

The background of the cover features a large, light gray logo. On the left is a five-pointed star. To its right are the letters 'GAB' in a large, serif font. The background also has a wavy, flag-like pattern.

**Great American  
Bancorp, Inc.**

**Annual Report**

**2014**

## TABLE OF CONTENTS

Independent Auditors' Report.....	2
Consolidated Balance Sheets .....	3
Consolidated Statements of Income.....	4
Consolidated Statements of Comprehensive Income .....	5
Consolidated Statements of Stockholders' Equity.....	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Shareholder Information .....	50
Directors and Executive Officers.....	52



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Great American Bancorp, Inc.  
Champaign, Illinois

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Great American Bancorp, Inc. and subsidiary ("Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated 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.

### ***Auditors' 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 auditors' 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 Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great American Bancorp, Inc. and subsidiary as of December 31, 2014 and 2013, 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.

*CliftonLarsonAllen LLP*

Peoria, Illinois  
March 4, 2015

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Balance Sheets**  
**December 31, 2014 and 2013**

(in thousands, except share data)

	<u>2014</u>	<u>2013</u>
<i>Assets</i>		
Cash and due from banks	\$ 4,865	\$ 3,324
Interest-bearing demand deposits	<u>59,906</u>	<u>65,295</u>
Cash and cash equivalents	<u>64,771</u>	68,619
Securities available for sale	337	409
Securities held to maturity (fair value approximates \$30 in 2014 and \$37 in 2013)	30	37
Federal Home Loan Bank stock, at cost	704	704
Loans held for sale	--	175
Loans, net of allowance for loan losses of \$1,231 in 2014 and \$1,078 in 2013	<u>101,852</u>	92,739
Premises and equipment, net	<u>4,723</u>	4,864
Goodwill	485	485
Other real estate owned	<u>847</u>	1,330
Other assets	<u>2,955</u>	2,334
Total assets	<u>\$ 176,704</u>	<u>\$ 171,696</u>
<i>Liabilities and Stockholders' Equity</i>		
<i>Liabilities</i>		
<i>Deposits</i>		
Noninterest-bearing	\$ 24,627	\$ 19,929
Interest-bearing	<u>127,331</u>	<u>127,593</u>
Total deposits	<u>151,958</u>	147,522
Federal Home Loan Bank advances	4,000	4,000
Advances from borrowers for taxes and insurance	175	153
Other liabilities	<u>4,114</u>	3,528
Total liabilities	<u>160,247</u>	155,203
Commitments and contingencies (Notes 7, 11, 12 and 14)		
<i>Stockholders' Equity</i>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; none issued	--	--
Common stock, \$0.01 par value; 1,000,000 shares authorized and issued	10	10
Additional paid-in capital	3,310	3,310
Retained earnings	30,786	30,311
Accumulated other comprehensive loss	(645)	(304)
Common stock in treasury, at cost (2014 – 529,810 shares; 2013 – 523,434 shares)	<u>(17,004)</u>	<u>(16,834)</u>
Total stockholders' equity	<u>16,457</u>	16,493
Total liabilities and stockholders' equity	<u>\$ 176,704</u>	<u>\$ 171,696</u>

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

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2014 and 2013**

(in thousands, except share data)

	<u>2014</u>	<u>2013</u>
Interest and Dividend Income		
Loans	\$ 5,259	\$ 5,123
Securities	10	13
Dividends on Federal Home Loan Bank stock	3	2
Deposits with financial institutions and other	142	164
Total interest and dividend income	<u>5,414</u>	<u>5,302</u>
Interest Expense		
Deposits	188	230
Federal Home Loan Bank advances	210	210
Other	4	5
Total interest expense	<u>402</u>	<u>445</u>
Net Interest Income	5,012	4,857
Provision (Credit) for Loan Losses	<u>(10)</u>	<u>(8)</u>
Net Interest Income After Provision (Credit) for Loan Losses	<u>5,022</u>	<u>4,865</u>
Noninterest Income		
Insurance sales commissions	1,465	1,486
Customer service fees	666	652
Other service charges and fees	401	394
Net gain on sales of loans	547	455
Loan servicing fees	219	225
Other	154	172
Total noninterest income	<u>3,452</u>	<u>3,384</u>
Noninterest Expense		
Salaries and employee benefits	4,163	4,448
Occupancy expense	645	642
Equipment expense	595	558
Professional fees	255	210
Marketing expense	185	153
Printing and office supplies	194	189
Directors and committee fees	160	160
Amortization of mortgage servicing rights	117	153
Other real estate owned expenses	92	116
FDIC deposit insurance expense	120	117
Other	655	603
Total noninterest expenses	<u>7,181</u>	<u>7,349</u>
Income Before Income Taxes	1,293	900
Income tax expenses	<u>553</u>	<u>391</u>
Net Income	<u>\$ 740</u>	<u>\$ 509</u>
Earnings per share, basic and diluted	<u>\$ 1.56</u>	<u>\$ 1.06</u>

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

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2014 and 2013**

(in thousands, except share data)

	<u>2014</u>	<u>2013</u>
Net income	\$ 740	\$ 509
Other comprehensive income (loss), before tax:		
Unrealized holding gain (loss) on securities available for sale arising during the period	3	(21)
Net change in postretirement obligation arising during the period	<u>(575)</u>	<u>396</u>
Other comprehensive income (loss), before tax	<u>(572)</u>	<u>375</u>
Income tax (benefit) expense related to items of other comprehensive loss:		
Unrealized holding gain (loss) on securities available for sale arising during the period	(1)	(9)
Net change in postretirement obligation arising during the period	<u>232</u>	<u>160</u>
Total income tax benefit (expense) related to items of other comprehensive income (loss)	<u>231</u>	<u>151</u>
Other comprehensive income (loss)	<u>(341)</u>	<u>224</u>
Comprehensive income	<u>\$ 399</u>	<u>\$ 733</u>

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

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Statements of Stockholders' Equity**

**Years Ended December 31, 2014 and 2013**

(in thousands, except share data)

	<i>Shares of Common Stock</i>	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Loss</i>	<i>Treasury Stock</i>	<i>Total</i>
Balance, December 31, 2012	481,795	\$ 10	\$ 3,310	\$ 30,071	\$ (528)	\$ (16,650)	\$ 16,213
Net income	--	--	--	509	--	--	509
Other comprehensive income	--	--	--	--	224	--	224
Cash dividends declared (\$0.56 per share)	--	--	--	(269)	--	--	(269)
Purchase of treasury stock	(5,229)	--	--	--	--	(184)	(184)
Balance, December 31, 2013	476,566	\$ 10	\$ 3,310	\$ 30,311	\$ (304)	\$ (16,834)	\$ 16,493
Net income	--	--	--	740	--	--	740
Other comprehensive loss	--	--	--	--	(341)	--	(341)
Cash dividends declared (\$0.56 per share)	--	--	--	(265)	--	--	(265)
Purchase of treasury stock	(6,376)	--	--	--	--	(170)	(170)
<b>Balance, December 31, 2014</b>	<b>470,190</b>	<b>\$ 10</b>	<b>\$ 3,310</b>	<b>\$ 30,786</b>	<b>\$ (645)</b>	<b>\$ (17,004)</b>	<b>\$ 16,457</b>

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

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**

**Consolidated Statements of Cash Flows**

**Years Ended December 31, 2014 and 2013**

(in thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net income	\$ 740	\$ 509
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	(10)	(8)
Depreciation	342	339
Net amortization of securities	--	1
Amortization of deferred loan fees (costs), net	(33)	--
Amortization of mortgage servicing rights	117	153
Deferred income tax (benefit) expense	35	(119)
Realized gain on sales of loans	(547)	(455)
Loans originated for sale	(7,406)	(16,439)
Proceeds from loan sales	7,720	16,890
Decrease in fair value of foreclosed assets subsequent to acquisition date	16	27
Net (gain) loss on sales of other real estate owned properties	27	(39)
Net (gain) loss on sales of premises and equipment	24	(5)
Changes in:		
Prepaid and other assets	(134)	(18)
Other liabilities	163	206
Net cash provided by operating activities	<u>1,054</u>	<u>1,042</u>
Cash flows from investing activities:		
Principal payments received on mortgage-backed securities available-for-sale	75	89
Principal payments received on mortgage-backed securities held-to-maturity	7	9
Loan originations and principal collections, net	(8,909)	(2,756)
Proceeds from sales of other real estate owned properties	128	591
Purchase of premises and equipment	(225)	(361)
Proceeds from sales of premises and equipment	--	6
Net cash provided by (used in) investing activities	<u>(8,924)</u>	<u>(2,422)</u>
Cash flows from financing activities:		
Net increase in demand deposits, money market, and savings accounts	7,205	2,162
Net decrease in certificates of deposit	(2,769)	(1,003)
Purchase of treasury stock	(170)	(184)
Dividends paid	(266)	(202)
Net increase in advances from borrowers for taxes and insurance	22	9
Net cash provided by financing activities	<u>4,022</u>	<u>782</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(3,848)</u>	<u>(598)</u>
Cash and Cash Equivalents, Beginning of Year	<u>68,619</u>	<u>69,217</u>
Cash and Cash Equivalents, End of Year	<u>\$ 64,771</u>	<u>\$ 68,619</u>
Supplemental noncash and cash flows information:		
Other real estate acquired in settlement of loans	\$ --	\$ 224
Loans originated to finance sale of real estate acquired in settlement of loan	\$ 312	\$ 180
Other real estate owned transferred to accounts receivable for insurance claim	\$ --	\$ 86
Transfer from provision for potential loss on unfunded commitments to the allowance for loan losses	\$ 151	\$ --
Cash payments for:		
Interest paid on deposits and borrowed funds	\$ 402	\$ 446
Income taxes paid	\$ 434	\$ 607
Supplemental schedule of non-cash financing activities:		
Dividends payable	\$ 66	\$ 67

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



**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

(Table dollar amounts in thousands, except share data)

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

*Principles of Consolidation*

The consolidated financial statements include the accounts of Great American Bancorp, Inc. (the “Company”) and First Federal Savings Bank of Champaign-Urbana, (the “Bank”), and the Bank’s wholly-owned subsidiary, Park Avenue Service Corporation (“PASC”). All significant intercompany balances and transactions have been eliminated in consolidation.

*Nature of Operations*

The Company is a thrift holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, the Bank. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Champaign County, Illinois and surrounding counties. The Bank also provides full service brokerage activities through a third-party broker-dealer and engages in the sale of tax deferred annuities. The revenue generated from brokerage services is dependent upon maintaining relationships with the current brokerage providers. The Company and Bank are subject to competition from other financial institutions. The Company and Bank are subject to the regulation of certain federal agencies and undergo periodic examinations by those regulatory authorities.

The Bank’s subsidiary, PASC, offers insurance services to customers located primarily in Illinois. GTPS Insurance Agency, (the “Agency”) a division of PASC, sells a variety of insurance products to both individuals and businesses, including life, health, auto, property and casualty insurance. The revenue generated by PASC is dependent upon maintaining relationships with the current insurance providers.

*Use of Estimates*

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required 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 balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the classification and valuation of securities, determination of the allowance for loan losses, goodwill, other real estate owned, postretirement benefits, and fair values of financial instruments.

### *Cash and Cash Equivalents*

For purposes of the consolidated statements of cash flows, cash and cash equivalents include amounts due from correspondent banks, cash on hand, balances of interest bearing demand deposits, federal funds sold, and Federal Home Loan Bank term deposits that mature within three months or less.

### *Securities*

Securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity 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. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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, and (3) whether management has the intent to sell the security and if it’s *not* “more likely than not” that management will have to sell the security before recovery of its amortized cost basis. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

### *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. This investment is accounted for at cost and is periodically assessed for impairment.

### *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 aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

## *Loans*

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in Champaign County, Illinois. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method over the contractual life of the loan.

The accrual of interest on mortgage and commercial loans is discontinued, and the loan is placed on non-accrual status at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Loans for which the terms have been modified as a result of the borrower's financial difficulties are considered troubled debt restructurings ("TDRs") and are classified as impaired loans. TDRs are measured for impairment based upon the present value of estimated future cash flows using the loan's existing rate at inception of the loan or the appraised value if the loan is collateral dependent.

All interest accrued but not collected for loans that are placed on non-accrual or charged off 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 status. 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 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 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.

When establishing the allowance for loan losses, management categorizes loans into risk categories generally based on the nature of the collateral and the basis of repayment. These risk categories and the relevant risk characteristics are as follows:

#### First mortgage loans

- 1-4 family residential real estate loans include loans to borrowers where the underlying collateral is the borrower's primary residence ("owner-occupied loans") and loans to borrowers where the property securing the loan is normally leased to an unrelated third party ("non-owner-occupied loans"). Owner-occupied 1-4 family residential mortgage loans generally carry less risk than other loan types as they tend to be smaller balance loans without concentrations to a single borrower or group of borrowers. Repayment depends on the individual borrower's capacity. Non-owner-occupied loans have a greater credit risk than owner-occupied loans because a borrower might have multiple non-owner-occupied loans outstanding. The repayment of non-owner-occupied loans is also dependent on the borrower's ability to lease the properties, collect sufficient rents, and provide adequate maintenance of the properties. Given the recent deterioration in the market value of residential real estate, there is now a greater risk of loss if actions such as foreclosure become necessary to collect the loan.
- Secured by other properties are generally loans secured by multi-family residential real estate, commercial properties or land. Multi-family real estate loans generally involve a greater degree of credit risk than 1-4 family residential mortgage loans due to the dependence on the successful operation of the project. Commercial real estate loans also generally have greater credit risks compared to 1-4 family residential real estate loans, as they usually involve larger loan balances secured by non-homogeneous or specific use properties. Repayment of both multi-family and commercial real estate loans typically rely on the successful operation of a business or the generation of lease income by the property and is therefore more sensitive to adverse conditions in the economy and real estate market. Loans secured by land are at greater risk than residential 1-4 family home loans due to the lack of cash flow and the reliance on the borrower's capacity for repayment.
- Construction loans, including 1-4 family, multi-family and commercial construction loans, generally have a greater credit risk than traditional 1-4 family residential real estate loans. The repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.

## Other loans

- Commercial loans are secured by business assets or may be unsecured and repayment is directly dependent on the successful operation of the borrower's business and the borrower's ability to convert the assets to operating revenue and possess greater risk than most other types of loans should the repayment capacity of the borrower not be adequate.
- Consumer loans include home equity loans, auto and mobile home loans, and other secured and unsecured loans and lines of credit. Home equity loans are similar to 1-4 family owner-occupied residential loans and carry less risk than other loan types as they tend to be smaller balance loans without concentrations to a single borrower or group of borrowers. Auto loans and mobile home loans tend to be secured by depreciating collateral. Consumer loan collections are dependent on the borrower's continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

The allowance consists of specific and general components. The specific component relates to loans that, based on payment status, collateral value and other 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. These loans are classified as impaired loans and the Company establishes a specific allowance when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. 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 1-4 family non-owner-occupied residential real estate loans, mortgage loans secured by other properties, construction loans and commercial 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. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and 1-4 family owner-occupied residential mortgage loans for impairment, unless such loans are the subject of a restructuring agreement.

The general component of the allowance covers unimpaired loans and is based on historical loss experience adjusted for qualitative factors. The loan portfolio is stratified into homogeneous groups of loans based on the risk categories as previously described and an appropriate loss ratio adjusted for other qualitative factors is applied to each group of loans to estimate the incurred losses in the portfolio.

The other qualitative factors considered by management include, but are not limited to, the following:

- Changes in loan policy or procedures
- Economic trends, both local and national
- Volume trends
- Management and staff of the Bank
- Non-performing and problem loan asset levels and trends
- Concentrations of credit
- External factors such as local competition and banking regulations
- Potential unidentified factors

During 2014, the Company made no adjustments to qualitative factors.

During 2013, the Company adjusted the qualitative factor relating to external factors downward, primarily due to a decline in management's concerns regarding banking regulatory changes. Also in 2013, the Company adjusted the qualitative factor relating to economic trends downward mostly due to improvement in the local economy. Unemployment in the Company's local market had declined and home sales had increased approximately 5% from 2012 levels. Each of these decreases in qualitative factors resulted in an overall decrease of \$46,000 in the general component of the allowance for loan losses at December 31, 2013 compared to the method used for December 31, 2012 for a total decrease of \$92,000.

Loans are charged off against the allowance for loan loss account when the following conditions are met:

- 1-4 family residential owner-occupied real estate loans are charged down by the expected loss amount at the time they become non-performing, which is generally 90 days past due.
- Loans secured by 1-4 family non-owner-occupied real estate loans, mortgage loans secured by other properties, and construction loans typically have reserves established once a loan is classified as substandard unless the collateral is adequate to cover the balance of the loan plus selling costs. Generally, the specific reserve on a loan will be charged off once the property has been foreclosed and title to the property has been transferred to the Bank.
- Commercial loans secured by business assets, including inventory and receivables will typically have specific reserves established once a loan is classified as substandard. The specific reserve will be charged off once the outcomes of attempts to legally collect the collateral are known and have been exhausted.
- Consumer loans are charged-off, net of expected recovery when the loan becomes significantly past due over a range of up to 180 days, depending on the type of loan. Loans with non-real estate collateral are written down to the value of the collateral, less costs to sell, when repossession of the collateral has occurred.

## *Servicing*

Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is included in noninterest expense.

## *Off-Balance Sheet Credit Related Financial Instruments*

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

## *Premises and Equipment*

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Estimated lives are thirty-nine years for building and improvements, fifteen years to twenty-five years for leasehold improvements, and three years to seven years for furniture and equipment.

## *Impairment of Long-Lived Assets*

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future

undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

### *Goodwill*

The excess of cost over the fair value of assets acquired for transactions accounted for as a purchase is recorded as an asset by the Company. On a periodic basis, the Company reviews the goodwill for events or circumstances that may indicate a change in recoverability of the underlying basis. Management performs the annual impairment test on June 30<sup>th</sup>.

### *Other Real Estate Owned*

Real estate properties and other loan collateral acquired through, or in lieu of, loan foreclosure are initially recorded at fair value, less costs to sell at the date of foreclosure, establishing a new cost basis. After acquisition, valuations are periodically performed by management and the real estate and other loan collateral is carried at the lower of carrying amount or fair value less cost to sell. Costs relating to the improvement of the property are capitalized. Subsequent write-downs estimated on the later valuations, gains or losses on sales, and revenue and expenses from operations are included in other real estate expenses on the income statement.

### *Income Taxes*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities.

Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is “more likely than not” that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management’s evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of the current and future economic and business conditions.

The Company follows the provisions of Accounting for Uncertainty in Income Taxes. These rules establish a higher standard for tax benefits to meet before they can be recognized in a



company's financial statements. The Company can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained on audit based on the technical merit of the position. See Note 10, Income Taxes, for additional disclosures. The Company recognizes both interest and penalties as components of other operating expenses.

The amount of the uncertain tax position was not determined to be material. It is not expected that the unrecognized tax benefit will be material within the next 12 months. The Company did not recognize any interest or penalties in 2014 or 2013.

The Company files consolidated federal and state income tax returns and it is not subject to federal or state income tax examinations for taxable years prior to December 31, 2011.

#### *Insurance Sales Commissions*

Insurance sales commissions are recognized at the time payment is received from customers billed directly by the Agency, net of an allowance for estimated policy cancellations. Contingent commissions and commissions on premiums billed directly by insurance companies are recorded at the time these commissions are received by the Agency. A contingent commission is a commission paid by an insurance company that is based on the overall profit and/or volume of business placed with that insurance company. Commissions on premiums billed by insurance companies primarily relate to a large number of small premium transactions, whereby the billing and policy insurance process is controlled entirely by the insurance company. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

#### *Treasury Stock*

Treasury stock is stated at cost. Cost of treasury shares sold is determined by the first-in, first-out method.

#### *Earnings Per Share*

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. The Company had no dilutive shares.

Earnings per common share have been computed based on the following:

	December 31,	
	2014	2013
Net income applicable to common stock	\$ <b>740</b>	\$ 509
Average number of common shares outstanding	<b>473,861</b>	480,181

### *Reclassifications*

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on net income.

### *Transfers of Financial Assets and Participating Interests*

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

### *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*

Acquired impaired loans are recorded at fair value with no valuation allowances in the initial accounting. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of these requirements. The yield accreted is limited to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows is not recognized as an adjustment of yield. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments.

### *Advertising Costs*

Advertising costs are expensed as incurred.

### *Comprehensive Income*

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale and unrecognized postretirement obligation, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Following are the components of accumulated other comprehensive income at December 31, 2014 and 2013:

	December 31,	
	2014	2013
Unrealized gain on securities available for sale, net of tax effect	\$ (1)	\$ (3)
Unrecognized postretirement obligation, net of tax effect	(644)	(301)
Total	<u>\$ (645)</u>	<u>\$ (304)</u>

#### *Subsequent Events*

The Company has evaluated subsequent events through March 4, 2015, the date on which the financial statements were available to be issued.

#### *New Accounting Pronouncements*

In 2014, the Company adopted Accounting Standards Update (“ASU”) 2013-02, *Comprehensive Income (Topic 220)*. ASU 2013-02 amended prior guidance to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount reclassified is required under U.S. GAAP. The impact of the adoption of ASU 2013-02 did not have a material impact on the Company’s financial position or results of operations.

#### **Note 2: Restriction on Cash and Amounts Due from Banks**

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2014 and 2013, the reserve balance amounted to \$1,297,000 and \$1,201,000, respectively.

### Note 3: Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
Residential mortgage-backed - agency	\$ 339	\$ --	\$ 2	\$ 337
Securities held to maturity:				
Debt securities:				
Residential mortgage-backed - agency	\$ 30	\$ --	\$ --	\$ 30
	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
Residential mortgage-backed - agency	\$ 414	\$ --	\$ 5	\$ 409
Securities held to maturity:				
Debt securities:				
Residential mortgage-backed - agency	\$ 37	\$ --	\$ --	\$ 37

The Company did not hold any securities of a single issuer, payable from and secured by the same source of revenue or taxing authority, the book value of which exceeded 10% of stockholders' equity at December 31, 2014.

Expected maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties, therefore, a presentation of these securities into maturity categories is not presented.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Residential mortgage-backed - agency	\$ 339	\$ 337	\$ 30	\$ 30

Information pertaining to securities with gross unrealized losses at December 31, 2014 and 2013, aggregated by investment category and length of time that individual securities have been in continuous loss position, follows:

	December 31, 2014					
	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale:						
Debt securities:						
Mortgage-backed	\$ --	\$ --	\$ 2	\$ 337	\$ 2	\$ 337

  

	December 31, 2013					
	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale:						
Debt securities:						
Mortgage-backed	\$ 5	\$ 409	\$ --	\$ --	\$ 5	\$ 409

At December 31, 2014, securities have an unrealized loss with aggregate depreciation of less than one percent of the Company's amortized cost basis for such securities. These unrealized losses are a result of expected fluctuations in the bond market. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The decline in value of these securities is deemed to be temporary.

#### Note 4: Loans

The following table presents a comparative composition of net loans as of December 31, 2014 and 2013:

	December 31, 2014	% of Total Loans	December 31, 2013	% of Total Loans
First mortgage loans				
Residential 1-4 family				
Owner-occupied	\$ 18,356	17.8%	\$ 13,753	14.6%
Non-owner-occupied	27,429	26.6	25,684	27.4
Secured by other properties	35,360	34.3	35,813	38.2
Construction loans	1,284	1.2	904	1.0
Total first mortgage loans	82,429	79.9	76,154	81.2
Commercial	10,379	10.1	6,549	7.0
Consumer	10,262	10.0	11,115	11.8
Total loans	103,070	100.0%	93,818	100.0%
Less:				
Allowance for loan losses	(1,231)		(1,078)	
Net deferred loan (fees) costs	13		(1)	
Net loans	\$ 101,852		\$ 92,739	

The following tables present the contractual aging of the recorded investment in past due loans by class of loans as of December 31, 2014 and 2013:

December 31, 2014						
	Current	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Total
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 17,913	\$ 192	\$ 251	\$ --	\$ 443	\$ 18,356
Non-owner-occupied	27,095	--	--	334	334	27,429
Secured by other properties	35,230	--	--	130	130	35,360
Construction loans	883	203	--	198	401	1,284
Total first mortgage loans	81,121	395	251	662	1,308	82,429
Commercial	9,753	126	--	500	626	10,379
Consumer	10,157	48	52	5	105	10,262
Total loans	<u>\$101,031</u>	<u>\$ 569</u>	<u>\$ 303</u>	<u>\$ 1,167</u>	<u>\$ 2,039</u>	<u>\$103,070</u>

  

December 31, 2013						
	Current	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Total
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 13,226	\$ 382	\$ --	\$ 145	\$ 527	\$ 13,753
Non-owner-occupied	24,646	691	--	347	1,038	25,684
Secured by other properties	35,595	--	--	218	218	35,813
Construction loans	904	--	--	--	--	904
Total first mortgage loans	74,371	1,073	--	710	1,783	76,154
Commercial	5,893	119	71	466	656	6,549
Consumer	10,528	197	327	63	587	11,115
Total loans	<u>\$ 90,792</u>	<u>\$ 1,389</u>	<u>\$ 398</u>	<u>\$ 1,239</u>	<u>\$ 3,026</u>	<u>\$ 93,818</u>

The Company considers non-performing loans to be the total of loans on non-accrual and loans past due 90 days or more and still accruing. The following tables present performing and non-performing loans by class of loans as of December 31, 2014 and 2013:

December 31, 2014			
	<u>Performing</u>	<u>Non-performing</u>	<u>Total</u>
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 18,356	\$ --	\$ 18,356
Non-owner-occupied	27,095	334	27,429
Secured by other properties	35,230	130	35,360
Construction loans	<u>1,086</u>	<u>198</u>	<u>1,284</u>
Total first mortgage loans	81,767	662	82,429
Commercial	9,692	687	10,379
Consumer	<u>10,257</u>	<u>5</u>	<u>10,262</u>
Total loans	<u><u>\$ 101,716</u></u>	<u><u>\$ 1,354</u></u>	<u><u>\$ 103,070</u></u>

December 31, 2013			
	<u>Performing</u>	<u>Non-performing</u>	<u>Total</u>
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 13,607	\$ 146	\$ 13,753
Non-owner-occupied	25,337	347	25,684
Secured by other properties	35,595	218	35,813
Construction loans	<u>713</u>	<u>191</u>	<u>904</u>
Total first mortgage loans	75,252	902	76,154
Commercial	6,083	466	6,549
Consumer	<u>11,052</u>	<u>63</u>	<u>11,115</u>
Total loans	<u><u>\$ 92,387</u></u>	<u><u>\$ 1,431</u></u>	<u><u>\$ 93,818</u></u>



The following tables present the recorded investment in non-accrual loans by class of loans as of December 31, 2014 and 2013:

		December 31, 2014	
		<u>Non-accrual</u>	<u>Loans past due 90 days or more and still accruing</u>
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$	--	\$ --
Non-owner-occupied		334	--
Secured by other properties		130	--
Construction loans		<u>198</u>	<u>--</u>
Total first mortgage loans		662	--
Commercial		687	--
Consumer		<u>5</u>	<u>--</u>
Total loans	\$	<u><u>1,354</u></u>	\$ <u><u>--</u></u>

		December 31, 2013	
		<u>Non-accrual</u>	<u>Loans past due 90 days or more and still accruing</u>
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$	--	\$ 146
Non-owner-occupied		347	--
Secured by other properties		86	132
Construction loans		<u>191</u>	<u>--</u>
Total first mortgage loans		624	278
Commercial		447	19
Consumer		<u>8</u>	<u>55</u>
Total loans	\$	<u><u>1,079</u></u>	\$ <u><u>352</u></u>

The Company utilizes an internal asset classification system in order to identify problem and potential problem loans. The loans selected for review under this rating system include 1-4 family non-owner-occupied residential loans, mortgage loans secured by other properties, construction loans and commercial loans where the loan balance was \$100,000 or greater when the loan was originated and 1-4 family owner-occupied residential loans and consumer loans where the loan balance was \$250,000 or greater when the loan was originated. Under the risk rating system, the Company classifies problem and potential problem loans as “special mention”, “substandard”, and “doubtful” which correspond to risk ratings five, six and seven, respectively. Substandard loans that have a risk rating of six include those characterized by the distinct possibility the Company may sustain some loss if the deficiencies are not corrected. Loans classified as doubtful, or risk rated seven, have all the weaknesses inherent in those classified substandard with the added characteristic the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans that do not expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management’s close attention are deemed to be special mention, having a risk rating of five. Loans reviewed under the internal asset classification system which are not considered a problem or potential problem loan are classified as “pass” and are those loans with a risk rating of one, two, three or four. Risk ratings are updated any time the facts and circumstances warrant.

Loans with an original loan balance under the thresholds for selection for review under the internal asset classification system are also evaluated on a case-by-case basis and assigned to a classification (special mention, substandard or doubtful) when they become non-performing, which is generally 90 days past due.

The following tables present the risk category of those loans evaluated by internal asset classification based on the most recent analysis performed and the contractual aging as of December 31, 2014 and 2013:

December 31, 2014

	Pass	Special Mention	Sub- standard	Doubtful	Not Rated	Total
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 2,978	\$ 229	\$ 106	\$ --	\$ 15,043	\$ 18,356
Non-owner-occupied	21,990	66	766	--	4,607	27,429
Secured by other properties	33,773	238	710	--	639	35,360
Construction loans	1,086	--	198	--	--	1,284
Total first mortgage loans	59,827	533	1,780	--	20,289	82,429
Commercial	8,789	222	892	--	476	10,379
Consumer	2,112	69	20	--	8,061	10,262
Total loans	<u>\$ 70,728</u>	<u>\$ 824</u>	<u>\$ 2,692</u>	<u>\$ --</u>	<u>\$ 28,826</u>	<u>\$103,070</u>

December 31, 2013

	Pass	Special Mention	Sub- standard	Doubtful	Not Rated	Total
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 2,154	\$ 57	\$ 88	\$ --	\$ 11,454	\$ 13,753
Non-owner-occupied	19,538	266	782	--	5,098	25,684
Secured by other properties	32,547	1,665	804	--	797	35,813
Construction loans	713	--	191	--	--	904
Total first mortgage loans	54,952	1,988	1,865	--	17,349	76,154
Commercial	5,082	351	503	--	613	6,549
Consumer	2,743	125	9	--	8,238	11,115
Total loans	<u>\$ 62,777</u>	<u>\$ 2,464</u>	<u>\$ 2,377</u>	<u>\$ --</u>	<u>\$ 26,200</u>	<u>\$ 93,818</u>

Activity in the allowance for loan losses for the years ended December 31, 2014 and December 31, 2013 was as follows:

December 31, 2014

	Beginning Balance	Charge- offs	Recoveries	Provisions	Transfer from Provision For Losses on Unfunded Commitments	Ending Balance
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 125	\$ --	\$ --	\$ 26	\$ 18	\$ 169
Non-owner-occupied	256	--	--	7	14	277
Secured by other properties	356	--	--	(38)	39	357
Construction loans	--	--	--	18	(5)	13
Total first mortgage loans	<u>737</u>	<u>--</u>	<u>--</u>	<u>13</u>	<u>66</u>	<u>816</u>
Commercial	231	--	11	(5)	66	303
Consumer	110	--	1	(18)	19	112
Total loans	<u>\$ 1,078</u>	<u>\$ --</u>	<u>\$ 12</u>	<u>\$ (10)</u>	<u>\$ 151</u>	<u>\$ 1,231</u>

December 31, 2013

	Beginning Balance	Charge- offs	Recoveries	Provisions	Ending Balance
First mortgage loans					
Residential 1-4 family					
Owner-occupied	\$ 150	\$ --	\$ --	\$ (25)	\$ 125
Non-owner-occupied	280	--	1	(25)	256
Secured by other properties	342	--	--	14	356
Construction loans	--	--	--	--	--
Total first mortgage loans	<u>772</u>	<u>--</u>	<u>1</u>	<u>(36)</u>	<u>737</u>
Commercial	234	(56)	5	48	231
Consumer	129	--	1	(20)	110
Total loans	<u>\$ 1,135</u>	<u>\$ (56)</u>	<u>\$ 7</u>	<u>\$ (8)</u>	<u>\$ 1,078</u>

The following table presents ending balances for the allowance for loan losses and loans based on impairment method as of December 31, 2014:

	December 31, 2014		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Balance
Allowance for loan losses:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ 169	\$ 169
Non-owner-occupied	--	277	277
Secured by other properties	--	357	357
Construction loans	--	13	13
Total first mortgage loans	--	816	816
Commercial	191	112	303
Consumer	5	107	112
Total loans	<u>\$ 196</u>	<u>\$ 1,035</u>	<u>\$ 1,231</u>
Loans:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 106	\$ 18,250	\$ 18,356
Non-owner-occupied	766	26,663	27,429
Secured by other properties	710	34,650	35,360
Construction loans	198	1,086	1,284
Total first mortgage loans	1,780	80,649	82,429
Commercial	1,022	9,357	10,379
Consumer	20	10,242	10,262
Total loans	<u>\$ 2,822</u>	<u>\$ 100,248</u>	<u>\$ 103,070</u>

The following table presents ending balances for the allowance for loan losses and loans based on impairment method as of December 31, 2013:

	December 31, 2013		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Balance
Allowance for loan losses:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ 125	\$ 125
Non-owner-occupied	--	256	256
Secured by other properties	--	356	356
Construction loans	--	--	--
Total first mortgage loans	--	737	737
Commercial	163	68	231
Consumer	9	101	110
Total loans	<u>\$ 172</u>	<u>\$ 906</u>	<u>\$ 1,078</u>
Loans:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ 13,753	\$ 13,753
Non-owner-occupied	782	24,902	25,684
Secured by other properties	804	35,009	35,813
Construction loans	191	713	904
Total first mortgage loans	1,777	74,377	76,154
Commercial	571	5,978	6,549
Consumer	65	11,050	11,115
Total loans	<u>\$ 2,413</u>	<u>\$ 91,405</u>	<u>\$ 93,818</u>

The following table presents information about loans individually evaluated for impairment as of December 31, 2014:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
With no related allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 107	\$ 106	\$ --
Non-owner-occupied	766	766	--
Secured by other properties	712	710	--
Construction loans	<u>198</u>	<u>198</u>	<u>--</u>
Total first mortgage loans	1,783	1,780	--
Commercial	417	415	--
Consumer	<u>15</u>	<u>15</u>	<u>--</u>
Total loans	<u>\$ 2,215</u>	<u>\$ 2,210</u>	<u>\$ --</u>
With an allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ --	\$ --
Non-owner-occupied	--	--	--
Secured by other properties	--	--	--
Construction loans	<u>--</u>	<u>--</u>	<u>--</u>
Total first mortgage loans	--	--	--
Commercial	607	607	191
Consumer	<u>5</u>	<u>5</u>	<u>5</u>
Total loans	<u>\$ 612</u>	<u>\$ 612</u>	<u>\$ 196</u>

The following table presents information about loans individually evaluated for impairment as of December 31, 2013:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
With no related allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ --	\$ --
Non-owner-occupied	783	782	--
Secured by other properties	810	804	--
Construction loans	<u>191</u>	<u>191</u>	<u>--</u>
Total first mortgage loans	1,784	1,777	--
Commercial	106	105	--
Consumer	<u>56</u>	<u>56</u>	<u>--</u>
Total loans	<u>\$ 1,946</u>	<u>\$ 1,938</u>	<u>\$ --</u>
With an allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ --	\$ --
Non-owner-occupied	--	--	--
Secured by other properties	--	--	--
Construction loans	<u>--</u>	<u>--</u>	<u>--</u>
Total first mortgage loans	--	--	--
Commercial	466	466	163
Consumer	<u>9</u>	<u>9</u>	<u>9</u>
Total loans	<u>\$ 475</u>	<u>\$ 475</u>	<u>\$ 172</u>



The following is a summary of additional information pertaining to loans individually evaluated for impairment during the years ended December 31, 2014 and 2013:

	December 31, 2014		
	Average Balance During the Period	Interest Income Recognized During the Period	Cash- basis Interest Income Recognized
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 36	\$ 2	\$ --
Non-owner-occupied	775	25	--
Secured by other properties	767	33	--
Construction loans	198	--	--
Total first mortgage loans	1,776	60	--
Commercial	674	6	--
Consumer	33	2	--
Total loans	<u>\$ 2,483</u>	<u>\$ 68</u>	<u>\$ --</u>

	December 31, 2013		
	Average Balance During the Period	Interest Income Recognized During the Period	Cash- basis Interest Income Recognized
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 37	\$ 1	\$ --
Non-owner-occupied	1,040	38	5
Secured by other properties	1,006	54	--
Construction loans	42	3	3
Total first mortgage loans	2,125	96	8
Commercial	596	9	--
Consumer	84	5	--
Total loans	<u>\$ 2,805</u>	<u>\$ 110</u>	<u>\$ 8</u>

Impaired loans as of December 31, 2014 and 2013 included one consumer secured loan totaling \$81,000 at December 31, 2014 and \$86,000 at December 31, 2013 that was modified as a troubled debt restructuring (“TDR”) during 2010. The loan was renewed during 2010 at a below market interest rate. This loan was in default of the modified terms as of December 31, 2014 and December 31, 2013. Impaired loans at December 31, 2014 and December 31, 2013 also included one commercial loan totaling \$50,000 at that was modified as a TDR in November 2013. The loan was also renewed at a below market interest rate. This loan was not in default of the modified terms at December 31, 2014 or December 31, 2013.

**Note 5: Servicing**

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately \$82,401,000 and \$88,034,000 at December 31, 2014 and 2013, respectively.

The aggregate carrying value of capitalized mortgage servicing rights approximated fair value at December 31, 2014 and 2013 and totaled \$526,000 and \$235,000, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$90,000 and \$67,000 at December 31, 2014 and 2013, respectively.

**Note 6: Premises and Equipment**

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31,	
	2014	2013
Land	\$ 1,545	\$ 1,545
Buildings and improvements	5,939	5,924
Leasehold improvements	--	592
Equipment	4,184	4,044
	<b>11,668</b>	12,105
Accumulated depreciation	<b>(6,945)</b>	(7,241)
Net premises and equipment	<b>\$ 4,723</b>	<b>\$ 4,864</b>

Depreciation expense for the years ended December 31, 2014 and 2013 amounted to \$342,000 and \$339,000, respectively.

**Note 7: Leases**

During 2014 and 2013, the Company leased the land for one branch office. The Company closed this branch office on November 1, 2014 and terminated the lease effective November 30, 2014. Rental expense for this lease was \$41,000 for the year ended December 31, 2014 and \$45,000 for the year ended December 31, 2013.

**Note 8: Deposits**

Time deposits in denominations of \$250,000 or more were \$506,000 on December 31, 2014 and \$1,015,000 on December 31, 2013.

At December 31, 2014, the scheduled maturities of time deposits are as follows:

2015	\$	20,439
2016		3,747
2017		533
2018		1,136
2019		--
Thereafter		--
Total	\$	<u>25,855</u>

**Note 9: Federal Home Loan Bank Advances**

Federal Home Loan Bank advances at December 31, 2014 and December 31, 2013 were comprised of one \$4,000,000 advance at a fixed rate of 5.17% maturing in October 2016. Federal Home Loan Bank advances are secured by mortgage loans totaling \$41,062,000 at December 31, 2014 and \$34,622,000 at December 31, 2013. Advances are subject to restrictions or penalties in the event of prepayment.

## Note 10: Income Taxes

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,	
	2014	2013
Current tax provision:		
Federal	\$ 391	\$ 390
State	127	120
	<u>518</u>	<u>510</u>
Deferred tax benefit:		
Federal	32	(90)
State	3	(29)
	<u>35</u>	<u>(119)</u>
Income tax expense	<u>\$ 553</u>	<u>\$ 391</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31,	
	2014	2013
Computed at the statutory rate (34%)	\$ 440	\$ 306
Increase resulting from		
State income taxes	86	60
Other	27	25
Actual tax expense	<u>\$ 553</u>	<u>\$ 391</u>

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31,	
	2014	2013
Deferred tax assets		
Allowance for loan losses	\$ 496	\$ 434
Deferred compensation	337	334
Postretirement benefit obligation	1,136	819
Reserve for loss on unfunded commitments	15	71
Reserve for losses on debit card transactions	9	--
Interest on nonaccrual loans	93	58
Accrued salaries and bonus	--	30
Reductions in recorded balance of other real estate owned properties due to decline in estimated values	3	8
Deferred insurance agency commissions	3	3
Unrealized losses on securities available for sale	1	2
Other	--	1
	<u>2,093</u>	<u>1,760</u>
Deferred tax liabilities		
Federal Home Loan Bank stock	(82)	(82)
Depreciation	(430)	(423)
Mortgage servicing rights	(212)	(95)
Prepaid expenses	(78)	(70)
Deferred loan fee costs	(5)	--
	<u>(807)</u>	<u>(670)</u>
Net deferred tax asset	<u>\$ 1,286</u>	<u>\$ 1,090</u>

Retained earnings include approximately \$4,300,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of December 31, 1987 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$1,732,000.

## Note 11: Off-Balance Sheet Activities

### *Credit-Related Financial Instruments*

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2014 and 2013, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2014	2013
Commitments to grant loans	\$ 1,131	\$ 351
Unfunded commitments under lines of credit	11,141	8,434
Standby letters of credit	--	3

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Loan commitments at fixed rates of interest amounted to \$1,131,000 and \$351,000 at December 31, 2014 and 2013, respectively. Mortgage loans in the process of origination are included in commitments to extend credit and represent amounts that the Bank plans to fund within a normal period of 60 to 90 days, and which are intended for sale to investors in the secondary market. The Company had no mortgage loans held for sale at December 31, 2014. Total mortgage loans held for sale amounted to \$175,000 at December 31, 2013.

Unfunded commitments under commercial lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. Total fixed rate unfunded lines of credit were \$4,629,000 and \$2,015,000 at December 31, 2014 and 2013, respectively.

Standby letters-of-credit are conditional lending commitments issued by the Company to guarantee performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters-of-credit issued have

expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments. The Company had no deferred revenue under standby letters of credit at December 31, 2014 or December 31, 2013.

#### *Other Credit Risks*

The Company has a concentration of funds on deposit with the Federal Reserve Bank totaling \$52,092,000 and \$54,429,000 at December 31, 2014 and 2013, respectively. The Company also has a concentration of funds on deposit with the Federal Home Loan Bank totaling \$9,211,000 and \$11,612,000 at December 31, 2014 and 2013, respectively.

#### **Note 12: Legal Contingencies**

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

#### **Note 13: Minimum Regulatory Capital Requirements**

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014 and 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent notification from the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2014 and 2013 are also presented in the table.

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2014:</b>						
Total Capital to Risk Weighted Assets	\$ 16,930	21.1%	\$ 6,429	8.0%	\$ 8,036	10.0%
Tier 1 Capital to Risk Weighted Assets	15,922	19.8	3,214	4.0	4,822	6.0
Tier 1 Capital to Adjusted Total Assets	15,922	9.0	7,067	4.0	8,834	5.0
Tangible Capital to Adjusted Total Assets	15,922	9.0	2,650	1.5		N/A
	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2013:</b>						
Total Capital to Risk Weighted Assets	\$ 16,599	21.8%	\$ 6,092	8.0%	\$ 7,616	10.0%
Tier 1 Capital to Risk Weighted Assets	15,643	20.5	3,046	4.0	4,569	6.0
Tier 1 Capital to Adjusted Total Assets	15,643	9.1	6,845	4.0	8,557	5.0
Tangible Capital to Adjusted Total Assets	15,643	9.1	2,567	1.5		N/A

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2014, the Bank had \$916,000 in retained earnings available for dividend declaration without prior regulatory approval.



## **Note 14: Employee Benefit Plans**

### *KSOP Plan*

During 2013, the Company had a Savings and Employee Stock Ownership Plan ("KSOP") that covered substantially all Company employees. The plan contained 401(k) features that qualified the plan under Section 401(a) of the Internal Revenue Code and allowed employees to contribute up to 75% of their salary on a pretax or after tax basis. The Company then made a matching contribution of 100% on the first 3% of an employee's contribution and 50% on the next 2% of an employee's contribution. The Company also contributed an amount equal to 3% of each eligible participant's salary, even if an employee elected not to defer any of their own salary into the plan ("safe harbor contribution"). The Company could also elect to contribute discretionary amounts at any time. Each participant could direct the investment of their own contributions and the Company's contributions to a variety of mutual funds offered and maintained by the trustee of the plan, including a stock fund of the Company (the "employer stock fund"). The Company matching contributions, safe harbor contributions, and any discretionary contributions were initially invested in the employer stock fund.

At December 31, 2013, 109,827 shares of the Company's stock were owned by the plan. The cost of the plan was borne by the Company through contributions to the KSOP trust in amounts determined by the Board of Directors. The Company's expense for the plan was \$202,000 for 2013.

At December 31, 2013, all 109,827 shares in the plan had been allocated to plan participants. The fair market value of those shares totaled approximately \$3,514,000 as of December 31, 2013.

### *Termination of KSOP*

In December 2013, the Company's Board of Directors voted to terminate the KSOP effective December 31, 2013. In conjunction with the termination of the KSOP, the Company's Board of Directors approved resolutions to fully vest all affected participants in their KSOP account balance upon plan termination and also authorized that eligible plan participants will be entitled to exercise a put right subsequent to receiving shares of the Company's stock as part of the distribution of participant accounts.

During 2014, all funds and employee Company shares held by the KSOP trustee were distributed to the participants or their designees as directed by each participant in the KSOP. All Company shares held by each participant on the date of distribution were distributed as shares.

Upon the exercise of a put right, the Company is required to purchase all or a portion of a participant's shares of Company stock distributed to a participant due to the termination of the KSOP. Each participant is provided two time periods during which they can exercise their put right. The first time period was the first 60 days after the distribution of the participant's accounts from the KSOP. The second opportunity will be a 60-day period commencing on the date that the Company communicates the fair value of the Company's stock to eligible participants of the KSOP subsequent to December 31, 2014. The Company has contracted with an independent valuation company to provide a fair market valuation of the Company's stock for purposes of the put right.

The Company has elected to pay for Company stock required to be purchased upon the exercise of a put right in equal annual installments over a 5 year period with adequate security and interest at a reasonable rate.

In March 2014, the Company received the independent valuation of the estimate of the fair market valuation of the Company's stock to be used for the first put right time period and the estimated price as of the December 31, 2013 valuation date was \$30.83 per share. During the first put right time period, the Company purchased 30 shares related to participants exercising put rights. As of the date of the issuance of this report, the Company cannot anticipate the number of shares that participants may require the Company to purchase under put rights during the second 60-day time period which will occur during 2015.

#### *Deferred Compensation Plan*

The Company also sponsors a deferred compensation plan for participating directors for the deferral of director fees. The interest accrued on the deferred compensation liability for the years ended December 31, 2014 and 2013 was \$4,000 and \$5,000, respectively. The deferred compensation liability, which is included in other liabilities, was \$838,000 at December 31, 2014 and \$829,000 at December 31, 2013.

#### **Note 15: Postretirement Plan**

The Company has an unfunded noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time.

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and health care cost follows:

	<u>2014</u>	<u>2013</u>
Change in projected benefit obligation		
Beginning of year	\$ 2,033	\$ 2,178
Service cost	116	143
Interest cost	96	87
Actuarial (gain) loss	598	(352)
Benefits paid (included in salaries and benefits)	<u>(23)</u>	<u>(23)</u>
End of year	<u>\$ 2,820</u>	<u>\$ 2,033</u>
At December 31,		
Fair value of plan assets	\$ --	\$ --
Benefit obligation (included in other liabilities)	<u>(2,820)</u>	<u>(2,033)</u>
Funded status at end of year	<u>\$ (2,820)</u>	<u>\$ (2,033)</u>

	<u>2014</u>	<u>2013</u>
Amounts recognized on balance sheet consist of:		
Accrued liability (included in other liabilities)	\$ (2,820)	\$ (2,033)
Unrecognized net actuarial loss, net of tax	\$ 644	\$ 297
Unrecognized transition obligation, net of tax	\$ --	\$ 4

The Company's assumptions used to determine the benefit obligation and benefit cost were:

	<u>2014</u>	<u>2013</u>
Discount rate	4.75%	4.75%
Medical trend rate	7.50%	7.50%
Ultimate medical trend rate	4.50%	4.50%

	<u>2014</u>	<u>2013</u>
Components of net periodic benefit cost		
Service cost	\$ 116	\$ 143
Interest cost	96	87
Amortization of transition obligation	6	8
Amortization of net loss	17	35
Net periodic benefit cost (included in salaries and benefits)	<u>\$ 235</u>	<u>\$ 273</u>

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed to be 7.50% for 2014 and 2013. The rate was assumed to decrease gradually to 4.50% by the year 2021 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service and interest cost components	\$ 66	\$ (47)
Effect on postretirement benefit obligation	791	(583)

At December 31, 2014, the projected benefits to be paid are as follows:

2015	\$ 26
2016	34
2017	41
2018	38
2019	44
2020-2024	351

For the year ended December 31, 2015, the projected net periodic benefit cost is \$311,000.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D.

In accordance with ASC 715, *Employers’ Accounting for Postretirement Benefits Other Than Pensions*, the Company has not reflected the effects of the Act on the measurements of plan benefit obligations and periodic benefit costs and accompanying notes. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, may require the Company to change previously reported information.

**Note 16: Related Party Transactions**

In the ordinary course of business, the Company has granted loans to executive officers, directors, and their affiliates (related parties). Activity associated with loans made to related parties for the years ended December 31, 2014 and December 31, 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 1,153	\$ 1,153
New loans and advances	240	656
Repayments, including loans sold	<u>(319)</u>	<u>(670)</u>
Balance at end of year	<u>\$ 1,074</u>	<u>\$ 1,153</u>

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

Deposits from related parties held by the Company at December 31, 2014 and December 31, 2013 totaled \$2,225,000 and \$1,795,000, respectively.

**Note 17: Fair Value Measurements**

The fair value standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The standard requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the

circumstances. In that regard, the standard establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available for sale (recurring): The fair value of the Company's securities available for sale are determined using Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively. There were no transfers between Level 1 and Level 2.

Impaired loans (non-recurring): Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the customer and customer's business. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other real estate owned (non-recurring): Other real estate owned properties are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

### *Assets at Fair Value on a Recurring Basis*

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

December 31, 2014				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Residential mortgage-backed securities – agency, available for sale	\$ 337	\$ --	\$ 337	\$ --
December 31, 2013				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Residential mortgage-backed securities – agency, available for sale	\$ 409	\$ --	\$ 409	\$ --

### *Assets Recorded at Fair Value on a Nonrecurring Basis*

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

### *Collateral-Dependent Impaired Loans and Foreclosed Assets*

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

The Company considers the appraisal or a similar 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 or a similar evaluation of the collateral underlying collateral-dependent loans and foreclosed assets are obtained when the loan is determined to be collateral-dependent for impaired loans and at the time a loan is transferred to foreclosed assets. Appraisals or similar evaluations are obtained subsequently as deemed necessary by management but at least annually on foreclosed assets. Appraisals are reviewed for accuracy and consistency by management. Appraisals are performed by individuals selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated costs

to sell. These discounts and estimates are developed by management by comparison to historical results.

Assets measured at fair value on a nonrecurring basis are included in the table below.

December 31, 2014				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	\$ 416	\$ --	\$ --	\$ 416
Other real estate owned	847	--	--	847

December 31, 2013				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	\$ 303	\$ --	\$ --	\$ 303
Other real estate owned	1,330	--	--	1,330

#### *Unobservable (Level 3) Inputs*

The following table presents quantitative information about observable inputs used in nonrecurring Level 3 fair value measurements.

December 31, 2014				
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets:				
Collateral-dependent impaired loans	\$ 416	Market comparable properties	Marketability discount	0% - 47% (24%)
Other real estate owned	\$ 847	Market comparable properties	Marketability discount	0% - 30% (8%)

December 31, 2013

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets:				
Collateral-dependent impaired loans	\$ 303	Market comparable properties	Marketability discount	0% - 21% (11%)
Other real estate owned	\$ 1,330	Market comparable properties	Marketability discount	0% - 21% (7%)

**Note 18: Disclosures about Fair Values of Financial Instruments**

The following table presents estimated fair values of the Company's financial instruments. Fair value is determined under the framework discussed in note 17. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.



	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 64,771	\$ 64,771	\$ 68,619	\$ 68,619
Securities available for sale	337	337	409	409
Securities held to maturity	30	30	37	37
Loans held for sale	--	--	175	175
Loans, net of allowance for loan losses	101,852	105,345	92,739	95,971
Federal Home Loan Bank stock	704	704	704	704
Interest receivable	381	381	368	368
<b>Financial liabilities</b>				
Deposits	151,958	151,976	147,522	147,568
Federal Home Loan Bank advances	4,000	4,315	4,000	4,458
Advances from borrowers for taxes and insurance	175	175	153	153
Interest payable	18	18	18	18
<b>Unrecognized financial instruments (net of contract amount)</b>				
Commitments to originate loans	--	--	--	--
Letters of credit	--	--	--	--
Lines of credit	--	--	--	--

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

*Cash and Cash Equivalents and Federal Home Loan Bank Stock* -- The carrying amount approximates fair value.

*Securities Available for Sale and Securities Held to Maturity* -- The fair value of the Company's securities available for sale and securities held to maturity are determined using Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively.

*Loans Held for Sale* -- Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics.

*Loans* -- The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

*Deposits* -- Deposits include demand deposits, savings accounts, NOW accounts, and money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

*Advances from Borrowers for Taxes and Insurance* -- The carrying amount approximates fair value.

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

*Commitments to Originate Loans, Letters of Credit and Lines of Credit* -- The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

#### **Note 19: Accumulated Other Comprehensive Loss**

The following table presents the activity and accumulated balances for components of other comprehensive loss:

	2014		
	Unrealized Losses on Available- For-Sale Securities	Unrecognized Post- Retirement Benefit Obligation	Total Accumulated Other Comprehensive Loss
Balances, January 1	\$ (3)	\$ (301)	\$ (304)
Current year other comprehensive income (loss), before tax	3	(575)	(572)
Income tax (expense) benefit	(1)	232	231
Current year other comprehensive income (loss), net of tax	2	(343)	(341)
Balances, December 31	<u>\$ (1)</u>	<u>\$ (644)</u>	<u>\$ (645)</u>

## GREAT AMERICAN BANCORP, INC. SHAREHOLDER INFORMATION

### Stock Listing and Price Information

The Company's common stock is traded on the Over-the-Counter Bulletin Board under the symbol "GTPS.OB." At December 31, 2014, 470,190 shares of the Company's common stock were held of record by 168 persons or entities, not including the number of persons or entities holding stock in nominee or street name through various brokers or banks.

The following schedule shows the high and low bid prices for each of the quarters in the years ended December 31, 2014 and 2013:

<u>Quarter Ended:</u>	<u>High</u>	<u>Low</u>
March 31, 2013	35.00	31.11
June 30, 2013	35.00	33.50
September 30, 2013	33.50	32.25
December 31, 2013	38.02	32.00
March 31, 2014	32.00	25.02
June 30, 2014	26.00	25.00
September 30, 2014	28.00	24.01
December 31, 2014	24.90	22.00

At December 31, 2014 the closing price of a common share was \$22.25. This information was provided by the Over-the-Counter Bulletin Board. Such prices do not necessarily reflect retail markups, markdowns, or commissions. During the years ended December 31, 2014 and 2013, the Company declared dividends as follows:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Amount</u>
February 11, 2013	March 15, 2013	April 1, 2013	.14
May 13, 2013	June 15, 2013	July 1, 2013	.14
August 12, 2013	September 13, 2013	October 1, 2013	.14
November 18, 2013	December 13, 2013	January 2, 2014	.14
February 10, 2014	March 14, 2014	April 1, 2014	.14
May 12, 2014	June 13, 2014	July 1, 2014	.14
August 11, 2014	September 15, 2014	October 1, 2014	.14
November 10, 2014	December 15, 2014	January 2, 2015	.14
			<u>\$ 1.12</u>

## **Investor Information**

Stockholders, investors and analysts interested in additional information may contact:

Jane F. Adams  
Chief Financial Officer  
Great American Bancorp, Inc.  
1311 S. Neil Street  
Champaign, IL 61820

Company website: [www.greatamericanbancorp.com](http://www.greatamericanbancorp.com)

## **Corporate Counsel**

Locke Lord Edwards LLP  
111 S. Wacker Drive  
Chicago, IL 60606-4410

## **Independent Auditors**

CliftonLarsonAllen LLP  
301 SW Adams, Suite 1000  
Peoria, IL 61602

## **Annual Meeting of Stockholders**

The Annual Meeting of Stockholders of Great American Bancorp, Inc. will be held at 9:30 a.m. Tuesday, April 21, 2015 at:

First Federal Savings Bank of Champaign-Urbana  
1311 S. Neil Street  
Champaign IL 61820

Shareholders are welcome to attend.

## **Stock Transfer Agent and Registrar**

Inquiries regarding stock transfer, registration, lost certificates or changes in name and address should be directed to the transfer agent and registrar:

Computershare  
P.O. Box 30170  
College Station, TX 77842-3170  
(800) 962-4284  
<http://www.Computershare.com/investor>

## **GREAT AMERICAN BANCORP, INC. DIRECTORS AND EXECUTIVE OFFICERS**

### **Great American Bancorp, Inc. Directors and Executive Officers**

**Ronald E. Guenther**, Chairman of the Board of the Company  
Consultant, Big 10 Conference

**John Z. Hecker**, Director  
Partner, Stipes Publishing, LLC, book publishing.

**Ronald L. Kiddoo**, Director  
Chairman of the Board and Chief Investment Officer, Cozad Asset Management, Inc., an investment advisory concern.

**George R. Rouse**, Director  
President and Chief Executive Officer of the Company

**Jack B. Troxell**, Director  
Realtor with Keller Williams Realty

**Jane F. Adams**  
Chief Financial Officer, Secretary and Treasurer of the Company

### **First Federal Savings Bank Directors and Executive Officers**

**Jack B. Troxell**, Director and Chairman of the Board of the Bank\*  
Realtor with Keller Williams Realty

**Ronald E. Guenther**, Director\*  
Consultant, Big 10 Conference

**John Z. Hecker**, Director  
Partner, Stipes Publishing, LLC, book publishing.

**Ronald L. Kiddoo**, Director\*  
Chairman of the Board and Chief Investment Officer, Cozad Asset Management, Inc., an investment advisory concern.

**Michael J. Martin**, Director  
Director of Residential Development, T.A.G. Residential, Inc. and Vice President of T.A.G. Ashland Park, both real estate development concerns.

**George R. Rouse**, Director\*  
President and Chief Executive Officer of the Bank

## **First Federal Savings Bank Directors and Executive Officers, Continued**

***Tyler R. Rouse***, Director

Executive Vice President - Administration of the Bank

***Jane F. Adams***

Senior Vice President - Finance, Secretary-Treasurer of the Bank

***Ata M. Durukan***

Senior Vice President - Human Resources and Marketing of the Bank

***Jason C. Eyman***

Senior Vice President - Lending of the Bank

***Mark D. Piper***

Senior Vice President - Operations of the Bank

***Melinda K. Piper***

Senior Vice President - Deposit Acquisitions of the Bank

***Paul D. Wilson***

Senior Vice President - Lending of the Bank

***Larry Grill***

Registered Representative

Securities America, Inc.

Member FINRA/SIPC

## **Park Avenue Service Corporation Officers**

***George R. Rouse***

President

***Jane F. Adams***

Secretary and Treasurer

## **GTPS Insurance Agency Officers**

***Patrick L. Rouse\****

President

***Gerald Cox***

Senior Vice President

\* Also Director of Park Avenue Service Corporation.