

Independent Alliance Banks, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015 and 2014

Independent Alliance Banks, Inc.

December 31, 2015 and 2014

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Independent Auditor's Report

Board of Directors and Stockholders
Independent Alliance Banks, Inc.
Fort Wayne, Indiana

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Praxity
MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Opinion

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



Fort Wayne, Indiana
March 8, 2016

Independent Alliance Banks, Inc.

Consolidated Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and due from banks	$ 6,473,858	$ 7,170,996
Federal funds sold	1,808,331	2,285,225
Interest-bearing demand deposits in banks	27,305,911	28,396,455
Cash and cash equivalents	35,588,100	37,852,676
Certificates of deposit	15,449,182	14,197,358
Available-for-sale investment securities	222,916,058	190,707,179
Loans held for sale	1,743,431	644,326
Loans, net of allowance for loan losses of $9,997,402 and $10,057,203 at December 31, 2015 and 2014, respectively	702,243,305	647,056,640
Premises and equipment	12,379,622	12,421,589
Federal Home Loan Bank stock	4,382,800	5,738,300
Interest receivable	4,690,398	4,358,877
Insurance contracts	26,321,028	25,445,578
Goodwill	14,638,658	13,855,664
Core deposits intangible	816,588	—
Other assets	8,906,668	8,517,961
Total assets	$1,050,075,838	$ 960,796,148
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$ 204,748,255	$ 175,764,861
Interest bearing	598,831,748	553,582,457
Total deposits	803,580,003	729,347,318
Short-term borrowings	39,559,137	41,331,274
Long-term debt	68,000,000	57,000,000
Junior subordinated debt	10,310,000	10,310,000
Interest payable	669,769	802,348
Other liabilities	10,079,373	9,121,522
Total liabilities	932,198,282	847,912,462
Stockholders' Equity		
Common stock and surplus, authorized, 10,000,000 shares; issued, 4,473,592 shares	37,563,758	37,310,758
Retained earnings	87,896,536	81,833,617
Accumulated other comprehensive income	1,898,031	2,693,439
Treasury stock, at cost, 390,150 and 369,753 shares	(9,480,769)	(8,954,128)
Total stockholders' equity	117,877,556	112,883,686
Total liabilities and stockholders' equity	$1,050,075,838	$ 960,796,148

Independent Alliance Banks, Inc.

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

	2015	2014
Interest Income		
Loans receivable	$ 29,815,513	$ 30,345,723
Investment securities		
Taxable	1,788,013	1,410,217
Tax exempt	3,063,156	2,947,860
Federal funds sold	2,203	3,189
Deposits with financial institutions	238,170	167,704
Dividends and other	230,275	300,616
Total interest income	35,137,330	35,175,309
Interest Expense		
Deposits	2,501,187	3,134,167
Short-term borrowings	18,570	32,040
Long-term debt	1,507,893	1,845,394
Junior subordinated debt	300,225	294,100
Total interest expense	4,327,875	5,305,701
Net Interest Income	30,809,455	29,869,608
Provision for Loan Losses	390,000	1,200,000
Net Interest Income After Provision for Loan Losses	30,419,455	28,669,608
Noninterest Income		
Service charges on deposit accounts	1,701,865	1,704,188
Service charges on loans	272,166	285,933
Net realized gains on sales of available-for-sale securities	108,377	133,107
Income from sale of loans	1,140,859	799,612
Fiduciary and other nontraditional activities	1,922,740	2,070,442
Income from life insurance contracts	816,000	840,000
Income from ATM and electronic service fees	1,265,865	1,237,682
Other	546,157	348,524
Total noninterest income	7,774,029	7,419,488
Noninterest Expenses		
Salaries and employee benefits	15,936,095	14,966,415
Net occupancy expense	1,367,748	1,390,384
Equipment expense	2,412,384	2,242,072
Printing and office supplies	648,771	613,553
Legal and professional fees	2,402,331	2,176,711
Advertising expense	674,157	645,613
Deposit insurance expense	626,028	640,887
Other	2,524,489	2,040,663
Total noninterest expenses	26,592,003	24,716,298
Income Before Income Taxes	11,601,481	11,372,798
Provision for Income Taxes	2,100,679	2,063,704
Net Income	$ 9,500,802	$ 9,309,094
Earnings Per Share – Basic and Diluted	$ 2.32	$ 2.29
Weighted Average Shares Outstanding	4,091,337	4,067,221

Independent Alliance Banks, Inc.

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

	2015	2014
Net Income	$ 9,500,802	$ 9,309,094
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $(372,907) and $741,449, for 2015 and 2014, respectively	(723,879)	1,439,283
Less: reclassification adjustment for realized gains included in net income, net of taxes of $36,848 and $45,256 for 2015 and 2014, respectively	71,529	87,851
	(795,408)	1,351,432
Comprehensive Income	$ 8,705,394	$ 10,660,526

Independent Alliance Banks, Inc.

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

	Common Stock and Surplus			Accumulated Other		
	Shares Outstanding	Amount	Retained Earnings	Comprehensive Income	Treasury Stock	Total
Balance, January 1, 2014	4,055,599	$ 35,619,709	$ 75,948,340	$ 1,342,007	$(8,154,580)	$ 104,755,476
Net income			9,309,094			9,309,094
Other comprehensive income				1,351,432		1,351,432
Cash dividends ($0.84 per share)			(3,423,817)			(3,423,817)
Issuance of common stock, net of offering costs	65,900	1,495,818				1,495,818
Director compensation, issuance of common stock	8,255	195,231				195,231
Purchase of treasury stock	(33,115)				(799,548)	(799,548)
Balance, December 31, 2014	4,096,639	37,310,758	81,833,617	2,693,439	(8,954,128)	112,883,686
Net income			9,500,802			9,500,802
Other comprehensive loss				(795,408)		(795,408)
Cash dividends ($0.84 per share)			(3,437,883)			(3,437,883)
Director compensation, issuance of common stock	7,200	180,000				180,000
Unvested stock awards compensation expense		73,000				73,000
Purchase of treasury stock	(20,397)				(526,641)	(526,641)
Balance, December 31, 2015	4,083,442	$ 37,563,758	$ 87,896,536	$ 1,898,031	$(9,480,769)	$ 117,877,556

Independent Alliance Banks, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Net income	$ 9,500,802	$ 9,309,094
Items not requiring (providing) cash		
Depreciation and amortization	1,169,939	1,172,518
Net amortization of loan origination fees and costs	125,235	131,652
Provision for loan losses	390,000	1,200,000
Deferred income taxes	225,000	264,000
Net amortization of premiums and discounts on loans, securities, deposits and debt	1,290,661	951,560
Net (gain) loss on sales and disposal of fixed assets	(3,653)	100,990
Net realized gains on available-for-sale securities	(108,377)	(133,107)
Increase in life insurance contracts	(816,000)	(840,000)
Director compensation in the form of stock issued	180,000	195,231
Compensation expense related to unvested stock awards	73,000	—
Changes in		
Loans held for sale	(1,099,105)	(190,737)
Interest receivable	(27,054)	21,582
Interest payable	(161,812)	(693,245)
Other assets	312,881	2,935,108
Other liabilities	(2,080,555)	1,493,787
Net cash provided by operating activities	8,970,962	15,918,433
Investing Activities		
Net change in certificates of deposit	(1,251,824)	(14,197,358)
Purchases of available-for-sale securities	(57,734,353)	(46,654,023)
Proceeds from maturities of available-for-sale securities	48,211,564	36,728,483
Proceeds from the sales of available-for-sale securities	3,460,063	3,122,610
Net change in loans	(16,839,358)	3,907,857
Proceeds from sale of fixed assets	7,100	—
Purchase of premises and equipment	(749,783)	(798,251)
Proceeds from repurchase of FHLB stock	1,565,800	1,072,900
Purchase of life insurance contracts and contract premiums	(59,450)	(1,359,450)
Net cash received in acquisition	596,681	—
Net cash used in investing activities	(22,793,560)	(18,177,232)
Financing Activities		
Net increase in deposits	6,294,683	17,706,874
Net increase (decrease) in short-term borrowings	(31,772,137)	1,429,318
Proceeds from short-term borrowings	92,000,000	13,000,000
Repayment of short-term borrowings	(62,000,000)	(13,000,000)
Proceeds from long-term borrowings	28,000,000	15,000,000
Repayment of long-term borrowings	(17,000,000)	(29,500,000)
Proceeds from issuance of common stock	—	1,495,818
Purchase of treasury stock	(526,641)	(799,548)
Cash dividends	(3,437,883)	(3,423,817)
Net cash provided by financing activities	11,558,022	1,908,645
Decrease in Cash and Cash Equivalents	(2,264,576)	(350,154)
Cash and Cash Equivalents, Beginning of Year	37,852,676	38,202,830
Cash and Cash Equivalents, End of Year	$ 35,588,100	$ 37,852,676
Supplemental Cash Flows Information		
Interest paid	$ 4,460,454	$ 5,998,946
Income taxes paid	2,140,000	700,000
Transfer of loans to OREO	294,846	2,161,656

Independent Alliance Banks, Inc.

Notes to Consolidated Financial Statements
December 31, 2015 and 2014
(Table Dollar Amounts in Thousands)

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

Nature of Operations

Independent Alliance Banks, Inc. (Company) is a financial holding company whose principal activity is the ownership and management of its wholly owned bank subsidiary, iAB Financial Bank (Bank), IAB Risk Management, Inc. (Captive), a captive insurance subsidiary, and one special purpose subsidiary, Grabill Capital Trust 1. The Company was formed on May 1, 2005, as a result of the merger of Grabill Bancorp and MarBanc Financial Corporation. The headquarters for the Company and the Bank are located in Fort Wayne, Indiana.

The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers primarily in Allen, Huntington, Wells and Marshall Counties in Indiana and in surrounding counties. The Bank is subject to competition from other financial institutions and regulation by the Department of Financial Institutions, state of Indiana and the Federal Deposit Insurance Corporation (FDIC).

The Captive was formed in 2009 and remained inactive until August 2013. The Captive is primarily engaged in underwriting of excess bank risk.

Grabill Capital Trust 1 (Trust) was formed during 2004 for the purpose of participating in a Pooled Trust Preferred Stock offering. The Trust is not consolidated into the Company. See Note 12 for further discussion regarding this entity.

The Bank has two wholly owned subsidiaries, IAB Investments, Inc. which is primarily engaged in managing the Bank's investment securities and Grabill Bank Insurance Services, LLC which became inactive during 2006, and previously provided general insurance products to business and retail customers. IAB Investments, Inc. has one subsidiary, IAB REIT, Inc.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets, valuation of goodwill and fair values of financial instruments.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are defined to include the Company's cash on hand, its demand deposits with other institutions, money market mutual funds and federal funds sold with maturities of 90 days or less.

At December 31, 2015, the Company's cash accounts at nonfederal government or agencies thereof exceeded federally insured limits by approximately $2,491,000.

Certificates of Deposit

Certificates of deposit are carried at cost and have varying maturities.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

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 noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

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

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

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due. Past-due status is based on contractual terms of the loan. For all loan classes, the entire balance of

the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. In all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

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

The Company charges off residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to time frames established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the loan is 90 days past due, charge-off of unsecured open-end loans when the loan is 90 days past due, and charge down to the net realizable value when other secured loans are 90 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

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

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when

management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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

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

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. If the most recent appraisal is over a year old, and a new appraisal is not performed, due to lack of comparable values or other reasons, the existing appraisal is utilized and discounted 5% to 10% based on the age of the appraisal, condition of the subject property and overall economic conditions. After determining the collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses. The potential for outdated appraisal values is

considered in our determination of the allowance for loan losses through our analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Company.

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

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

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

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

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on disposition are included in current operations.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank (FHLB). The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Insurance Contracts

The Company's insurance contracts consist of investments in life insurance policies on executive officers and other members of the Company's management. The policies are carried at their net cash surrender value. Changes in the policy value are recorded as an adjustment to the carrying value with the corresponding amount recognized as noninterest income or expense. Earnings on these policies are based on the net earnings on the cash surrender value of the policies.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

On May 1, 2005, at the time of the acquisition of MarBanc Financial Corporation, goodwill of $13,856,000 was recorded. On February 1, 2015, at the time of the acquisition of First State Bank, Bourbon, goodwill of $783,000 was recorded. There was no impairment of goodwill during 2015 or 2014.

Intangible Assets

Intangible assets with finite lives consist of core deposit intangibles which are being amortized on the straight-line basis over ten years.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the average cost method.

Transfers of Financial Assets

Transfers of financial assets 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—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (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 or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenue. The Company determines deferred income taxes

using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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

The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries.

Comprehensive Income

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

Accumulated other comprehensive income consists entirely of unrealized gains on available-for-sale securities net of applicable taxes.

Self-Insurance

The Company has elected to self-insure certain costs related to employee health benefit program. Costs resulting from noninsured losses are charged to income when incurred. The Company has purchased insurance that limits its exposure for individual claims to $40,000. The Company does not have an aggregate exposure limit.

Note 2: Acquisition

On February 1, 2015, the Company acquired 100 percent of The First State Bank, Bourbon, Indiana (FSB). The Company acquired FSB through the merger of iAB Merger Bank, an Indiana state banking corporation and wholly owned subsidiary of the Company, with and into FSB (FSB Merger). Immediately following the FSB Merger, FSB merged with and into the Bank whereupon the separate existence of FSB ceased and the Bank continued as the surviving bank. FSB was headquartered in Bourbon, IN and had two banking centers in Bourbon, Indiana serving the Marshall County and surrounding counties' market. The two banking centers became additional

banking centers for the Bank. As part of the $17.9 million acquisition, shareholders of FSB received $17,871.88 in cash for each share of FSB common stock held. The Company expects the transaction to be accretive to income and expand its footprint into Marshall County and surrounding counties. Goodwill resulted from this transaction due to the value associated with FSB's established market presence and due to the synergies and economies of scale that are expected.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible asset based on their current estimated fair values on the date of the acquisition. Based on valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, the purchase price for the FSB acquisition is detailed in the following table:

	Fair Value
Cash and cash equivalents	$ 18,469
Held-to-maturity investment securities	28,489
Loans	39,157
Premises and equipment	382
Interest receivable	304
Other assets	786
Deposits	(67,906)
Interest payable	(29)
Other liabilities	(3,111)
Net tangible assets acquired	16,541
Core deposit intangible, net of deferred tax	548
Goodwill	783
Purchase price	$ 17,872

Of the total purchase price, $899,000 has been allocated to a core deposit intangible that will be amortized over its estimated life of 10 years. The residual purchase price has been allocated to goodwill, which is not deductible for tax purposes.

The fair value of assets acquired includes loans with a fair value of $39,157,388. The gross principal and contractual interest due under contracts is $38,917,100, of which $751,107 is expected to be uncollectible.

Note 3: Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2015, was $1,811,000.

Note 4: Securities

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

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities				
U.S. Government agencies	$ 29,882	$ 64	$ 130	$ 29,816
Mortgage-backed Government Sponsored Enterprise (GSE) residential	66,827	441	532	66,736
State and political subdivision	120,622	3,437	305	123,754
Asset-backed	2,674	—	64	2,610
	$ 220,005	$ 3,942	$ 1,031	$ 222,916

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities				
U.S. Government agencies	$ 39,152	$ 50	$ 133	$ 39,069
Mortgage-backed GSE residential	49,991	833	149	50,675
State and political subdivision	93,263	3,749	223	96,789
Asset-backed	4,147	27	—	4,174
	$ 186,553	$ 4,659	$ 505	$ 190,707

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

	Amortized Cost	Fair Value
Within one year	$ 7,425	$ 7,484
One to five years	83,431	84,796
Five to ten years	56,639	58,118
After ten years	5,683	5,782
	153,178	156,180
Mortgage-backed GSE residential	66,827	66,736
Totals	$ 220,005	$ 222,916

The carrying value of securities pledged as collateral was approximately $47,148,000 at December 31, 2015, and $47,000,000 at December 31, 2014.

Gross gains of $108,377 and $133,795 resulting from sales of available-for-sale securities were realized in 2015 and 2014, respectively. No gross losses resulting from sales of available-for-sale securities were realized in 2015. Gross losses of $688 resulting from sales of available-for-sale securities were realized in 2014.

There was no other than temporary impairment losses recognized in 2015 or 2014.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2015 and 2014, was approximately $97,583,000 and $58,583,000, respectively, which is approximately 44% and 31% of the Company's available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates since the securities were purchased.

Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary.

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014:

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
U.S. Government agencies	$ 18,945	$ 130	$ —	$ —	$ 18,945	$ 130
Mortgage-backed GSE residential	42,446	406	6,268	126	48,714	532
State and political subdivision	25,101	216	2,213	89	27,314	305
Asset-backed	2,610	64	—	—	2,610	64
Total temporarily impaired securities	$ 89,102	$ 816	$ 8,481	$ 215	$ 97,583	$ 1,031

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities						
U.S. Government agencies	$ 24,111	$ 73	$ 5,947	$ 60	$ 30,058	$ 133
Mortgage-backed GSE residential	7,722	19	9,530	130	17,252	149
State and political subdivision	3,973	113	7,300	110	11,273	223
Total temporarily impaired securities	$ 35,806	$ 205	$ 22,777	$ 300	$ 58,583	$ 505

U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Mortgage-Backed GSE Residential

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

State and Political Subdivision

The unrealized losses on the Company's investments in securities of state and political subdivision securities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Asset-backed

The unrealized losses on the Company's investments in asset-backed securities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Note 5: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	2015	2014
Agricultural	$ 132,891	$ 137,208
Commercial and industrial and leases	107,991	98,632
Multi-family and nonresidential real estate	264,571	237,300
Tax-exempt and nonprofit	12,544	13,478
Construction	39,857	35,836
Residential real estate	149,044	129,537
Consumer	5,419	5,075
Gross loans	712,317	657,066
Net deferred loan costs (fees)	(77)	48
Allowance for loan losses	(9,997)	(10,057)
Net loans	$ 702,243	$ 647,057

Risk characteristics applicable to each segment of the loan portfolio are described as follows:

Commercial, Agricultural and Tax-Exempt and Nonprofit

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

Multi-Family and Nonresidential Real Estate Including Construction

Multi-family and nonresidential real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids

financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

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

Residential Real Estate and Consumer

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

On January 1, 2015, the Company adopted Accounting Standards Update (ASU) 2014-04, Receivables – Troubled Debt Restructuring by Creditors. As of December 31, 2015, the Company had $50,000 of foreclosed residential real estate property obtained by physical possession and $572,000 of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions.

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

	2015							
	Agricultural	Commercial and Industrial and Leases	Multi-Family and Nonresidential Real Estate	Tax-Exempt and Nonprofit	Construction	Residential Real Estate	Consumer	Total
Allowance for loan losses								
Balance, beginning of year	$ 1,667	$ 1,250	$ 4,013	$ 144	$ 864	$ 1,878	$ 241	$ 10,057
Provision charged to expense	75	58	145	7	23	79	3	390
Losses charged off	(27)	(298)	(17)	—	—	(235)	(123)	(700)
Recoveries	—	164	24	—	—	15	47	250
Balance, end of year	$ 1,715	$ 1,174	$ 4,165	$ 151	$ 887	$ 1,737	$ 168	$ 9,997
Ending balance, individually evaluated for impairment	$ 54	$ 436	$ 578	$ —	$ —	$ 730	$ 19	$ 1,817
Ending balance, collectively evaluated for impairment	$ 1,661	$ 738	$ 3,587	$ 151	$ 887	$ 1,007	$ 149	$ 8,180
Loans								
Ending balance	$ 132,891	$ 107,991	$ 264,571	$ 12,544	$ 39,857	$ 149,044	$ 5,419	$ 712,317
Ending balance, individually evaluated for impairment	$ 768	$ 2,738	$ 4,888	$ —	$ —	$ 6,342	$ 54	$ 14,790
Ending balance, collectively evaluated for impairment	$ 132,123	$ 105,253	$ 259,683	$ 12,544	$ 39,857	$ 142,702	$ 5,365	$ 697,527

	2014							
	Agricultural	Commercial and Industrial and Leases	Multi-Family and Nonresidential Real Estate	Tax-Exempt and Nonprofit	Construction	Residential Real Estate	Consumer	Total
Allowance for loan losses								
Balance, beginning of year	$ 1,414	$ 1,037	$ 4,649	$ 119	$ 605	$ 1,845	$ 270	$ 9,939
Provision charged to expense	253	180	432	25	65	235	10	1,200
Losses charged off	—	(14)	(1,549)	—	—	(216)	(95)	(1,874)
Recoveries	—	47	481	—	194	14	56	792
Balance, end of year	$ 1,667	$ 1,250	$ 4,013	$ 144	$ 864	$ 1,878	$ 241	$ 10,057
Ending balance, individually evaluated for impairment	$ —	$ 566	$ 561	$ —	$ 103	$ 691	$ 67	$ 1,988
Ending balance, collectively evaluated for impairment	$ 1,667	$ 684	$ 3,452	$ 144	$ 761	$ 1,187	$ 174	$ 8,069
Loans								
Ending balance	$ 137,208	$ 98,632	$ 237,300	$ 13,478	$ 35,836	$ 129,537	$ 5,075	$ 657,066
Ending balance, individually evaluated for impairment	$ 367	$ 2,368	$ 4,234	$ —	$ 229	$ 5,486	$ 77	$ 12,761
Ending balance, collectively evaluated for impairment	$ 136,841	$ 96,264	$ 233,066	$ 13,478	$ 35,607	$ 124,051	$ 4,998	$ 644,305

Internal Risk Categories

Loan grades are numbered 1 through 7. Grades 1 through 4 are considered satisfactory grades. The grade of 5, or Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, or Substandard, and 7, or Doubtful, refer to assets that are classified. The use and application of these grades by the bank will be uniform and shall conform to the bank's policy.

Excellent (1) Prime loans based on liquid collateral, with adequate margin or supported by a strong financial statement, audited with an unqualified opinion from a CPA firm. The character and repayment ability of the borrowers are excellent and without question. High liquidity, minimum risk, strong ratios, and low handling costs are common to these loans. This classification will also include all loans secured by CD's or cash equivalents.

Good (2) Desirable loans of somewhat less stature than Grade "1", but with strong financial statements. Loans secured by marketable securities (where there is no concentration or impairment to liquidation). Probability of serious financial deterioration is unlikely. Possessing a sound repayment source (and a secondary source) which definitely will allow repayment in a reasonable period of time. Individual loans backed by liquid personal assets, established history and unquestionable character.

Satisfactory (3) Satisfactory loans of average or slightly above average risk - having some deficiency or vulnerability to changing economic conditions, but still fully collectible. Projects should clearly demonstrate at least breakeven debt service coverage. May be some weakness but with offsetting features of other support, readily available. Loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered.

Monitor (4) A "4" (Monitored) risk grade may be established for a loan considered satisfactory but which is of below average credit risk due to financial weaknesses or uncertainty. The loans warrant a higher than average level of monitoring to insure that weaknesses do not advance. The level of risk in a Monitored classification is considered acceptable and within normal underwriting guidelines, so long as the loan is given the proper level of management supervision.

Special Mention (5) Loans that possess some credit deficiency or potential weakness that deserves close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that if not corrected could weaken the loan and increase risk in the future. The key distinctions of a "5" (Special Mention) classification is that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered "potential", versus "defined" impairments to the primary source of loan repayment.

Substandard (6) One or more of the following characteristics may be exhibited in loans classified Substandard:

1. Loan which possess a defined credit weakness and the likelihood that a loan will be paid from the primary source of repayment is uncertain. Financial deterioration is underway and very close attention is warranted to insure that the loan is collected without loss.

2. Loans are inadequately protected by the current net worth and paying capacity of the obligor.

3. The primary source of repayment is gone, and the Company is forced to rely on a secondary source of repayment such as collateral liquidation or guarantees.

4. Loans are characterized by the distinct possibility that the Company will sustain some loss if deficiencies are not corrected.

5. Unusual courses of action are needed to maintain a high probability of repayment.

6. The borrower is not generating enough cash flow to repay loan principal; however, continues to make interest payments.

7. The lender is forced into a subordinated or unsecured position due to flaws in documentation.

8. Loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms.

9. The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.

10. There is a significant deterioration in the market conditions and the borrower is highly vulnerable to these conditions.

Doubtful (7) Doubtful loans include all nonperforming loans (nonconsumer), impairment tested substandard business loans that reflect a collateral shortfall and other loans deemed by management to be impaired.

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

	2015							
	Agricultural	Commercial and Industrial and Leases	Multi-Family and Nonresidential Real Estate	Tax-Exempt and Nonprofit	Construction	Residential Real Estate	Consumer	Total
Grade								
Pass (1-4)	$ 130,160	$ 100,750	$ 245,429	$ 12,544	$ 39,857	$ 142,125	$ 5,335	$676,200
Special mention (5)	1,050	3,764	8,657	—	—	1,331	54	14,856
Substandard (6)	1,138	2,643	9,755	—	—	2,071	—	15,607
Doubtful (7)	543	834	730	—	—	3,517	30	5,654
Total	$ 132,891	$ 107,991	$ 264,571	$ 12,544	$ 39,857	$ 149,044	$ 5,419	$712,317

	2014							
	Agricultural	Commercial and Industrial and Leases	Multi-Family and Nonresidential Real Estate	Tax-Exempt and Nonprofit	Construction	Residential Real Estate	Consumer	Total
Grade								
Pass (1-4)	$ 135,510	$ 86,064	$ 217,072	$ 13,478	$ 35,110	$ 122,764	$ 4,945	$614,943
Special mention (5)	594	9,025	10,244	—	497	719	61	21,140
Substandard (6)	716	2,866	8,745	—	—	2,722	30	15,079
Doubtful (7)	388	677	1,239	—	229	3,332	39	5,904
Total	$ 137,208	$ 98,632	$ 237,300	$ 13,478	$ 35,836	$ 129,537	$ 5,075	$657,066

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the past year.

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

	2015						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Total Loans > 90 Days & Accruing
Agricultural	$ 702	$ —	$ 271	$ 973	$ 131,918	$ 132,891	$ —
Commercial and industrial and leases	722	79	574	1,375	106,616	107,991	—
Multi-family and nonresidential real estate	348	667	331	1,346	263,225	264,571	—
Tax-exempt and nonprofit	—	—	—	—	12,544	12,544	—
Construction	—	—	—	—	39,857	39,857	—
Residential real estate	1,340	660	985	2,985	146,059	149,044	—
Consumer	19	34	7	60	5,359	5,419	—
Total	$ 3,131	$ 1,440	$ 2,168	$ 6,739	$ 705,578	$ 712,317	$ —

	2014						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Total Loans > 90 Days & Accruing
Agricultural	$ 495	$ —	$ 122	$ 617	$ 136,591	$ 137,208	$ —
Commercial and industrial and leases	210	—	515	725	97,907	98,632	—
Multi-family and nonresidential real estate	190	—	1,094	1,284	236,016	237,300	—
Tax-exempt and nonprofit	—	—	—	—	13,478	13,478	—
Construction	—		229	229	35,607	35,836	—
Residential real estate	1,685	548	899	3,132	126,405	129,537	—
Consumer	36	48	17	101	4,974	5,075	—
Total	$ 2,616	$ 596	$ 2,876	$ 6,088	$ 650,978	$ 657,066	$

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings.

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

	2015					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific valuation allowance						
Agricultural	$ 620	$ 652	$ —	$ 770	$ 13	$ 10
Commercial and industrial and leases	588	989	—	2,568	95	95
Multi-family and nonresidential real estate	2,444	3,219	—	7,204	185	182
Construction	—	—	—	221	15	15
Residential real estate	4,304	4,630	—	4,980	102	100
Consumer	35	114	—	156	5	5
	7,991	9,604	—	15,899	415	407
Loans with a specific valuation allowance						
Agricultural	148	148	54	155	—	—
Commercial and industrial and leases	2,150	2,155	436	2,265	65	65
Multi-family and nonresidential real estate	2,444	2,462	578	2,516	56	56
Construction	—	—	—	—	—	—
Residential real estate	2,038	2,411	730	2,167	20	18
Consumer	19	20	19	26	—	—
	6,799	7,196	1,817	7,129	141	139
	$ 14,790	$ 16,800	$ 1,817	$ 23,028	$ 556	$ 546

	2015					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Total						
Agricultural	$ 768	$ 800	$ 54	$ 925	$ 13	$ 10
Commercial and industrial and leases	2,738	3,144	436	4,833	160	160
Multi-family and nonresidential real estate	4,888	5,681	578	9,720	241	238
Construction	—	—	—	221	15	15
Residential real estate	6,342	7,041	730	7,147	122	118
Consumer	54	134	19	182	5	5
Total impaired loans	$ 14,790	$ 16,800	$ 1,817	$ 23,028	$ 556	$ 546

	2014					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific valuation allowance						
Agricultural	$ 367	$ 367	$ —	$ 518	$ 9	$ 9
Commercial and industrial and leases	884	1,040	—	1,038	36	36
Multi-family and nonresidential real estate	1,118	4,200	—	3,495	655	655
Construction	—	—	—	284	240	240
Residential real estate	2,780	3,463	—	3,638	35	35
Consumer	10	21		19	1	1
	5,159	9,091	—	8,992	976	976

	2014					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans with a specific valuation allowance						
Agricultural	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial and leases	1,484	1,485	566	1,520	32	32
Multi-family and nonresidential real estate	3,116	3,865	561	3,547	18	18
Construction	229	229	103	235	—	—
Residential real estate	2,706	2,705	691	2,753	61	61
Consumer	67	73	67	73	—	—
	7,602	8,357	1,988	8,128	111	111
	$ 12,761	$ 17,448	$ 1,988	$ 17,120	$ 1,087	$ 1,087
Total						
Agricultural	$ 367	$ 367	$ —	$ 518	$ 9	$ 9
Commercial and industrial and leases	2,368	2,525	566	2,558	68	68
Multi-family and nonresidential real estate	4,234	8,065	561	7,042	673	673
Construction	229	229	103	519	240	240
Residential real estate	5,486	6,168	691	6,391	96	96
Consumer	77	94	67	92	1	1
Total impaired loans	$ 12,761	$ 17,448	$ 1,988	$ 17,120	$ 1,087	$ 1,087

The following table presents the Company's nonaccrual loans at December 31, 2015 and 2014. This table excludes purchased impaired loans and performing troubled debt restructurings.

	2015	2014
Agricultural	$ 499	$ 367
Commercial and industrial and leases	754	637
Multi-family and nonresidential real estate	667	1,152
Construction	—	229
Residential real estate	3,145	2,929
Consumer	19	37
Total	$ 5,084	$ 5,351

At December 31, 2015 and 2014, the Company had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following tables present information regarding troubled debt restructurings by class for the years ended December 31, 2015 and 2014.

Newly classified troubled debt restructurings:

	2015		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Commercial and industrial and leases	1	$ 29	$ 29
Residential real estate	2	153	153
	3	$ 182	$ 182

Newly restructured loans by type of modification:

	2015			
	Interest Only	Term	Combination	Total Modification
Commercial and industrial and leases	$ —	$ 29	$ —	$ 29
Residential real estate	153	—	—	153
	$ 153	$ 29	$ —	$ 182

Newly classified troubled debt restructurings:

	2014		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Agricultural	1	$ 140	$ 140
Multi-family and nonresidential real estate	2	468	468
Residential real estate	1	7	7
	4	$ 615	$ 615

Newly restructured loans by type of modification:

	2014			
	Interest Only	Term	Combination	Total Modification
Agricultural	$ —	$ 140	$ —	$ 140
Multi-family and non-residential real estate	434	—	34	468
Residential real estate	—	—	7	7
	$ 434	$ 140	$ 41	$ 615

The troubled debt restructurings described above resulted in an increase of $13,700 in the allowance for loan losses during the year ended December 31, 2015 and no increase in the

allowance for loan losses during the year ended December 31, 2014. The troubled debt restructurings described above did not result in any charge offs during the year ended December 31, 2015 and did result in charge offs of $256,000 during the year ended December 31, 2014.

There were no troubled debt restructurings modified in the past 12 months that subsequently defaulted.

As of December 31, 2015, there were no borrowers with loans designated as TDRs that met the criteria for placement back on accrual status. This criteria is a minimum of six months of payment performance under existing or modified terms.

Note 6: Premises and Equipment

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

	2015	2014
Land	$ 2,551	$ 2,489
Buildings	12,276	11,512
Equipment	10,379	9,163
	25,206	23,164
Less accumulated depreciation	(12,933)	(10,790)
Construction in progress	107	48
Net premises and equipment	$ 12,380	$ 12,422

Note 7: Derivative Financial Instruments

The Company offers interest rate derivative products (*e.g.*, interest rate swaps) to certain of its high-quality commercial borrowers. This product allows customers to enter into an agreement with the Company to swap their variable rate loan to a fixed rate. These derivative products are designed to reduce, eliminate or modify the risk of changes in the borrower's interest rate or market price risk. The extension of credit incurred through the execution of these derivative products is subject to the same approvals and underwriting standards as the related traditional credit product. The Company limits its risk exposure to these products by entering into a mirror-image, offsetting swap agreement with a separate, well-capitalized and rated counterparty previously approved by the Company's Asset Liability Committee. By using these interest rate swap arrangements, the Company is also better insulated from the interest rate risk associated with underwriting fixed-rate loans. These derivative contracts are not designated against specific assets or liabilities under FASB ASC 815-10 and, therefore, do not qualify for hedge accounting. The derivatives are recorded on the balance sheet at fair value and changes in fair value of both the customer and the offsetting swap agreements are recorded (and essentially offset) in non-interest income. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with FASB ASC 820-10), resulting in some insignificant volatility in earnings each period. The notional amounts of the interest rate swaps were $45,710,000 and $15,600,000 at December 31, 2015 and 2014, respectively.

The following table presents the fair value of derivative instruments as of December 31, 2015 and 2014:

	2015			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate contracts	Other Assets	$ 1,756	Other Liabilities	$ 1,756

	2014			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate contracts	Other Assets	$ 1,611	Other Liabilities	$ 1,611

Note 8: Core Deposit Intangible

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2015 and 2014, were:

	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 899	$ 82	$ 4,066	$ 4,066

Amortization expense for the years ended December 31, 2015 and 2014, was approximately $82,000 and $150,000, respectively.

Estimated amortization expense for each of the following five years is:

2016	$ 90
2017	90
2018	90
2019	90
2020	90

Note 9: Deposits

	2015	2014
Demand deposits	$ 204,748	$ 175,765
Savings deposits	213,344	181,494
Interest-bearing demand deposits	214,712	196,124
Certificates of $100,000 or more	89,608	88,790
Other certificates and time deposits	81,168	87,174
	$ 803,580	$ 729,347

Certificates maturing in years ending December 31:

2016	$ 98,258
2017	28,444
2018	19,741
2019	10,804
2020	11,172
Thereafter	2,357
	$ 170,776

Certificates of deposit of $250,000 or more at December 31, 2015 and 2014 totaled approximately $32,918,000 and $35,970,000, respectively.

Note 10: Short-Term Borrowings

Short-term borrowings included the following:

	2015	2014
Securities sold under repurchase agreements	$ 9,559	$ 11,331
Short-term Federal Home Loan Bank advances	30,000	30,000
Total short-term borrowings	$ 39,559	$ 41,331

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by investment securities and such collateral is held by a safekeeping agent. The maximum amount of outstanding agreements at any month end during 2015 and 2014 totaled approximately $19,898,000 and $24,169,000, and the daily average of such agreements totaled approximately $11,623,000 and $14,834,000, respectively.

The remaining contractual maturity of the agreements by collateral pledged was:

	2015				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Government agencies	$ 964	$ —	$ —	$ —	$ 964
Mortgage-backed Government Sponsored Enterprise (GSE) residential	8,595	—	—	—	8,595
Total borrowings	$ 9,559	$ —	$ —	$ —	$ 9,559

Each of the short-term Federal Home Loan Bank advances bear interest at a variable rate of 0.58% (at December 31, 2015) and are due at various dates through June 27, 2016.

The Company had available unused Federal Funds commitments of $60,000,000 at December 31, 2015, with three institutions.

Note 11: Long-Term Debt

	2015	2014
Federal Home Loan Bank Advances, fixed rates ranging from 0.58% to 4.54%, due at various dates through January 27, 2020	$ 68,000	$ 57,000

The Federal Home Loan Bank advances, including both short term and long term, are secured by mortgage loans and investment securities totaling approximately $326,091,000 and $291,753,000 at December 31, 2015 and 2014, respectively. Advances are subject to restrictions or penalties in the event of prepayment.

In addition, $20,000,000 of the advances outstanding at December 31, 2015, contained an option whereby the interest rate may be adjusted by the Federal Home Loan Bank at which time the advance may be repaid at the option of the Company without penalty.

Aggregate annual maturities of long-term debt at December 31, 2015, are:

2016	$ 20,000
2017	20,000
2018	10,000
2019	8,000
2020	10,000
	$ 68,000

Note 12: Guaranteed Preferred Beneficial Interests in Independent Alliance Banks, Inc. Subordinated Debentures

In June 2004, Grabill Bancorp formed Grabill Capital Trust I (Trust), a statutory business trust. As a result of the completed merger, the rights and obligations to the Trust were assumed by the Company. The Trust issued $10,310,000 of Trust Preferred Capital Securities (TPS) as a participant in a pooled trust preferred securities offering. Grabill Bancorp issued junior subordinated debentures aggregating $10,310,000 to the Trust. The junior subordinated debentures are the sole assets of the Trust. The junior subordinated debentures and the trust preferred securities pay interest and dividends, respectively, on a quarterly basis. The junior subordinated debentures and the securities bear interest at a rate of three-month LIBOR (0.42%) plus 2.60% (3.02%) and mature on July 23, 2034, and are noncallable for five years. After that period, the securities may be called at any quarterly interest payment date at par. The Trust Preferred Capital Securities, subject to certain limitations, are included in Tier 1 Capital for regulatory purposes.

The Trust is not consolidated into the Company and as a result, the Company accounts for the investment in the Trust as an asset, the subordinated debentures as debt, and the interest paid thereon as interest expense.

Note 13: Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2012.

The provision for income taxes includes these components:

	2015	2014
Taxes currently payable	$ 1,876	$ 1,800
Deferred income taxes	225	264
Income tax expense	$ 2,101	$ 2,064

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

	2015	2014
Computed at the statutory rate (34%)	$ 3,945	$ 3,865
Increase (decrease) resulting from		
Tax credits	(176)	(160)
Tax-exempt interest	(1,186)	(1,138)
Effect of state income taxes	77	120
Captive insurance company excluded income	(349)	(336)
Corporate owned life insurance income	(277)	(286)
Other	67	(1)
Actual tax expense	$ 2,101	$ 2,064

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

	2015	2014
Deferred tax assets		
Differences in accounting for loan losses	$ 3,595	$ 4,151
Deferred compensation	2,101	1,591
Differences in accounting for employee benefits	435	627
Nonaccrual interest	227	215
State net operating loss	147	40
	6,505	6,624
Deferred tax liabilities		
Differences in expense recognition	(558)	(576)
State income tax	(171)	(227)
Accretion of investment discounts	(14)	(15)
Differences in depreciation methods	(588)	(769)
Federal Home Loan Bank stock dividends	(88)	(117)
Differences in basis of assets	(244)	—
Differences in basis of intangible assets	(332)	—
Differences in income recognition	(313)	(312)
Unrealized gain on securities available-for-sale	(994)	(1,451)
	(3,302)	(3,467)
Net deferred tax asset	$ 3,203	$ 3,157

At December 31, 2015, the Company had approximately $2,106,000 in state net operating losses. The net operating losses can be carried forward to off-set future state taxable income. The net operating losses begin to expire in 2028.

Note 14: Changes in Accumulated Other Comprehensive Income (AOCI) by Component

Amounts reclassified from AOCI and the affected line items in the statements of income during the years ended December 31, 2015 and 2014, were as follows:

	Amounts Reclassified from AOCI 2015	Amounts Reclassified from AOCI 2014	Affected Line Item in the Statements of Income
Unrealized gains (losses) on available-for-sale securities			
	$ 108,377	$ 133,107	Net realized gains on sales of available-for-sale securities
	(36,848)	(45,256)	Provision for income taxes
Total reclassifications out of AOCI	$ 71,529	$ 87,851	Net reclassified amount

Note 15: Regulatory Matters

The Company 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 financial statements. 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 assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

As of December 31, 2015, the most recent notification from Federal Reserve Bank and FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company or Bank's categories.

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

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2015						
Total capital (to risk-weighted assets)						
Consolidated	$121,268	14.8%	$ 65,734	8.0%	$ —	N/A
iAB Financial Bank	117,701	14.3	65,746	8.0	82,182	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	$111,267	13.5%	$ 49,301	6.0%	$ —	N/A
iAB Financial Bank	107,700	13.1	49,309	6.0	65,746	8.0%
Common equity Tier I capital (to risk-weighted assets)						
Consolidated	$101,142	12.3%	$ 36,976	4.5%	$ —	N/A
iAB Financial Bank	107,575	13.1	36,982	4.5	53,418	6.5%
Tier I capital (leverage) (to average assets)						
Consolidated	$111,267	10.6%	$ 41,990	4.0%	$ —	N/A
iAB Financial Bank	107,700	10.3	41,876	4.0	52,345	5.0%
As of December 31, 2014						
Total capital (to risk-weighted assets)						
Consolidated	$115,304	16.1%	$ 57,292	8.0%	$ —	N/A
iAB Financial Bank	112,418	15.7	57,256	8.0	71,570	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	$106,334	14.8%	$ 28,646	4.0%	$ —	N/A
iAB Financial Bank	103,454	14.5	28,628	4.0	42,942	6.0%
Tier I capital (leverage) (to average assets)						
Consolidated	$106,334	11.1%	$ 38,447	4.0%	$ —	N/A
iAB Financial Bank	103,454	10.8	38,357	4.0	47,947	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. These regulations stipulate that regulatory approval is required for the payment of a dividend if the total of all dividends declared by the Company during the calendar year, including the proposed dividend, would exceed the sum of the retained net income for the year to date combined with its retained net income for the previous two years. If the Company does not meet the regulatory stipulations it may still be exempt from obtaining prior regulatory approval to declare a dividend if it meets additional established regulatory criteria.

Note 16: Related Party Transactions

At December 31, 2015 and 2014, the Bank had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties), of approximately $3,860,000 and $9,042,000, respectively.

At December 31, 2015 and 2014, the Bank had deposits from executive officers, directors, significant stockholders and their affiliates (related parties), of approximately $4,501,000 and $7,124,000, respectively.

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

Note 17: Employee Benefits

Defined Contribution Plan

The Company sponsors a retirement plan titled IAB 401(k) Profit Sharing Plan (Plan) which includes a 401(k) component and an employee stock ownership plan (ESOP) component. The Plan covers substantially all of the Company's employees. Employer contributions charged to expense for 2015 and 2014 was approximately $767,000 and $745,000, respectively.

The cost of the ESOP is borne by the Company through contributions to an employee stock ownership trust in amounts determined by the Board of Directors. The Plan provides for the purchase of any stock distributed to a participant at its fair value within 60 days of its distribution. If the participant does not exercise the put option within the 60-day period, the option will temporarily lapse. After the next succeeding appraisal of the Company's stock has been completed, all those who did not exercise the put option during the first option period will have an additional 60-day option period.

The total number of shares held by the ESOP, all of which have been allocated to participant accounts, was 132,822 at December 31, 2015 and 136,694 at December 31, 2014. At December 31, 2015 and 2014, the fair value of the allocated shares, as determined by an independent appraiser, was approximately $4,084,000 and $3,862,000, respectively. At December 31, 2015 and 2014, there were no shares subject to a put option.

Deferred Compensation

The Company has deferred compensation agreements with certain officers and directors. The Company's expense for the agreements was approximately $401,000 and $334,000 for 2015 and 2014, respectively.

Note 18: Disclosures About Fair Value of Assets and Liabilities

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

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

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

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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

		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)
Cash Equivalents				
Money market mutual funds	$ 3,876	$ 3,876	$ —	$ —
Available-for-Sale Securities				
U.S. Government agencies	29,816	—	29,816	—
Mortgage-backed GSE residential	66,736	—	66,736	—
State and political subdivision	123,754	—	123,754	—
Asset-backed	2,610	—	2,610	—

	2014 Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents				
Money market mutual funds	$ 2,590	$ 2,590	$ —	$ —
Available-for-Sale Securities				
U.S. Government agencies	39,069	—	39,069	—
Mortgage-backed GSE residential	50,675	—	50,675	—
State and political subdivision	96,789	—	96,789	—
Asset-backed	4,174	—	4,174	—

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2015.

Cash Equivalents and Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market mutual funds. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted market prices of securities with similar characteristics or discounted cash flows. The inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. These Level 2 securities include U.S. Government agencies, state and political subdivision, mortgage-backed GSE residential securities, and asset-backed securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company has no securities classified as Level 3.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

		2015 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral-dependent)	$ 4,982	$	$	$ 4,982

		2014 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral-dependent)	$ 5,614	$ —	$ —	$ 5,614

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral-Dependent)

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

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is

determined to be collateral-dependent and subsequently as deemed necessary by the Controller's office. Appraisals are reviewed for accuracy and consistency by the Controller's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Controller's office by comparison to historical results.

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, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans (collateral-dependent)	$ 4,982	Market comparable properties	Marketability discount	0% – 76% (27%)

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans (collateral-dependent)	$ 5,614	Market comparable properties	Marketability discount	1% – 73% (26%)

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Certificates of Deposit, and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Loans Held for Sale

Fair value of loans held for sale are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Company's current origination rates for similar loans and adjusted to reflect the inherent credit risk.

Loans, net of allowance for loan losses

Fair value is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Company would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions. Loans with similar characteristics were aggregated for the purpose of the calculations.

Deposits

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

Accrued Interest Receivable and Payable

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Short-Term Borrowings

The carrying amount approximates fair value.

Long-Term Debt and Junior Subordinated Debt

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

The following tables present estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014.

		2015 Fair Value Measurements Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 35,588	$ 35,588	$ —	$ —
Certificates of deposit	15,449	—	15,449	—
Loans held for sale	1,743	—	1,780	—
Loans, net of allowance for loan losses	702,243	—	—	702,024
Federal Home Loan Bank stock	4,383	—	4,383	—
Interest receivable	4,690	—	4,690	—
Financial liabilities				
Deposits	803,580	204,748	599,791	—
Short-term borrowings	39,559	—	39,559	—
Long-term debt	68,000	—	68,324	—
Junior subordinated debt	10,310	—	—	10,258
Interest payable	670	—	670	—

		2014 Fair Value Measurements Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 37,853	$ 37,853	$ —	$ —
Certificates of deposit	14,197	—	14,197	—
Loans held for sale	644	—	659	—
Loans, net of allowance for loan losses	647,057	—	—	650,737
Federal Home Loan Bank stock	5,738	—	5,738	—
Interest receivable	4,359	—	4,359	—
Financial liabilities				
Deposits	729,347	175,765	554,910	—
Short-term borrowings	41,331	—	41,331	—
Long-term debt	57,000	—	58,449	—
Junior subordinated debt	10,310	—	—	10,268
Interest payable	802	—	802	—

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Goodwill

As discussed in Note 1, the Company annually tests its goodwill for impairment. At the most recent testing date, the fair value of the bank reporting unit exceeded its carrying value by approximately 42%. Estimated fair value of the bank reporting unit was based principally on forecasts of future income. Due to the volatility of the current economic environment, management's forecasts of future income are subject to significantly more uncertainty than during more stable environments. Management believes it has applied reasonable judgment in developing its estimates; however, unforeseen negative changes in the national, state or local economic environment may negatively impact those estimates in the near term.

Note 20: Commitments and Credit Risk

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

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

	2015	2014
Commitments to extend credit	$ 149,929	$ 151,191
Standby letters of credit	8,328	8,829

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

include accounts receivable, inventory, property and equipment and income-producing commercial properties.

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

The Company and Bank are also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

Note 21: Subsequent Event

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