



**Great American  
Bancorp, Inc.**

**Annual Report**

**2016**

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CliftonLarsonAllen LLP  
301 SW Adams Street, Suite 1000  
Peoria, IL 61602  
309-671-4500 | fax 309-671-4508  
CLAconnect.com

## 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, 2016 and 2015, 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, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'CliftonLarsonAllen LLP'.

**CliftonLarsonAllen LLP**

Peoria, Illinois  
March 1, 2017

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Balance Sheets**  
**December 31, 2016 and 2015**

(in thousands, except share data)

	<u>2016</u>	<u>2015</u>
<i>Assets</i>		
Cash and due from banks	\$ 6,007	\$ 4,429
Interest-bearing demand deposits	<u>59,689</u>	<u>68,905</u>
Cash and cash equivalents	65,696	73,334
Securities available for sale	168	226
Securities held to maturity (fair value \$20 in 2016 and \$25 in 2015)	20	24
Federal Home Loan Bank stock, at cost	704	704
Loans held for sale	326	330
Loans, net of allowance for loan losses of \$946 in 2016 and \$1,037 in 2015	105,347	98,669
Premises and equipment, net	4,527	4,608
Goodwill	485	485
Other real estate owned	1,140	1,526
Other assets	<u>2,185</u>	<u>2,178</u>
Total assets	<u>\$ 180,598</u>	<u>\$ 182,084</u>
<i>Liabilities and Stockholders' Equity</i>		
<i>Liabilities</i>		
<i>Deposits</i>		
Noninterest-bearing	\$ 29,541	\$ 26,702
Interest-bearing	<u>130,427</u>	<u>130,964</u>
Total deposits	159,968	157,666
Federal Home Loan Bank advances	--	4,000
Advances from borrowers for taxes and insurance	273	265
Other liabilities	<u>3,022</u>	<u>2,996</u>
Total liabilities	<u>163,263</u>	<u>164,927</u>
<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	31,479	31,059
Accumulated other comprehensive income	182	288
Common stock in treasury, at cost (2016 – 556,323 shares; 2015 – 550,773 shares)	<u>(17,646)</u>	<u>(17,510)</u>
Total stockholders' equity	<u>17,335</u>	<u>17,157</u>
Total liabilities and stockholders' equity	<u>\$ 180,598</u>	<u>\$ 182,084</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, 2016 and 2015**

(in thousands, except share data)

	<u>2016</u>	<u>2015</u>
Interest and Dividend Income		
Loans	\$ 4,918	\$ 5,083
Securities	6	8
Dividends on Federal Home Loan Bank stock	8	4
Deposits with financial institutions and other	337	158
Total interest and dividend income	<u>5,269</u>	<u>5,253</u>
Interest Expense		
Deposits	146	157
Federal Home Loan Bank advances	175	210
Other	4	4
Total interest expense	<u>325</u>	<u>371</u>
Net Interest Income	4,944	4,882
Provision (Credit) for Loan Losses	(82)	4
Net Interest Income After Provision (Credit) for Loan Losses	<u>5,026</u>	<u>4,878</u>
Noninterest Income		
Insurance sales commissions	1,446	1,563
Customer service fees	663	618
Other service charges and fees	341	344
Net gain on sales of loans	465	291
Loan servicing fees, net of amortization of mortgage servicing rights	125	117
Other	208	136
Total noninterest income	<u>3,248</u>	<u>3,069</u>
Noninterest Expense		
Salaries and employee benefits	3,981	4,230
Occupancy expense	576	563
Equipment expense	808	682
Professional fees	254	230
Marketing expense	212	206
Printing and office supplies	220	258
Directors and committee fees	160	160
Other real estate owned expense, net	159	(41)
FDIC deposit insurance expense	93	115
Other	658	619
Total noninterest expense	<u>7,121</u>	<u>7,022</u>
Income Before Income Taxes	1,153	925
Income tax expense	484	394
Net Income	<u>\$ 669</u>	<u>\$ 531</u>
Earnings per share, basic	<u>\$ 1.50</u>	<u>\$ 1.15</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, 2016 and 2015**

(in thousands)

	<u>2016</u>	<u>2015</u>
Net income	\$ 669	\$ 531
Other comprehensive income (loss), before tax:		
Unrealized holding gain (loss) on securities available for sale arising during the period	1	--
Net change in postretirement obligation arising during the period	<u>(178)</u>	1,562
Other comprehensive income (loss), before tax	<u>(177)</u>	1,562
Income tax (benefit) expense related to items of other comprehensive loss:		
Unrealized holding gain (loss) on securities available for sale arising during the period	--	--
Net change in postretirement obligation arising during the period	<u>71</u>	(629)
Total income tax benefit (expense) related to items of other comprehensive income (loss)	<u>71</u>	(629)
Other comprehensive income (loss)	<u>(106)</u>	933
Comprehensive income	<u>\$ 563</u>	<u>\$ 1,464</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, 2016 and 2015**

(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 Income (Loss)</i>	<i>Treasury Stock</i>	<i>Total</i>
Balance, December 31, 2014	470,190	\$ 10	\$ 3,310	\$ 30,786	\$ (645)	\$ (17,004)	\$ 16,457
Net income	--	--	--	531	--	--	531
Other comprehensive income	--	--	--	--	933	--	933
Cash dividends declared (\$0.56 per share)	--	--	--	(258)	--	--	(258)
Purchase of treasury stock	(20,963)	--	--	--	--	(506)	(506)
Balance, December 31, 2015	449,227	\$ 10	\$ 3,310	\$ 31,059	\$ 288	\$ (17,510)	\$ 17,157
Net income	--	--	--	669	--	--	669
Other comprehensive loss	--	--	--	--	(106)	--	(106)
Cash dividends declared (\$0.56 per share)	--	--	--	(249)	--	--	(249)
Purchase of treasury stock	(5,550)	--	--	--	--	(136)	(136)
<b>Balance, December 31, 2016</b>	<b>443,677</b>	<b>\$ 10</b>	<b>\$ 3,310</b>	<b>\$ 31,479</b>	<b>\$ 182</b>	<b>\$ (17,646)</b>	<b>\$ 17,335</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, 2016 and 2015**  
(in thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income	\$ 669	\$ 531
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	(82)	4
Depreciation	382	350
Net amortization of securities	1	1
Amortization of deferred loan fees (costs), net	(51)	(41)
Amortization of mortgage servicing rights	83	94
Deferred income tax (benefit) expense	81	(16)
Realized gain on sales of loans	(465)	(291)
Loans originated for sale	(22,342)	(12,378)
Proceeds from loan sales	22,621	12,218
Increase in fair value of foreclosed assets at acquisition date	--	(70)
Decrease in fair value of foreclosed assets subsequent to acquisition date	92	--
Net gain on sales of other real estate owned properties	(32)	(114)
Net loss on sales of premises and equipment	--	18
Changes in:		
Other assets	89	191
Other liabilities	(150)	446
Net cash provided by operating activities	<u>896</u>	<u>943</u>
Cash flows from investing activities:		
Principal payments received on mortgage-backed securities available for sale	58	110
Principal payments received on mortgage-backed securities held to maturity	4	6
Loan originations and principal collections, net	(6,766)	2,420
Proceeds from sales of other real estate owned properties	547	305
Purchase of premises and equipment	(301)	(253)
Net cash provided by (used in) investing activities	<u>(6,458)</u>	<u>2,588</u>
Cash flows from financing activities:		
Net increase in demand deposits, money market, and savings accounts	4,642	7,530
Net decrease in certificates of deposit	(2,340)	(1,822)
Repayment of Federal Home Loan Bank advances	(4,000)	--
Purchase of treasury stock	(136)	(506)
Dividends paid	(250)	(260)
Net increase in advances from borrowers for taxes and insurance	8	90
Net cash provided by (used in) financing activities	<u>(2,076)</u>	<u>5,032</u>
Increase (Decrease) in Cash and Cash Equivalents	(7,638)	8,563
Cash and Cash Equivalents, Beginning of Year	73,334	64,771
Cash and Cash Equivalents, End of Year	<u>\$ 65,696</u>	<u>\$ 73,334</u>
Supplemental noncash and cash flows information		
Other real estate acquired in settlement of loans	\$ 670	\$ 800
Loans originated to finance sale of real estate acquired in settlement of loan	\$ 449	\$ --
Cash payments for:		
Interest paid on deposits and borrowed funds	\$ 343	\$ 371
Income taxes paid	\$ 314	\$ 550
Supplemental schedule of non-cash financing activities		
Dividends payable	\$ 62	\$ 63

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, 2016 and 2015**

(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. 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 a Federal Home Loan Bank. 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 the first quarter of 2016, the Company reduced the non-performing and problem loan asset levels and trends qualitative factor from 20 basis points to 15 basis points due to declines in the Company's loan delinquency ratios and total classified loans. Also in the first quarter of 2016, the Company lowered the external factors qualitative factor from 20 basis points to 15 basis points due to the recent stabilization of both the regulatory and competitive environments.

During 2015, the Company made no adjustments to qualitative factors.

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 noninterest 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 as an offset to noninterest income.

#### *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. The amount of residential real estate included in other real estate owned totaled \$1,140,000 at December 31, 2016 and \$1,526,000 at December 31, 2015. Consumer mortgage loans secured by residential properties that were in the process of foreclosure totaled \$249,000 at December 31, 2016 and \$115,000 at December 31, 2015.

### *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 9, 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 2016 or 2015.

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, 2013.

#### *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,	
	2016	2015
Net income applicable to common stock	\$ <b>669</b>	\$ 531
Average number of common shares outstanding	<b>446,647</b>	461,934

### *Reclassifications*

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 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.

### *Subsequent Events*

The Company has evaluated subsequent events through March 1, 2017, the date on which the financial statements were available to be issued.

### *New Accounting Pronouncements*

In June 2016, the FASB approved ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Company for the fiscal year beginning after December 15, 2020, and including interim periods within those fiscal years. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Company is currently evaluating the impact of ASU 2016-13 on the consolidated financial statements.

### **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, 2016 and 2015, the reserve balance amounted to \$1,580,000 and \$1,391,000, respectively.

### Note 3: Securities

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

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
Residential mortgage-backed - agency	\$ 169	\$ --	\$ 1	\$ 168
Securities held to maturity:				
Debt securities:				
Residential mortgage-backed - agency	\$ 20	\$ --	\$ --	\$ 20
	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
Residential mortgage-backed - agency	\$ 228	\$ --	\$ 2	\$ 226
Securities held to maturity:				
Debt securities:				
Residential mortgage-backed - agency	\$ 24	\$ 1	\$ --	\$ 25

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, 2016.

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.

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in continuous loss position, follows:

		December 31, 2016					
		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		\$ --	\$ --	\$ 1	\$ 168	\$ 1	\$ 168
		December 31, 2015					
		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	\$ 226	\$ 2	\$ 226

At December 31, 2016, 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, 2016 and 2015:

	<u>December 31,</u> <u>2016</u>	<u>% of Total</u> <u>Loans</u>	<u>December 31,</u> <u>2015</u>	<u>% of Total</u> <u>Loans</u>
First mortgage loans				
Residential 1-4 family				
Owner-occupied	\$ 23,417	22.0%	\$ 21,292	21.4%
Non-owner-occupied	24,092	22.7	26,780	26.9
Secured by other properties	37,902	35.7	29,749	29.8
Construction loans	2,278	2.1	529	0.5
Total first mortgage loans	<u>87,689</u>	<u>82.5</u>	<u>78,350</u>	<u>78.6</u>
Commercial	8,934	8.4	12,513	12.6
Consumer	9,641	9.1	8,812	8.8
Total loans	<u>106,264</u>	<u>100.0%</u>	<u>99,675</u>	<u>100.0%</u>
Less:				
Allowance for loan losses	(946)		(1,037)	
Net deferred loan costs	29		31	
Net loans	<u>\$ 105,347</u>		<u>\$ 98,669</u>	

The following tables present the contractual aging of the recorded investment in past due loans by class of loans as of December 31, 2016 and 2015:

December 31, 2016						
	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	\$ 23,330	\$ 87	\$ --	\$ --	\$ 87	\$ 23,417
Non-owner-occupied	23,904	128	--	60	188	24,092
Secured by other properties	37,902	--	--	--	--	37,902
Construction loans	2,278	--	--	--	--	2,278
Total first mortgage loans	87,414	215	--	60	275	87,689
Commercial	8,645	285	4	--	289	8,934
Consumer	9,415	12	6	208	226	9,641
Total loans	<u>\$105,474</u>	<u>\$ 512</u>	<u>\$ 10</u>	<u>\$ 268</u>	<u>\$ 790</u>	<u>\$106,264</u>

  

December 31, 2015						
	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	\$ 21,187	\$ 28	\$ 77	\$ --	\$ 105	\$ 21,292
Non-owner-occupied	26,002	60	718	--	778	26,780
Secured by other properties	29,749	--	--	--	--	29,749
Construction loans	529	--	--	--	--	529
Total first mortgage loans	77,467	88	795	--	883	78,350
Commercial	12,359	95	--	59	154	12,513
Consumer	8,201	277	219	115	611	8,812
Total loans	<u>\$ 98,027</u>	<u>\$ 460</u>	<u>\$ 1,014</u>	<u>\$ 174</u>	<u>\$ 1,648</u>	<u>\$ 99,675</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, 2016 and 2015:

December 31, 2016			
	<u>Performing</u>	<u>Non-performing</u>	<u>Total</u>
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 23,417	\$ --	\$ 23,417
Non-owner-occupied	23,814	278	24,092
Secured by other properties	37,902	--	37,902
Construction loans	<u>2,278</u>	<u>--</u>	<u>2,278</u>
Total first mortgage loans	87,411	278	87,689
Commercial	8,934	--	8,934
Consumer	<u>9,433</u>	<u>208</u>	<u>9,641</u>
Total loans	<u>\$ 105,778</u>	<u>\$ 486</u>	<u>\$ 106,264</u>

December 31, 2015			
	<u>Performing</u>	<u>Non-performing</u>	<u>Total</u>
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 21,292	\$ --	\$ 21,292
Non-owner-occupied	26,062	718	26,780
Secured by other properties	29,749	--	29,749
Construction loans	<u>529</u>	<u>--</u>	<u>529</u>
Total first mortgage loans	77,632	718	78,350
Commercial	12,372	141	12,513
Consumer	<u>8,697</u>	<u>115</u>	<u>8,812</u>
Total loans	<u>\$ 98,701</u>	<u>\$ 974</u>	<u>\$ 99,675</u>



The following tables present the recorded investment in non-accrual loans by class of loans as of December 31, 2016 and 2015:

	December 31, 2016	
	<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	278	--
Secured by other properties	--	--
Construction loans	<u>--</u>	<u>--</u>
Total first mortgage loans	278	--
Commercial	--	--
Consumer	45	163
Total loans	<u><u>\$ 323</u></u>	<u><u>\$ 163</u></u>

	December 31, 2015	
	<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	718	--
Secured by other properties	--	--
Construction loans	<u>--</u>	<u>--</u>
Total first mortgage loans	718	--
Commercial	141	--
Consumer	96	19
Total loans	<u><u>\$ 955</u></u>	<u><u>\$ 19</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 \$417,000 or greater for 2016 and \$250,000 or greater for 2015 determined 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, 2016 and 2015:

December 31, 2016

	Pass	Special Mention	Sub- standard	Doubtful	Not Rated	Total
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 3,736	\$ 103	\$ --	\$ --	\$ 19,578	\$ 23,417
Non-owner-occupied	19,325	333	697	--	3,737	24,092
Secured by other properties	35,602	1,791	92	--	417	37,902
Construction loans	2,278	--	--	--	--	2,278
Total first mortgage loans	60,941	2,227	789	--	23,732	87,689
Commercial	7,842	200	302	--	590	8,934
Consumer	1,275	513	45	--	7,808	9,641
Total loans	<u>\$ 70,058</u>	<u>\$ 2,940</u>	<u>\$ 1,136</u>	<u>\$ --</u>	<u>\$ 32,130</u>	<u>\$106,264</u>

December 31, 2015

	Pass	Special Mention	Sub- standard	Doubtful	Not Rated	Total
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 2,959	\$ 104	\$ --	\$ --	\$ 18,229	\$ 21,292
Non-owner-occupied	21,634	64	1,143	--	3,939	26,780
Secured by other properties	29,110	--	95	--	544	29,749
Construction loans	529	--	--	--	--	529
Total first mortgage loans	54,232	168	1,238	--	22,712	78,350
Commercial	11,182	433	331	3	564	12,513
Consumer	1,602	154	96	--	6,960	8,812
Total loans	<u>\$ 67,016</u>	<u>\$ 755</u>	<u>\$ 1,665</u>	<u>\$ 3</u>	<u>\$ 30,236</u>	<u>\$ 99,675</u>

Activity in the allowance for loan losses for the years ended December 31, 2016 and December 31, 2015 was as follows:

December 31, 2016					
	Beginning Balance	Charge- offs	Recoveries	Provisions	Ending Balance
First mortgage loans					
Residential 1-4 family					
Owner-occupied	\$ 190	\$ --	\$ --	\$ 1	\$ 191
Non-owner-occupied	270	(11)	--	(31)	228
Secured by other properties	269	--	--	27	296
Construction loans	7	--	--	12	19
Total first mortgage loans	736	(11)	--	9	734
Commercial	221	(8)	10	(96)	127
Consumer	80	(1)	1	5	85
Total loans	<u>\$ 1,037</u>	<u>\$ (20)</u>	<u>\$ 11</u>	<u>\$ (82)</u>	<u>\$ 946</u>

December 31, 2015					
	Beginning Balance	Charge- offs	Recoveries	Provisions	Ending Balance
First mortgage loans					
Residential 1-4 family					
Owner-occupied	\$ 169	\$ (3)	\$ --	\$ 24	\$ 190
Non-owner-occupied	277	--	--	(7)	270
Secured by other properties	357	(16)	--	(72)	269
Construction loans	13	--	--	(6)	7
Total first mortgage loans	816	(19)	--	(61)	736
Commercial	303	(190)	11	97	221
Consumer	112	(1)	1	(32)	80
Total loans	<u>\$ 1,231</u>	<u>\$ (210)</u>	<u>\$ 12</u>	<u>\$ 4</u>	<u>\$ 1,037</u>

The following table presents ending balances for the allowance for loan losses and loans based on impairment method as of December 31, 2016:

	December 31, 2016		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Balance
Allowance for loan losses:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ 191	\$ 191
Non-owner-occupied	12	216	228
Secured by other properties	--	296	296
Construction loans	<u>--</u>	<u>19</u>	<u>19</u>
Total first mortgage loans	12	722	734
Commercial	--	127	127
Consumer	11	74	85
Total loans	<u>\$ 23</u>	<u>\$ 923</u>	<u>\$ 946</u>
Loans:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ 23,417	\$ 23,417
Non-owner-occupied	697	23,395	24,092
Secured by other properties	92	37,810	37,902
Construction loans	<u>--</u>	<u>2,278</u>	<u>2,278</u>
Total first mortgage loans	789	86,900	87,689
Commercial	420	8,514	8,934
Consumer	208	9,433	9,641
Total loans	<u>\$ 1,417</u>	<u>\$ 104,847</u>	<u>\$ 106,264</u>

The following table presents ending balances for the allowance for loan losses and loans based on impairment method as of December 31, 2015:

	December 31, 2015		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Balance
Allowance for loan losses:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ 190	\$ 190
Non-owner-occupied	10	260	270
Secured by other properties	--	269	269
Construction loans	--	7	7
Total first mortgage loans	10	726	736
Commercial	12	209	221
Consumer	1	79	80
Total loans	<u>\$ 23</u>	<u>\$ 1,014</u>	<u>\$ 1,037</u>
Loans:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ 21,292	\$ 21,292
Non-owner-occupied	1,143	25,637	26,780
Secured by other properties	95	29,654	29,749
Construction loans	--	529	529
Total first mortgage loans	1,238	77,112	78,350
Commercial	458	12,055	12,513
Consumer	175	8,637	8,812
Total loans	<u>\$ 1,871</u>	<u>\$ 97,804</u>	<u>\$ 99,675</u>

The following table presents information about loans individually evaluated for impairment as of December 31, 2016:

	December 31, 2016		
	<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	638	637	--
Secured by other properties	92	92	--
Construction loans	--	--	--
Total first mortgage loans	<u>730</u>	<u>729</u>	<u>--</u>
Commercial	421	420	--
Consumer	192	178	--
Total loans	<u>\$ 1,343</u>	<u>\$ 1,327</u>	<u>\$ --</u>
With an allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ --	\$ --
Non-owner-occupied	62	60	12
Secured by other properties	--	--	--
Construction loans	--	--	--
Total first mortgage loans	<u>62</u>	<u>60</u>	<u>12</u>
Commercial	--	--	--
Consumer	30	30	11
Total loans	<u>\$ 92</u>	<u>\$ 90</u>	<u>\$ 23</u>

The following table presents information about loans individually evaluated for impairment as of December 31, 2015:

	December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ --	\$ --
Non-owner-occupied	426	425	--
Secured by other properties	95	95	--
Construction loans	--	--	--
Total first mortgage loans	521	520	--
Commercial	392	390	--
Consumer	82	79	--
Total loans	\$ 995	\$ 989	\$ --
With an allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ --	\$ --	\$ --
Non-owner-occupied	727	718	10
Secured by other properties	--	--	--
Construction loans	--	--	--
Total first mortgage loans	727	718	10
Commercial	68	68	12
Consumer	96	96	1
Total loans	\$ 891	\$ 882	\$ 23



The following is a summary of additional information pertaining to loans individually evaluated for impairment during the years ended December 31, 2016 and 2015:

	December 31, 2016		
	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	\$ --	\$ --	\$ --
Non-owner-occupied	1,087	24	--
Secured by other properties	93	5	--
Construction loans	--	--	--
Total first mortgage loans	1,180	29	--
Commercial	501	28	8
Consumer	222	10	--
Total loans	<u>\$ 1,903</u>	<u>\$ 67</u>	<u>\$ 8</u>

	December 31, 2015		
	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	\$ 105	\$ 7	\$ --
Non-owner-occupied	559	24	--
Secured by other properties	706	34	--
Construction loans	112	--	--
Total first mortgage loans	1,482	65	--
Commercial	837	17	--
Consumer	38	1	--
Total loans	<u>\$ 2,357</u>	<u>\$ 83</u>	<u>\$ --</u>

Impaired loans as of December 31, 2016 and 2015 included one consumer secured loan totaling \$68,000 at December 31, 2016 and \$75,000 at December 31, 2015 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 not in default of the modified terms as of December 31, 2016, but was in default of the modified terms as of December 31, 2015. Impaired loans at December 31, 2016 and December 31, 2015 also included one consumer loan totaling \$50,000 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, 2016 or December 31, 2015.

**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 \$87,655,000 and \$81,384,000 at December 31, 2016 and 2015, respectively.

The aggregate carrying value of capitalized mortgage servicing rights approximated fair value at December 31, 2016 and 2015 and totaled \$660,000 and \$553,000, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$302,000 and \$176,000 at December 31, 2016 and 2015, respectively.

**Note 6: Premises and Equipment**

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

	December 31,	
	2016	2015
Land	\$ 1,545	\$ 1,545
Buildings and improvements	5,973	5,973
Equipment	4,473	4,251
	11,991	11,769
Accumulated depreciation	(7,464)	(7,161)
Net premises and equipment	\$ 4,527	\$ 4,608

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to \$382,000 and \$350,000, respectively.

**Note 7: Deposits**

Time deposits in denominations of \$250,000 or more were \$1,175,000 on December 31, 2016 and \$922,000 on December 31, 2015.

At December 31, 2016, the scheduled maturities of time deposits are as follows:

2017	\$	16,353
2018		3,341
2019		1,185
2020		802
2021		11
Thereafter		--
Total	\$	<u>21,692</u>

**Note 8: Federal Home Loan Bank Advances**

Federal Home Loan Bank advances at December 31, 2015 were comprised of one \$4,000,000 advance at a fixed rate of 5.17% which matured in October 2016. There were no Federal Home Loan Bank advances outstanding at December 31, 2016. Federal Home Loan Bank advances were secured by mortgage loans totaling \$45,013,000 at December 31, 2015. Advances are subject to restrictions or penalties in the event of prepayment.

## Note 9: Income Taxes

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

	Years Ended December 31,	
	2016	2015
Current tax provision:		
Federal	\$ 326	\$ 328
State	77	82
	<u>403</u>	<u>410</u>
Deferred tax expense (benefit):		
Federal	62	(12)
State	19	(4)
	<u>81</u>	<u>(16)</u>
Income tax expense	<u>\$ 484</u>	<u>\$ 394</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,	
	2016	2015
Computed at the statutory rate (34%)	\$ 392	\$ 315
Increase resulting from		
State income taxes	63	52
Other	29	27
Actual tax expense	<u>\$ 484</u>	<u>\$ 394</u>

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

	December 31,	
	2016	2015
Deferred tax assets		
Allowance for loan losses	\$ 381	\$ 418
Deferred compensation	368	353
Postretirement benefit obligation	658	621
Reductions in recorded balance of other real estate owned properties due to decline in estimated values	38	3
Reserve for loss on unfunded commitments	15	15
Reserve for losses on debit card transactions	9	11
Reserve for losses on overdraft program	4	2
Interest on nonaccrual loans	9	15
Deferred insurance agency commissions	2	1
Unrealized losses on securities available for sale	1	1
Other	3	1
	<u>1,488</u>	<u>1,441</u>
Deferred tax liabilities		
Federal Home Loan Bank stock	(82)	(82)
Depreciation	(414)	(406)
Mortgage servicing rights	(266)	(223)
Prepaid expenses	(51)	(45)
Deferred loan costs	(12)	(12)
	<u>(825)</u>	<u>(768)</u>
Net deferred tax asset	<u>\$ 663</u>	<u>\$ 673</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 10: 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, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2016	2015
Commitments to grant loans	\$ 633	\$ 2,385
Unfunded commitments under lines of credit	9,963	7,812
Standby letters of credit	10	--

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 \$633,000 and \$2,385,000 at December 31, 2016 and 2015, 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. Total mortgage loans held for sale amounted to \$326,000 and \$330,000 at December 31, 2016 and December 31, 2015, respectively.

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 \$4,462,000 and \$1,594,000 at December 31, 2016 and 2015, 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, 2016 or December 31, 2015.

#### *Other Credit Risks*

The Company has a concentration of funds on deposit with the Federal Reserve Bank totaling \$51,610,000 and \$59,199,000 at December 31, 2016 and 2015, respectively. The Company also has a concentration of funds on deposit with the Federal Home Loan Bank totaling \$8,999,000 and \$10,204,000 at December 31, 2016 and 2015, respectively.

#### **Note 11: 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 12: 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 common equity Tier 1 capital, 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, 2016 and 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, 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 common equity Tier 1 capital, 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, 2016 and 2015 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, 2016:</b>						
Common Equity Tier 1 Capital to Risk Weighted Assets (CET1)	\$ 16,200	18.3%	\$ 3,995	4.5%	\$ 5,771	6.5%
Tier 1 Capital to Risk Weighted Assets	16,200	18.3	5,327	6.0	7,102	8.0
Total Capital to Risk Weighted Assets	17,184	19.4	7,102	8.0	8,878	10.0
Tier 1 Capital to Average Assets	16,200	9.1	7,150	4.0	8,937	5.0

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2015:</b>						
Common Equity Tier 1 Capital to Risk Weighted Assets (CET1)	\$ 15,901	19.5%	\$ 3,677	4.5%	\$ 5,311	6.5%
Tier 1 Capital to Risk Weighted Assets	15,901	19.5	4,903	6.0	6,537	8.0
Total Capital to Risk Weighted Assets	16,923	20.7	6,537	8.0	8,171	10.0
Tier 1 Capital to Average Assets	15,901	9.1	6,999	4.0	8,749	5.0

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2016, the Bank had \$322,000 in retained earnings available for dividend declaration without prior regulatory approval.



### Note 13: Employee Benefit Plans

#### *401(k) Plan*

The Company adopted a new 401(k) Plan, effective January 1, 2016 which covers substantially all Company employees. The plan qualifies under Section 401(a) of the Internal Revenue Code and allows employees to contribute up to 75% of their salary on a pretax or after tax basis. The Company then contributes an amount equal to 3% of each eligible participant's salary, even if an employee elects not to defer any of their own salary into the plan ("safe harbor contribution"). The Company can also elect to contribute discretionary amounts at any time. Each participant may 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. The Company's expense for the plan was \$90,000 for the year ended December 31, 2016.

#### *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, 2016 and 2015 was \$4,000 for each year. The deferred compensation liability, which is included in other liabilities, was \$913,000 at December 31, 2016 and \$875,000 at December 31, 2015.

### Note 14: Postretirement Plan

The Company has an unfunded noncontributory defined benefit postretirement health and dental 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. In 2015, the Company significantly changed the plan provisions by implementing a cap on the amount the Company will contribute to health and dental care premiums on behalf of retirees. In 2016, the Company added dental care as a benefit under the plan.

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

	<u>2016</u>	<u>2015</u>
Change in projected benefit obligation		
Beginning of year	\$ 1,543	\$ 2,820
Service cost	49	139
Interest cost	65	119
Actuarial (gain) loss	(81)	65
Benefits paid (included in salaries and benefits)	(37)	(26)
Amend prior service cost for change in plan provisions	96	(1,574)
	<u>1,635</u>	<u>1,543</u>
End of year	\$ 1,635	\$ 1,543

	<u>2016</u>	<u>2015</u>
At December 31,		
Fair value of plan assets	\$ --	\$ --
Benefit obligation	<u>(1,635)</u>	<u>(1,543)</u>
Funded status at end of year	<u>\$ (1,635)</u>	<u>\$ (1,543)</u>

	<u>2016</u>	<u>2015</u>
Amounts recognized on balance sheet consist of:		
Accrued liability (included in other liabilities)	\$ (1,635)	\$ (1,543)
Unrecognized net actuarial (gain) loss, net of tax (included in accumulated other comprehensive income (loss))	\$ (182)	\$ (289)

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

	<u>2016</u>	<u>2015</u>
Discount rate	4.25%	4.25%
Health care trend rates:		
Medical trend rate	9.00%	9.00%
Ultimate medical trend rate	5.00%	5.00%
Dental care trend rates:		
Medical trend rate	4.00%	--
Ultimate medical trend rate	3.00%	--

	<u>2016</u>	<u>2015</u>
Components of net periodic benefit cost		
Service cost	\$ 49	\$ 139
Interest cost	65	119
Amortization of prior service cost	(225)	--
Amortization of net loss	<u>62</u>	<u>53</u>
Net periodic benefit (income) cost (included in salaries and benefits)	<u>\$ (49)</u>	<u>\$ 311</u>

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed to be 9.00% for 2016 and 2015. The rate was assumed to decrease gradually to 5.00% by the year 2025 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. 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	\$ (108)	\$ 226
Effect on postretirement benefit obligation	1,017	195

At December 31, 2016, the projected benefits to be paid are as follows:

2017	\$ 53
2018	52
2019	55
2020	56
2021	58
2022-2026	355

For the year ended December 31, 2017, the projected net periodic benefit income is \$46,000.

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 because the Company is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

#### **Note 15: 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, 2016 and December 31, 2015 is as follows:

	<b>2016</b>	2015
Balance at beginning of year	\$ <u>893</u>	\$ 1,074
New loans and advances	757	567
Repayments, including loans sold	<u>(302)</u>	(748)
Balance at end of year	<u><u>\$ 1,348</u></u>	<u><u>\$ 893</u></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, 2016 and December 31, 2015 totaled \$1,573,000 and \$1,632,000, respectively.

#### **Note 16: 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, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

December 31, 2016				
	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	\$ 168	\$ --	\$ 168	\$ --
December 31, 2015				
	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	\$ 226	\$ --	\$ 226	\$ --

### *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 and related impairment losses are included in the table below.

December 31, 2016					
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
Assets:					
Impaired loans	\$ 67	\$ --	\$ --	\$ 67	\$ 23
Other real estate owned	1,140	--	--	1,140	--

December 31, 2015					
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
Assets:					
Impaired loans	\$ 859	\$ --	\$ --	\$ 859	\$ 23
Other real estate owned	1,526	--	--	1,526	--

### *Unobservable (Level 3) Inputs*

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

December 31, 2016				
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets:				
Collateral-dependent impaired loans	\$ 67	Market comparable properties	Marketability discount	19% - 37% (25%)
Other real estate owned	\$ 1,140	Market comparable properties	Marketability discount	0% - 5% (0%)

  

December 31, 2015				
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets:				
Collateral-dependent impaired loans	\$ 859	Market comparable properties	Marketability discount	0% - 5% (2%)
Other real estate owned	\$ 1,526	Market comparable properties	Marketability discount	0% - 30% (4%)

### **Note 17: 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 16. 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, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 65,696	\$ 65,696	\$ 73,334	\$ 73,334
Securities available for sale	168	168	226	226
Securities held to maturity	20	20	24	25
Loans held for sale	326	326	330	330
Loans, net of allowance for loan losses	105,347	112,997	98,669	104,349
Federal Home Loan Bank stock	704	704	704	704
Interest receivable	328	328	342	342
Mortgage servicing rights	660	660	553	553
<b>Financial liabilities</b>				
Deposits	159,968	159,975	157,666	157,676
Federal Home Loan Bank advances	--	--	4,000	4,140
Advances from borrowers for taxes and insurance	273	273	265	265
Interest payable	1	1	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, Federal Home Loan Bank Stock, and Accrued Interest* -- 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.

*Mortgage servicing rights* – The carrying amount approximates 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 18: Accumulated Other Comprehensive Income (Loss)**

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

	2016		
	Unrealized Losses on Available For Sale Securities	Unrecognized Post- Retirement Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balances, January 1	\$ (1)	\$ 289	\$ 288
Current year other comprehensive income (loss), before tax	1	(178)	(177)
Income tax (expense) benefit	--	71	71
Current year other comprehensive income (loss), net of tax	1	(107)	106
Balances, December 31	<u>\$ --</u>	<u>\$ 182</u>	<u>\$ 182</u>

2015

	Unrealized Losses on Available For Sale Securities	Unrecognized Post- Retirement Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balances, January 1	\$ (1)	\$ (644)	\$ (645)
Current year other comprehensive income (loss), before tax	--	1,562	1,562
Income tax (expense) benefit	--	(629)	(629)
Current year other comprehensive income (loss), net of tax	--	933	933
Balances, December 31	<u>\$ (1)</u>	<u>\$ 289</u>	<u>\$ 288</u>

## GREAT AMERICAN BANCORP, INC. SHAREHOLDER INFORMATION

### Stock Listing and Price Information

The Company's common stock is traded on OTC Pink<sup>®</sup>, under the symbol, "GTPS." At December 31, 2016, 443,677 shares of the Company's common stock were held of record by 154 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, 2016 and 2015:

<u>Quarter Ended:</u>	<u>High</u>	<u>Low</u>
March 31, 2015	27.00	22.25
June 30, 2015	25.75	23.00
September 30, 2015	25.00	22.00
December 31, 2015	23.50	22.05
March 31, 2016	23.50	22.50
June 30, 2016	24.00	22.68
September 30, 2016	25.00	22.85
December 31, 2016	32.99	23.50

At December 31, 2016 the closing price of a common share was \$27.15. This information was provided by the OTC Markets Group. Such prices do not necessarily reflect retail markups, markdowns, or commissions. During the years ended December 31, 2016 and 2015, the Company declared dividends as follows:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Amount</u>
February 9, 2015	March 13, 2015	April 1, 2015	.14
May 11, 2015	June 15, 2015	July 1, 2015	.14
August 10, 2015	September 15, 2015	October 1, 2015	.14
November 9, 2015	December 15, 2015	January 4, 2016	.14
February 8, 2016	March 15, 2016	April 1, 2016	.14
May 9, 2016	June 15, 2016	July 1, 2016	.14
August 15, 2016	September 15, 2016	October 3, 2016	.14
November 14, 2016	December 15, 2016	January 3, 2017	.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 LLP  
111 S. Wacker Drive, Suite 4100  
Chicago, IL 60606

## **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 25, 2017 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

***Elizabeth M. Reed***

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.