995,510	$ 995,510	$ 0	$ 0
Small Business Admin. Securities	2,479,891	0	2,479,891	0
U.S. Government Agency Securities	16,386,282	0	16,386,282	0
Residential Mortgage-backed Securities	5,555,126	0	5,555,126	0
Tax Exempt Municipal Securities	4,355,642	0	4,355,642	0
Investment Securities Available for Sale	$ 29,772,451	$ 995,510	$ 28,776,941	$ 0

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

	Carrying Amount in the Balance Sheet	Fair Value Measurements Using: Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2016				
Impaired Loans, Net of Allowance	$ 1,975,163	$ 0	$ 0	$ 1,975,163
Foreclosed Real Estate	1,420,914	0	0	1,420,914
	$ 3,396,077	$ 0	$ 0	$ 3,396,077
As of December 31, 2015				
Impaired Loans, Net of Allowance	$ 1,689,999	$ 0	$ 0	$ 1,689,999
Foreclosed Real Estate	2,880,492	0	0	2,880,492
	$ 4,570,491	$ 0	$ 0	$ 4,570,491

GAAP also requires the Company to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the consolidated balance sheets, for which it is practicable to estimate fair value, and which are not already recorded at fair value.

NOTE 18 - FAIR VALUE DISCLOSURES (Continued)

Assets Recorded at Fair Value on a Nonrecurring Basis (Continued)

A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both: (1) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (2) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity, or to exchange other financial instruments on potentially favorable terms with the first entity.

For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined above. However, a large majority of those assets and liabilities do not have an active trading market nor are their characteristics similar to other financial instruments for which an active trading market exists. In addition, it is the Company's practice and intent to hold the majority of its financial instruments to maturity and not to engage in trading or sales activities. Therefore, much of the information as well as the amounts disclosed below are highly subjective and judgmental in nature. The subjective factors include estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Because the fair value is estimated as of December 31, 2016 and 2015, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

The estimates of fair value are based on existing financial instruments without attempting to estimate the value of anticipated future business or activity nor the value of assets and liabilities that are not considered financial instruments. For example, the value of mortgage loan servicing rights and the value of the Company's long-term relationships with depositors, commonly known as core deposit intangibles, have not been considered in the estimates of fair values presented below. In addition, the tax implications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been included in the estimated fair values below.

The recorded book value and estimated fair value of the Company's financial instruments which are not carried at fair value as of December 31, 2016 and 2015 are as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and Cash Equivalents	$ 20,782,411	$ 20,782,411	$ 15,069,872	$ 15,069,872
Net Loans, Excluding Net Impaired Loans	108,112,690	108,010,690	105,989,751	106,346,751
Cash Surrender Value of Life Insurance	6,768,551	6,768,551	6,912,204	6,912,204
Financial Liabilities				
Deposits	$ 135,105,851	$ 134,904,851	$ 135,744,816	$ 135,469,816
Securities Sold Under Agreements to Repurchase	5,585,184	5,585,184	7,000,294	7,000,294
Federal Home Loan Bank Advances	6,226,444	6,417,444	6,270,063	6,658,063
Subordinated Debentures	7,217,000	7,217,000	7,217,000	7,217,000

The methods and assumptions used to estimate fair value are described as follows.

The carrying amount approximates the estimated fair value for cash and cash equivalents, short-term borrowings, demand deposits, variable rate loans or deposits that reprice frequently, and securities sold under agreements to repurchase. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Recorded book value of cash surrender value of life insurance is a reasonable estimate of fair value. Fair value of FHLB advances and subordinated debentures is based on current rates for similar financing. The fair value of off-balance sheet loan commitments is considered nominal and not disclosed above. Management does not consider it practicable to estimate the fair value of equity investments carried at cost. Therefore, no estimate of fair value for these investments is disclosed.

NOTE 19 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company's business activity is with customers located within East Tennessee. As of December 31, 2016 and 2015, the Company had concentrations of loans in residential real estate, commercial real estate and commercial lending. Generally, these loans are secured by the underlying real estate or commercial assets. The usual risks associated with such concentrations are generally mitigated by being spread over numerous borrowers and by adequate loan to collateral value ratios. The Company has concentrations in U.S. Government agency and residential mortgage-backed securities that are guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Association, the Federal Farm Credit Company and the Federal Home Loan Bank. The Company also has a concentration in municipal bonds, which are issued by instrumentalities across the state of Tennessee.

NOTE 20 - COMMITMENTS AND CONTINGENCIES

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

First Community Bank of East Tennessee

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As of April 15, 2017

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Tommy W. Young, Secretary
Steve L. Droke
Dr. David R. Johnson
Sidney K. Lawson
David L. Lunceford

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Steve L. Droke
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Regional Area President - Hawkins County

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Branch Manager - East Main Office, Rogersville

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Assistant Vice President
Loan Operations Manager

B. Evelyn Anderson
Banking Officer
Director of Human Resources

Robin Carter
Banking Officer
Commercial Loan Portfolio Specialist

Tammy Hobbs
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