CITIZENS FIRST CORP
Form 10-K
March 25, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2013

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

For the transition period from to

Commission File Number 001-33126

CITIZENS FIRST CORPORATION

(Exact name of registrant as specified in its charter)

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

incorporation or organization)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post files) Yes x No o

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

Indicated by check mark whether the registrant is a large accelerated file, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of a large accelerated filer, accelerated filer, and smaller reporting company in Rule 12-b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
	Smaller reporting company x

Non-accelerated filer o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes o No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates (for purposes of this calculation, affiliates are considered to be the directors and executive officers of the issuer) computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter**.** $16,500,873 as of June 30, 2013

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: 1,968,777 shares of common stock as of March 24, 2014

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement for the Annual Meeting of Shareholders to be held May 14, 2014 are incorporated by reference into Part III.

Table of Contents

Citizens First Corporation

Table of Contents

Table of Contents

Table of Contents

Part I

Forward-Looking Statements

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

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

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

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

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

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

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

Table of Contents

- our ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support our business;
- the failure of our assumptions underlying the establishment of allowances for loan losses and other estimates, or dramatic changes in those underlying assumptions or judgments in future periods, that, in either case, render the allowance for loan losses inadequate or require that further provisions for loan losses be made;
- laws and regulations affecting financial institutions in general;
- government intervention in the U.S. financial system;
- the cost and other effects of material contingencies;
- our ability to keep pace with technological changes;
- our ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by our customers and potential customers;
- the threat or occurrence of war or acts of terrorism and the existence or exacerbation of general geopolitical instability and uncertainty;
- management s ability to develop and execute plans to effectively respond to unexpected changes; and
- other factors and information contained in this Annual Report on Form 10-K and other reports that we file with the Securities and Exchange Commission (SEC) under the Exchange Act.

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

Table of Contents

Item 1. Business

Overview

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

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

As of December 31, 2013, we had total assets of $410.2 million, total loans of $295.1 million, deposits of $343.0 million and stockholders equity of $38.3 million.

Lending Activities

General. We offer a variety of loans, including commercial and residential real estate mortgage loans, construction loans, commercial loans and consumer loans to individuals and small to mid-size businesses that are located in or conduct a substantial portion of their business in our market area. Our underwriting standards vary for each type of loan, as described below. At December 31, 2013, we had total loans of $295.1 million, representing 71.9% of our total assets.

Commercial Loans. We make commercial loans primarily to small and medium-sized businesses. These loans are secured and unsecured and are made available for general operating inventory and accounts receivables, as well as any other purposes considered appropriate. We will generally look to a borrower s business operations as the principal source of repayment, but will also require, when appropriate, security interests in personal property and personal guarantees. In addition, the majority of commercial loans that are not mortgage loans are secured by a lien on equipment, inventory and other assets of the commercial borrower. These loans are generally considered to have greater risk than first and second mortgages on real estate because these loans may be unsecured or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease than real estate. At December 31, 2013, commercial loans amounted to $45.3 million, or 15.3% of our total loan portfolio, excluding for these purposes commercial loans secured by real estate which are included in the commercial real estate category. At December 31, 2013, our commercial loans had an average size of $72,000 and the largest loan was $2.5 million.

Table of Contents

Commercial Real Estate Loans. We originate and maintain a significant amount of commercial real estate loans. This lending involves loans secured by multi-family residential units, income-producing properties and owner-occupied commercial properties. Loan amounts generally conform to the regulatory loan-to-value guidelines and amortizations match the economic life of the collateral, with a maximum amortization schedule of 20 years. Loans secured by commercial real estate are generally subject to a maximum term of 20 years. At December 31, 2013, total commercial real estate loans amounted to $170.0 million, or 57.6% of our loan portfolio. At December 31, 2013, our commercial real estate loans had an average size of $351,000 and the largest loan was $9.7 million.

Residential Real Estate Mortgage Loans. We originate residential real estate mortgage loans with either fixed or variable interest rates to borrowers to purchase and refinance one-to-four family properties. We also offer home equity loans and home equity lines of credit. Real estate mortgage loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate, which could negatively affect a borrower s cash flow, creditworthiness and ability to repay the loan. Except for home equity loans and lines of credit, substantially all of our residential real estate loans are secured by a first lien on the real estate. Loans secured by residential real estate with variable interest rates will have a maximum term and amortization schedule of 30 years. We sell to the secondary market the majority of our residential fixed-rate mortgage loans, thereby reducing our interest rate risk and credit risk. Loans secured by vacant land are generally subject to a maximum term of five years and a maximum amortization schedule of five years. At December 31, 2013, total residential real estate loans amounted to $74.0 million, or 25.1% of our loan portfolio. At December 31, 2013, our residential real estate mortgage loans had an average size of $58,000 and the largest loan was $2.4 million.

We provide customers access to long-term conventional real estate loans through our mortgage loan division, which underwrites loans that are purchased by unaffiliated third party brokers in the secondary market. We receive fees in connection with the sale of mortgage loans, with these fees aggregating $277,000 and $301,000 for the years ending December 31, 2013 and 2012, respectively. We do not retain servicing rights with respect to the secondary market residential mortgage loans that we originate.

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

Table of Contents

repayment schedule with the payment amount tied to the borrower s periodic income. We believe that the generally higher yields earned on consumer loans help compensate for the increased credit risk associated with such loans and that consumer loans are important to our efforts to serve the credit needs of our customer base. At December 31, 2013, total consumer loans amounted to $5.7 million, or 2.0% of our loan portfolio. At December 31, 2013, our consumer loans had an average size of $5,000, and the largest loan was $204,000.

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

Deposit Products

Our principal source of funds is core deposits. We offer a range of deposit products and services including checking accounts, savings accounts, NOW accounts, money market accounts, sweep accounts, fixed and variable rate IRA accounts, Christmas Club accounts and certificate of deposit accounts. We solicit accounts from a wide variety of customers, including individuals and small to medium-sized businesses. We actively pursue business checking accounts by offering competitive rates and other convenient services to our business customers. In some cases, we require business customers to maintain minimum balances. We offer a deposit pick-up service to our commercial customers that enable these customers to make daily cash deposits through one of our couriers. At December 31, 2013, we had total deposits of $343.0 million.

Other Banking Services

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

Table of Contents

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

Competition and Market Area

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

Our market area consists of a ten county region located in south central Kentucky known as the Barren River Area Development District. This region consists of Allen, Barren, Butler, Edmonson, Hart, Logan, Metcalfe, Monroe, Simpson, and Warren Counties in Kentucky. Our most competitive market is the Bowling Green MSA. As of June 30, 2013, there were 20 financial institutions operating a total of 57 offices in the Bowling Green MSA. In addition, there are six financial institutions operating a total of seven offices in Simpson County, four institutions operating a total of five offices in Hart County and eight financial institutions operating 20 offices in Barren County.

Employees

At December 31, 2013, we had 100 full-time equivalent employees. Management considers its relations with its employees to be good. Neither we nor the Bank are a party to any collective bargaining agreement.

Supervision and Regulation

We are subject to extensive state and federal banking laws and regulations that impose restrictions on and provide for general regulatory oversight of our operations. The following summary briefly describes some material provisions of the regulatory framework which apply to us. It is qualified by reference to the statutory and regulatory provisions discussed, and is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on our operations. It is intended only to briefly summarize some material provisions.

Table of Contents

The Dodd-Frank Wall Street Reform and Consumer Protection Act

In July 2010, the Dodd-Frank Act was signed into law, incorporating numerous financial institution regulatory reforms. The Dodd-Frank Act implements far-reaching reforms of major elements of the financial landscape, particularly for larger financial institutions. Many of its most far-reaching provisions do not directly impact community-based institutions like the Company. For instance, provisions that regulate derivative transactions and limit derivatives trading activity of federally-insured institutions, enhance supervision of systemically significant institutions, impose new regulatory authority over hedge funds, limit proprietary trading by banks, and phase-out the eligibility of trust preferred securities for Tier 1 capital are among the provisions that do not directly impact us either because of exemptions for institutions below a certain asset size or because of the nature of our operations. Other provisions that have either been adopted or are expected to be adopted have impacted and will continue to impact the Company and the Bank include:

- Changing the assessment base for federal deposit insurance from domestic deposits to average consolidated assets less average tangible capital, increasing the deposit insurance fund s minimum reserve ratio and permanently increasing general deposit insurance coverage from $100,000 to $250,000.

- Providing unlimited federal deposit insurance until December 31, 2012 for non-interest-bearing demand transaction accounts at all insured depository institutions.

- Allowing the payment of interest on commercial demand deposits, which could lead to increased costs of commercial demand deposits, depending on the interplay of interest, deposit credits and service charges.

- Centralizing responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing federal consumer protection laws, although banks below $10 billion in assets will continue to be examined and supervised for compliance with these laws by their federal bank regulator.

- Limiting the debit card interchange fees that certain financial institutions are permitted to charge to merchants to an amount reasonable and proportional to the actual cost of the transaction to the issuer.

- Imposing new requirements for mortgage lending, including new minimum underwriting standards, prohibitions on certain yield-spread compensation to mortgage originators, special consumer protections for mortgage loans that do not meet certain provision qualifications, prohibitions and limitations on certain mortgage terms and various new mandated disclosures to mortgage borrowers.

Table of Contents

- Applying the same leverage and risk based capital requirements that apply to insured depository institutions to holding companies, although our currently outstanding trust preferred securities (but not new issuances) will continue to qualify as Tier 1 capital.

- Permitting national and state banks to establish de novo interstate branches at any location where a bank based in that state could establish a branch, and requiring that bank holding companies and banks be well-capitalized and well managed in order to acquire banks located outside their home state.

- Imposing new limits on affiliated transactions and causing derivative transactions to be subject to lending limits.

- Requiring that publicly traded companies give stockholders a non-binding vote on executive compensation and golden parachute payments.

Many aspects of the Dodd-Frank Act are not yet effective and remain subject to rulemaking and will take effect over several years, and their impact on the Company or the financial industry is difficult to predict before such regulations are adopted.

Citizens First Corporation

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

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

Table of Contents

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

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

Capital Requirements. We are required to comply with the capital adequacy standards established by the Federal Reserve at the holding company level, and the FDIC at the bank level. The Federal Reserve has established a risk-based and a leverage measure of capital adequacy for bank holding companies. The Bank is also subject to risk-based and leverage capital requirements adopted by the FDIC, which are substantially similar to those adopted by the Federal Reserve for bank holding companies. The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among depository institutions and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base.

The Federal Reserve guidelines require a minimum total risk-based capital ratio of 8.0%. At least half of the total capital must be composed of common equity, retained earnings, senior perpetual preferred stock issued to the U. S. Treasury under the CPP and qualifying perpetual preferred stock and certain hybrid capital instruments, less certain intangible assets (Tier 1 capital). The remainder may consist of certain subordinated debt, certain hybrid capital instruments, qualifying preferred stock and a limited amount of the allowance for loan losses (Tier 2 capital). Total capital is the sum of Tier 1 and Tier 2 capital. To be considered well-capitalized under the risk-based capital guidelines, an institution must maintain a total capital to total risk-weighted assets ratio of at least 10% and a Tier 1 capital to total risk-weighted assets ratio of 6% or greater and not be subject to a written directive, agreement or order to maintain capital at a specific level. As of December 31, 2013, our ratio of total capital to total risk-weighted assets was 13.81% and our ratio of Tier 1 capital to total risk-weighted assets was 12.56%.

Table of Contents

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide that a minimum ratio of Tier 1 capital to average assets, less goodwill and other specified intangible assets, of at least 4% should be maintained for most bank holding companies. The guidelines also provide that bank holding companies experiencing high internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels. Furthermore, the Federal Reserve has indicated that it will consider a bank holding company s Tier 1 capital leverage ratio, after deducting all intangibles, and other indicators of capital strength in evaluating proposals for expansion or new activities. We are required to maintain a leverage ratio of at least 4%. As of December 31, 2013, our leverage ratio was 9.57%.

The Dodd-Frank Act contains a number of provisions dealing with capital adequacy of insured depository institutions and their holding companies, and for the most part will result in insured depository institutions and their holding companies being subject to more stringent capital requirements. Under the so-called Collins Amendment to the Dodd-Frank Act, federal regulators have established minimum leverage and risk-based capital requirements for, among other entities, banks and bank holding companies on a consolidated basis. These minimum requirements require that a bank holding company maintain a Tier 1 leverage ratio of not less than 4% and a total risk-based capital ratio of not less than 8%. More information concerning our and the Bank s regulatory ratios at December 31, 2013 is included in Note 15 to the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory capital rules applicable to the Company and the Bank. The final rules implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III) and changes required by the Dodd-Frank Act.

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules implementing the Basel III regulatory capital reforms will become effective as to the Company and the Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes capital for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a capital conservation buffer of 2.5% (to be phased in over three years) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted

Table of Contents

assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

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

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

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

The Federal Reserve has adopted regulations applicable to bank holding companies with assets over $10 billion that require such holding companies and banks to conduct annual stress tests and report the results to the applicable regulators and publicly disclose a summary of certain capital information and results including pro forma changes in regulatory capital ratios. The board of directors and senior management are required to consider the results of the stress test in the normal course of business, including but not limited to capital planning and an assessment of capital adequacy in accordance with management s policies. The FDIC has adopted all guidelines applicable to state nonmember banks in each case.

Dividends. We are a legal entity separate and distinct from the Bank. The majority of our revenue is from dividends paid to us by the Bank. Statutory and regulatory limitations apply to the Bank s ability to pay dividends to us as well as to our ability to pay dividends to our shareholders. We did not pay any dividends to our common shareholders in 2013.

Under Kentucky law, we are not permitted to pay dividends to the extent they result in the insolvency of the corporation from a balance sheet perspective or in the corporation becoming unable to pay debts as they come due.

Table of Contents

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

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank s capital and surplus and, as to all affiliates combined, to 20% of a bank s capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. The Bank must also comply with other provisions designed to avoid the taking of low-quality assets.

Section 23B prohibits an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

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

Citizens First Bank

The Bank is a state bank chartered under the banking laws of the Commonwealth of Kentucky. As a result, we are subject to the supervision, examination and reporting requirements of both the Kentucky Department of Financial Institutions (KDFI) and the FDIC.

We also are subject to numerous state and federal statutes and regulations that affect our business activities and operations, including restrictions on loan limits, interest rates, insider loans to officers, directors, and principal shareholders, tie-in arrangements and transactions with affiliates, among other things.

Federal and state regulators also have authority to impose substantial sanctions on the Bank and its directors and its directors and officers if we engage in unsafe or unsound

Table of Contents

practices, or otherwise fail to comply with regulatory standards. Supervisory agreements, such as memoranda of understanding entered into with federal and state bank regulators, may also impose requirements and reporting obligations.

Branching. With prior regulatory approval and/or notices, as applicable, Kentucky law permits banks based in the state to either establish new or acquire existing branch offices throughout Kentucky. Furthermore, federal legislation permits interstate branching, including out-of-state acquisitions by bank holding companies, interstate branching by banks and interstate merging by banks. The Dodd-Frank Act removed previous state law restrictions on de novo interstate branching in states such as Kentucky. This change permits out-of-state banks to open de novo branches in states where the laws of the state where the de novo branch to be opened would permit a bank chartered by that state to open a de novo branch.

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

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

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

Capital Adequacy and Prompt Corrective Action. Similar to the Federal Reserve Board s requirements for bank holding companies, the FDIC has adopted risk-based capital requirements for assessing state non-member banks capital adequacy. The FDIC s risk-based capital guidelines require that all banks maintain a minimum ratio of total capital to total risk-weighted assets of 8.0% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4.0%. To be well-capitalized, a bank must have a ratio of total capital to total risk-weighted assets of at least 10.0% and a ratio of Tier 1 capital to total risk-weighted assets of 6.0%. The FDIC also requires a minimum leverage ratio of 3.0% of Tier 1 capital to total assets for the highest rated banks and an additional cushion of approximately 100-200 basis points for all other banks, which will effectively increase the minimum leverage ratio for other banks to 4.0% or 5.0% of Tier 1 capital or more. As of December 31, 2013, the Bank s leverage ratio was 9.62%. As of December 31, 2013, the Bank s ratio of total capital to total risk-weighted assets was 13.83% and its ratio of Tier 1 capital to total risk-weighted assets was 12.58%.

Table of Contents

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a financial institution could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits and other restrictions on its business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal banking regulators established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized), into one of which each institution is placed. With respect to institutions in the three undercapitalized categories, the regulators must take prescribed supervisory actions and are authorized to take other discretionary actions. The severity of the action depends upon the capital category into which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

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

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to limitations. The controlling bank holding company s obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary s assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution and a lower capital category based on supervisory factors other than capital.

Table of Contents

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

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

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

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;

- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

- Bank Secrecy Act, governing how banks and other firms report certain currency transactions and maintain appropriate safeguards against money laundering activities;

Table of Contents

- Soldiers and Sailors Civil Relief Act of 1940, governing the repayment terms of, and property rights underlying, secured obligations of persons in active military service; and

- Rules and regulations of the various federal agencies charged with the responsibility of implementing the federal laws.

The Bank s deposit operations are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

- Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities (including with respect to the permissibility of overdraft charges) arising from the use of automated teller machines and other electronic banking services.

Consumer Financial Protection Bureau. Dodd-Frank created a new, independent federal agency called the Consumer Financial Protection Bureau (CFPB) which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower s ability to repay. In addition, Dodd-Frank will allow borrowers to raise certain defenses to foreclosure if they receive any loan, other than a qualified mortgage as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Privacy. Federal law currently contains extensive customer privacy protections provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution s policies and procedures regarding the handling of customers nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure.

Table of Contents

Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

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

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

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

Table of Contents

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

The payment of dividends by the Bank may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. If, in the opinion of the FDIC, the Bank was engaged in or is about to engage in an unsafe or unsound practice, the FDIC could require, after notice and hearing, that the Bank refrain from engaging in the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. The federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation s financial institutions. In 2010, the U.S. Congress passed the Dodd-Frank Act, which includes significant consumer protection provisions related to, among other things, residential mortgage loans that have increased, and are likely to further increase, our regulatory compliance costs. We expect that the Dodd-Frank Act will continue to have a negative impact on our earnings through fee reductions, higher costs and new restrictions. The ultimate impact of the Dodd-Frank Act on our business and results of operations will depend on regulatory interpretation and rulemaking, as well as the success of any of our actions to mitigate the negative earnings impact of certain provisions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute. With the enactments of the Dodd-Frank Act and the significant amount of regulations that have been issued and that are to come from the passage of that legislation, the nature and extent of the future legislative and regulatory changes affecting financial institutions and the resulting impact on those institutions is very unpredictable at this time.

Effects of Governmental Policies and Economic Conditions

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government, and its agencies. The Federal Reserve s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through the Federal Reserve s statutory power to implement national monetary policy in order, among other things, to curb

Table of Contents

inflation or combat a recession. The Federal Reserve, through its monetary and fiscal policies, affects the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature and impact of future changes in monetary or fiscal policies.

Available Information

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

Item 1A. Risk Factors

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

Negative developments in the U.S. and local economy and in real estate markets have adversely impacted our results and may continue to adversely impact our results in the future.

In recent years, the U.S. economy has faced a severe economic crisis including a major recession from which it is slowly recovering. Business activity across a wide range of industries and regions in the U.S. remains reduced and local governments and many businesses continue to experience financial difficulty. While reflecting some improvement, unemployment levels remain elevated. There can be no assurance that these conditions will continue to improve and these conditions could worsen. In addition, on-going federal budget negotiations, the implementation of the Patient Protection and Affordable Care Act and the level of U.S. debt may have a destabilizing effect on financial markets.

Table of Contents

The Company s financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services the Company offers, is highly dependent upon the business environment in the markets where the Company operates and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters; or a combination of these or other factors.

Overall, during recent years, the business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in Kentucky, the United States and worldwide have improved since the recession, there can be no assurance that this improvement will continue. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits. Such conditions could adversely affect the credit quality of the Company s loans and the Company s business, financial condition and results of operations.

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

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

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

Table of Contents

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

Commercial real estate and commercial and agricultural lending usually involve higher credit risks than that of single-family residential lending. As of December 31, 2013, commercial real estate loans accounted for 57.6% of our loan portfolio and commercial and agricultural loans accounted for 15.3% of our loan portfolio. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower s ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

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

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

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

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

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

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on

Table of Contents

these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, results of operations and financial condition.

Since our business is primarily concentrated in the south central Kentucky area, a downturn in the local economy may adversely affect our business.

Our lending and deposit gathering activities have been historically concentrated primarily in the south central Kentucky area and our success depends on the general economic condition of the area. Adverse changes in the regional and general economic conditions could reduce our growth rate, impair our ability to collect loans, increase loan delinquencies, increase problem assets and foreclosure, increase claims and lawsuits, decrease the demand for the Bank s products and services, and decrease the value of collateral for loans, especially real estate, thereby having a material adverse effect on our financial condition and results of operations. We cannot assure you that economic conditions, including loan demand, in our markets will improve during 2014 or thereafter, and in that case, we may not be able to grow our loan portfolio in line with our expectations, the ability of our customers to repay their loans to us may be negatively impacted and our financial condition and results of operations could be negatively impacted.

Compared to regional or national financial institutions, we are less able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance that we will benefit from any market growth or return of more favorable economic conditions in our primary market area if they do occur.

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

Approximately 85.4% of our loan portfolio as of December 31, 2013 was comprised of loans collateralized by real estate. Further adverse changes in the economy affecting values of real estate generally or in our primary market specifically could significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the collateral securing a loan to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition.

Table of Contents

We may be adversely affected by interest rate changes.

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

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

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

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

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules implementing the Basel III regulatory capital reforms will become effective as to the Company and the Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes capital for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from

Table of Contents

current rules); (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a capital conservation buffer of 2.5% (to be phased in over three years) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

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

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

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

Table of Contents

Implementation of the various provisions of the Dodd-Frank Act may increase our operating costs or otherwise have a material effect on our business, financial condition or results of operations.

On July 21, 2010, President Obama signed the Dodd-Frank Act. This landmark legislation includes, among other things, (i) the creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation; (ii) the creation of a Consumer Financial Protection Agency authorized to promulgate and enforce consumer protection regulations relating to financial products that would affect banks and non-bank finance companies; (iii) the establishment of new capital and prudential standards for banks and bank holding companies; (iv) the termination of investments by the U.S. Treasury under TARP; (v) enhanced regulation of financial markets, including the derivatives, securitization and mortgage origination markets; (vi) the elimination of certain proprietary trading and private equity investment activities by banks; (vii) the elimination of barriers to de novo interstate branching by banks; (viii) a permanent increase of the previously implemented temporary increase of FDIC deposit insurance to $250,000; (ix) the authorization of interest-bearing transaction accounts; and (x) changes in how the FDIC deposit insurance assessments will be calculated and an increase in the minimum designated reserve ratio for the Deposit Insurance Fund.

Certain provisions of the legislation are not immediately effective or are subject to required studies and implementing regulations. Further, community banks with less than $10 billion in assets (like us) are exempt from certain provisions of the legislation. Although certain regulations implementing portions of the Dodd-Frank Act have been promulgated, we are still unable to predict how this significant new legislation may be interpreted and enforced or how implementing regulations and supervisory policies may affect us. There can be no assurance that these or future reforms will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business, financial condition and results of operations.

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

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

Table of Contents

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

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

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

A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in future impairment of goodwill or other intangible assets. At December 31, 2013, our goodwill and other identifiable intangible assets totaled approximately $4.8 million. If we were to conclude that a future write-down of our goodwill or intangible assets is necessary, then we would record the appropriate charge to earnings, which could be materially adverse to our results of operations and financial position.

The Company s securities portfolio performance in difficult market conditions could have adverse effects on the Company s results of operations.

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

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

Table of Contents

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

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

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

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

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

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

We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed or the cost of capital may be very high.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources will satisfy our capital requirements for the foreseeable future. We may at some point need to raise additional capital to support continued growth or losses. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth or acquisitions could be materially impaired and our financial condition and liquidity could be materially and negatively affected.

Our internal operations are subject to a number of risks.

Our internal operations are subject to certain risks, including but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk resulting from

Table of Contents

inadequate or failed internal processes, people and systems includes the risk of fraud by employees or persons outside of our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

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

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

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

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

Table of Contents

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

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

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

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

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

Our internal controls may be ineffective.

We regularly review and update our internal controls, disclosure controls and procedures and corporate governance policies and procedures. As a result, we may incur increased costs to maintain and improve our controls and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the

Table of Contents

objectives of the system are met. Any failure or circumvention of our controls or procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations or financial condition.

We rely on dividends from the Bank for substantially all of our revenue.

We receive substantially all of our revenue as dividends from the Bank. Federal and state regulations limit the amount of dividends that the Bank may pay to us. In the event the Bank becomes unable to pay dividends to us, we may not be able to service our debt, pay our other obligations or pay dividends on our preferred stock or our common stock. Accordingly, our inability to receive dividends from the Bank could also have a material adverse effect on our business, financial condition and results of operations.

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

The trading volume in our common stock has been relatively low when compared with larger companies listed on Nasdaq or other stock exchanges. Although we have experienced increased liquidity in our stock, we cannot say with any certainty that a more active and liquid trading market for our common stock will continue to develop. Because of this, it may be more difficult for stockholders to sell a substantial number of shares for the same price at which stockholders could sell a smaller number of shares.

We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We can give no assurance that sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

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

The Warrant we issued to the Treasury Department may be dilutive to holders of our common stock.

The ownership interest of the existing holders of our common stock will be diluted to the extent the Warrant we issued to the Treasury Department is exercised. The common stock underlying the Warrant represents approximately 11.4% of the shares of our common stock outstanding as of December 31, 2013. Although the Treasury Department has agreed not to vote any of the common stock it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any common stock acquired upon exercise of the Warrant is not bound by this restriction.

34

Table of Contents

Holders of our subordinated debenture have rights that are senior to those of our stockholders.

We have supported our growth through the issuance of trust preferred securities from a special purpose trust and accompanying subordinated debentures. At December 31, 2013, we had outstanding trust preferred securities and accompanying subordinated debentures totaling $5 million. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us. Further, the accompanying subordinated debentures we issued to the trust is senior to shares of our common stock and preferred stock. As a result, we must make payments on the subordinated debentures before any dividends can be paid on our preferred stock, or common stock and, in the event of our bankruptcy, dissolution or liquidation, the holder of the subordinated debentures must be satisfied before any distributions can be made on our common stock and preferred stock. We have the right to defer distributions on our subordinated debenture (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on our common stock or preferred stock. If our financial condition deteriorates, we may be required to cease paying dividends on our preferred stock and to defer distributions on our subordinated debenture.

Item 1B. Unresolved Staff Comments None.

Item 2. Properties

We currently operate from a ten office network in Warren, Simpson, Barren and Hart Counties, Kentucky.

Type of Office	Location	Leased or Owned
Corporate Office	1065 Ashley Street Bowling Green, Kentucky	Owned
Main Office	1805 Campbell Lane Bowling Green, Kentucky	Leased(1)
Branch	987 Lehman Avenue Bowling Green, Kentucky	Owned
Branch	1200 S. Main Street Franklin, Kentucky	Owned
Branch	2451 Fitzgerald-Industrial Drive Bowling Green, Kentucky	Owned
Branch	204 East Main Street Horse Cave, Kentucky	Owned
Branch	760 West Cherry Glasgow, Kentucky	Owned

Table of Contents

Branch	607 S L Rogers Well Blvd Glasgow, Kentucky	Leased
Branch	656 North Main Street Munfordville, Kentucky	Leased
Branch	1700 Scottsville Road Bowling Green, Kentucky	Owned
Credit Administration	301 Pascoe Boulevard Bowling Green, Kentucky	Leased

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

We also own properties located at 2900 Louisville Road and on Gator Drive in Bowling Green which may be used for future branch expansion. We also own property at 705 N. Main Street in Franklin where an ATM is located.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures. Not Applicable.

Table of Contents

Part II

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

The common stock of the Company is traded in the NASDAQ Global Market under the symbol CZFC. Trading volume in the Company s common stock is light. As of March 18, 2014, there were approximately 739 beneficial owners of the Company s common stock, including 124 shareholders of record and, to the best knowledge of the Company, approximately 615 beneficial owners whose shares are held by securities brokers-dealers or other nominees.

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

2013	**High**	**Low**
Fourth Quarter	$ 9.86	$ 8.46
Third Quarter	12.17	8.70
Second Quarter	10.02	8.21
First Quarter	9.90	8.49

2012	**High**	**Low**
Fourth Quarter	$ 8.99	$ 7.85
Third Quarter	9.00	8.00
Second Quarter	8.72	7.28
First Quarter	7.93	6.66

No cash dividends were paid on common stock during 2013 and 2012. We last paid a cash dividend of $0.05 per share on our common stock in December of 2008. Dividends on common stock will be payable in the future at the discretion of the Board of Directors, subject to certain restrictions discussed below and in our financial statements. Quarterly dividends are payable on our cumulative perpetual preferred stock, prior and in preference to the payment of dividends on our common stock, at an annual fixed rate

Table of Contents

of 6.5%. See Item 1, Business Supervision and Regulation for additional information on dividend restrictions applicable to the Company and Citizens First Bank.

The following table sets forth certain information as of December 31, 2013, regarding Company compensation plans under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information

Plan Category	**Number of Securities To be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)**		**Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Securities Remaining Available for Future Issuance under equity compensation plans (excluding securities reflected in Column a) (c)**
Equity compensation plans approved by security holders	72,931	$	15.22	34,039
Equity compensation plans not approved by security holders	0		0.00	0
Total	**72,931**	**$**	**15.22**	**34,039**

Item 6. Selected Financial Data. Not Applicable.

Table of Contents

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

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

Overview of 2013

Significant developments for the year ended December 31, 2013 were:

- Net income decreased $1.4 million, or $0.59 per diluted common share, from a net income of $3.2 million in 2012 to $1.8 million in 2013. Net income declined primarily due to an increase in the provision for loan losses of $1.0 million, a decline in net interest income of $494,000, and an increase in non-interest expense of $546,000.

- Net interest margin decreased to 3.91% for 2013 compared to 4.20% for 2012 as interest income decreased farther than our reduction of interest expense. Higher levels of non-performing assets during the first three quarters of 2013, as well as the rates we earned on loans and investments contributed to the decline in interest income.

- Nonperforming assets decreased to $2.0 million at December 31, 2013 compared to $6.3 million at December 31, 2012. Nonperforming assets reached a peak of $10.9 million at March 31, 2013. Net charge-offs for 2013 totaled $3.7 million compared to $1.8 million in 2012.

- On January 15, 2014, the Company repurchased the remaining 93 shares of the Series A Fixed Rate Cumulative Perpetual Preferred (CPP) Stock that the Company had issued to the Treasury on December 19, 2008 under the TARP Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. The Company had previously repurchased 157 shares of the original 250 shares issued. The Company paid approximately $3.3 million, which was 100% of par value, to repurchase the preferred shares along with the accrued dividend for the shares repurchased. The preferred dividend rate was scheduled to increase from 5% to 9% during 2014, which would have resulted in preferred dividends of $294,000 annually. The warrants associated with the CPP investment remain outstanding at the present time.

Application of Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles and follow general practices within the

39

Table of Contents

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

Allowance for Loan Losses

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

Goodwill and Other Intangibles

Management is required to assess goodwill and other intangible assets annually for impairment or more often if certain factors are identified which could imply potential impairment. This assessment involves preparing analyses of market multiples for similar operations, and estimating the fair value of the reporting unit to which the goodwill is allocated. If the analysis results in an estimate of fair value materially less than the carrying value we would be required to take a charge against earnings to write down the asset to the lower fair value. Based on management s assessment completed with the help of an outside valuation firm, we believe our goodwill of $4.1 million and other identifiable intangibles of $665,000 are not impaired and are properly recorded in the consolidated financial statements as of December 31, 2013.

Valuation of Deferred Tax Asset

We evaluate deferred tax assets quarterly. We will realize this asset to the extent we are profitable or able to carry back tax losses to periods in which we paid income taxes. Our determination of the realization of the deferred tax asset will be based upon management s judgment of various future events and uncertainties, including the timing and amount of future income we will earn and the implementation of various tax planning strategies to maximize realization of the deferred tax assets. Management

Table of Contents

believes we will generate sufficient operating earnings to realize the deferred tax asset. Examinations of our income tax returns or changes in tax law may impact the tax liabilities and resulting provisions for income taxes.

Results of Operations

Net Interest Income

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

For the year ended December 31, 2013, net interest income was $14.6 million, a decrease of $494,000 or 3.3%, from net interest income of $15.1 million in 2012. The net interest margin in 2013 was 3.91%, compared to 4.20% in 2012. The decrease of 29 basis points in the net interest margin resulted primarily from a decrease in loan income partially offset by a decrease in interest expense. The prime rate remained stable throughout 2013 and 2012 at 3.25%.

Net Interest Analysis Summary

	2013	2012
Average yield on interest earning assets	4.68%	5.13%
Average rate on interest bearing liabilities	0.89%	1.08%
Net interest spread	3.79%	4.05%
Net interest margin	3.91%	4.20%

Our average interest-earning assets were $382.0 million for 2013, compared with $367.4 million for 2012, a 4.0% increase primarily attributable to an increase in federal funds sold. Average fed funds sold were $26.6 million for 2013, compared with $16.0 million for 2012, a 66.3% increase. Average loans were $304.0 million for 2013, compared with $301.3 million for 2012, a 0.9% increase. Our total interest income on a tax-equivalent basis decreased 5.3% to $17.9 million for 2013, compared with $18.9 million for 2012. The change was due primarily to decreased average yields on interest-earning assets.

Our average interest-bearing liabilities increased by 3.5% to $331.8 million for 2013, compared with $320.5 million for 2012. Our total interest expense decreased 14.2% to $3.0 million for 2013, compared with $3.5 million during 2012. The change was due primarily to a decrease in the rates of time deposits. The average interest rate paid on time deposits decreased to 1.10% for 2013, compared with 1.48% for 2012. The cost of

Table of Contents

funds in total decreased from 1.08% in 2012 to .89% in 2013. The decrease in cost of funds was the result of the continued repricing of certificates of deposit at maturity at lower interest rates.

The following table sets forth for the years ended December 31, 2013 and 2012 information regarding average balances of assets and liabilities as well as the amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities and average yields and costs. We have calculated the yields and costs for the periods indicated by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented.

Table of Contents

Average Consolidated Balance Sheets and Net Interest Analysis*(Dollars in thousands)*

Year Ended December 31,

	2013 Average Balance	2013 Income/ Expense	2013 Average Rate	2012 Average Balance	2012 Income/ Expense	2012 Average Rate
Interest-earning assets:						
Federal funds sold and other	$ 26,628	$ 60	0.23%	$ 15,961	$ 42	0.26%
Available-for-sale securities: (1)						
Taxable	29,803	433	1.45%	29,988	510	1.70%
Nontaxable(1)	19,559	997	5.10%	18,114	994	5.49%
FHLB stock	2,025	85	4.18%	2,025	90	4.44%
Loans receivable (2)	303,977	16,306	5.36%	301,292	17,227	5.72%
Total interest-earning assets	381,992	17,881	4.68%	367,380	18,863	5.13%
Non-interest earning assets	32,761			35,578		
Total assets	**$ 414,753**			**$ 402,958**		
Interest-bearing liabilities:						
Interest-bearing transaction accounts	$ 82,760	340	0.41%	$ 73,442	187	0.25%
Savings accounts	38,024	111	0.29%	38,780	140	0.36%
Time deposits	179,351	1,974	1.10%	175,623	2,594	1.48%
Total interest-bearing deposits	300,135	2,425	0.81%	287,845	2,921	1.01%
Borrowed funds	26,686	437	1.64%	27,649	422	1.53%
Subordinated debentures	5,000	98	1.95%	5,000	107	2.14%
Total interest-bearing liabilities	331,821	2,960	0.89%	320,494	3,450	1.08%
Non-interest bearing liabilities:						
Non-interest bearing deposits	42,159			39,806		
Other liabilities	2,049			2,204		
Total liabilities	376,029			362,504		
Shareholders equity	38,724			40,454		
Total liabilities and shareholders equity	**$ 414,753**			**$ 402,958**		
Net interest income		$ 14,921			$ 15,413	
Net interest spread (1)			3.79%			4.05%
Net interest margin (1) (3)			3.91%			4.20%
Return on average assets ratio			0.44%			0.79%
Return on average equity ratio			4.75%			7.84%
Equity to assets ratio			9.34%			10.04%

Table of Contents

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

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

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

Rate/Volume Analysis

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

	(Dollars in Thousands) Twelve Months Ended December 31, 2013 Vs. 2012 Increase (Decrease) Due to		
	Rate	**Volume**	**Net**
Interest-earning assets:			
Federal funds sold	$ (10)	$ 28	$ 18
Available-for-sale-securities:			
Taxable	(74)	(3)	(77)
Nontaxable (1)	(76)	79	3
FHLB stock	(5)		(5)
Loans, net	(1,075)	154	(921)
Total net change in income on interest-earning assets	(1,240)	258	(982)
Interest-bearing liabilities:			
Interest-bearing transaction accounts	129	24	153
Savings accounts	(26)	(3)	(29)
Time deposits	(675)	55	(620)
Federal funds purchased			
FHLB borrowings	30	(15)	15
Notes payable			
Subordinated debentures	(9)		(9)
Total net change in expense on interest-bearing liabilities	(551)	61	(490)
Net change in net interest income	**$ (689)**	**$ 197**	**$ (492)**
Percentage change	**139.91%**	**(39.91)%**	**100.0%**

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

Provision for Loan Losses

The provision for loan losses for 2013 was $2.7 million, or 0.89% of average loans, compared to a provision of $1.7 million, or 0.56% of average loans during 2012. We had net charge-offs totaling $3.7 million during 2013, compared to $1.8 million during 2012. The provision expense is higher for 2013 due to the increased level of charged-off loans. During the third quarter of 2013, the real estate securing our largest non-performing asset, a $3.8 million commercial real estate loan, was sold at auction to a third party for $2.5 million less selling costs. The deficiency resulted in a charge-off of $1.6 million in the third quarter of 2013, which was larger than previously estimated. The provision for loan losses adequately supports the loans that were not previously

Table of Contents

provided for, loans that required adjustment in the amount provided for due to current conditions, and other impaired loans that required specific allocations.

Non-interest Income

Non-interest income totaled $3.0 million in 2013, compared to $3.0 million in 2012. The Company had $64,000 in gains on the sale of available-for-sale securities for 2013 compared to $55,000 for 2012. Service charges on deposit accounts decreased $93,000 during 2013, while private banking fees increased by $100,000 during 2013. The following table shows the detailed components of non-interest income:

	(Dollars in Thousands)		
	2013	**2012**	**Increase (Decrease)**
Service charges on deposit accounts	$ 1,272	$ 1,365	$ (93)
Other non-interest income	585	529	56
Gain on the sale of mortgage loans held for sale	277	301	(24)
Bank owned life insurance	219	263	(44)
Non-deposit brokerage fees	306	206	100
Gain on the sale of available-for-sale securities	64	55	9
Lease income	298	279	19
	$ 3,021	**$ 2,998**	**$ 23**

Non-interest Expense

Non-interest expense increased 4.5%, or $546,000, from $12.1 million in 2012 to $12.6 million in 2013. Data processing services increased $167,000 from 2012 to 2013. Other operating expenses increased $468,000 from 2012 to 2013 primarily due to collection expenses.

The increases and decreases in expense in 2013 by major categories are as follows:

	(Dollars in Thousands)		
	2013	**2012**	**Increase (Decrease)**
Salaries and employee benefits	$ 5,659	$ 5,718	$ (59)
Net occupancy expense	1,910	1,918	(8)
Advertising and public relations	323	352	(29)
Professional and legal	680	627	53
Data processing services	1,083	916	167
FDIC insurance	380	314	66
Franchise shares and deposit tax	573	548	25
Postage and office supplies	151	189	(38)
Telephone and other communication	175	171	4
Other real estate owned expenses	84	170	(86)

Core deposit intangible amortization		332		349		(17)
Other		1,251		783		468
Total	**$**	**12,601**	**$**	**12,055**	**$**	**546**

Table of Contents

Income Taxes

Income tax expense was calculated using the Company s expected effective rate for 2013 and 2012. We have recognized deferred tax liabilities and assets to show the tax effects of differences between the financial statement and tax bases of assets and liabilities. Our statutory federal tax rate was 34.0% in both 2013 and 2012. The effective tax rate for 2013 was 21.9%, compared to 26.6% for 2012. The difference between the statutory and effective rates are impacted by such factors as income from tax-exempt loans, tax-exempt income on state and municipal securities, and income on bank owned life insurance.

Balance Sheet Review

Our assets at year end 2013 totaled $410.2 million, compared with $406.6 million at December 31, 2012, an increase of $3.6 million, or 0.89%. Average interest earning assets increased 4.0% or $14.6 million in 2013, from $367.4 million in 2012 to $382.0 million in 2013.

Loans

Total loans averaged $304.0 million in 2013, compared to $301.3 million in 2012. At year-end 2013, loans totaled $295.1 million, compared to $298.8 million at year-end 2012, a decrease of $3.7 million, or 1.2%. We experienced declines in the commercial, residential real estate, and consumer segments of our loan portfolio, while increasing the commercial real estate segment. The following table presents a summary of the loan portfolio by category:

	(Dollars in Thousands)					
	December 31, 2013			December 31, 2012		
			% of Total Loans			% of Total Loans
Commercial and agricultural	$	45,254	15.34%	$	49,535	16.58%
Commercial real estate		170,027	57.62%		164,647	55.11%
Residential real estate		74,040	25.09%		77,356	25.89%
Consumer		5,747	1.95%		7,216	2.42%
	$	**295,068**	**100.00%**	**$**	**298,754**	**100.00%**

Our commercial real estate loans include financing for industrial developments, residential developments, retail shopping centers, industrial buildings, restaurants, and hotels. The percentage distribution of our loans by industry as of December 31, 2013 and 2012 is shown in the following table:

Table of Contents

	2013	2012
Agriculture, forestry, and fishing	11.51%	11.11%
Mining	0.00%	0.00%
Construction	8.07%	6.44%
Manufacturing	3.95%	3.96%
Transportation, communication, electric, gas, and sanitary services	3.37%	4.62%
Wholesale trade	1.68%	1.67%
Retail trade	5.31%	7.69%
Finance, insurance, and real estate	27.08%	17.22%
Services	18.57%	19.09%
Public administration	0.19%	0.07%
Total commercial and commercial real estate	79.73%	71.87%
Residential real estate loans	18.58%	25.92%
Other consumer loans	1.69%	2.21%
Total loans	**100.00%**	**100.00%**

The majority of our loans are to customers located in south central Kentucky and central Tennessee. As of December 31, 2013, the Company s 20 largest credit relationships consisted of loans and loan commitments ranging from $3.6 million to $10.2 million. The aggregate amount of these credit relationships was $87.7 million, with total commitments of $96.3 million.

Our lending activities are subject to a variety of lending limits imposed by state and federal law. Citizens First Bank s secured legal lending limit to a single borrower was approximately $12.5 million at December 31, 2013.

As of December 31, 2013, we had $19.7 million of participations in loans purchased from, and $5.3 million of participations in loans sold to, other banks. As of December 31, 2012, we had $26.6 million of participations in loans purchased from, and $7.4 million of participations in loans sold to, other banks.

The following table sets forth the maturity distribution of our loan portfolio as of December 31, 2013. Maturities are based upon contractual terms. Our policy is to specifically review and approve all loans renewed; loans are not automatically rolled over.

Table of Contents

Loan Maturities as of December 31, 2013	Within One Year	After One but Within Five Years	After Five Years	Total
	(Dollars in Thousands)			
Commercial and agricultural	$ 15,998	$ 25,561	$ 3,695	$ 45,254
Commercial real estate	24,023	91,205	54,799	170,027
Residential real estate	6,514	28,914	38,612	74,040
Consumer	1,423	4,205	119	5,747
Total	**$ 47,958**	**$ 149,885**	**$ 97,225**	**$ 295,068**

The table below presents loans outstanding as of December 31, 2013 with maturities greater than one year categorized by fixed and variable interest rates:

As of December 31, 2013	(Dollars in Thousands)
Fixed Rate	$ 165,122
Variable Rate	81,988
Total maturities greater than one year	**$ 247,110**

Asset and Liability Management

We manage our assets and liabilities to provide a consistent level of liquidity to accommodate normal fluctuations in loans and deposits. The yield on approximately 33.6% of our earning assets as of December 31, 2013, adjusts simultaneously with changes in an external index, primarily the highest prime rate as quoted in the Wall Street Journal. A majority of our interest bearing liabilities have been issued with fixed terms and can only be repriced at maturity. The prime rate remained stable at 3.25% during 2013 and 2012. The yield on our earning assets declined during 2013 as we were not able to reinvest at the yields previously earned on loans and called and matured investments. The cost of our interest bearing liabilities continued to decline in 2013, which allowed the net interest margin to only decline 29 basis points from the prior year end. If interest rates stabilize for a period of time, the difference between interest earning assets and interest bearing liabilities will tend to stabilize. In a stable rate environment, our net interest margin will be impacted by, among other factors, a change in the mix of earning assets, with our deposit growth being invested in federal funds sold, investment securities or loans.

Credit Quality and the Allowance for Loan Losses

We consider credit quality to be of primary importance. We contract with a third party CPA firm for loan review services. The scope of the engagement calls for annual review of large loan relationships (in excess of $1 million), problem credits, unsecured loans, insider relationships, a random sample of smaller commercial credits, and a review of

Table of Contents

consumer credit underwriting, with annual coverage of at least 60% of the average dollar value of the outstanding commercial loan portfolio. The focus of the reviews is centered in the commercial and commercial real estate portfolios, as they comprise the majority of the Bank s loan portfolio. Management addresses any findings raised during the review process and takes appropriate actions as warranted.

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

We maintain a modest unallocated amount in the allowance to recognize the imprecision in estimating and measuring losses when evaluating allocations for individual loans or pools of loans. Allocations on individual loans and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience.

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

The allowance for loan losses is established through a provision for loan losses charged to expense. At December 31, 2013, the allowance was $4.7 million, compared to $5.7 million at the end of 2012. The ratio of the allowance for loan losses to total loans at December 31, 2013 was 1.58%, compared to 1.91% at December 31, 2012. The decrease in the percentage of the allowance for loan losses at December 31, 2013 is related to charge-offs which occurred in 2013 that had specific allocations in the allowance for loan losses established at December 31, 2012. The following table sets forth an analysis of our allowance for loan losses for the years ended December 31, 2013 and 2012.

Table of Contents

	(Dollars in Thousands) December 31, 2013	2012
Balance at beginning of year	$ 5,721	$ 5,865
Provision for loan losses	2,650	1,700
Amounts charged off:		
Commercial	1,551	566
Commercial real estate	2,306	781
Residential real estate	105	486
Consumer	60	55
Total loans charged off	4,022	1,888
Recoveries of amounts previously charged off:		
Commercial	49	9
Commercial real estate	228	1
Residential real estate	22	23
Consumer	5	11
Total recoveries	304	44
Net charge-offs	3,718	1,844
Balance at end of year	**$ 4,653**	**$ 5,721**
Total loans, net of unearned income:		
Average	$ 303,977	$ 301,292
At December 31	$ 295,068	$ 298,754
As a percentage of average loans:		
Net charge-offs	1.22%	0.61%
Provision for loan losses	0.87%	0.56%

The provision to the allowance for loan losses is based on management s and the loan committee s ongoing review and evaluation of the loan portfolio and general economic conditions on a monthly basis, and reviewed by the full board of directors on a quarterly basis. Management bases its review and evaluation of the allowance for loan losses on an analysis of historical trends, significant problem loans, current market value of real estate or collateral and certain economic and other factors affecting loans and real estate or collateral securing these loans. Loans are charged off when, in the opinion of management, they are deemed to be uncollectible. We charge recognized losses against the allowance and add subsequent recoveries to the allowance. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. The allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment based upon information that is available to them at the time of their examination.

In 2013, our net charge-offs increased to $3.7 million from $1.8 million in 2012. We had net charge-offs of $2.1 million in commercial real estate, primarily related to $2.0 million

Table of Contents

in net charge-offs to two customers, as well as $1.5 million in commercial net charge-offs and $83,000 in residential real estate net charge-offs.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated.

	(Dollars in Thousands)			
	December 31, 2013		December 31, 2012	
	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
Residential real estate loans	$ 703	25.09%	$ 589	25.89%
Consumer and other loans	86	1.95%	90	2.42%
Commercial and agricultural	1,420	15.34%	2,156	16.58%
Commercial real estate	2,079	57.62%	2,635	55.11%
Unallocated	365	0.00%	251	0.00%
Total allowance for loan losses	**$ 4,653**	**100.00%**	**$ 5,721**	**100.00%**

We believe that the allowance for loan losses at December 31, 2013, provides for probable incurred credit losses in the loan portfolio as of that date. That determination is based on the best information available to management, but necessarily involves uncertainties and matters of judgment and, therefore, cannot be determined with precision and could be susceptible to significant change in the future. In addition, bank regulatory authorities, as a part of their periodic examinations, may reach different conclusions regarding the quality of the loan portfolio and the level of the allowance, which could require us to make additional provisions in the future.

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

	(Dollars in Thousands)	
	December 31, 2013	December 31, 2012
Non-performing loans	$ 1,180	$ 6,142
Non-performing assets	2,013	6,333
Allowance for loan losses	4,653	5,721
Non-performing assets to total assets	0.49%	1.56%
Net charge-offs to average total loans	1.22%	0.61%
Allowance for loan losses to non-performing loans	394.3%	93.14%
Allowance for loan losses to total loans	1.58%	1.91%

Table of Contents

Non-performing loans are defined as non-accrual loans, loans accruing but past due 90 days or more, and non-current restructured loans. Non-performing assets are defined as non-performing loans, other real estate owned, and repossessed assets. The non-performing loan total at year-end 2013 consisted of 19 non-accrual loans totaling $1.2 million and no loans over 90 days past due that are still accruing. Non-performing assets also includes other real estate owned of four residential properties totaling $317,000 and five commercial real estate properties totaling $516,000.

Management classifies commercial and commercial real estate loans as non-accrual when principal or interest is past due 90 days or more and the loan is not adequately collateralized and is in the process of collection, or when, in the opinion of management, principal or interest is not likely to be paid in accordance with the terms of the obligation. We charge off consumer loans after 120 days of delinquency unless they are adequately secured and in the process of collection. Non-accrual loans are not reclassified as accruing until principal and interest payments are brought current and future payments appear reasonably certain.

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

We reported total troubled debt restructurings of $5.5 million and $7.3 million as of December 31, 2013 and 2012, respectively. As of December 31, 2013, two notes totaling $154,000 were no longer accruing, and fifteen notes totaling $5.3 million were current and accruing. No TDRs were over 30 days past due as of December 31, 2013. All are paying as agreed under the restructured terms. We have no commitments to lend additional amounts as of December 31, 2013 and 2012 to customers with outstanding loans that are classified as troubled debt restructurings.

Generally, we do not include loans that are current as to principal and interest in our non-performing assets categories. However, we will still classify a current loan as a potential problem loan if we develop doubts about the borrower s future performance under the terms of the loan contract. We categorize 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. We analyze loans individually by classifying the loans as to credit risk. This analysis includes commercial and commercial real estate loans with an outstanding balance greater than $25 thousand and is reviewed on a monthly basis. For residential real estate and consumer loans the analysis primarily involves monitoring the past due status of these loans and

Table of Contents

at such time that these loans are past due, the Company evaluates the loans to determine if a change in risk category is warranted. We use the following definitions for risk ratings:

Special Mention. *Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.*

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans. All loans in all loan categories are assigned risk ratings. As of December 31, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	(Dollars in Thousands)				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
December 31, 2013					
Commercial	$ 41,968	$ 77	$ 3,209	$	$ 45,254
Commercial real estate:					
Construction	15,052				15,052
Other	147,429		7,546		154,975
Residential real estate	72,264	164	1,612		74,040
Consumer:					
Auto	2,543		1		2,544
Other	3,203				3,203
Total	$ 282,459	$ 241	$ 12,368	$	$ 295,068

Securities

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

The investment securities portfolio is comprised primarily of U.S. Government agency securities, mortgage-backed securities, and tax-exempt securities of state and political

Table of Contents

subdivisions. Securities are all classified as available-for-sale. The investment portfolio increased by $5.0 million, or 10.7%, to $51.6 million at December 31, 2013, compared with $46.6 million at December 31, 2012.

The table below presents the carrying value of securities by major category:

	(Dollars in Thousands) December 31, 2013	December 31, 2012
U.S. Treasury and U.S. Government agencies	$ 5,819	$ 7,004
Agency mortgage backed securities-residential	23,744	17,559
Municipal securities	19,676	20,876
Other securities	2,394	1,200
Total available-for-sale securities	**$ 51,633**	**$ 46,639**

The table below presents the maturities and yield characteristics of securities as of December 31, 2013. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2013

	(Dollars in Thousands) One Year or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	Total Maturities	Fair Value
U.S. Government agencies	$	$ 2,999	$ 3,002	$	$ 6,001	$ 5,819
Agency mortgage-backed securities: (1)	234	20,130	3,461		23,825	23,744
Municipal securities	255	3,436	9,772	5,931	19,394	19,676
Trust Preferred Security				1,872	1,872	1,400
Corporate Bond			1,000		1,000	994
Total available-for-sale securities	**$ 489**	**$ 26,565**	**$ 17,235**	**$ 7,803**	**$ 52,092**	**$ 51,633**
Percent of total	0.9%	51.0%	33.1%	15.0%	100.0%	
Weighted average yield(2)	3.59%	2.47%	3.24%	4.24%	3.00%	

(1) Agency mortgage backed securities (residential) are grouped into average lives based on December 2012 prepayment projections.

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

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

Table of Contents

Deferred Tax Assets

We have a net deferred tax asset of $2.3 million at December 31, 2013. We evaluate this asset on a quarterly basis. To the extent we believe it is more likely than not that it will not be utilized, we will establish a valuation allowance to reduce its carrying amount to the amount it expects to be realized. At December 31, 2013, no valuation allowance has been established against the outstanding deferred tax asset. The deferred tax asset will be utilized as taxable income is generated in future years.

Deposits

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

Total deposits averaged $342.3 million during 2013, an increase of $14.6 million, or 4.5%, compared to $327.7 million during 2012. Average deposits increased during the year, but the cost of funds declined as higher cost deposits matured and were renewed at lower rates. Deposits at December 31, 2013 totaled $343.0 million, an increase of $11.3 million, or 3.4%, from $331.7 million at December 31, 2012.

We utilize brokered certificates of deposit and will continue to utilize these sources for deposits when they can be cost-effective. We have also implemented the use of a deposit listing service and have utilized this service to replace brokered deposits. There were no brokered deposits at December 31, 2013 or December 31, 2012.

Time deposits of $100,000 or more totaled $56.8 million at December 31, 2013, compared to $65.9 million at December 31, 2012. Interest expense on time deposits of $100,000 or more was $800,000 in 2013, compared to $1.0 million in 2012. A summary of average balances and rates paid on deposits for the years ended December 31, 2013 and 2012 follows.

Table of Contents

	(Dollars in Thousands)			
	2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest bearing demand	$ 42,159	0.00%	$ 39,806	0.00%
Interest bearing demand	82,760	0.41%	73,442	0.25%
Savings	38,024	0.29%	38,780	0.36%
Time	179,351	1.10%	175,623	1.48%
	$ 342,294	**0.71%**	**$ 327,651**	**1.01%**

The following table shows the maturities of time deposits as of December 31, 2013:

	(Dollars in Thousands) December 31, 2013
Three months or less	$ 18,733
Over three through six months	14,690
Over six through twelve months	45,234
Over one year through three years	62,241
Over three years through five years	18,484
Over five years	
Total	**$ 159,382**

Liquidity, Other Borrowings, and Capital Resources

Borrowings

FHLB Advances. We obtain advances from the Federal Home Bank of Cincinnati (FHLB) for funding and liability management. These advances are collateralized by a blanket agreement of eligible 1-4 family residential mortgage loans and eligible commercial real estate. Rates vary based on the term to repayment, and are summarized below as of December 31, 2013:

Type	Maturity	Rate	(Dollars in Thousands) Amount
Fixed	December 10, 2014	1.73%	2,000
Fixed	December 24, 2014	3.46%	2,000
Fixed	February 25, 2015	2.85%	2,000
Fixed	May 22, 2015	0.73%	3,000
Fixed	December 2, 2015	1.14%	5,000
Fixed	May 25, 2016	0.99%	3,000
Fixed	June 3, 2016	0.68%	2,000
Fixed	May 24, 2019	1.72%	3,000

	$	**22,000**

Table of Contents

At December 31, 2013, we had available collateral to borrow an additional $37.6 million from the FHLB.

At December 31, 2013, we had established Federal Funds lines of credit totaling $18.8 million with three correspondent banks. No amounts were drawn as of December 31, 2013 or 2012.

In 2013, we renewed a credit agreement with a community bank to be used for operating capital and general corporate purposes. The line has a total availability of $5.0 million, matures November 26, 2014, and bears interest at the prime rate as published in the Money Rates section of *The Wall Street Journal*, plus 0.5%, with interest payable monthly. The loan is secured by the Bank s common stock. As of December 31, 2013, the line had no balance.

We issued $5.0 million in subordinated debentures in October, 2006. These subordinated debentures bear an interest rate, which reprices each calendar quarter, of 165 basis points over 3-month LIBOR (London Inter Bank Offering Rate). The rate as of December 31, 2013 was 1.90%, and at December 31, 2012 was 2.01%.

Information regarding our borrowings as of December 31, 2013 and 2012 is presented below:

	(Dollars in Thousands)			
		2013		**2012**
Borrowed funds:				
Balance at year end	$	22,000	$	26,000
Weighted average rate at year end		1.52%		1.36%
Average balance during the year	$	26,686	$	27,649
Weighted average rate during the year		1.64%		1.53%
Maximum month-end balance	$	29,300	$	34,000
Subordinated debentures:				
Balance at year end	$	5,000	$	5,000
Weighted average rate at year end		1.90%		2.01%
Average balance during the year	$	5,000	$	5,000
Weighted average rate during the year		1.95%		2.14%
Maximum month-end balance	$	5,000	$	5,000
Total borrowings:				
Balance at year end	$	27,000	$	31,000
Weighted average rate at year end		1.59%		1.51%
Average balance during the year	$	31,686	$	32,649
Weighted average rate during the year		1.69%		1.62%
Maximum month-end balance	$	34,300	$	39,000

Table of Contents

Capital

Stockholders equity was $38.3 million on December 31, 2013, a decrease of $3.3 million, or 7.9%, from $41.6 million on December 31, 2012. No common dividends were paid during 2013. In February, 2013 we repurchased 94 shares of the Series A preferred stock issued under the Capital Purchase Program, which reduced stockholder s equity by $3.3 million.

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under the regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Under quantitative measures established by regulation to ensure capital adequacy, we are required to maintain minimum amounts and ratios of total Tier 1 capital to risk-weighted assets and to total assets. We believe we met all capital adequacy requirements as of December 31, 2013 and 2012.

Our capital ratios as of December 31, 2013, and 2012 (calculated in accordance with regulatory guidelines) were as follows:

	December 31, 2013	December 31, 2012
Tier 1 leverage ratio	9.57%	10.20%
Regulatory minimum	4.00%	4.00%
Well-capitalized minimum	N/A	N/A
Tier 1 risk-based capital ratio	12.56%	13.16%
Regulatory minimum	4.00%	4.00%
Well-capitalized minimum	N/A	N/A
Total risk-based capital ratio	13.81%	14.41%
Regulatory minimum	8.00%	8.00%
Well-capitalized minimum	N/A	N/A

The Bank s capital ratios as of December 31, 2013, and 2012 (calculated in accordance with regulatory guidelines) were as follows:

Table of Contents

	December 31, 2013	December 31, 2012
Tier 1 leverage ratio	9.62%	10.20%
Regulatory minimum	4.00%	4.00%
Well-capitalized minimum	5.00%	5.00%
Tier 1 risk-based capital ratio	12.58%	13.16%
Regulatory minimum	4.00%	4.00%
Well-capitalized minimum	6.00%	6.00%
Total risk-based capital ratio	13.83%	14.42%
Regulatory minimum	8.00%	8.00%
Well-capitalized minimum	10.00%	10.00%

At December 31, 2013 and 2012, we were categorized as well capitalized under the regulatory framework for prompt corrective action.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of December 31, 2013:

			(Dollars in Thousands)		
	One Year or Less	More Than One Year but Less Than Three years	More Than Three Years but Less Than Five Years	Five Years or More	Total
As of December 31, 2013					
Time deposits	$ 78,657	$ 62,241	$ 18,484	$	$ 159,382
FHLB advances	4,000	10,000	5,000	3,000	22,000
Subordinated debentures				5,000	5,000
Lease commitments	381	690	691	1,542	3,304
Total	**$ 83,038**	**$ 72,931**	**$ 24,175**	**$ 9,542**	**$ 189,686**

FHLB advances include arrangements under various FHLB credit programs. Long-term FHLB debt is more fully described under the caption Federal Home Loan Bank Advances and Letter of Credit in Note 10 of our Consolidated Financial Statements. Lease commitments include the leases in place for certain branch sites.

Liquidity

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

Table of Contents

securities are generally a predictable source of funds, deposit outflows and mortgage prepayments are influenced significantly by general interest rates, economic conditions, and competition in our local markets.

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

Off-Balance Sheet Risk

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

At December 31, 2013, unfunded commitments to extend credit totaled $39.2 million, of which $5.9 million were at fixed rates and $33.3 million were at variable rates. At December 31, 2012, unfunded commitments to extend credit totaled $33.8 million, of which $3.1 million were at fixed rates and $30.7 million were at variable rates. We evaluate each client s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

We had letters of credit totaling $1.1 million and $620,000 at December 31, 2013 and 2012, respectively. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

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

Impact of Inflation and Changing Prices

The consolidated financial statements and related financial data presented in this filing have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars, without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company s operations. Unlike most industrial companies, virtually all the

Table of Contents

assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution s performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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

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

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

The following illustrates the effects on net interest income of an immediate shift in market interest rates from the earnings simulation model as of December 31, 2013:

Projected Interest Rate Change	Estimated Value	Net Interest Income $ Change From Base	% Change From Base
+400	$ 18,375,799	$ 3,835,467	26.38%
+300	17,298,273	2,757,941	18.97%
+200	16,224,836	1,684,504	11.59%
Base	14,540,332	0	0.00%
-200	14,183,965	(356,368)	(2.45)%

As of December 31, 2013, our balance sheet was in an asset-sensitive position and remains in an asset sensitive position for the next four years. During the asset-sensitive time frame, an increase in interest rates would have a positive effect on earnings and a decrease in interest rates would have a negative effect on earnings. The Company s interest rate risk position is also impacted by the activation of floors on variable rate loans subject to repricing during the time frame.

Table of Contents

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

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as ARM loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table.

Item 8. Financial Statements and Supplementary Data

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

- Report of Independent Registered Public Accounting Firm, Crowe Horwath LLP
- Consolidated Balance Sheets - December 31, 2013 and 2012
- Consolidated Statements of Comprehensive Income - Years ended December 31, 2013 and 2012
- Consolidated Statements of Changes in Stockholders Equity - Years ended December 31, 2013 and 2012
- Consolidated Statements of Cash Flows - Years ended December 31, 2013 and 2012
- Notes to Consolidated Financial Statements

Table of Contents

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors

Citizens First Corporation

Bowling Green, Kentucky

We have audited the accompanying consolidated balance sheets of Citizens First Corporation as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens First Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Brentwood, Tennessee

March 25, 2014

Table of Contents

Citizens First Corporation

Consolidated Balance Sheets

December 31

	(In Thousands, Except Share Data) 2013	2012
Assets		
Cash and due from financial institutions	$ 8,572	$ 9,549
Federal funds sold	28,490	25,250
Cash and cash equivalents	37,062	34,799
Available-for-sale securities	51,633	46,639
Loans held for sale		61
Loans, net of allowance for loan losses of $4,653 and $5,721 at December 31, 2013 and 2012, respectively	290,415	293,033
Premises and equipment, net	11,054	11,568
Bank owned life insurance (BOLI)	7,806	7,587
Federal Home Loan Bank (FHLB) stock, at cost	2,025	2,025
Accrued interest receivable	1,554	1,660
Deferred income taxes	2,279	2,180
Goodwill	4,097	4,097
Core deposit intangible	665	997
Other real estate owned	833	191
Other assets	752	1,719
Total Assets	**$ 410,175**	**$ 406,556**
Liabilities		
Deposits		
Noninterest bearing	$ 39,967	$ 41,724
Savings, NOW and money market	143,602	111,195
Time	159,382	178,814
Total deposits	342,951	331,733
FHLB advances	22,000	26,000
Subordinated debentures	5,000	5,000
Accrued interest payable	243	238
Other liabilities	1,634	2,019
Total Liabilities	371,828	364,990
Stockholders equity		
6.5% cumulative preferred stock; no par value, authorized 250 shares, aggregate liquidation preference of $7,998; issued and outstanding 250 shares at December 31, 2013 and 2012, respectively	7,659	7,659
5.0% Series A cumulative preferred stock; no par value, authorized 250 shares, aggregate liquidation preference of $6,567; issued and outstanding 93 shares and 187 shares at December 31, 2013 and 2012, respectively	3,266	6,519
Common stock, no par value, authorized 5,000,000 shares; issued and outstanding 1,968,777 shares at December 31, 2013 and 2012, respectively	27,072	27,072
Retained earnings (deficit)	653	(430)
Accumulated other comprehensive income (loss)	(303)	746
Total stockholders equity	38,347	41,566
Total liabilities and stockholders equity	**$ 410,175**	**$ 406,556**

See Notes to Consolidated Financial Statements

Table of Contents

Citizens First Corporation

Consolidated Statements of Comprehensive Income

Years Ended December 31

	(In Thousands, Except Per Share Data) 2013	2012
Interest and dividend income		
Loans	$ 16,306	$ 17,227
Taxable securities	433	510
Non-taxable securities	661	659
Federal funds sold and other	145	132
Total interest and dividend income	17,545	18,528
Interest expense		
Deposits	2,426	2,921
FHLB advances	351	422
Subordinated debentures	98	107
Short-term borrowings	86	
Total interest expense	2,961	3,450
Net interest income	14,584	15,078
Provision for loan losses	2,650	1,700
Net interest income after provision for loan losses	11,934	13,378
Non-interest income		
Service charges on deposit accounts	1,272	1,365
Other service charges and fees	585	529
Gain on sale of mortgage loans	277	301
Non-deposit brokerage fees	306	206
Lease income	298	279
BOLI income	219	263
Gain on sale of securities available-for-sale	64	55
Total non-interest income	3,021	2,998
Non-interest expenses		
Salaries and employee benefits	5,659	5,718
Net occupancy expense	1,910	1,918
Advertising and public relations	323	352
Professional fees	680	627
Data processing services	1,083	916
Franchise shares and deposit tax	573	548
FDIC insurance	380	314
Core deposit intangible amortization	332	349
Postage and office supplies	151	189
Other real estate owned expenses	84	170
Other	1,426	954
Total non-interest expenses	12,601	12,055
Income before income taxes	2,354	4,321
Provision for income taxes	516	1,148
Net income	1,838	3,173
Dividends and accretion on preferred stock	755	896
Net income available for common stockholders	$ 1,083	$ 2,277
Basic earnings per common share	$ 0.55	$ 1.16
Diluted earnings per common share	$ 0.52	$ 1.11
Comprehensive income (loss), net of tax		
Net income	1,838	3,173

Other comprehensive income (loss)				
Reclassification adjustment for gains included in net income, net of taxes		(42)		(36)
Change in unrealized gain (loss) on available for sale securities, net of taxes		(1,007)		406
Total other comprehensive income (loss)		(1,049)		370
Comprehensive income	$	789	$	3,543

See Notes to Consolidated Financial Statements

Table of Contents

Citizens First Corporation

Consolidated Statements of Changes in Stockholders Equity

Years Ended December 31, 2013 and 2012

In thousands, except share data

	Preferred Stock	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2012	$ 14,130	$ 27,072	$ (2,706)	$ 376	$ 38,872
Net income			3,173		$ 3,173
Accretion on Series A preferred stock	48		(48)		
Change in other comprehensive income, net				370	370
Dividend declared and paid on preferred stock			(849)		(849)
Balance, December 31, 2012	$ 14,178	$ 27,072	$ (430)	$ 746	$ 41,566

	Preferred Stock	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2013	$ 14,178	$ 27,072	$ (430)	$ 746	$ 41,566
Net income			1,838		1,838
Repayment of 94 shares Series A preferred stock	(3,301)				(3,301)
Accretion on Series A preferred stock	48		(48)		
Change in other comprehensive income (loss), net				(1,049)	(1,049)
Dividend declared and paid on preferred stock			(707)		(707)
Balance, December 31, 2013	$ 10,925	$ 27,072	$ 653	$ (303)	$ 38,347

See Notes to Consolidated Financial Statements

Table of Contents

Citizens First Corporation

Consolidated Statements of Cash Flows

Years Ended December 31

	(In Thousands)	
	2013	**2012**
Operating Activities		
Net income	$ 1,838	$ 3,173
Items not requiring (providing) cash:		
Depreciation and amortization	621	632
Provision for loan losses	2,650	1,700
Amortization of premiums and discounts on securities	329	346
Amortization of core deposit intangible	332	349
Deferred income taxes	442	602
Bank-owned life insurance	(219)	(263)
Proceeds from sale of mortgage loans held for sale	11,359	16,085
Origination of mortgage loans held for sale	(11,021)	(15,665)
Gains on sales of loans	(277)	(301)
Gains on sales of available-for- sale securities	(64)	(55)
Write-downs and losses on other real estate owned	42	131
Gain on sale premises and equipment	(14)	(16)
Changes in:		
Interest receivable	106	198
Other assets	967	33
Interest payable and other liabilities	(380)	65
Net cash provided by operating activities	$ 6,711	7,014
Investing Activities		
Loan originations and payments, net	(836)	(6,392)
Purchase of premises and equipment	(107)	(352)
Proceeds from maturities of available-for-sale securities	8,258	16,787
Proceeds from sales of available-for-sale securities	2,160	962
Proceeds from sales of other real estate owned	120	461
Purchase of available-for-sale securities	(17,267)	(13,400)
Proceeds from sales of premises and equipment	14	17
Net cash (used in) investing activities	(7,658)	(1,917)
Financing Activities		
Net change in demand deposits, money market, NOW and savings accounts	30,650	(2,401)
Net change in time deposits	(19,432)	1,403
Proceeds from FHLB advances	2,000	12,500
Repayment of FHLB advances	(6,000)	(11,500)
Repayment of Series A preferred stock	(3,301)	
Dividends paid on preferred stock	(707)	(849)
Net cash provided by (used in) financing activities	3,210	(847)
Increase in Cash and Cash Equivalents	2,263	4,250
Cash and Cash Equivalents, Beginning of Year	34,799	30,549
Cash and Cash Equivalents, End of Year	$ 37,062	$ 34,799
Supplemental Cash Flows Information		
Interest paid	$ 2,956	$ 3,487
Income taxes paid	$ 295	$ 755
Loans transferred to other real estate owned	$ 804	$ 146

See Notes to Consolidated Financial Statements

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

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

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

The Company provides financial services to individual and corporate customers in Warren, Simpson, Barren and Hart counties in Kentucky. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Use of Estimates To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, goodwill, intangible assets, realization of deferred tax assets, and fair values of financial instruments are particularly subject to change.

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

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

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

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

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

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

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

Allowance for Loan Losses The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is established as

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 1: Nature of Operations and Summary of Significant *Accounting Policies (Continued)*

losses are estimated to have occurred through a provision for loan losses charged to income. For all loan portfolio segments, loan losses are evaluated on a case by case basis and charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative current factors. The historical loss experienced is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent four years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These factors can include the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. At December 31, 2013, although all of the aforementioned qualitative factors were considered, management specifically made qualitative adjustments to increase the general component of the reserve to reflect the impact of the continued weak national and local economies for all loan segments. For residential real estate, commercial real estate, and construction and land development loan segments, management also increased the general component to reflect the decrease in real estate values.

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

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

Commercial real estate and commercial and agricultural loans usually involve higher credit risks than that of single-family residential loans. As of December 31, 2013, the following loan types accounted for the stated percentages of our total loan portfolio: commercial real estate-57.6%, commercial and agricultural-15.3%. These types of loans involve larger loan balances to a single borrower or groups of related borrowers.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity**.**

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

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

Approximately 85.4% of our loan portfolio as of December 31, 2013 was comprised of loans collateralized by real estate. Further adverse changes in the economy affecting values of real estate generally or in our primary market specifically could significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the collateral securing a loan to satisfy the debt or to

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition.

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

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

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

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

Foreclosed Assets Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management to validate the carrying value of the foreclosed properties.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

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

Goodwill and Other Intangible Assets Prior to January 1, 2009*,* goodwill resulted from business acquisitions and represented the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value in the period identified. The Company has selected December 31 as the date to perform the annual impairment test. The Company s assessment did not identify impairment of goodwill as of December 31, 2013 and 2012. The balance of goodwill was $4.1 million as of December 31, 2013 and December 31, 2012.

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

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

Income Taxes Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The Company files consolidated income tax returns with its subsidiary.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

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

Stock Based Compensation Plans Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

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

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

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

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

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

75

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

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

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

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

Reclassifications Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 2: Available-For-Sale Securities

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at December 31, 2013 and December 31, 2012 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	(Dollars in Thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
U. S. government agencies and government sponsored entities	$ 6,001	$	$ (182)	$ 5,819
State and municipal	19,394	547	(265)	19,676
Agency mortgage-backed securities: residential	23,825	172	(253)	23,744
Trust preferred security	1,872		(472)	1,400
Corporate bond	1,000		(6)	994
Total investment securities	**$ 52,092**	**$ 719**	**$ (1,178)**	**$ 51,633**
December 31, 2012				
U. S. government agencies and government sponsored entities	$ 7,018	$ 7	$ (21)	$ 7,004
State and municipal	19,541	1,366	(31)	20,876
Agency mortgage-backed securities: residential	17,082	477		17,559
Trust preferred security	1,867		(667)	1,200
Total investment securities	**$ 45,508**	**$ 1,850**	**$ (719)**	**$ 46,639**

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

	2013	2012
	(Dollars in Thousands)	
Sales of available for sale securities		
Proceeds	$ 2,160	$ 962
Gross gains	68	55
Gross losses	(4)	

The tax provision related to these realized gains were $22,000 and $19,000, respectively.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 2: Available-For-Sale Securities (Continued)

The amortized cost and fair value of investment securities at December 31, 2013 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	December 31, 2013 (Dollars in Thousands) Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 255	$ 258
Due from one to five years	6,435	6,521
Due from five to ten years	13,774	13,798
Due after ten years	7,803	7,312
Agency mortgage-backed: residential	23,825	23,744
Total	**$ 52,092**	**$ 51,633**

Securities pledged at year end 2013 and 2012 had a carrying amount of $47.4 million and $37.3 million, respectively, and were pledged to secure public deposits and repurchase agreements.

At year end 2013 and 2012, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders equity.

The following table summarizes the investment securities with unrealized losses at December 31, 2013 and 2012, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position:

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 2: Available-For-Sale Securities (Continued)

	(Dollars in Thousands)					
	Less than 12 Months		**12 Months or More**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
[redacted]						
December 31, 2013:						
U.S. government agencies and government sponsored entities	$ 4,882	$ (119)	$ 937	$ (63)	$ 5,819	$ (182)
State and municipal	3,988	(128)	844	(137)	4,832	(265)
Agency mortgage-backed securities: residential	12,977	(253)			12,977	(253)
Trust preferred security			1,400	(472)	1,400	(472)
Corporate Bond	994	(6)			994	(6)
Total temporarily impaired	**$ 22,841**	**$ (506)**	**$ 3,181**	**$ (672)**	**$ 26,022**	**$ (1,178)**

[redacted]						
December 31, 2012:						
[redacted]						
State and municipal	1,131	(31)			1,131	(31)
[redacted]						
[redacted]						

Other-Than-Temporary-Impairment

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

In determining OTTI under the ASC Topic 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other than temporary decline exists involves a high degree of subjectivity

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 2: Available-For-Sale Securities (Continued)

and judgment and is based on the information available to management at a point in time.

As of December 31, 2013, the Company s security portfolio consisted of $51.6 million fair value of securities, $26.0 million, or 37 securities, of which were in an unrealized loss position.

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

The Company s unrealized losses 12 months or more relate primarily to its investment in a single trust preferred security. The security is a single-issuer trust preferred that is not rated. While market conditions have allowed some increase in the fair market value of the trust preferred security at December 31, 2013, a full recovery has not yet occurred. No impairment charge is being taken as no loss of principal or interest is anticipated. All principal and interest payments are being received as scheduled. On a quarterly basis, we evaluate the creditworthiness of the issuer, a bank holding company with operations in the state of Kentucky. Based on the issuer s continued profitability and well-capitalized position, we do not deem that there is credit loss. The decline in fair value is primarily attributable to illiquidity affecting these markets and not the expected cash flows of the individual securities. We have evaluated the financial condition and near term prospects of the issuer and expect to fully recover our cost basis. This security continues to pay interest as agreed and future payments are expected to be made as agreed. This security is not considered to be other-than-temporarily impaired.

Note 3: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

	(Dollars in Thousands)	
	2013	**2012**
Commercial	$ 45,254	$ 49,535
Commercial real estate:		
Construction	15,052	8,094
Other	154,975	156,553
Residential real estate	74,040	77,356
Consumer:		

Auto		2,544		3,350
Other		3,203		3,866
Total loans		295,068		298,754
Less allowance for loan losses		(4,653)		(5,721)
Net loans	**$**	**290,415**	**$**	**293,033**

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

Activity in the allowance for loan losses was as follows:

	(Dollars In Thousands)					
	Commercial	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
December 31, 2013						
Allowance for loan losses:						
Beginning balance	$ 2,156	$ 2,635	$ 589	$ 90	$ 251	$ 5,721
Provision for loan losses	766	1,522	197	51	114	2,650
Loans charged-off	(1,551)	(2,306)	(105)	(60)		(4,022)
Recoveries	49	228	22	5		304
Total ending allowance balance	$ 1,420	$ 2,079	$ 703	$ 86	$ 365	$ 4,653
[redacted]						
December 31, 2012						
Allowance for loan losses:						
[redacted]						
Provision for loan losses	46	1,429	194	53	(22)	1,700
[redacted]						
Recoveries	9	1	23	11		44
[redacted]						

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method as of December 31, 2013 and December 31, 2012. As of December 31, 2013 and December 31, 2012, accrued interest receivable of $1.3 million and $1.4 million, respectively, are not considered significant for purposes of the disclosure and therefore not included in the recorded investment in loans presented in the following tables. Net deferred loan fees of $280,000 and $168,000, respectively, are included in the following tables.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

[redacted]						
December 31, 2013						
Allowance for loan losses:						
[redacted]						
Individually evaluated for impairment	$ 676	$ 369	$ 307	$ 35	$	$ 1,387
[redacted]						
Total ending allowance balance	$ 1,420	$ 2,079	$ 703	$ 86	$ 365	$ 4,653
[redacted]						
Loans:						
[redacted]						
Collectively evaluated	42,169	168,006	72,657	5,711		288,543
[redacted]						

	(Dollars In Thousands)					
	Commercial	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
December 31, 2012						
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 1,643	$ 1,761	$ 19	$ 28	$	$ 3,451
Collectively evaluated	513	874	570	62	251	2,270
Total ending allowance balance	$ 2,156	$ 2,635	$ 589	$ 90	$ 251	$ 5,721
Loans:						
Individually evaluated for impairment	$ 5,726	$ 6,900	$ 245	$ 34	$	$ 12,905
Collectively evaluated	43,809	157,747	77,111	7,182		285,849
Total loans	$ 49,535	$ 164,647	$ 77,356	$ 7,216	$	$ 298,754

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2013, and 2012. In this table presentation the unpaid principal balance of the loans has not been reduced by partial net charge-offs. In this table presentation the recorded investment of the loans has been reduced by partial net charge-offs. There were no partial net charge-offs as of December 31, 2013.

82

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

	(Dollars in Thousands) December 31, 2013			(Dollars in Thousands) December 31, 2012		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no allowance recorded:						
Commercial	$ 1,880	$ 1,880	$	$ 3,699	$ 3,699	$
Commercial real estate:						
Construction						
Other	843	843		206	206	
Residential real estate	337	337		242	225	
Consumer:						
Auto	1	1		4	4	
Other				2	2	
Subtotal	3,061	3,061		4,153	4,136	
With an allowance recorded:						
Commercial	1,205	1,205	676	2,026	2,026	1,643
Commercial real estate:						
Construction						
Other	1,178	1,178	369	6,695	6,695	1,761
Residential real estate	1,046	1,046	307	20	20	19
Consumer:						
Auto	21	21	21	28	28	28
Other	14	14	14			
Subtotal	3,464	3,464	1,387	8,769	8,769	3,451
Total	**$ 6,525**	**$ 6,525**	**$ 1,387**	**$ 12,922**	**$ 12,905**	**$ 3,451**

Information on impaired loans for the years ended December 31, 2013 and 2012 is as follows:

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

	(Dollars in Thousands) December 31, 2013			(Dollars in Thousands) December 31, 2012		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Commercial	$ 4,406	$ 162	$ 155	$ 4,956	$ 300	$ 210
Commercial real estate:						
Construction						
Other	4,460	101	83	5,262	300	290
Residential real estate	814	61	47	607	10	5
Consumer:						
Auto	27	2	1	19	2	2
Other	8			2		
Total	**$ 9,715**	**$ 326**	**$ 286**	**$ 10,846**	**$ 612**	**$ 507**

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

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2013 and December 31, 2012:

	(Dollars in Thousands)			
	Loans Past Due Over 90 Days and Still Accruing		Nonaccrual	
	2013	2012	2013	2012
Commercial	$	$	$ 153	$ 1,791
Commercial real estate:				
Construction				
Other			362	4,072
Residential real estate			643	245
Consumer:				
Auto			22	32
Other				2
Total	$	$	$ 1,180	$ 6,142

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

The following tables present the aging of the recorded investment in past due loans as of December 31, 2013 and 2012 by class of loans. Non-accrual loans are included and have been categorized based on their payment status:

	(Dollars In Thousands)					
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2013						
Commercial	$ 53	$	$	$ 53	$ 45,201	$ 45,254
Commercial real estate:						
Construction					15,052	15,052
Other	321		303	624	154,351	154,975
Residential real estate	98	66	574	738	73,302	74,040
Consumer:						
Auto	6	1		7	2,537	2,544
Other					3,203	3,203
Total	$ 478	$ 67	$ 877	$ 1,422	$ 293,646	$ 295,068

	(Dollars In Thousands)					
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2012						
Commercial	$ 540	$ 5	$ 8	$ 553	$ 48,982	$ 49,535
Commercial real estate:						
Construction					8,094	8,094
Other	2,042	3,807	75	5,924	150,629	156,553
Residential real estate	235		86	321	77,035	77,356
Consumer:						
Auto	8	2	16	26	3,324	3,350
Other	1		2	3	3,863	3,866
Total	$ 2,826	$ 3,814	$ 187	$ 6,827	$ 291,927	$ 298,754

Troubled Debt Restructurings:

The Company reported total troubled debt restructurings of $5.5 million and $7.3 million as of December 31, 2013 and 2012, respectively. The Company has no commitments to lend additional amounts as of December 31, 2013 and 2012 to customers with outstanding loans that are classified as troubled debt restructurings. Troubled debt restructurings are evaluated along with other impaired loans. Of the 17 loans reported

85

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

as troubled debt restructurings (TDRs) at December 31, 2013, 15 loans totaling $5.3 million were accruing and 2 loans totaling $154,000 were on non-accrual status.

During the year ending December 31, 2013, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. Troubled debt restructurings totaling $1.3 million were charged off during 2013.

Modifications involving a reduction of the stated interest rate of a loan or the extension of the maturity date were for periods ranging from three months to 15 years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2013:

		(Dollars in thousands)	
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	10	$ 2,716	$ 2,716
Commercial real estate:			
Other	1	604	604
Residential real estate	3	841	854
Consumer other	1	16	15
Total	15	$ 4,177	$ 4,189

The troubled debt restructurings described above increased the allowance for loan losses by $642,000 and resulted in charge-offs of $97,000 during the year ending December 31, 2013.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2012:

		(Dollars in thousands)	
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	7	$ 4,613	$ 4,613
Commercial real estate:			
Other	3	1,067	1,070
Residential real estate	1	11	12
Total	11	$ 5,691	$ 5,695

The troubled debt restructurings described above increased the allowance for loan losses by $260,000 and resulted in charge offs of $121,000 during the year ending December 31, 2012.

Specific allocations of $1.1 million and $1.4 million were reported for troubled debt restructurings as of December 31, 2013 and 2012. Four troubled debt restructured loans with balances of $1.3 million were charged off during the year ending December 31, 2013.

The terms of certain other loans were modified during the year ending December 31, 2013 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2013 of $3.8 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

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

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

classifying the loans as to credit risk. This analysis includes commercial and commercial real estate loans with an outstanding balance greater than $25 thousand and is reviewed on a monthly basis. For residential real estate and consumer loans the analysis primarily involves monitoring the past due status of these loans and at such time that these loans are past due, the Company evaluates the loans to determine if a change in risk category is warranted. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans. All loans in all loan categories are assigned risk ratings. As of December 31, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans were as follows:

	(Dollars in Thousands)				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
December 31, 2013					
Commercial	$ 41,968	$ 77	$ 3,209	$	$ 45,254
Commercial real estate:					
Construction	15,052				15,052
Other	147,429		7,546		154,975
Residential real estate	72,264	164	1,612		74,040
Consumer:					
Auto	2,543		1		2,544
Other	3,203				3,203

Total	$	282,459	$	241	$	12,368	$	295,068

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 3: Loans and Allowance for Loan Losses (Continued)

	(Dollars in Thousands)				
	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2012					
Commercial	$ 41,852	$ 99	$ 7,584	$	$ 49,535
Commercial real estate:					
Construction	8,094				8,094
Other	145,087	520	10,933	13	156,553
Residential real estate	76,704		641	11	77,356
Consumer:					
Auto	3,346		4		3,350
Other	3,864		2		3,866
Total	$ 278,947	$ 619	$ 19,164	$ 24	$ 298,754

Note 4: Other Real Estate Owned

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

	(Dollars in Thousands)	
	2013	2012
Balance, beginning of year	$ 191	$ 637
Additions	804	146
Direct write-downs	(33)	(48)
Sales	(117)	(461)
Net loss on sales	(12)	(83)
Balance, end of year	**$ 833**	**$ 191**

All expenses related to other real estate owned are recorded as they are incurred, and any deterioration in value is directly written down against the value of the property. No valuation allowance is utilized for other real estate owned.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 5: Fair Value

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

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

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

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

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

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

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

90

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 5: Fair Value (Continued)

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

Appraisals for collateral-dependent impaired loans and real estate properties classified as other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by Bank management. The appraisal values for collateral-dependent impaired loans are discounted to allow for selling expenses and fees, the limited use nature of various properties, the age of the most recent appraisal, and additional discretionary discounts for location, condition, etc. The Bank annually obtains an updated current appraisal value for each OREO property to certify that the fair value has not declined. For each parcel of OREO that has declined in value, the Bank records the decline in value by a direct writedown of the asset. In accordance with KRS 286.3-100, the Bank shall write down the acquisition of OREO at 10% per year.

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

	Fair Value Measurements at December 31, 2013 (Dollars in Thousands)		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:			
Securities available-for-sale			
U. S. government agencies and government sponsored entities		$ 5,819	
State and municipal		19,676	
Agency mortgage-backed securities -residential		23,744	
Trust preferred security		1,400	
Corporate Bond		994	
Total investment securities		**$ 51,633**	

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 5: Fair Value (Continued)

	Fair Value Measurements at December 31, 2012 (Dollars in Thousands)		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:			
Securities available-for-sale			
U. S. government agencies and government sponsored entities		$ 7,004	
State and municipal		20,876	
Agency mortgage-backed securities -residential		17,559	
Trust preferred security		1,200	
Total investment securities		**$ 46,639**	

Financial assets measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at December 31, 2013

(Dollars in Thousands)

	Significant Unobservable Inputs (Level 3)
Impaired loans:	
Commercial	$ 530
Commercial RE	$ 808
Residential	$ 739
Other real estate owned:	
Residential	$ 317
Commercial RE	$ 516

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 5: Fair Value (Continued)

Fair Value Measurements at December 31, 2012

(Dollars in Thousands)

	Significant Unobservable Inputs (Level 3)	
Impaired loans:		
Commercial	$	383
Commercial RE	$	4,934
Residential	$	1
Other real estate owned:		
Residential	$	191

Impaired loans which are measured for impairment using the fair value of collateral for collateral dependent loans, had a principal balance of $3.5 million at December 31, 2013, with a valuation allowance of $1.4 million, resulting in an additional provision for loan losses of $836,000 for the year ended December 31, 2013. At December 31, 2012, impaired loans which were measured for impairment using the fair value of collateral for collateral dependent loans, had a principal balance of $8.8 million, with a valuation allowance of $3.5 million, resulting in an additional provision for loan losses of $642,000 for the year ended December 31, 2012.

Other real estate owned, which is measured at fair value less costs to sell, had a net carrying value of $833,000 and $191,000 at December 31, 2013 and December 31, 2012, respectively. Total write-downs of other real estate owned during the twelve months ended December 31, 2013 and December 31, 2012 were $33,000 and $48,000, respectively.

The following tables present quantitative and qualitative information about Level 3 fair value measurements for financial instruments measured on a non-recurring basis at December 31, 2013 and 2012.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 5: Fair Value (Continued)

	December 31, 2013	Valuation Techniques	Unobservable Inputs (Dollars in thousands)	Range (Weighted Avg)
Impaired loans:				
Commercial	$ 530	Market Approach	Discounts to allow for market value of assets	0%-50% (39.42%)
Commercial RE	808	Sales Comparison	Adjustments for limited use nature of certain properties, age of appraisal, location, and/or condition	20%-50% (24.92%)
Residential	739	Sales Comparison	Adjustments for limited use nature of certain properties, age of appraisal, location, and/or condition	0%-20% (18.43%)
Other real estate owned:				
Residential	317	Sales Comparison	Adjustments for limited use nature of certain properties, age of appraisal, location, and/or condition	6%-42.3% (21.47%)
Commercial RE	516	Sales Comparison	Adjustments for limited use nature of certain properties, age of appraisal, location, and/or condition	7.9%-54.5% (42.93%)

	December 31, 2012	Valuation Techniques	Unobservable Inputs (Dollars in thousands)	Range (Weighted Avg)
Impaired loans:				
Commercial	$ 383	Market Approach	Discounts to allow for market value of assets	0%-50% (40.22%)
Commercial RE	4,934	Sales Comparison	Adjustments for limited use nature of certain properties, age of appraisal, location, and/or condition	20%-38.97% (32.60%)
Residential	1	Sales Comparison	Adjustments for limited use nature of certain properties, age of appraisal, location, and/or condition	0%-15% (15%)
Other real estate owned:				
Residential	191	Sales Comparison	Adjustments for limited use nature of certain properties, age of appraisal, location, and/or condition	6%-15% (9.39%)

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 5: Fair Value (Continued)

Carrying amount and estimated fair values of financial instruments, not previously presented, at year end were as follows:

	Carrying Amount	(Dollars in Thousands) Fair Value Measurements at December 31, 2013 Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 37,062	$ 37,062			$ 37,062
Loans, net of allowance	288,338			295,850	295,850
Accrued interest receivable	1,554		274	1,280	1,554
Federal Home Loan Bank stock	2,025				N/A
Financial Liabilities					
Demand and savings deposits	$ 183,569	$ 144,220			$ 144,220
Time deposits	159,382		160,284		160,284
FHLB advances	22,000		21,794		21,794
Subordinate debentures	5,000			2,836	2,836
Accrued interest payable	243	15	228		243

	Carrying Amount	(Dollars in Thousands) Fair Value Measurements at December 31, 2012 Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 34,799	$ 34,799			$ 34,799
Loans held for sale	61		62		62
Loans, net of allowance	287,715			290,865	290,865
Accrued interest receivable	1,660		273	1,387	1,660
Federal Home Loan Bank stock	2,025				N/A
Financial Liabilities					
Demand and savings deposits	$ 152,919	$ 152,932			$ 152,932
Time deposits	178,814		179,001		179,001
FHLB advances	26,000		26,350		26,350
Subordinate debentures	5,000			2,392	2,392
Accrued interest payable	238	10	228		238

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 5: Fair Value (Continued)

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

(a) Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

(b) FHLB Stock: It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(c) Loans: Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

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

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

(f) Accrued Interest Receivable/Payable: The carrying amounts of accrued interest approximate fair value resulting in a Level 1 or Level 2 classification consistent with the asset/liability they are associated with.

96

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 6: Premises and Equipment

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

	(Dollars in Thousands) 2013	2012
Land and land improvements	$ 3,631	$ 3,631
Buildings and improvements	8,896	8,889
Leasehold improvements	286	286
Furniture and fixtures	693	843
Equipment and software	2,658	3,891
Automobiles	97	81
	16,261	17,621
Less accumulated depreciation	(5,207)	(6,053)
Net premises and equipment	**$ 11,054**	**$ 11,568**

Depreciation and amortization expense totaled $621,000 and $632,000 for 2013 and 2012, respectively.

Operating Leases

The Company leases certain branch properties and equipment under operating leases. Rent expense was $379,000 for 2013 and $372,000 for 2012. Rent commitments, before considering renewal options that generally are present, were as follows (in thousands):

2014	381
2015	350
2016	340
2017	351
2018	340
Thereafter	1,542
Total	**$ 3,304**

During December 2006, the Company sold a property to an unrelated third party, and subsequently entered into a lease agreement for the property. A gain of $246,000 was deferred and will be recognized over the fifteen year term of the lease. $16,000 of the deferred gain was recognized in both 2013 and 2012.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 7: Goodwill and Intangible Assets

Goodwill

Management performs a goodwill impairment analysis on an annual basis, or more frequently if circumstances warrant. We engaged a third party firm to evaluate goodwill. We performed our annual goodwill impairment analysis in 2013 and 2012 which indicated no impairment. Goodwill balance was $4.1 million at year end 2013 and 2012.

Acquired Intangible Assets

Acquired intangible assets were as follows at year end:

	(Dollars in thousands) 2013	2012
Core deposit intangibles:		
Gross carrying amount	$ 2,805	$ 2,805
Accumulated amortization	$ (2,140)	$ (1,808)

Amortization expense was $332,000 in 2013 and $349,000 in 2012. Estimated amortization expense for each of the next five years:

	(Dollars in Thousands)
2014	328
2015	71
2016	71
2017	71
2018	71

Note 8: Deposits

Interest-bearing time deposits in denominations of $100,000 or more were $56.8 million and $65.9 million at December 31, 2013 and 2012, respectively. There were no brokered deposits at December 31, 2013 or at December 31, 2012.

At December 31, 2013, the scheduled maturities of time deposits were as follows:

		(Dollars In Thousands)
2014		78,657
2015		46,047
2016		16,194
2017		9,602
2018		8,882
	$	**159,382**

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 8: Deposits (Continued)

At December 31, 2013, our ten largest customers accounted for approximately $36.3 million, or 10.6%, of total deposits whereas, at December 31, 2012, ten customers accounted for approximately $24.3 million, or 7.3% of total deposits.

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

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

	(Dollars in thousands) 2013	2012
Matures October 2013, fixed rate at 0.81%		2,500
Matures October 2013, fixed rate at 0.35%		3,500
Matures December 2014, fixed rate at 1.73%	2,000	2,000
Matures December 2014, fixed rate at 3.46% until March 2011, with FHLB option to call in full each 24 months thereafter	2,000	2,000
Matures February 2015, fixed rate at 2.85% until February 2011, with FHLB option to call in full each 24 months thereafter	2,000	2,000
Matures May 2015, fixed rate at 0.73%	3,000	3,000
Matures December 2015, fixed rate at 1.14%	5,000	5,000
Matures May 2016, fixed rate at 0.99%	3,000	3,000
Matures June 2016, fixed rate at 0.68%	2,000	
Matures May 2019, fixed rate at 1.72%	3,000	3,000
Total	**$ 22,000**	**$ 26,000**

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $114.7 million and $111.8 million of first mortgage loans under a blanket lien arrangement for both year-end 2013 and 2012. Based on this collateral and the Company s holdings of FHLB stock, the Company is eligible to borrow up to an additional $37.6 million at year-end 2013.

Payment Information

Required payments over the next five years are:

		(Dollars in Thousands)
2014		4,000
2015		10,000
2016		5,000
2017		
Thereafter		3,000
	$	**22,000**

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

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

Other Borrowed Funds

In 2013, we renewed a credit agreement with a community bank to be used for operating capital and general corporate purposes. The new line has a total availability of $5.0 million, matures November 26, 2014, and bears interest at the prime rate as published in the Money Rates section of *The Wall Street Journal*, plus 0.5%, with interest payable monthly. The loan is secured by the Bank s common stock. As of December 31, 2013, the line had no balance.

Letter of Credit

At year-end 2013, the Bank also had an outstanding Standby Letter of Credit with the Federal Home Loan Bank in the amount of $2.0 million to be used for public unit deposit collateralization.

Note 10: Subordinated Debentures

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

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

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 10: Subordinated Debentures (Continued)

The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The securities have a stated maturity of thirty years and bear an interest rate of 165 basis points over the 3-month LIBOR rate. The interest rate was 1.90% and 2.01% at December 31, 2013 and 2012, respectively.

Note 11: Employee Benefit Plans

The Company has adopted a 401(k) plan covering substantially all employees. Employees may contribute a portion of their compensation (based on regulatory limitations) with the Company matching 100% of the employee s contribution up to 4% of the employee s compensation. Employer contributions charged to expense for 2013 and 2012 were $161,000 and $163,000, respectively.

Note 12: Income Taxes

The provision for income taxes includes these components:

	(Dollars in Thousands) 2013		2012	
Taxes currently payable	$	74	$	546
Deferred income taxes		442		602
Income tax expense	**$**	**516**	**$**	**1,148**

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

	(Dollars in Thousands) 2013		2012	
Computed at the statutory rate (34.0%)	$	800	$	1,469
Tax-exempt interest		(236)		(248)
Bank owned-life insurance		(74)		(89)
Other		26		16
Actual tax expense	**$**	**516**	**$**	**1,148**

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 12: Income Taxes (Continued)

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

	(Dollars in Thousands) 2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 758	$ 1,302
Tax credit carryforward	261	205
Unrealized losses on available-for-sale securities	156	
Deferred gain	45	50
Goodwill and core deposit	958	1,132
Other real estate	16	8
Nonqualified stock options	25	25
Fair value adjustments related to business combinations	104	104
Other	229	128
	2,552	2,954
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities		(385)
Deferred loan fees/costs	(44)	(48)
FHLB stock dividends	(74)	(74)
Depreciation	(88)	(205)
Accretion on investment securities	(19)	(16)
Prepaid expenses	(20)	(20)
Other	(28)	(26)
	(273)	(774)
Net deferred tax asset	**$ 2,279**	**$ 2,180**

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

The Company does not have any beginning and ending unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. There were no interest and penalties

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 12: Income Taxes (Continued)

recorded in the income statement or accrued for the year ending December 31, 2013 related to unrecognized tax benefits.

The Company files a consolidated U.S. federal income tax return, Kentucky income and franchise and Tennessee income tax returns. These returns are subject to examination by taxing authorities for all years after 2009.

As of December 31, 2013 and 2012, income taxes receivable/(payable) were $362,000 and $142,000, respectively, and are included in other assets/other liabilities on the Consolidated Balance Sheet. At December 31, 2013, the Company has an alternative minimum tax (AMT) credit carryforward of approximately $261,000 that will not expire.

Note 13: Related Party Transactions

At December 31, 2013 and 2012, the Bank had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) in the amount of $6.4 million and $7.3 million, respectively. The following table shows the activity in the loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) during the year:

		(Dollars in Thousands)
Beginning balance	$	7,264
New loans		166
Repayments		(1,022)
Ending balance	**$**	**6,408**

Deposits from related parties held by the Bank at December 31, 2013 and 2012, respectively, totaled $909,000 and $686,000, respectively.

Amounts paid to a related party for advertising services totaled $43,000 in 2013 and $44,000 in 2012.

Note 14: Stock Option Plans

The Board of Directors adopted an employee stock option plan, which became effective upon the approval of the Company s stockholders at the annual meeting in 2003. The purpose of the plan is to afford key employees an incentive to remain in the employee of the Company and its subsidiaries and to use their best efforts on its behalf. 132,300 shares of Company common stock were reserved for issuance

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 14: Stock Option Plans (Continued)

under the plan. This plan terminated in December of 2012. Therefore, no options remain eligible for issuance at December 31, 2013. Options granted expire after ten years, and vest ratably over a three year period.

The Board of Directors also adopted a non-employee director stock option plan for non-employee directors, which became effective upon the approval of the Company s stockholders at the annual meeting in 2003. The purpose of the plan is to assist the Company in promoting a greater identity of interest between the Company s non-employee directors and stockholders and in attracting and retaining non-employee directors by affording them an opportunity to share in the Company s future successes. 44,100 shares of common stock were reserved for issuance under the plan. Options granted expire after ten years, and are immediately vested. This plan terminated in 2013.

The fair value of options granted is estimated on the date of the grant using a Black-Scholes option-pricing model. No options were granted during 2013 and 2012. ASC 718 requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. For the years ended December 31, 2013 and 2012, employee and non-employee compensation expense recorded was $0. As of December 31, 2013, there is no unrecognized compensation expense associated with stock options. A summary of the status of the plans at December 31, 2013, and changes during the period then ended is presented below:

	2013		
	Shares		**Weighted-Average Exercise Price**
Outstanding, beginning of year	85,980	$	15.22
Granted			
Exercised			
Forfeited	(13,049)	$	15.26
Expired			
Outstanding, end of year	72,931	$	15.22
Options exercisable, end of year	72,931	$	15.22

All stock option shares are vested at December 31, 2013. The weighted average remaining term for outstanding and exercisable stock options was 1.25 years and 2.22 years, respectively at December 31, 2013 and 2012. The aggregate intrinsic value at December 31, 2013 was $0 for stock options outstanding and $0 for stock options exercisable. The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of the Company s common stock as of the reporting date.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 15: Regulatory Capital Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2013, the Company and Bank meet all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2013 and 2012, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution s category.

The Company s and the Bank s actual capital amounts and ratios are also presented in the following table.

	(Dollars in Thousands)					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 42,654	13.81%	$ 24,718	8.0%	N/A	N/A
Citizens First Bank, Inc.	42,721	13.83%	24,708	8.0%	$ 30,886	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	38,792	12.56%	12,359	4.0%	N/A	N/A
Citizens First Bank, Inc.	38,851	12.58%	12,354	4.0%	18,531	6.0%
Tier I Capital (to Average Assets)						
Consolidated	38,792	9.57%	16,213	4.0%	N/A	N/A
Citizens First Bank, Inc.	38,851	9.62%	16,148	4.0%	20,184	5.0%

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 15: Regulatory Capital Matters (Continued)

	(Dollars in Thousands)					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 44,532	14.41%	$ 24,721	8.0%	N/A	N/A
Citizens First Bank, Inc.	44,530	14.42%	24,710	8.0%	$ 30,988	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	40,669	13.16%	12,361	4.0%	N/A	N/A
Citizens First Bank, Inc.	40,646	13.16%	12,355	4.0%	18,533	6.0%
Tier I Capital (to Average Assets)						
Consolidated	40,669	10.20%	15,953	4.0%	N/A	N/A
Citizens First Bank, Inc.	40,646	10.20%	15,946	4.0%	19,932	5.0%

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

Note 16: Loan Commitments and Other Related Activities

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

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

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 16: Loan Commitments and Other Related Activities (Continued)

	(Dollars in Thousands)			
	December 31, 2013		December 31, 2012	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unfunded commitments to make loans and unused lines of credit	$ 5,862	$ 33,348	$ 3,114	$ 30,725

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan unused lines of credit have interest rates ranging from 2.7% to 21.0% and maturities ranging from 1 month to 26.3 years.

Standby Letters of Credit

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

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

The Bank had total outstanding standby letters of credit amounting to $1.1 million and $620,000 at December 31, 2013 and 2012, respectively, with terms generally 18 months or less.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 17: Condensed Financial Information (Parent Company Only)

Condensed Balance Sheets

	(Dollars in Thousands) 2013	2012
Assets		
Cash	$ 187	$ 203
Investment in Citizens First Bank, Inc.	43,406	46,543
Other assets	113	139
Total assets	**$ 43,706**	**$ 46,885**
Liabilities		
Borrowings	5,000	5,000
Other liabilities	359	319
Total liabilities	5,359	5,319
Stockholders equity	38,347	41,566
Total liabilities and stockholders equity	**$ 43,706**	**$ 46,885**

Condensed Statements of Operations

	(Dollars in Thousands) 2013	2012
Dividend income	$ 4,300	$ 600
Expenses		
Interest expense	184	107
Professional fees	256	247
Other expenses	127	63
Total expenses	567	417
Income (loss) before income taxes and equity in undistributed income (loss) of subsidiary	3,733	183
Income tax benefit	(193)	(142)
Loss before equity in undistributed income (loss) of subsidiary	3,926	325
Equity in undistributed income (loss) of subsidiary	(2,088)	2,848

Net income	**$**	**1,838**	**$**	**3,173**

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 17: Condensed Financial Information (Parent Company Only)

(Continued)

Condensed Statements of Cash Flows

	(Dollars in Thousands) 2013	2012
Operating Activities		
Net income	$ 1,838	$ 3,173
Adjustments:		
Equity in undistributed income of subsidiary	2,088	(2,848)
Changes in:		
Other assets	26	549
Other liabilities	40	(25)
Net cash provided by operating activities	3,992	849
Financing Activities		
Payment of dividends on stock	(707)	(849)
Partial repayment of TARP preferred stock	(3,301)	
Net cash used in financing activities	(4,008)	(849)
(Decrease) in cash and cash equivalents	(16)	
Cash and cash equivalents, beginning of year	203	203
Cash and cash equivalents, end of year	**$ 187**	**$ 203**

Note 18: Earnings Per Common Share

Basic earnings per common share is computed by dividing net income available for common shareholders by the weighted-average common shares outstanding. Diluted earnings per common share is computed the same as basic earnings per common share, and assumes the conversion of outstanding stock options, convertible preferred stock and warrants, if dilutive. The following table reconciles basic and diluted earnings per common share for the years ending December 31, 2013 and 2012.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 18: Earnings Per Common Share (Continued)

	(Income in Thousands)					
	2013			2012		
	Income	Weighted -Average Shares	Per Share Amount	Income	Weighted- Average Shares	Per Share Amount
Basic earnings per common share						
Net income	$ 1,838			$ 3,173		
Less: Payment of dividends on preferred stock	(707)			(848)		
Less: Accretion on warrants	(48)			(48)		
Net income attributable to common shareholders	1,083	1,968,777	$ 0.55	2,277	1,968,777	$ 1.16
Effect of dilutive securities						
Warrants		108,870			90,227	
Preferred stock						
Stock options						
Diluted earnings per common share						
Net income attributable to common shareholders and assumed conversions	**$ 1,083**	**2,077,647**	**$ 0.52**	**$ 2,277**	**2,059,004**	**$ 1.11**

Stock options for 72,931 and 85,980 shares of common stock were not considered in computing diluted earnings per common share for 2013 and 2012, respectively, because they were anti-dilutive. Convertible preferred shares are not included because they were anti-dilutive for 2013 and 2012.

Note 19: Preferred Stock and Stock Warrants

The Company has issued two forms of preferred stock: Series A and Cumulative preferred stock. 250 shares of our preferred stock, designated as Series A cumulative perpetual preferred stock, (Series A preferred stock) were issued to the U.S. Treasury on December 19, 2008, in connection with the TARP Capital Purchase Program for a purchase price of $8.8 million. On February 16, 2011, we repurchased 63 shares of the Series A preferred stock for a purchase price of $2.2 million. On February 13, 2013 we repurchased an additional 94 shares for a purchase price of $3.3 million.

Holders of shares of Series A preferred stock are entitled to receive if, as and when declared by our board of directors or a duly authorized committee of the board, out of assets legally available for payment, cumulative cash dividends at a rate per annum of

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 19: Preferred Stock and Stock Warrants (Continued)

5% per share on a liquidation preference of $35,116 per share of Series A preferred stock with respect to each dividend period from December 19, 2008 to, but excluding, December 19, 2013. From and after December 19, 2013, holders of shares of Series A preferred stock are entitled to receive cumulative cash dividends at a rate per annum of 9% per share on a liquidation preference of $35,116 per share of Series A preferred stock with respect to each dividend period thereafter. Dividends are payable quarterly in arrears on each February 15, May 15, August 15 and November 15, starting with February 15, 2009. We may defer dividends under the Securities Purchase Agreement (Purchase Agreement) in certain circumstances.

The Series A preferred stock will not be subject to any mandatory redemption, sinking fund or similar provisions. Holders of shares of Series A preferred stock have no right to require the redemption or repurchase of the Series A preferred stock. The holders of the Series A preferred stock generally will not have any voting rights.

Pursuant to the terms of the Purchase Agreement we entered into with the U. S. Treasury in connection with the Capital Purchase Program, our ability to declare or pay dividends on any of our shares is limited. Specifically, we are unable to declare or pay dividends on our common stock or pari passu preferred shares if we are in arrears on the payment of dividends on the Series A preferred stock.

The Purchase Agreement also subjects the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008. In this connection, as a condition to the closing of the transaction, the Company s Senior Executive Officers (as defined in the Purchase Agreement) voluntarily waived any claim against the U.S. Treasury or the Company for any changes to such officer s compensation or benefits that are required to comply with the regulation issued by the U.S. Treasury under the TARP Capital Purchase Program and acknowledged that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements as they relate to the period the U.S. Treasury owns the Series A preferred stock of the Company.

In connection with the issuance of Series A preferred stock, we issued 254,218 common stock warrants to the U.S. Treasury. The initial exercise price applicable to the warrants is $5.18 per share of common stock for which the warrant may be exercised. The warrant may be exercised at any time on or before December 19, 2018 by surrender of the warrant and the payment of the exercise price.

The recorded value of the warrants was determined by applying a fair value discount and allocating the proceeds from the Capital Purchase Program between the preferred stock and warrants. The discount on the preferred stock will be accreted over the contractual life of five years using an effective yield.

Table of Contents

Citizens First Corporation

Notes to Consolidated Financial Statements (Continued)

Note 19: Preferred Stock and Stock Warrants (Continued)

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

Note 20: Subsequent Events

On January 15, 2014, the Company entered into a letter of agreement with the United States Department of the Treasury pursuant to which the Company repurchased the remaining 93 shares of the 250 shares of the Series A preferred stock that the Company had issued to the Treasury on December 19, 2008 under the TARP Capital Purchase Program. The Company paid $3.3 million to repurchase the preferred shares along with the accrued dividend for the shares repurchased. The warrants associated with the Series A preferred stock remain outstanding.

Table of Contents

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

None.

Item 9A. Controls and Procedures

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

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of these disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2013, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective in ensuring that all material information required to be filed in this report has been made known to them in a timely fashion.

There was no change in our internal control over financial reporting identified in connection with that evaluation that occurred during the quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

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

Management assessed the system of internal control over financial reporting as of December 31, 2013, in relation to criteria for effective internal control over financial reporting as described in the report *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that, as of December 31, 2013, its system of internal control over financial reporting is effective based on those criteria.

Table of Contents

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

Item 9B. Other Information None.

Table of Contents

Part III

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

Certain information required by this Item appears under the headings Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance , Election of Directors and Executive Officers in the Proxy Statement of the Company for the 2014 Annual Meeting of Shareholders to be held May 14, 2014, and is incorporated herein by reference. The Company has adopted a code of ethics that applies to the Company s principal executive officer, principal financial officer and persons performing similar functions. The Company will provide to any person without charge, upon request, a copy of the Company s code of ethics. Requests should be directed to the Secretary of Citizens First Corporation, 1065 Ashley Street, Suite 150, Bowling Green, Kentucky 42103. The Company s current directors and executive officers are as follows:

Directors of the Company

Name	Age	Occupation
Barry D. Bray	68	Retired; formerly, Vice President and Chief Credit Officer of Citizens First Corporation and Citizens First Bank
Sarah Glenn Grise	57	Civic volunteer; formerly General Manager of TKR Cable of Southern Kentucky
Chris B. Guthrie	47	President of Trace Die Cast, Inc.
James R. Hilliard	57	President of Airgas Mid-America, Inc.
M. Todd Kanipe	45	President and Chief Executive Officer of Citizens First Corporation and Citizens First Bank
J. Steven Marcum	57	Executive Vice President and Chief Financial Officer of Citizens First Corporation and Citizens First Bank
Amy Milliken	42	Warren County Kentucky County Attorney
Steve Newberry	51	President and Chief Executive Officer of Commonwealth Broadcasting
Jack Sheidler	57	Chairman of the Board of Directors of Citizens First Corporation and Citizens First Bank: Real estate developer and owner of Greenwood Properties, Inc.
John M. Taylor	75	President, Taylor Polson & Company, a certified public accounting firm
Dr. Kevin Vance	50	Senior Veterinarian and President of Hartland Animal Hospital

Table of Contents

Executive Officers of the Company

	Age	Present Positions with the Company and the Bank
M. Todd Kanipe	45	President and Chief Executive Officer
J. Steven Marcum	57	Executive Vice President and Chief Financial Officer
Marc Lively	50	Executive Vice President and Chief Credit Officer
Kim M. Thomas	43	Executive Vice President, Retail Banking and Private Client Group

Item 11. Executive Compensation

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

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

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

Item 13. Certain Relationships, Related Transactions and Director Independence

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

Item 14. Principal Accountant Fees and Services

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

Table of Contents

Part IV

Item 15. Exhibits, Financial Statement Schedules

Exhibit Index

3.1	Restated Articles of Incorporation of Citizens First Corporation, as amended (incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form SB-2 (No. 333-103238).
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation of Citizens First Corporation (incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K filed June 5, 2007; file number 001-33126).
3.3	Articles of Amendment to Amended and Restated Articles of Incorporation of Citizens First Corporation (incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K filed December 23, 2008; file number 001-33126).
3.4	Amended and Restated Bylaws of Citizens First Corporation (incorporated by reference to Exhibit 3 of the Registrant s Current Report on Form 8-K filed March 24, 2009; file number 001-33126).
4.1	Restated Articles of Incorporation of Citizens First Corporation, as amended (see Exhibit 3.1).
4.2	Articles of Amendment to Amended and Restated Articles of Incorporation of Citizens First Corporation (see Exhibits 3.2 and 3.3).
4.3	Amended and Restated Bylaws of Citizens First Corporation (see Exhibit 3.4).
4.4	Copy of Registrants Agreement Pursuant to Item 601(b) (4) (iii) (A) of Regulation S-K dated March 30, 2007 with respect to certain debt instruments (incorporated by reference to Exhibit 4.4 of the Registrant s Form 10K-SB dated March 31, 2007; file number 001-33126).
4.5	Warrant to Purchase Common Stock (incorporated by reference to Exhibit 4.1 of the Registrant s Current Report on Form 8-K filed December 23, 2008; file number 001-33126).
10.1	Employment Agreement between Citizens First Corporation and Matthew Todd Kanipe (incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K filed September 17, 2009; file number 001-33126).*
10.2	2002 Stock Option Plan of Citizens First Corporation (incorporated by reference to Exhibit 10.13 of the Company s Registration Statement on Form SB-2 (No. 333-103238)).*
10.3	2003 Non-Employee Directors Stock Option Plan (incorporated by reference to Exhibit 10.14 of the Company s Registration Statement on Form SB-2 (No. 333-103238)).*

Table of Contents

10.6	Amendment No. 1 to 2003 Non-Employee Stock Option Plan of Citizens First Corporation. (incorporated by reference to Exhibit 10.11 of the Registrant s Form 10-K dated December 31, 2008; file number 001-33126).*
10.8	Employment Agreement between Citizens First Corporation and John Steven Marcum (incorporated by reference to Exhibit 99.1 of the Registrant s Form 8-K filed April 15, 2010; file number 001-33126).*
21	Subsidiaries (incorporated by reference to Exhibit 21 of the Registrant s Registration Statement on Form SB-2 (No. 333-103238)).
23.1	Consent of Crowe Horwath LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section1350.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section1350.
99.1	TARP Certification of Chief Executive Officer and Chief Financial Officer Pursuant to IFR Section 30.15.
101	Interactive data files: (i) Consolidated Balance Sheets at December 31, 2013 and December 31, 2012, (ii) the Consolidated Statements of Income for the years ended December 31, 2013 and December 31, 2012, (iii) the Consolidated Statement of Stockholders Equity for the years ended December 31, 2013 and December 31, 2012, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012, and (v) Notes to Consolidated Financial Statements.**

*Denotes a management contract or compensatory plan or agreement.

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

Table of Contents

Signatures

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

	Citizens First Corporation		
Date:	March 25, 2014	By:	/s/ M. Todd Kanipe M. Todd Kanipe President and Chief Executive Officer

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

/s/ M Todd Kanipe M. Todd Kanipe President, Chief Executive Officer and Director	March 25, 2014
/s/ J. Steven Marcum J. Steven Marcum Executive Vice President and Chief Financial Officer and Director	March 25, 2014

/s/Barry D. Bray Barry D. Bray, Director	March 25, 2014
/s/Sarah G. Grise Sarah G. Grise, Director	March 25, 2014
/s/Christopher B. Guthrie Christopher B. Guthrie, Director	March 25, 2014
/s/J. Robert Hilliard J. Robert Hilliard, Director	March 25, 2014
/s/M. Todd Kanipe M. Todd Kanipe, Director	March 25, 2014
/s/Amy H. Milliken Amy Milliken, Director	March 25, 2014
/s/Steven W. Newberry Steven W. Newberry, Director	March 25, 2014
/s/Jack W. Sheidler Jack W. Sheidler, Director	March 25, 2014
/s/John M. Taylor John Taylor, Director	March 25, 2014
/s/R. Kevin Vance R. Kevin Vance, Director	March 25, 2014
/s/J. Steven Marcum J. Steven Marcum, Director	March 25, 2014