Benton Financial Corporation

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015 and 2014

BKD LLP
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Independent Auditor's Report

To the Stockholders and
Board of Directors
Benton Financial Corporation
Fowler, Indiana

We have audited the accompanying consolidated financial statements of Benton Financial Corporation and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Benton Financial Corporation and its subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
March 3, 2016

Benton Financial Corporation

Consolidated Balance Sheets

December 31, 2015 and 2014

Assets

	2015	2014
Cash and due from banks	$ 2,854,646	$ 4,484,924
Interest-bearing demand deposits	517,968	303,969
Cash and cash equivalents	3,372,614	4,788,893
Investment securities available for sale	72,762,923	70,159,390
Loans, net of allowance for loan losses of $2,094,787 and $2,034,887 at December 31, 2015 and 2014, respectively	66,351,239	63,761,945
Premises and equipment	490,272	585,129
Federal Home Loan Bank stock	690,200	1,014,900
Interest receivable	1,376,786	1,407,637
Other assets	988,234	877,352
Total assets	$ 146,032,268	$ 142,595,246

Liabilities and Stockholders' Equity

	2015	2014
Liabilities		
Deposits		
Noninterest-bearing	$ 13,506,890	$ 24,169,181
Interest-bearing	98,767,174	85,534,868
Total deposits	112,274,064	109,704,049
Borrowings	11,198,985	11,400,000
Interest payable	72,131	74,927
Other liabilities	1,293,177	1,440,836
Total liabilities	124,838,357	122,619,812
Stockholders' Equity		
Preferred stock, no par value		
Authorized and unissued - 250,000 shares		
Common stock, no par value		
Authorized - 1,200,000 shares		
Issued and outstanding - 728,029 and 721,338 shares as of December 31, 2015 and 2014, respectively	1,856,484	1,837,121
Capital surplus	1,867,019	1,692,344
Retained earnings	16,269,530	15,163,207
Accumulated other comprehensive income	1,200,878	1,282,762
Total stockholders' equity	21,193,911	19,975,434
Total liabilities and stockholders' equity	$ 146,032,268	$ 142,595,246

Benton Financial Corporation

Consolidated Statements of Income

Years Ended December 31, 2015 and 2014

	2015	2014
Interest Income		
Loans receivable	$ 3,961,935	$ 3,752,759
Investment securities		
Taxable	771,319	967,185
Tax-exempt	1,451,308	1,268,069
Deposits with financial institutions	16,069	14,388
Total interest income	6,200,631	6,002,401
Interest Expense		
Deposits	375,228	378,786
Long-term debt	129,116	171,699
Total interest expense	504,344	550,485
Net Interest Income	5,696,287	5,451,916
Provision for loan losses	100,000	-
Net Interest Income After Provision for Loan Losses	5,596,287	5,451,916
Other Income		
Fiduciary activities	110,767	110,531
Service charges on deposit accounts	298,371	319,683
Net realized gains on sales of available-for-sale securities (includes accumulated other comprehensive income reclassifications for net gains on available-for-sale securities; 2015 - $379,460, 2014 - $72,008)	379,460	72,008
Other income	185,296	153,517
Total other income	973,894	655,739
Other Expenses		
Salaries and employee benefits	2,929,274	2,489,537
Net occupancy expense	144,199	150,807
Equipment expense	375,688	396,183
Data processing fees	253,009	245,301
Other expenses	955,354	1,001,423
Total other expense	4,657,524	4,283,251
Income Before Income Tax	1,912,657	1,824,404
Income tax expense (includes income tax expense from accumulated other comprehensive income reclassification items; 2015 - $150,304, 2014 - $28,298)	262,914	254,438
Net Income	$ 1,649,743	$ 1,569,966
Earnings Per Share	$ 2.28	$ 2.13

Benton Financial Corporation

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

	2015	2014
Net Income	$ 1,649,743	$ 1,569,966
Other Comprehensive Income (Loss), net of tax		
Net change in unrealized gains on securities	243,867	2,093,239
Less: reclassification for realized gains included in net income	(379,460)	(72,008)
Total other comprehensive income (loss) before income tax	(135,593)	2,021,231
Tax effect	53,709	(800,610)
Other Comprehensive Income (Loss)	(81,884)	1,220,621
Comprehensive Income	$ 1,567,859	$ 2,790,587

Benton Financial Corporation

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock				Accumulated Other	
	Shares Outstanding	Amount	Capital Surplus	Retained Earnings	Comprehensive Income	Total
Balance, January 1, 2014	735,217	$ 1,875,482	$ 1,534,249	$ 14,653,501	$ 62,141	$ 18,125,373
Net income				1,569,966		1,569,966
Other comprehensive income					1,220,621	1,220,621
Cash dividends ($0.74 per share)				(537,308)		(537,308)
Issuance of stock	8,350	25,329	216,821			242,150
Purchase of stock	(22,229)	(63,690)	(58,726)	(522,952)		(645,368)
Balance, December 31, 2014	721,338	1,837,121	1,692,344	15,163,207	1,282,762	19,975,434
Net income				1,649,743		1,649,743
Other comprehensive loss					(81,884)	(81,884)
Cash dividends ($0.75 per share)				(543,420)		(543,420)
Issuance of stock	6,691	19,363	174,675			194,038
Balance, December 31, 2015	728,029	$ 1,856,484	$ 1,867,019	$ 16,269,530	$ 1,200,878	$ 21,193,911

See Notes to Consolidated Financial Statements

Benton Financial Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Net income	$ 1,649,743	$ 1,569,966
Items not requiring (providing) cash		
Provision for loan losses	100,000	-
Depreciation and amortization	111,526	132,801
Deferred income taxes	(163,482)	(63,303)
Investment securities amortization, net	275,492	342,256
Investment securities gains, net	(379,460)	(72,008)
Net change in		
Interest receivable	30,851	(434)
Interest payable	(2,796)	(4,842)
Other assets	(110,882)	(215,663)
Other liabilities	69,532	154,517
Net cash provided by operating activities	1,580,524	1,843,290
Investing Activities		
Purchases of securities available for sale	(28,839,827)	(29,387,956)
Proceeds from maturities of securities available for sale	7,943,346	8,456,479
Proceeds from sales of securities available for sale	18,261,323	16,639,522
Proceeds from redemption of FHLB stock	324,700	300,400
Net change in loans	(2,689,294)	(2,691,982)
Purchase of premises and equipment	(16,669)	(122,897)
Net cash used in investing activities	(5,016,421)	(6,806,434)
Financing Activities		
Net change in		
Noninterest-bearing, interest-bearing demand and savings deposits	2,757,167	8,609,229
Certificates of deposit	(187,152)	809,577
Repayment of FHLB advances	(6,000,000)	(5,000,000)
Proceeds from FHLB advances	9,000,000	1,000,000
Net change in borrowings	(3,201,015)	(407,000)
Cash dividends	(543,420)	(537,308)
Issuance of stock	194,038	242,150
Purchase of stock	-	(645,368)
Net cash provided by financing activities	2,019,618	4,071,280
Net Change in Cash and Cash Equivalents	(1,416,279)	(891,864)
Cash and Cash Equivalents, Beginning of Year	4,788,893	5,680,757
Cash and Cash Equivalents, End of Year	$ 3,372,614	$ 4,788,893
Additional Cash Flows Information		
Interest paid	$ 507,140	$ 555,327
Income tax paid	233,146	350,750

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

The accounting and reporting policies of Benton Financial Corporation (Company) and its wholly owned subsidiary, Fowler State Bank (Bank), conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. The more significant of the policies are described below.

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, other-than-temporary impairments (OTTI) and fair values of financial instruments.

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

The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Benton, Newton and Warren Counties, Indiana and surrounding counties. The Bank's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon economic conditions in the agricultural industry.

Consolidation

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

Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash and cash equivalents consisted primarily of cash on hand and deposits with other institutions.

At December 31, 2015, the Company's cash accounts exceeded federally insured limits by approximately $249,000. Additionally, the Company had approximately $635,000 on deposit with the Federal Reserve Bank and the Federal Home Loan Bank of Indianapolis as of December 31, 2015, which are not FDIC-insured.

Investment Securities

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

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

For available-for-sale securities that management has no intent to sell and believes that it is more likely than not it will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Loans

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

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

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

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

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

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

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

Allowance for Loan Losses

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

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

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

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

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal or evaluation upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. If the most recent appraisal is over a year old and a new appraisal is not performed, due to lack of comparable values or other reasons, the existing appraisal is utilized and discounted 20% - 30% based on the age of the appraisal, condition of the subject property, and overall economic conditions. After determining the collateral value as described, the fair value is calculated based on the determined collateral value, less selling expenses. The potential for outdated appraisal values is considered in our determination of the allowance for loan losses through our analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Company.

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

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

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

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

Premises and Equipment

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

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula.

Income Tax

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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

The Company files consolidated income tax returns with its subsidiary.

Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation on available-for-sale securities. Accumulated other comprehensive income consists solely of unrealized gains and losses on securities.

Earnings Per Share

Earnings per share have been computed based upon the weighted-average common shares outstanding during each year.

Note 2: Restriction on Cash and Due From Banks

The Bank is required, at times, to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. There was no reserve required at December 31, 2015.

Note 3: Investment Securities

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

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available for sale				
Federal agencies	$ 1,007	$ 1	$ -	$ 1,008
State and municipal	48,820	2,211	(69)	50,962
Corporate	8,365	30	(249)	8,146
Mortgage-backed securities and CMO's - governmental-sponsored enterprises (GSE) residential	12,582	94	(29)	12,647
Total available for sale	$ 70,774	$ 2,336	$ (347)	$ 72,763

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available for sale				
State and municipal	$ 48,633	$ 2,193	$ (64)	$ 50,762
Corporate	5,524	52	(143)	5,433
Mortgage-backed securities and CMO's - governmental-sponsored enterprises (GSE) residential	13,878	126	(40)	13,964
Total available for sale	$ 68,035	$ 2,371	$ (247)	$ 70,159

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

	Amortized Cost	Fair Value
Within one year	$ 3,276	$ 3,301
One to five years	18,638	19,203
Five to ten years	32,268	33,306
After ten years	4,010	4,306
	58,192	60,116
Mortgage-backed securities and CMO's - GSE residential	12,582	12,647
Totals	$ 70,774	$ 72,763

Securities with a carrying value of $16,239,000 and $16,060,000 were pledged at December 31, 2015 and 2014, respectively, to secure certain deposits and for other purposes as permitted or required by law.

Proceeds from sales of securities available for sale during 2015 and 2014 were approximately $18,261,000 and $16,640,000, respectively. Gross gains of approximately $460,000 and $299,000 and gross losses of approximately $78,000 and $223,000 were realized on those sales during 2015 and 2014, respectively. In addition, gross gains of approximately $1,000 and $1,000 and gross losses of approximately $4,000 and $5,000 were realized on calls of securities during 2015 and 2014, respectively.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2015 and 2014 was approximately $18,609,000 and $13,060,000, which is approximately 26% and 19% of the Company's available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

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

Securities with unrealized losses at December 31, 2015 and 2014 were as follows:

	2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities						
State and municipal	$ 3,111	$ (44)	$ 2,594	$ (25)	$ 5,705	$ (69)
Corporate	4,779	(80)	2,086	(169)	6,865	(249)
Mortgage-backed securities and CMO's - GSE residential	5,281	(13)	758	(16)	6,039	(29)
Total temporarily impaired	$ 13,171	$ (137)	$ 5,438	$ (210)	$ 18,609	$ (347)

	2014					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities						
State and municipal	$ 3,220	$ (26)	$ 2,994	$ (38)	$ 6,214	$ (64)
Corporate	2,726	(50)	404	(93)	3,130	(143)
Mortgage-backed securities and CMO's - GSE residential	2,660	(22)	1,056	(18)	3,716	(40)
Total temporarily impaired	$ 8,606	$ (98)	$ 4,454	$ (149)	$ 13,060	$ (247)

State and Municipal

The unrealized losses on the Company's investments in securities of state and municipals were caused by interest rate changes. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Mortgage-Backed Securities, Collateralized Mortgage Obligations and Corporate Securities

The unrealized losses on the Company's investment in these securities were caused by interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Note 4: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	2015	2014
Agricultural	$ 25,953	$ 26,048
Commercial	10,859	9,573
Commercial real estate	6,898	6,961
Residential	18,071	17,201
Consumer	6,665	6,014
	68,446	65,797
Allowance for loan losses	(2,095)	(2,035)
Total loans	$ 66,351	$ 63,762

The risk characteristics of each loan portfolio segment are as follows:

Commercial and Agricultural

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

Commercial Real Estate Including Construction

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential and Consumer

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

The following presents, by portfolio segment, the activity in the allowance for loan losses for the years ended December 31, 2015 and 2014:

	2015					
	Agricultural	Commercial	Commercial Real Estate	Residential	Consumer	Total
Beginning Balance	$ 321	$ 374	$ 496	$ 701	$ 143	$ 2,035
Provision	(27)	203	(82)	(63)	69	100
Loans charged off	-	(27)	-	(21)	(66)	(114)
Recoveries	-	5	3	29	37	74
Ending Balance	$ 294	$ 555	$ 417	$ 646	$ 183	$ 2,095

	2014					
	Agricultural	Commercial	Commercial Real Estate	Residential	Consumer	Total
Beginning Balance	$ 461	$ 196	$ 483	$ 766	$ 163	$ 2,069
Provision	(140)	178	1	(33)	(6)	-
Loans charged off	-	(10)	-	(43)	(36)	(89)
Recoveries	-	10	12	11	22	55
Ending Balance	$ 321	$ 374	$ 496	$ 701	$ 143	$ 2,035

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of December 31, 2015 and 2014:

	2015					
	Agricultural	Commercial	Commercial Real Estate	Residential	Consumer	Total
Allowance Balances:						
Individually evaluated for impairment	$ -	$ 400	$ 300	$ 417	$ 43	$ 1,160
Collectively evaluated for impairment	294	155	117	229	140	935
Total allowance for loan losses	$ 294	$ 555	$ 417	$ 646	$ 183	$ 2,095
Loan Balances:						
Individually evaluated for impairment	$ 389	$ 400	$ 551	$ 828	$ 77	$ 2,245
Collectively evaluated for impairment	25,564	10,459	6,347	17,243	6,588	66,201
Total loan balances	$ 25,953	$ 10,859	$ 6,898	$ 18,071	$ 6,665	$ 68,446

	2014					
	Agricultural	**Commercial**	**Commercial Real Estate**	**Residential**	**Consumer**	**Total**
Allowance Balances:						
Individually evaluated for impairment	$ -	$ 6	$ 150	$ 161	$ 8	$ 325
Collectively evaluated for impairment	321	368	346	540	135	1,710
Total allowance for loan losses	$ 321	$ 374	$ 496	$ 701	$ 143	$ 2,035
Loan Balances:						
Individually evaluated for impairment	$ -	$ 23	$ 321	$ 499	$ 61	$ 904
Collectively evaluated for impairment	26,048	9,550	6,640	16,702	5,953	64,893
Total loan balances	$ 26,048	$ 9,573	$ 6,961	$ 17,201	$ 6,014	$ 65,797

Internal Risk Categories

The use and application of these grades by the bank will be uniform and shall conform to the bank's policy.

Pass loans have risk that is considered reasonable or satisfactory, but are overall not as desirable as Excellent or Good grade loans. Financial statements reveal earnings' performance generally in line with industry averages, but not always consistent from year to year. Financial statement ratios are generally in line with industry averages. Any weaknesses in financial performance and/or management strength are offset by such things as adequate collateral, guarantor support, and so forth.

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

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

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

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

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2015 and 2014:

2015	Agricultural	Commercial	Commercial Real Estate	Residential	Consumer	Total
Grade:						
Pass	$ 23,710	$ 9,633	$ 5,063	$ 16,909	$ 6,439	$ 61,754
Watch	1,854	819	471	300	131	3,575
Substandard	389	407	1,364	862	95	3,117
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 25,953	$ 10,859	$ 6,898	$ 18,071	$ 6,665	$ 68,446

2014	Agricultural	Commercial	Commercial Real Estate	Residential	Consumer	Total
Grade:						
Pass	$ 22,752	$ 8,986	$ 4,810	$ 15,942	$ 5,901	$ 58,391
Watch	3,296	137	279	464	79	4,255
Substandard	-	450	1,872	795	34	3,151
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 26,048	$ 9,573	$ 6,961	$ 17,201	$ 6,014	$ 65,797

The following tables present the Company's loan portfolio aging analysis as of December 31, 2015 and 2014:

2015

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Agricultural	$ -	$ -	$ 389	$ 389	$ 25,564	$ 25,953
Commercial	48	-	7	55	10,804	10,859
Commercial real estate	-	21	18	39	6,859	6,898
Residential	404	84	272	760	17,311	18,071
Consumer	142	45	47	234	6,431	6,665
Total loans	$ 594	$ 150	$ 733	$ 1,477	$ 66,969	$ 68,446

2014

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Agricultural	$ 413	$ -	$ -	$ 413	$ 25,635	$ 26,048
Commercial	72	-	-	72	9,501	9,573
Commercial real estate	-	-	18	18	6,943	6,961
Residential	249	49	426	724	16,477	17,201
Consumer	151	11	21	183	5,831	6,014
Total loans	$ 885	$ 60	$ 465	$ 1,410	$ 64,387	$ 65,797

At December 31, 2015 and 2014, there were $7,000 and $12,000 of loans accruing and delinquent 90 days or more, respectively.

The following table presents the Company's nonaccrual loans at December 31, 2015 and 2014:

	2015	2014
Agricultural	$ 389	$ -
Commercial	12	-
Commercial real estate	17	19
Residential	283	426
Consumer	58	26
Total nonaccrual loans	$ 759	$ 471

The following tables present impaired loans for the years ended December 31, 2015 and 2014:

	2015				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Agricultural	$ 389	$ 389	$ -	$ 400	$ -
Commercial	-	-	-	-	-
Commercial real estate	18	18	-	18	-
Residential	248	248	-	281	10
Consumer	34	34	-	18	1
Total impaired loans with no related specific reserve	$ 689	$ 689	$ -	$ 717	$ 11
Impaired loans with a specific valuation allowance:					
Agricultural	$ -	$ -	$ -	$ -	$ -
Commercial	400	400	400	295	18
Commercial real estate	533	534	300	346	21
Residential	580	606	417	524	18
Consumer	43	43	43	34	-
Total impaired loans with an allowance recorded	$ 1,556	$ 1,583	$ 1,160	$ 1,199	$ 57
Total impaired loans	$ 2,245	$ 2,272	$ 1,160	$ 1,916	$ 68

	2014				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Agricultural	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Commercial real estate	18	18	-	20	-
Residential	244	244	-	310	10
Consumer	53	53	-	17	-
Total impaired loans with no related specific reserve	$ 315	$ 315	$ -	$ 347	$ 10
Impaired loans with a specific valuation allowance:					
Agricultural	$ -	$ -	$ -	$ -	$ -
Commercial	23	23	6	5	-
Commercial real estate	303	303	150	539	17
Residential	255	282	161	290	-
Consumer	8	8	8	4	-
Total impaired loans with an allowance recorded	$ 589	$ 616	$ 325	$ 838	$ 17
Total impaired loans	$ 904	$ 931	$ 325	$ 1,185	$ 27

Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

Included in the above impaired loan totals were $237,000 of loan modifications meeting the definition of a troubled debt restructuring that were accruing interest and performing in accordance with their agreements at December 31, 2015.

There were no newly classified troubled debt restructurings during 2015 and 2014.

Note 5: Premises and Equipment

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

	2015	2014
Land	$ 77	$ 77
Buildings	1,295	1,279
Leasehold improvements	46	46
Equipment	1,323	1,323
Total cost	2,741	2,725
Accumulated depreciation and amortization	(2,251)	(2,140)
Net	$ 490	$ 585

Note 6: Deposits

	2015	2014
Demand deposits	$ 72,109	$ 71,192
Savings deposits	15,791	13,951
Certificates and other time deposits of $250,000 or more	3,450	1,500
Other certificates and time deposits	20,924	23,061
Total deposits	$ 112,274	$ 109,704

At December 31, 2015, the scheduled maturities of time deposits are as follows:

2016	$ 10,199
2017	3,589
2018	3,474
2019	3,902
2020	1,750
Thereafter	1,460
	$ 24,374

Note 7: Borrowings

Borrowings included the following at December 31:

	2015	2014
Federal funds purchased	$ 199	$ 3,400
Federal Home Loan Bank advances	11,000	8,000
Total short-term borrowings	$ 11,199	$ 11,400

The Federal Home Loan Bank advances are secured by first mortgage loans totaling approximately $9,251,000 and $10,239,000 and investments totaling approximately $11,503,000 and $9,092,000 at December 31, 2015 and 2014, respectively. Advances are subject to restrictions or penalties in the event of prepayment and include rates from .99% to 1.78%.

Federal funds purchased mature daily. Maturities of Federal Home Loan Bank advances were as follows at December 31, 2015:

2016	$ 2,500
2017	3,500
2018	1,000
2019	2,000
2020	2,000
	$ 11,000

Note 8: Income Tax

The provision for income taxes includes these components:

	2015	2014
Income tax expense (benefit)		
Currently payable		
Federal	$ 309	$ 207
State	117	111
Deferred		
Federal	(156)	(73)
State	(7)	9
Total income tax expense	$ 263	$ 254

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

	2015	2014
Reconciliation of federal statutory to actual tax expense		
Federal statutory income tax at 34%	$ 650	$ 620
Tax-exempt interest	(475)	(412)
Effect of state income taxes	73	80
Other	15	(34)
Actual tax expense	$ 263	$ 254

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

	2015	2014
Assets		
Depreciation	$ 39	$ 13
Allowance for loan losses	631	596
Deferred compensation	30	37
Tax credits	149	60
Other	29	34
Total assets	878	740
Liabilities		
State income tax	(36)	(34)
FHLB stock	(27)	(41)
Securities available for sale	(788)	(841)
Other	(22)	(37)
Total liabilities	(873)	(953)
	$ 5	$ (213)

Note 9: Commitments and Contingent Liabilities

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

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

	2015	2014
Commitments to extend credit	$ 22,416	$ 22,823
Standby letters of credit	238	92

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

The Company and Bank have entered into an employment agreement with certain officers which provides for continuation of salary and certain benefits under certain conditions. Under the terms of the agreement, payment could occur in the event of a change in control of the Company or Bank, as defined, along with other specified conditions. The contingent liability under the agreement in the event of a change in control is approximately $590,000.

Note 10: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies and is assigned to a capital category. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the subsidiary bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory accounting practices reporting requirements and regulatory capital standards. The assigned capital category is largely determined by three ratios that are calculated according to the regulations: total risk adjusted capital, Tier 1 capital and Tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the regulators categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since December 31, 2015, that management believes have changed the Bank's classification.

The Bank's actual and required capital amounts and ratios are as follows:

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2015						
Total capital[1] (to risk-weighted assets)	$ 21,178	20.5%	$ 8,257	8.0%	$ 10,321	10.0%
Tier I capital[1] (to risk-weighted assets)	19,879	19.3%	6,193	6.0%	8,257	8.0%
Common Equity Tier I capital [1] (to risk-weighted assets)	19,879	19.3%	4,644	4.5%	6,709	6.5%
Tier I capital[1] (to average assets)	19,879	13.3%	5,984	4.0%	7,479	5.0%
Tangible capital[1] (to adjusted tangible assets)	19,879	13.3%	2,244	1.5%	N/A	N/A
2014						
Total capital[1] (to risk-weighted assets)	$ 19,863	20.4%	$ 7,797	8.0%	$ 9,747	10.0%
Tier I capital[1] (to risk-weighted assets)	18,635	19.1%	3,899	4.0%	5,848	6.0%
Tier I capital[1] (to average assets)	18,635	13.3%	5,615	4.0%	7,019	5.0%

[1] As defined by regulatory agencies

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Generally, the Bank's payment of dividends is limited to net income for the current year plus the two preceding calendar years, less capital distributions paid over the comparable time period.

Basel III Capital Rules

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

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

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015, are as follows:

4.5% CET1 to risk-weighted assets

6.0% Tier 1 capital to risk-weighted assets

8.0% Total capital to risk-weighted assets

4.0% Minimum leverage ratio

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will phase in over a four-year period (beginning at 40% on January 1, 2015, and an additional 20% per year thereafter). Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer begins on January 1, 2016, at the 0.625% level and will phase in over a four-year period (increasing by that amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019).

Note 11: Employee Benefits

The Bank has a profit-sharing plan which covers all officers and employees with one year of service and over age 21. The Bank has generally contributed the maximum permissible amount to the plan, which is 15% of covered wages. Employee benefits in the plan vest over a period of years and reach 100% after six years. The Bank's expense for the plan was approximately $246,000 for 2015 and $246,000 for 2014.

Note 12: Related Party Transactions

The Bank has entered into transactions with certain directors, executive officers, significant stockholders and their affiliates or associates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties at December 31, 2015 and 2014 was $1,279,000 and $996,000, respectively.

Deposits from related parties held by the Bank at December 31, 2015 and 2014 totaled $454,000 and $391,000, respectively.

Note 13: Disclosures About Fair Value of Assets

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

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

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

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

The following is a description of the valuation methodologies and inputs used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions. Additionally, matrix pricing is used for certain investment securities and is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following tables present the fair value measurements of assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

		2015 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agencies	$ 1,008	$ -	$ 1,008	$ -
State and municipal	50,962	-	50,962	-
Corporate	8,146	407	7,739	-
Mortgage-backed securities and CMO's - GSE residential	12,647	-	12,647	-
	$ 72,763	$ 407	$ 72,356	$ -

	2014			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
State and municipal	$ 50,762	$ -	$ 50,762	$ -
Corporate	5,433	404	5,029	-
Mortgage-backed securities and CMO's - GSE residential	13,964	-	13,964	-
	$ 70,159	$ 404	$ 69,755	$ -

The following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral-Dependent)

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

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

The following tables present the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

		2015 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 237	$ -	$ -	$ 237

		2014 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 278	$ -	$ -	$ 278

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 237	Market comparable properties	Marketability discount	10% - 20%

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 278	Market comparable properties	Marketability discount	10% - 20%

The following table presents estimated fair values of the Company's financial instruments.

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 3,373	$ 3,373	$ 4,789	$ 4,789
Available-for-sale securities	72,763	72,763	70,159	70,159
Loans, net	66,351	65,920	63,762	63,416
Stock in FHLB	690	690	1,015	1,015
Interest receivable	1,377	1,377	1,408	1,408
Financial liabilities				
Deposits	112,274	112,269	109,704	109,632
Borrowings	11,199	11,106	11,400	7,955
Interest payable	72	72	75	75

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2015 and 2014. The estimated fair value for cash and cash equivalents, interest-bearing time deposits, FHLB stock, accrued interest receivable, demand deposits, savings accounts, NOW accounts, certain money market deposits, short-term borrowings and interest payable is considered to approximate cost. The estimated fair value for loans receivable, net, is based on estimates of the rate the Bank would charge for similar loans at December 31, 2015 and 2014, applied for the time period until the loans are assumed to reprice or be paid. The estimated fair value for fixed-maturity time deposits as well as borrowings is based on estimates of the rate the Bank would pay on such liabilities at December 31, 2015 and 2014, applied for the time period until maturity.

Note 14: Condensed Financial Information (Parent Company Only)

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

Condensed Balance Sheets

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 86	$ 43
Investment in common stock of subsidiary	21,080	19,917
Other assets	28	15
Total assets	$ 21,194	$ 19,975
Stockholders' Equity	$ 21,194	$ 19,975

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2015	Years Ended December 31, 2014
Income		
Dividends from subsidiary	$ 425	$ 707
Expenses		
Other expenses	32	38
Income Before Income Tax and Equity in Undistributed Income of Subsidiary	393	669
Income Tax Benefit	13	15
Income Before Equity in Undistributed Income of Subsidiary	406	684
Equity in Undistributed Income of Subsidiary	1,244	886
Net Income	$ 1,650	$ 1,570
Comprehensive Income	$ 1,568	$ 2,791

Condensed Statements of Cash Flows

	Years Ended December 31, 2015	Years Ended December 31, 2014
Operating Activities		
Net income	$ 1,650	$ 1,570
Adjustments to reconcile net income to net cash used in operating activities	(1,257)	(746)
Net cash provided by operating activities	393	824
Financing Activities		
Cash dividends	(543)	(537)
Issuance of common stock	194	242
Purchase of common stock	-	(645)
Net cash used in financing activities	(349)	(940)
Net Change in Cash and Due From Banks	44	(116)
Cash and Due From Banks at Beginning of Year	43	159
Cash and Due From Banks at End of Year	$ 87	$ 43

Note 15: Subsequent Events

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