FIRST OTTAWA BANCSHARES, INC.
AND SUBSIDIARY
Ottawa, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

CliftonLarsonAllen

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INDEX

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INDEPENDENT AUDITORS' REPORT

Audit Committee
First Ottawa Bancshares, Inc. and Subsidiary
Ottawa, Illinois

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of First Ottawa Bancshares, 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, shareholders' equity, and cash flows for the years 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 of 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 First Ottawa Bancshares, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Peoria, Illinois
March 8, 2017

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015
(In thousands, except share and per share data)

	2016	2015
Assets		
Cash and due from banks	$ 2,907	$ 3,356
Interest-bearing deposits in financial institutions	4,245	3,597
Cash and cash equivalents	7,152	6,953
Interest-bearing time deposits with financial institutions	5,381	19,355
Securities available for sale, at fair value (amortized cost is $35,535 in 2016 and $48,575 in 2015)	35,654	49,369
Loans held for sale	39,089	40,453
Loans, net of allowance for loan losses of $2,751 in 2016 and $2,556 in 2015	172,133	148,481
Premises and equipment, net	5,667	6,374
Goodwill	2,446	2,446
Other real estate owned	2,849	3,292
Cash surrender value of life insurance	4,339	4,184
Accrued interest receivable and other assets	4,618	4,612
Total assets	$ 279,328	$ 285,519
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	$ 226,161	$ 238,277
Borrowings	19,500	15,271
Other liabilities	3,467	3,014
Total liabilities	249,128	256,562
Shareholders' Equity		
Preferred stock, $1 par value Authorized and unissued - 20,000 shares	-	-
Common stock, $1 par value, 1,000,000 shares authorized and 753,734 issued	754	754
Additional paid–in capital	4,870	4,909
Retained earnings	32,007	29,396
Treasury stock, at cost – 133,833 and 111,149 shares	(7,193)	(6,356)
Accumulated other comprehensive income (loss)	(238)	254
Total shareholders' equity	30,200	28,957
Total liabilities and shareholders' equity	$ 279,328	$ 285,519

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

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2016 and 2015
(In thousands, except share and per share data)

	2016	2015
Interest and Dividend Income		
Loans, including fees	$ 9,695	$ 8,684
Securities available for sale:		
Taxable	587	652
Exempt from federal tax	457	359
Interest–bearing deposits with financial institutions	165	339
Other	34	34
Total interest and dividend income	10,938	10,068
Interest Expense		
Deposits	239	305
Borrowings	26	60
Total interest expense	265	365
Net Interest Income	10,673	9,703
Provision for loan losses	5	60
Net Interest Income After Provision for Loan Losses	10,668	9,643
Noninterest Income		
Service fees	745	738
Trust and farm management fees	790	860
Net realized gains on sales of securities available for sale	101	143
Mortgage servicing income, net	1,101	700
Increase in cash value of life insurance, net	141	163
Other	246	377
Total noninterest income	3,124	2,981
Noninterest Expense		
Salaries and employee benefits	5,202	5,063
Occupancy and equipment	1,087	1,326
Data processing fees	634	598
Insurance	316	354
Professional fees	404	401
Other real estate owned, net	181	509
Supplies	93	88
Other	946	829
Total noninterest expense	8,863	9,168
Income Before Income Tax	4,929	3,456
Income tax expense	1,694	1,123
Net Income	$ 3,235	$ 2,333
Earnings Per Share – Basic	$ 5.15	$ 3.62
Earnings Per Share – Diluted	$ 5.15	$ 3.62
Average Shares Outstanding	627,812	644,480

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

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2016 and 2015
(In thousands)

	2016	2015
Net income	$ 3,235	$ 2,333
Other comprehensive income (loss):		
Unrealized losses on securities available for sale	(574)	(317)
Reclassification adjustment for net gains on sale of securities available for sale realized in net income	(101)	(143)
Income tax benefit relating to securities available for sale	231	156
Net gains (losses) relating to pension benefit liability	(74)	141
Income tax (expense) benefit relating to pension benefit liability	26	(48)
Total other comprehensive income (loss)	(492)	(211)
TOTAL COMPREHENSIVE INCOME	$ 2,743	$ 2,122

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

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2016 and 2015
(In thousands, except share and per share data)

	Common Stock	Additional Paid–in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances, December 31, 2014	$ 754	$ 4,965	$ 27,476	$ (6,397)	$ 465	$ 27,263
Net income	-	-	2,333	-	-	2,333
Other comprehensive income, net of tax	-	-	-	-	(211)	(211)
Cash dividends declared ($0.64 per share)	-	-	(413)	-	-	(413)
Treasury shares sold to ESOP (2,337 shares)	-	(56)	-	135	-	79
Treasury shares purchased (2,740 shares)	-	-	-	(94)	-	(94)
Balances, December 31, 2015	754	4,909	29,396	(6,356)	254	28,957
Net income	-	-	3,235	-	-	3,235
Other comprehensive loss, net of tax	-	-	-	-	(492)	(492)
Cash dividends declared ($1.00 per share)	-	-	(624)		-	(624)
Treasury shares sold to ESOP (2,076 shares)	-	(39)	-	118	-	79
Treasury shares purchased (24,760 shares)	-	-	-	(955)	-	(955)
Balances, December 31, 2016	$ 754	$ 4,870	$ 32,007	$ (7,193)	$ (238)	$ 30,200

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

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015
(In thousands)

	2016	2015
Operating Activities		
Net income	$ 3,235	$ 2,333
Items not requiring (providing) cash:		
Provision for loan losses	5	60
Premium amortization on securities available for sale, net	64	141
Depreciation	316	327
Loans originated for sale	(50,399)	(37,726)
Proceeds from sale of loans originated for sale	50,980	38,573
Gains on sales of securities, net	(101)	(143)
Gains on sales of loans held for sale	(1,101)	(700)
Gain on sale of premises and equipment	(55)	-
Writedowns and net loss on sales of other real estate owned	54	243
Writedowns and net loss on sales of premises and equipment	-	183
Net change in:		
Interest receivable and other assets	42	50
Interest payable and other liabilities	275	396
Net cash provided by operating activities	3,315	3,737
Investing Activities		
Purchases of securities available for sale	(1,350)	(14,312)
Proceeds from maturities, calls, and paydowns of securities available for sale	9,887	9,276
Proceeds from sales of securities available for sale	4,540	15,034
Purchases of interest-bearing time deposits	(750)	(750)
Proceeds from maturities of interest-bearing time deposits	14,724	17,279
Purchase of FHLB stock	(577)	(460)
Sale of FHLB stock	631	215
Purchase of loans for resale	(830,552)	(538,330)
Proceeds from sales of loans purchased for resale	832,436	518,368
Net change in loans	(23,736)	(20,098)
Proceeds from sales of other real estate owned	468	467
Capital improvements to other real estate owned	-	(76)
Proceeds from sale of premises and equipment	660	-
Net purchases of premises and equipment	214	(171)
Net cash provided by (used in) investing activities	6,167	(13,558)
Financing Activities		
Net change in deposits	(12,116)	9,503
Net change in FHLB advances	4,800	3,000
Dividends paid	(520)	(414)
Treasury shares purchased	(955)	(94)
Treasury shares sold to ESOP	79	79
Repayment of borrowings	(571)	(2,349)
Net cash provided by (used in) financing activities	(9,283)	9,725
Net Change in Cash and Cash Equivalents	199	(96)
Cash and Cash Equivalents, Beginning of Year	6,953	7,049
Cash and Cash Equivalents, End of Year	$ 7,152	$ 6,953
Additional Cash Flows Information		
Interest paid	$ 273	$ 377
Income tax paid	1,152	375
Transfers from loans to other real estate owned	79	1,636
Change in dividend payable	104	(1)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: First Ottawa Bancshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly–owned subsidiary, The First National Bank of Ottawa (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in LaSalle, Grundy, and surrounding counties in Illinois. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The consolidated financial statements include First Ottawa Bancshares, Inc. and the Bank, and the Bank's wholly owned subsidiary, First Ottawa Financial Corporation, together referred to as the Company. Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, the classification and valuation of securities, valuation of mortgage servicing rights, valuation of other real estate owned, valuation of goodwill, fair values of financial instruments, and certain key assumptions related to the defined benefit plan are particularly subject to change.

Significant Group Concentrations of Credit Risk: Most of the Company's activities are with customers located within LaSalle, Grundy, and surrounding counties in Illinois. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Commercial real estate, including commercial construction loans, represented 29.7% and 24.7% of the total portfolio at December 31, 2016 and 2015, respectively.

Cash and Cash Equivalents: As of December 31, 2016, the Company has deposits of approximately $1.04 million, $0.59 million and $2.72 million at Merchants and Manufacturers Bank, Northern Trust Bank and the Federal Reserve Bank, respectively, that are not fully insured by the FDIC. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold, all of which have original maturities of ninety days or less.

Interest-Bearing Time Deposits With Financial Institutions: Interest-bearing deposits with financial institutions are certificates of deposit carried at cost. See Note 2 for additional information.

Securities Available for Sale: Debt and equity securities are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses on securities available for sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Declines in the fair value of individual securities available for sale below their cost that are other than temporary result in writedowns of the individual securities to their fair value. The Company monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the intent of the Company to not sell the security or whether it is more likely than not that the Company will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in noninterest income.

Restricted Stock: The Bank, as a member of the Federal Home Loan Bank of Chicago (FHLB), is required to maintain an investment in the capital stock of the Federal Home Loan Bank. The Bank also maintains an investment in the capital stock of the Federal Reserve Bank of Chicago (FRB). For financial reporting purposes, such stock is carried at cost, which approximates fair value, based on the redemption provisions of each institution and reported as part of other assets on the consolidated balance sheets. Both cash and stock dividends are reported as income.

The Company owns $142,500 of FRB stock as of December 31, 2016 and 2015. The Company owns $891,000 and $945,000 of FHLB stock as of December 31, 2016 and 2015. Management performed an analysis and deemed the investments in restricted stock were not impaired at December 31, 2016 and 2015.

Derivatives: All derivative instruments are recorded at their fair values and the change in the fair value of a derivative is included in interest income. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in earnings as they occur.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. The Company has determined the application for the standard guidance on loan origination fees and direct loan origination costs does not have a material effect on its financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Interest income is accrued on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal 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 nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses: The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Company's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged off against the allowance when the Company determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The allowance consists of three primary components, general reserves, specific reserves related to impaired loans, and unallocated components. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent four years. The Company places more emphasis, or weight, on the more current quarters in the loss history period. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the original contractual interest rate, except that as a practical expedient, it may measure impairment based on an observable market price, or the fair value of the collateral if collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Under certain circumstances, the Company will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt.

The Company assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Company's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into six major categories, defined as follows:

Satisfactory: Loans classified as satisfactory are supported by financial statements that indicate average risk. The loans have exhibited two or more years of satisfactory repayment with a reasonable reduction of principal.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Satisfactory/Monitored: Loans classified as satisfactory/monitored are considered to be of acceptable credit quality so long as they are given the proper level of management supervision.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

Loss: Loans classified as Loss are considered uncollectible and charged off immediately.

The Company categorizes homogenous loans (residential and consumer) possessing similar risk and loss characteristics into performing or nonperforming categories based on relevant information about the ability of the borrowers to service their debt. Such ability is determined based on the borrower's current payment status. Performing loans are less than 90 days past due on payments owed to the Company. Nonperforming loans are loans greater than or equal to 90 days past due and still accruing interest, loans on nonaccrual, and/or loans considered to be troubled debt restructurings that are not performing under the modified terms of the loan agreement.

The Company maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial real estate, commercial non-real estate, construction and land development, agricultural, residential, and consumer with risk characteristics described as follows:

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial Non-Real Estate: Commercial non-real estate loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Construction and Land Development: Construction and land development loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agricultural: Agricultural loans generally possess a lower inherent risk of loss than commercial non-real estate or real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating agricultural businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are not closely correlated to the credit quality of these loans.

Residential: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulator reviews the adequacy of the allowance. The regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Off-Consolidated 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 arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment: Asset cost is reported net of accumulated depreciation. Buildings and related components are depreciated using the straight–line method with useful lives ranging from 7 to 39 years. Furniture, fixtures and equipment are depreciated using the straight–line method with useful lives ranging from 5 to 15 years. These assets are reviewed for impairment when events indicate that the carrying amount may not be recoverable. Maintenance and repairs are charged to expense and improvements are capitalized.

Impairment of Long-Lived Assets: The Company reviews 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.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Any writedowns based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values will occur in the near term and that such changes could materially affect the amounts reported in the Company's consolidated financial statements. Revenue and expenses from operations are included in net expenses from other real estate owned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgage Servicing Rights: Servicing rights are recognized as assets for the allocated value of servicing rights retained on loans sold and are classified with accrued interest receivable and other assets in the consolidated balance sheets. Servicing rights are expensed in proportion to and over the period of estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights using groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market–based assumptions. Any impairment of a grouping is reported as a valuation allowance. There was no such valuation allowance recorded at December 31, 2016 and 2015.

Goodwill: Goodwill represents the excess of the original cost over fair value of assets acquired and liabilities assumed and related acquisition costs. Goodwill is reviewed for impairment annually with any loss recognized through the income statement.

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key executives. These life insurance policies are recorded at their cash surrender value or the amount that can be realized, if lower.

Stock Options: The Company has a stock–based compensation plan, which is more fully described in Note 12. Grants under the Company's stock incentive plan are accounted for by applying the fair value method and the use of an option pricing model to estimate the value of the options granted. The stock options are granted with an exercise price equal to the market price at the date of grant. Resulting compensation expense relating to the stock options is measured and recorded based on the estimated value of the options. The value of options granted under this plan is charged to expense over the vesting period of the grants.

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.

With regards to uncertain tax matters, 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 during a tax audit based on the technical merit of the position. See Note 14 - Income Taxes for additional disclosures. When applicable, the Company recognizes both interest and penalties related to tax matters as a component of other operating expenses. The Company did not recognize any significant interest or penalties related to tax matters 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 2013.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share: Basic earnings per share is calculated based on the weighted-average common shares outstanding during the year. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to net income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options.

Fair Values of Financial Instruments: The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Company may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value. The Company has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Comprehensive Income: Comprehensive income includes both net income and other comprehensive income (loss). Other comprehensive income (loss) includes the changes in unrealized gains and losses on securities available for sale, and minimum pension liability, net of deferred income taxes.

Trust Department Assets: Property held for customers in fiduciary or agency capacities is not included in the accompanying consolidated balance sheets, as such items are not assets of the Bank.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Advertising Costs: Advertising costs are expensed as incurred.

Accounting for Certain Loans or Debt Securities Acquired in a Transfer: GAAP requires acquired loans to be initially recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. 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. GAAP limits the yield that may be accreted 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 may not be 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.

New Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board (FASB) approved Accounting Standards Update (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, including interim periods within this fiscal year. 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.

Subsequent Events: Management evaluated subsequent events through March 8, 2017, the date the consolidated financial statements were available to be issued.

(Table dollar amounts in thousands, except per share data)

NOTE 2 – INTEREST-BEARING TIME DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2016, the scheduled maturities of certificates of deposit held for investment are as follows:

Year ending December 31,	
2017	$ 4,631
2018	-
2019	-
2020	750
Total	$ 5,381

As of December 31, 2016 and 2015, certificates of deposit of $4,932,000 and $14,078,000, respectively, were pledged to secure trust and public deposits, and for other purposes as required or committed by law.

NOTE 3 – SECURITIES AVAILABLE FOR SALE

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016				
Federal agencies	$ 5,086	$ 28	$ (44)	$ 5,070
State and municipal	21,146	177	(220)	21,103
Mortgage–backed securities and collateralized mortgage obligations	205	1	(2)	204
Asset backed securities	9,093	194	(39)	9,248
Marketable equity securities	5	24	-	29
Total securities available for sale	$ 35,535	$ 424	$ (305)	$ 35,654

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Federal agencies	$ 14,847	$ 63	$ (55)	$ 14,855
State and municipal	22,053	666	(21)	22,698
Mortgage–backed securities and collateralized mortgage obligations	390	2	(3)	389
Asset backed securities	11,280	178	(43)	11,415
Marketable equity securities	5	7	-	12
Total securities available for sale	$ 48,575	$ 916	$ (122)	$ 49,369

As of December 31, 2016 and 2015, the Company had approximately $12,244,000 and $13,073,000, respectively, invested in bonds issued by municipalities located within LaSalle County, Illinois.

(Table dollar amounts in thousands, except per share data)

NOTE 3 – SECURITIES AVAILABLE FOR SALE (CONTINUED)

Securities with a carrying value of $35,591,000 and $40,086,000 were pledged at December 31, 2016 and 2015, respectively, to secure trust and public deposits, and for other purposes as required or permitted by law.

The amortized cost and fair value of securities available for sale at December 31, 2016, by contractual maturity, was as follows. Securities not due at a single maturity date, primarily mortgage–backed and equity securities, are shown separately.

	Amortized Cost	Fair Value
Within one year	$ 2,240	$ 2,243
One to five years	14,545	14,573
Five to ten years	15,088	15,060
After ten years	3,452	3,545
	35,325	35,421
Mortgage–backed securities and collateralized mortgage obligations	205	204
Marketable equity securities	5	29
Totals	$ 35,535	$ 35,654

Sales of securities available for sale were as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Proceeds from sales	$ 4,540	$ 15,034
Gross realized gains	101	145
Gross realized losses	-	(2)
Tax expense	34	49

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015 was $16.4 million and $10.4 million, respectively, which was approximately 46.0% and 21.0% of the Company's available for sale investment portfolio at those dates.

(Table dollar amounts in thousands, except per share data)

NOTE 3 – SECURITIES AVAILABLE FOR SALE (CONTINUED)

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
December 31, 2016						
Federal agencies	$ 2,400	$ (44)	$	$	$ 2,400	$ (44)
State and municipal	12,317	(220)	-	-	12,317	(220)
Mortgage–backed securities and collateralized mortgage obligations	-	-	183	(2)	183	(2)
Asset backed securities	798	(20)	716	(19)	1,514	(39)
Total temporarily impaired securities	$ 15,515	$ (284)	$ 899	$ (21)	$ 16,414	$ (305)
December 31, 2015						
Federal agencies	$ 4,391	$ (55)	$ -	$ -	$ 4,391	$ (55)
State and municipal	2,848	(21)	-	-	2,848	(21)
Mortgage–backed securities and collateralized mortgage obligations	363	(3)	-	-	363	(3)
Asset backed securities	2,762	(43)	-	-	2,762	(43)
Total temporarily impaired securities	$ 10,364	$ (122)	$ -	$ -	$ 10,364	$ (122)

At December 31, 2016, there were 34 securities that have an unrealized loss with aggregate depreciation of less than 2% 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.

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Major classifications of loans as of December 31 are summarized as follows:

	2016	2015
Commercial:		
Real estate	$ 36,055	$ 29,185
Non-real estate	39,811	37,922
Construction and land development	15,612	8,056
Agricultural	25,679	27,015
Residential	39,921	38,114
Consumer	17,806	10,745
Total loans	174,884	151,037
Allowance for loan losses	(2,751)	(2,556)
Loans, net	$ 172,133	$ 148,481

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables present the recorded investment in loans and the related allowance for loan losses by portfolio segment and based on impairment method as of December 31, 2016 and 2015:

	2016							
	Commercial Real Estate	Commercial Non-Real Estate	Construction and Land Development	Agricultural	Residential	Consumer	Unallocated	Total
Total loans:								
Individually evaluated for impairment	$ 59	$ 647	$ 371	$ 246	$ 1,186	$ -		$ 2,509
Collectively evaluated for impairment	35,996	39,164	15,241	25,433	38,735	17,806		172,375
Balances, December 31	$ 36,055	$ 39,811	$ 15,612	$ 25,679	$ 39,921	$ 17,806		$ 174,884
Allowance for loan losses:								
Balances, January 1	$ 460	$ 511	$ 304	$ 230	$ 539	$ 38	$ 474	$ 2,556
Provision for losses	6	(253)	(60)	333	21	19	(61)	5
Recoveries on loans	-	212	-	1	47	-	-	260
Loans charged off	(8)	(5)	-	-	(52)	(5)	-	(70)
Balances, December 31	$ 458	$ 465	$ 244	$ 564	$ 555	$ 52	$ 413	$ 2,751
Individually evaluated for impairment	$ 32	$ 95	$ -	$ 246	$ 109	$ -	$ -	$ 482
Collectively evaluated for impairment	$ 426	$ 370	$ 244	$ 318	$ 446	$ 52	$ 413	$ 2,269

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

	2015							
	Commercial Real Estate	Commercial Non-Real Estate	Construction and Land Development	Agricultural	Residential	Consumer	Unallocated	Total
Total loans:								
Individually evaluated for impairment	$ 84	$ -	$ 479	$ -	$ 1,012	$ -		$ 1,575
Collectively evaluated for impairment	29,101	37,922	7,577	27,015	37,102	10,745		149,462
Balances, December 31	$ 29,185	$ 37,922	$ 8,056	$ 27,015	$ 38,114	$ 10,745		$ 151,037
Allowance for loan losses:								
Balances, January 1	$ 394	$ 356	$ 183	$ 53	$ 498	$ 20	$ 153	$ 1,657
Provision for losses	140	254	(879)	153	45	26	321	60
Recoveries on loans	9	17	1,000	24	-	1	-	1,051
Loans charged off	(83)	(116)	-	-	(4)	(9)	-	(212)
Balances, December 31	$ 460	$ 511	$ 304	$ 230	$ 539	$ 38	$ 474	$ 2,556
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 136	$ -	$ -	$ 136
Collectively evaluated for impairment	$ 460	$ 511	$ 304	$ 230	$ 403	$ 38	$ 474	$ 2,420

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2016 and 2015:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
	December 31, 2016				
With an allowance recorded:					
Commercial:					
Real estate	$ 32	$ 32	$ 32	$ 32	$ 1
Non-real estate	379	362	95	374	4
Construction and land development	-	-	-	-	-
Agricultural	246	246	246	252	6
Residential	364	342	109	352	1
Consumer	-	-	-	-	-
Total	$ 1,021	$ 982	$ 482	$ 1,010	$ 12
With no related allowance:					
Commercial:					
Real estate	$ 35	$ 27	$ -	$ 31	$ -
Non-real estate	296	285	-	298	5
Construction and land development	713	371	-	384	-
Agricultural	-	-	-	-	-
Residential	873	844	-	861	13
Consumer	-	-	-	-	-
Total	$ 1,917	$ 1,527	$ -	$ 1,574	$ 18
Total:					
Commercial:					
Real estate	$ 67	$ 59	$ 32	$ 63	$ 1
Non-real estate	675	647	95	672	9
Construction and land development	713	371	-	384	-
Agricultural	246	246	246	352	6
Residential	1,237	1,186	109	1,213	14
Consumer	-	-	-	-	-
Total	$ 2,938	$ 2,509	$ 482	$ 2,584	$ 30

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
	December 31, 2015				
With an allowance recorded:					
Commercial:					
Real estate	$ -	$ -	$ -	$ -	$ -
Non-real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	427	420	136	425	8
Consumer	-	-	-	-	-
Total	$ 427	$ 420	$ 136	$ 425	$ 8
With no related allowance:					
Commercial:					
Real estate	$ 220	$ 84	$ -	$ 95	$ -
Non-real estate	-	-	-	-	-
Construction and land development	792	479	-	502	14
Agricultural	-	-	-	-	-
Residential	840	592	-	595	15
Consumer	-	-	-	-	-
Total	$ 1,852	$ 1,155	$ -	$ 1,192	$ 29
Total:					
Commercial:					
Real estate	$ 220	$ 84	$ -	$ 95	$ -
Non-real estate	-	-	-	-	-
Construction and land development	792	479	-	502	14
Agricultural	-	-	-	-	-
Residential	1,267	1,012	136	1,020	23
Consumer	-	-	-	-	-
Total	$ 2,279	$ 1,575	$ 136	$ 1,617	$ 37

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables present the recorded investment in loans by class based on current payment and accrual status as of December 31, 2016 and 2015:

	December 31, 2016				
	Accruing Interest				
	Current	30-89 Days Past Due	More than 90 Days Past Due	Total Nonaccrual	Total Loans
Commercial:					
Real estate	$ 35,762	$ 234	$ -	$ 59	$ 36,055
Non-real estate	39,143	21	-	647	39,811
Construction and land development	15,241	-	-	371	15,612
Agricultural	25,364	69	-	246	25,679
Residential	38,431	557	-	933	39,921
Consumer	17,768	33	5	-	17,806
Total	$ 171,709	$ 914	$ 5	$ 2,256	$ 174,884

	December 31, 2015				
	Accruing Interest				
	Current	30-89 Days Past Due	More than 90 Days Past Due	Total Nonaccrual	Total Loans
Commercial:					
Real estate	$ 29,101	$ -	$ -	$ 84	$ 29,185
Non-real estate	37,283	639	-	-	37,922
Construction and land development	7,473	104	-	479	8,056
Agricultural	26,951	64	-	-	27,015
Residential	36,791	362	-	961	38,114
Consumer	10,729	9	7	-	10,745
Total	$ 148,328	$ 1,178	$ 7	$ 1,524	$ 151,037

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables present loans by class based on their assigned classifications determined by management as of December 31, 2016 and 2015:

	Commercial Real Estate	Commercial Non-Real Estate	Construction and Land Development	Agricultural	Residential	Consumer	Total
				December 31, 2016			
Satisfactory	$ 7,722	$ 7,003	$ 1,901	$ 3,975	$ -	$ -	$ 20,601
Satisfactory/Monitored	27,151	32,070	13,340	20,366	-	-	92,927
Special Mention	1,078	130	-	1,082	-	-	2,290
Substandard	104	608	371	256	-	-	1,339
Doubtful	-	-	-	-	-	-	-
Performing	-	-	-	-	38,988	17,801	56,789
Nonperforming	-	-	-	-	933	5	938
Total	$ 36,055	$ 39,811	$ 15,612	$ 25,679	$ 39,921	$ 17,806	$ 174,884

	Commercial Real Estate	Commercial Non-Real Estate	Construction and Land Development	Agricultural	Residential	Consumer	Total
				December 31, 2015			
Satisfactory	$ 8,899	$ 6,787	$ 923	$ 5,251	$ -	$ -	$ 21,860
Satisfactory/Monitored	19,041	30,483	6,730	20,179	-	-	76,433
Special Mention	1,060	415	-	444	-	-	1,919
Substandard	185	237	403	1,141	-	-	1,966
Doubtful	-	-	-	-	-	-	-
Performing	-	-	-	-	37,153	10,738	47,891
Nonperforming	-	-	-	-	961	7	968
Total	$ 29,185	$ 37,922	$ 8,056	$ 27,015	$ 38,114	$ 10,745	$ 151,037

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables present information related to troubled debt restructurings as of December 31:

	December 31, 2016					
	Accruing			Non-Accruing		
	Number of Loans	Outstanding Balance	Specific Reserve	Number of Loans	Outstanding Balance	Specific Reserve
Commercial:						
Real estate	-	$ -	$ -	1	$ 27	$ -
Non-real estate	-	-	-	1	362	95
Construction and land development	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Residential	1	253	-	1	335	101
Consumer	-	-	-	-	-	-
Total troubled debt restructurings	1	$ 253	$ -	3	$ 724	$ 196

	December 31, 2015					
	Accruing			Non-Accruing		
	Number of Loans	Outstanding Balance	Specific Reserve	Number of Loans	Outstanding Balance	Specific Reserve
Commercial:						
Real estate	-	$ -	$ -	1	$ 34	$ -
Non-real estate	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Residential	1	253	-	1	353	101
Consumer	-	-	-	-	-	-
Total troubled debt restructurings	1	$ 253	$ -	2	$ 387	$ 101

	December 31, 2016		December 31, 2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial:				
Real estate	1	$ 27	1	$ 34
Non-real estate	1	362	-	-
Construction and land development	-	-	-	-
Agricultural	-	-	-	-
Residential	1	335	1	353
Consumer	-	-	-	-
Total troubled debt restructurings that subsequently defaulted	3	$ 724	2	$ 387

The post-modification outstanding balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

(Table dollar amounts in thousands, except per share data)

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Certain executive officers, directors, and their related interests are loan customers of the Company. A summary of such loans made by the Company in the ordinary course of business and made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons is as follows:

	2016	2015
Balance at January 1	$ 1,723	$ 1,743
New loans	425	396
Repayments	(838)	(612)
Change in related party status	-	196
Balance at December 31	$ 1,310	$ 1,723

NOTE 5 – LOAN SALES AND SERVICING

The Company sells mortgage loans with servicing retained to the Federal Home Loan Mortgage Corporation (FHLMC). The Company realized gross proceeds from the sales of mortgage loans totaling $50,980,000 and $38,573,000 in 2016 and 2015, respectively. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans are summarized as follows:

	2016	2015
Total loans serviced	$ 158,088	$ 131,740

Following is an analysis of the changes in originated mortgage servicing rights:

	2016	2015
Balances, January 1	$ 1,124	$ 950
Servicing rights capitalized	454	319
Amortization of servicing rights	(209)	(145)
Balances, December 31	$ 1,369	$ 1,124

(Table dollar amounts in thousands, except per share data)

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2016	2015
Cost		
Land	$ 1,248	$ 1,853
Buildings and land improvements	9,016	8,861
Equipment	5,473	5,459
Total cost	15,737	16,173
Accumulated depreciation	(10,070)	(9,799)
Net	$ 5,667	$ 6,374

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to $316,000 and $327,000, respectively.

NOTE 7 – OTHER REAL ESTATE OWNED

Activity in the other real estate owned account is as follows:

	2016	2015
Beginning of year	$ 3,292	$ 2,290
Transfers from loans	142	703
Initial adjustment in carrying value	(63)	933
Sales of other real estate owned	(468)	(467)
Loss on sales of other real estate owned	(46)	(39)
Gain on sales of other real estate owned	37	34
Capital improvements	-	76
Writedowns on other real estate owned, net	(45)	(238)
End of year	$ 2,849	$ 3,292

Expenses related to other real estate owned included:

	2016	2015
Loss (gain) on sales, net	$ 9	$ 5
Writedowns	45	238
Operating expenses, net of income	127	266
Total	$ 181	$ 509

(Table dollar amounts in thousands, except per share data)

NOTE 8 – DEPOSITS

Deposits consisted of the following at December 31:

	2016	2015
Noninterest–bearing demand	$ 47,064	$ 48,320
Interest–bearing demand	87,899	95,555
Savings	40,135	39,762
Money market savings	19,756	18,458
Certificates and other time deposits of $250,000 or more	2,424	3,841
Other certificates and time deposits	28,883	32,341
Total deposits	$ 226,161	$ 238,277

At December 31, 2016, the scheduled maturities of certificates and other time deposits were as follows:

Year ending December 31,	
2017	$ 18,078
2018	5,894
2019	3,942
2020	1,766
2021 and thereafter	1,627
Total	$ 31,307

Deposits held by the Company from related parties at December 31, 2016 and 2015 totaled $996,000 and $789,000, respectively.

NOTE 9 – BORROWINGS

At December 31, 2016 and 2015, the Company had a revolving line of credit note payable to Banker's Bank of Wisconsin with a total available amount of $2.0 million. The note will bear interest on unpaid principal at a variable rate of prime plus 0.50% (4.25%) and prime plus 1.00% (4.50%) at December 31, 2016 and 2015, respectively. The note requires quarterly payments of interest and matures on July 1, 2017. There was no outstanding balance as of December 31, 2016 or December 31, 2015. The Company also had a term note payable to Banker's Bank of Wisconsin with an original amount of $2.0 million. The term note bore interest on the unpaid principal at a fixed rate of 4.50%. The term note required quarterly payments of $63,000 and matured on July 1, 2019. As of December 31, 2016 and 2015, the term note had $0 and $571,000 outstanding, respectively. Both notes with Banker's Bank of Wisconsin were secured by all outstanding shares of Bank stock. The proceeds from these notes were used to pay off unsecured Company borrowings.

As of December 31, 2016 and 2015, a blanket lien on the Company's portfolio of one-to-four family and multifamily mortgages, small farm and business loans, and other real estate related collateral which was approximately $82.5 and $82.0 million, respectively, was used to secure current and potential future FHLB borrowings. As of December 31, 2016 and 2015, the Company had a revolving line of credit with the FHLB with an outstanding balance of $19,500,000 and $14,700,000 bearing an interest rate of 0.79% and 0.30%, respectively, with no stated maturity. As of December 31, 2016, the Company also had a $15,000,000 letter of credit from the FHLB in connection with public funds held on deposit at the Company. As of December 31, 2016, there was no outstanding principal balance for the letter of credit.

(Table dollar amounts in thousands, except per share data)

NOTE 10 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	(1) Unrealized Gains (Losses) On Securities	(2) Pension Loss	Total Accumulated Other Comprehensive Income (Loss)
Balances, December 31, 2014	$ 827	$ (362)	$ 465
Other comprehensive income (loss) before reclassifications	(317)	118	(199)
Amounts reclassified from accumulated other comprehensive income (loss)	(143)	23	(120)
Other comprehensive income (loss), before tax	(460)	141	(319)
Income tax (expense) benefit	156	(48)	108
Balances, December 31, 2015	523	(269)	254
Other comprehensive loss before reclassifications	(574)	(106)	(680)
Amounts reclassified from accumulated other comprehensive income (loss)	(101)	32	(69)
Other comprehensive losses, before tax	(675)	(74)	(749)
Income tax benefit	231	26	257
Balances, December 31, 2016	$ 79	$ (317)	$ (238)

(1) The pre-tax amounts reclassified from accumulated other comprehensive loss are included in "net realized gains on sales of securities available for sale" in the consolidated statements of income.

(2) The pre-tax amounts reclassified from accumulated other comprehensive loss are included in the computation of net periodic pension costs as "amortization of unrecognized net loss". For additional information refer to Note 11.

NOTE 11 – BENEFIT PLANS

The Bank has a noncontributory defined-benefit pension plan covering all employees who meet the eligibility requirements. In 1999, all plan benefits were frozen. The Bank's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Bank may determine to be appropriate from time to time. The Bank expects to contribute approximately $100,000 to the plan in 2017. The Bank uses a December 31 measurement date for the plan.

(Table dollar amounts in thousands, except per share data)

NOTE 11 – BENEFIT PLANS (CONTINUED)

The following tables set forth the Bank's pension plan's funded status and amounts actuarially determined for the years indicated:

	2016	2015
Change in benefit obligation		
Beginning benefit obligation	$ 1,334	$ 1,891
Interest cost	75	79
Actuarial (gain) loss	118	(73)
Settlements	-	(482)
Benefits paid	(81)	(81)
Ending benefit obligation	$ 1,446	$ 1,334

	2016	2015
Beginning fair value	$ 1,321	$ 1,760
Actual return	64	24
Employer contribution	150	100
Settlements	-	(482)
Benefits paid	(81)	(81)
Ending fair value	$ 1,454	$ 1,321
Funded status	$ 8	$ (13)

Assets and liabilities recognized in the balance sheets:

	Pension Benefits	
	2016	2015
Other assets (liabilities)	$ 8	$ (13)

Gross amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits	
	2016	2015
Net loss	$ 482	$ 408

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2016	2015
Accumulated benefit obligation	$ 1,446	$ 1,334
Fair value of plan assets	1,454	1,321

(Table dollar amounts in thousands, except per share data)

NOTE 11 – BENEFIT PLANS (CONTINUED)

Other significant balances and costs are:

	2016	2015
Components of net periodic benefit cost		
Interest cost	$ 75	$ 79
Return on plan assets	(53)	(98)
Amortization	32	23
Net expense	$ 54	$ 4

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

	Pension Benefits	
	2016	2015
Amounts arising during the period		
Net gains (losses)	$ (74)	$ 141

The estimated net loss for the defined-benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $34,000.

	2016	2015
Assumptions used to determine benefit obligations		
Discount rate	5.00%	5.75%
Expected return on plan assets	4.00	7.00
Assumptions used to determine benefit costs		
Discount rate	5.75%	5.75%
Expected return on plan assets	4.00	7.00

The discount rate and expected return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate and expected rate of return on plan assets used in determining its year end pension accounting are reasonable based on currently available information. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

The Company has estimated the long–term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long–term interest rates based on publicly available information.

(Table dollar amounts in thousands, except per share data)

NOTE 11 – BENEFIT PLANS (CONTINUED)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2016:

	Pension Benefits
Year ending December 31,	
2017	$ 79
2018	110
2019	102
2020	94
2021	95
2022 through 2026	479

Plan assets are held by a bank–administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The permitted investments as established by the plan agreement include, but are not limited to, common and preferred stocks, open–end or closed–end mutual funds, bonds and other evidences of indebtedness or ownership, and real estate or any interest therein.

Asset allocation is primarily based on a strategy to provide stable earnings while attempting to recognize potentially higher returns through limited investments in equity securities. Plan assets are rebalanced periodically. At December 31, 2016 and 2015, allocations by percentages were as follows:

	2016	2015
Equity mutual funds	19.7%	53.1%
Fixed income mutual funds	3.1	-
Money market funds and other	77.2	46.9

The following table summarizes plan assets measured at fair value as of December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Mutual funds:				
Large U.S. equities	$ 235	$ -	$ -	$ 235
Small/Mid U.S. equities	51	-	-	51
Fixed income	46	-	-	46
Money market and time deposit funds	1,122	-	-	1,122
Total	$ 1,454	$ -	$ -	$ 1,454

(Table dollar amounts in thousands, except per share data)

NOTE 11 – BENEFIT PLANS (CONTINUED)

The following table summarizes plan assets measured at fair value as of December 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Mutual funds:				
Large U.S. equities	$ 522	$ -	$ -	$ 522
Small/Mid U.S. equities	126	-	-	126
International equities	54	-	-	54
Money market and time deposit funds	619	-	-	619
Total	$ 1,321	$ -	$ -	$ 1,321

The Bank has a directors' retirement plan which provides retirement benefits primarily to former members of the Board of Directors. The Bank also maintains a supplemental executive retirement plan that provides benefits to certain key executive officers and directors in accordance with the plan document. The Bank accrued expenses related to these plans totaling $87,000 and $72,000 in 2016 and 2015, respectively.

The Company also has a combined employee stock ownership plan (ESOP) and 401(k) profit-sharing plan, also known as a KSOP. The Company's KSOP covers eligible employees with more than 90 days of service, as defined, and who are at least 21 years of age. The plan allows employee contributions. The Company may make a matching contribution equal to a percentage of salary deferral, and discretionary profit-sharing and ESOP contributions. The Company's contributions are voluntary and at the discretion of the Board of Directors. All contributions are subject to statutory restrictions. The Company's contributions, which are made following the end of the calendar year, totaled $180,000 for 2016 and $174,000 for 2015. There were 4,413 Company shares held by the plan as of December 31, 2016, and 2,337 as of December 31, 2015.

NOTE 12 – STOCK OPTION PLAN

The Company grants selected executives and other key employees and directors incentive and non–qualified stock option awards which vest and become fully exercisable at the discretion of the Board of Directors as the options are granted. All options currently outstanding vest four years from their respective grant dates. The Company is authorized to grant options for up to 150,000 shares of the Company's common stock. The exercise price of the options, which have a ten year life, may not be less than the market price of the Company's stock on the date of grant. For the years ended December 31, 2016 and 2015, the Company recognized no compensation expense for stock options.

(Table dollar amounts in thousands, except per share data)

NOTE 12 – STOCK OPTION PLAN (CONTINUED)

The following is a summary of the status of the Company's stock option plan and changes in that plan for the years ending December 31, 2016 and 2015. The Company had no grants outstanding prior to 2003.

	2016			
Options	Shares	Weighted–Average Exercise Price	Weighted–Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Outstanding, beginning of year	31,400	$ 69.23		
Granted	-	-		
Exercised	-	-		
Expired	5,200	76.00		
Outstanding, end of year	26,200	$ 67.88	1.93	$ -
Options exercisable at year end	26,200	$ 67.88	1.93	$ -
Weighted–average fair value of options granted during the year		$ -		

	2015			
Options	Shares	Weighted–Average Exercise Price	Weighted–Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Outstanding, beginning of year	49,538	$ 69.62		
Granted	-	-		
Exercised	-	-		
Expired	18,138	70.31		
Outstanding, end of year	31,400	$ 69.23	2.48	$ -
Options exercisable at year end	31,400	$ 69.23	2.48	$ -
Weighted–average fair value of options granted during the year		$ -		

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2016. At December 31, 2016 and 2015, the average exercise price of outstanding and exercisable options exceeded the market value of the underlying stock. This amount changes based on changes in the market value of the Company's stock. The fair value (present value of the estimated future benefit to the option holder) of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

(Table dollar amounts in thousands, except per share data)

NOTE 12 – STOCK OPTION PLAN (CONTINUED)

Information pertaining to options outstanding at December 31, 2016 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 77.00	5,200	.20 Years	$ 77.00	5,200	$ 77.00
78.13	6,100	1.20 Years	78.13	6,100	78.13
62.87	6,300	2.19 Years	62.87	6,300	62.87
55.23 to 59.84	8,600	3.31 Years	58.77	8,600	58.77
Outstanding at end of year	26,200	1.93 Years	$ 67.88	26,200	$ 67.88

There was no unrecognized compensation cost relating to stock options not vested as of December 31, 2016 and 2015.

The fair value of each option grant was estimated on the grant date using an option–pricing model with the following assumptions:

	March 10, 2010	September 14, 2010	March 11, 2009
Risk–free interest rates	3.11%	2.70%	2.53%
Dividend yields	2.42%	2.77%	4.77%
Volatility factors of expected market price of common stock	25.03%	24.90%	24.48%
Weighted–average expected life of the options	7 years	9 years	8 years

There were no stock options exercised in 2016 and 2015.

(Table dollar amounts in thousands, except per share data)

NOTE 13 – EARNINGS PER SHARE

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2016		
	Income	**Weighted-Average Shares**	**Per Share Amount**
Net income	$ 3,235	627,812	
Basic earnings per share			
Earnings applicable to common shareholders			$ 5.15
Effect of dilutive securities			
Stock options	-	-	
Diluted earnings per share			
Earnings applicable to common shareholders and assumed conversions	$ 3,235	627,812	$ 5.15

	Year Ended December 31, 2015		
	Income	**Weighted-Average Shares**	**Per Share Amount**
Net income	$ 2,333	644,480	
Basic earnings per share			
Earnings applicable to common shareholders			$ 3.62
Effect of dilutive securities			
Stock options	-	-	
Diluted earnings per share			
Earnings applicable to common shareholders and assumed conversions	$ 2,333	644,480	$ 3.62

A total of 26,200 and 31,400 options for the years ended December 31, 2016 and 2015, respectively, are not included in the above calculations as they are non-dilutive.

(Table dollar amounts in thousands, except per share data)

NOTE 14 – INCOME TAXES

Income tax expense for the years ended December 31, 2016 and 2015 consisted of:

	2016	2015
Income tax expense		
Currently payable		
Federal	$ 505	$ 584
State	214	123
Deferred	975	416
Total income tax expense	$ 1,694	$ 1,123

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34% to income before income tax expense as a result of the following:

	2016	2015
Reconciliation of federal statutory to actual tax expense (benefit)		
Federal statutory income tax at 34%	$ 1,676	$ 1,175
Tax–exempt income	(194)	(167)
Effect of state income taxes and other items, net	212	115
Actual tax expense	$ 1,694	$ 1,123
Effective tax rate	34.4%	32.5%

(Table dollar amounts in thousands, except per share data)

NOTE 14 – INCOME TAXES (CONTINUED)

The components of the deferred tax assets (liabilities) included on the balance sheets are as follows:

	2016	2015
Assets		
Allowance for loan losses	$ 131	$ 129
Deferred compensation	453	407
Other real estate owned	393	1,024
Alternative minimum tax credit	614	774
Core deposit intangible	100	154
Capital loss carryforward	-	45
Other	235	208
Total assets	1,926	2,741
Liabilities		
Unrealized gains on securities available for sale	(40)	(271)
Net change in defined benefit pension plan losses	(35)	(20)
FHLB stock	(12)	(35)
Depreciation	(427)	(447)
Mortgage servicing rights	(551)	(453)
Goodwill	(865)	(799)
Other	(64)	(63)
Total liabilities	(1,994)	(2,088)
Total deferred tax asset (liability)	$ (68)	$ 653

The alternative minimum tax (AMT) credit of $614,000 does not have an expiration date but can only be used to offset regular tax and not AMT tax.

(Table dollar amounts in thousands, except per share data)

NOTE 15 – DERIVATIVES

Fair value hedges are intended to reduce the interest rate risk associated with the underlying hedged item. Fair value hedges are considered to be highly effective and any hedge ineffectiveness was deemed not material. The Company uses this fair value hedge to fix future cash flows for interest payments on some of its floating rate certificates of deposit. In this regard, the Company has entered into an interest rate swap with the Broker Dealer Financial Services Corporation (BDFS) to fix the interest rate on a specific certificate of deposit product. At December 31, 2015, the Company had $320,000 of certificates of deposit, which matured in 2016, on which it has prepaid BDFS for an interest rate swap and will receive an interest rate from BDFS based on the appreciation of the S&P 500 Index. This interest received from BDFS will be paid to the customer. The certificates of deposit have an embedded derivative which is a written call option. The assets and liabilities in this transaction are being netted in time deposits and the fair value adjustment recorded in other income.

NOTE 16 – COMMITMENTS, OFF–BALANCE–SHEET RISK, AND CONTINGENCIES

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these claims and legal actions is not expected to have a material effect on financial condition or results of operations.

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. There was no reserve requirement as of December 31, 2016 or December 31, 2015.

Some financial instruments are used in the normal course of business to meet the financing needs of customers. These financial instruments include unfunded commitments and standby letters of credit. These involve, to varying degrees, credit and interest–rate risk in excess of the amounts reported in the consolidated financial statements.

Exposure to credit loss if the other party does not perform is represented by the contractual amount for these commitments. The same credit policies are used for commitments and conditional obligations as are used for loans. Collateral or other security is normally required to support financial instruments with credit risk.

Unfunded commitments under commercial lines of credit, revolving credit lines, and credit cards 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.

Standby letters of credit are conditional commitments issued by the Company to guarantee the 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 if deemed necessary.

A summary of the notional or contractual amounts of financial instruments with off–balance–sheet risk at year end follows:

	2016	2015
Unfunded commitments	$ 23,987	$ 24,547
Standby letters of credit	602	1,905

(Table dollar amounts in thousands, except per share data)

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Recurring Basis

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Company measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015:

		2016 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
Federal agencies	$ 5,070	$ -	$ 5,070	$ -
State and municipal	21,103	-	21,103	-
Mortgage–backed securities and collateralized mortgage obligations	204	-	204	-
Asset backed securities	9,248	-	9,248	-
Marketable equity securities	29	29	-	-
Total	$ 35,654	$ 29	$ 35,625	$ -

		2015 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available for sale:				
Federal agencies	$ 14,855	$ -	$ 14,855	$ -
State and municipal	22,698	-	22,698	-
Mortgage–backed securities and collateralized mortgage obligations	389	-	389	-
Asset backed securities	11,415	-	11,415	-
Marketable equity securities	12	12	-	-
Interest rate swap agreements – customer CDs	128	-	128	-
Total	$ 49,497	$ 12	$ 49,485	$ -
Liabilities:				
Written call options - customer CDs	$ (128)	$ -	$ (128)	$ -

(Table dollar amounts in thousands, except per share data)

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Investment Securities
When available, the Company uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Company's securities where quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

Interest Rate Swap Agreements
The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data (such as the S&P 500 index) and, therefore, are classified within Level 2 of the valuation hierarchy.

Nonrecurring Basis
Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

The following table presents the balances of the assets measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015, as well as any related net impairment losses for the years ended December 31, 2016 and 2015:

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Impairment Losses**
Loans held for sale	$ -	$ -	$ 39,089	$ -
Impaired loans	-	-	2,027	482
Foreclosed assets	-	-	2,849	45

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Impairment Losses**
Loans held for sale	$ -	$ -	$ 40,453	$ -
Impaired loans	-	-	1,439	150
Foreclosed assets	-	-	3,292	211

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Loans Held for Sale
Mortgage loans originated and purchased for sale are carried at the lower of cost or estimated fair value. The Company obtains quotes or bids on these loans directly from purchasing financial institutions. Typically these quotes include a premium on the sale and thus these quotes indicate fair value of the held for sale loans is greater than cost.

Impairment losses for loans held for sale that are carried at the lower of cost or fair value represent additional net write-downs during the period to record these loans at the lower of cost or estimated fair value subsequent to their initial classification as loans held for sale.

Impaired Loans
In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Impaired loans require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment losses on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

Foreclosed Assets
Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

Impairment losses on foreclosed assets represent specific valuation allowance and write-downs during the periods presented where the carrying value of the foreclosed assets exceeded the current fair value less estimated selling costs of the foreclosed asset subsequent to their initial classification as foreclosed assets.

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.

(Table dollar amounts in thousands, except per share data)

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Unobservable (Level 3) Inputs
The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2016	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$2,027	Market comparable properties	Marketability discount	10.0% - 100.0% (11.9%)
Foreclosed assets	$2,849	Market comparable properties	Marketability discount	11.0% - 25.0% (18.3%)

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$1,439	Market comparable properties	Marketability discount	10.0% - 33.0% (10.7%)
Foreclosed assets	$3,292	Market comparable properties	Marketability discount	6.0% - 43.0% (17.2%)

The following methods and assumptions were used to estimate fair values for financial instruments carried on the balance sheet at other than fair value. The carrying amount is considered to estimate fair value for cash and cash equivalents, deposits with no stated maturity such as demand, NOW, money market and savings deposits, accrued interest receivable and payable, and variable rate loans or deposits. For interest-bearing time deposits, fixed rate loans and deposits, or borrowings, the fair value is estimated by discounted cash flow analysis using current market rates for the estimated life and credit risk. The carrying amount of life insurance approximates fair value as it reflects the policies' cash surrender values. The fair value of off–balance–sheet items is based on the fees or cost that would currently be charged to enter into or terminate such agreements and is not material.

(Table dollar amounts in thousands, except per share data)

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2016 and 2015 were as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 7,152	$ 7,152	$ 6,953	$ 6,953
Interest-bearing time deposits	5,381	5,425	19,355	19,472
Loans, net	172,133	174,377	148,481	151,628
Cash surrender value of life insurance	4,339	4,339	4,184	4,184
Accrued interest receivable	919	919	865	865
Liabilities				
Deposits with no stated maturities	194,854	194,854	202,095	202,095
Time deposits	31,307	31,400	36,182	36,311
Borrowings	19,500	19,500	15,271	15,270
Accrued interest payable	34	34	42	42

NOTE 18 – REGULATORY AND CAPITAL MATTERS

The Company may pay dividends with prior approval from the Federal Reserve Bank so long as it remains "adequately capitalized" after such payment. The Bank is subject to statutory dividend restrictions which provide, in general, that the Bank may pay the current year's earnings and the prior two years' retained earnings without the prior approval of the Office of the Comptroller of Currency. At December 31, 2016, the Bank's shareholder's equity totaled $30.0 million, of which $1.5 million was available for payment of dividends without prior regulatory approval.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. These capital requirements were modified in 2013 with the Basel III capital rules, which establish a new comprehensive capital framework for U.S. banking organizations. The Company and Bank became subject to the new rules on January 1, 2015, with a phase-in period for many of the new provisions.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

NOTE 18 – REGULATORY AND CAPITAL MATTERS (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Common Equity Tier I, Tier I, and total capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2016, the Bank met the requirements to be categorized as "well capitalized" under the regulatory framework for prompt correction action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier 1 risk-based, and Tier I leverage ratios as set forth in the following table (as defined). Management is not aware of any conditions or events since December 31, 2016 that would change the Bank's category.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2016 and 2015 are presented in the following table:

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2016	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Amounts in Thousands)			
Common Equity Tier I capital to risk weighted assets:						
Consolidated	$ 28,350	14.2%	$ 9,012	4.5%	N/A	N/A
The First National Bank of Ottawa	28,174	14.1	9,004	4.5	$ 13,006	6.5%
Tier I capital to risk weighted assets:						
Consolidated	$ 28,350	14.2%	$ 12,017	6.0%	N/A	N/A
The First National Bank of Ottawa	28,174	14.1	12,005	6.0	$ 16,007	8.0%
Total capital to risk weighted assets:						
Consolidated	$ 30,857	15.4%	$ 16,023	8.0%	N/A	N/A
The First National Bank of Ottawa	30,681	15.3	16,007	8.0	$ 20,009	10.0%
Tier I capital to average assets:						
Consolidated	$ 28,350	10.4%	$ 10,939	4.0%	N/A	N/A
The First National Bank of Ottawa	28,174	10.3	10,931	4.0	$ 13,664	5.0%

NOTE 18 – REGULATORY AND CAPITAL MATTERS (CONTINUED)

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2015	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Amounts in Thousands)			
Common Equity Tier I capital to risk weighted assets:						
Consolidated	$ 26,228	14.4%	$ 8,197	4.5%	N/A	N/A
The First National Bank of Ottawa	26,500	14.6	8,186	4.5	$ 11,824	6.5%
Tier I capital to risk weighted assets:						
Consolidated	$ 26,228	14.4%	$ 10,929	6.0%	N/A	N/A
The First National Bank of Ottawa	26,500	14.6	10,914	6.0	$ 14,552	8.0%
Total capital to risk weighted assets:						
Consolidated	$ 28,511	15.7%	$ 14,572	8.0%	N/A	N/A
The First National Bank of Ottawa	28,783	15.8	14,552	8.0	$ 18,191	10.0%
Tier I capital to average assets:						
Consolidated	$ 26,228	9.2%	$ 11,352	4.0%	N/A	N/A
The First National Bank of Ottawa	26,500	9.4	11,342	4.0	$ 14,178	5.0%

(Table dollar amounts in thousands, except per share data)

NOTE 19 – PARENT COMPANY FINANCIAL STATEMENTS

The following are the condensed balance sheets and statements of income for First Ottawa Bancshares, Inc. for the years ending December 31, 2016 and 2015.

Condensed Balance Sheets

	2016	2015
Assets		
Cash on deposit with Bank	$ 318	$ 249
Investment in common stock of Bank	30,023	29,228
Other assets	204	257
Total assets	$ 30,545	$ 29,734
Liabilities		
Dividends payable	$ 310	$ 206
Other liabilities	35	-
Notes payable	-	571
Shareholders' Equity	30,200	28,957
Total liabilities and shareholders' equity	$ 30,545	$ 29,734

(Table dollar amounts in thousands, except per share data)

NOTE 19 – PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

Condensed Statements of Income

	2016	2015
Income - dividends from Bank	$ 1,959	$ 2,858
Expenses	13	56
Income before income tax and equity in undistributed income of subsidiary	1,946	2,802
Income tax benefit	(2)	(22)
Income before equity in undistributed income of subsidiary	1,948	2,824
Equity in undistributed income of subsidiary	1,287	(491)
Net income	$ 3,235	$ 2,333

This information is an integral part of the accompanying consolidated financial statements.