# Town and Country Financial Corporation

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2017 and 2016

BKD LLP
CPAs & Advisors

# Town and Country Financial Corporation
## December 31, 2017 and 2016

## Contents

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# Independent Auditor's Report

Board of Directors
Town and Country Financial Corporation
Springfield, Illinois

We have audited the accompanying consolidated financial statements of Town and Country Financial Corporation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Town and Country Financial Corporation and its subsidiaries, as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Decatur, Illinois
March 22, 2018

# Town and Country Financial Corporation
## Consolidated Balance Sheets
## December 31, 2017 and 2016

| **Assets** | **2017** | **2016** |
|---|---|---|
| Cash and due from banks | $ 11,057,229 | $ 10,905,320 |
| Interest-bearing demand deposits | 820,120 | 1,258,276 |
| Cash and cash equivalents | 11,877,349 | 12,163,596 |
| Interest-bearing time deposits in banks | 1,964,000 | 1,478,000 |
| Held-to-maturity securities | 63,676,211 | 69,716,685 |
| Available-for-sale securities | 108,712,527 | 120,154,344 |
| Loans held for sale | 8,606,444 | 8,971,320 |
| Loans, net of allowance for loan losses of $5,355,387 and $5,160,510 at December 31, 2017 and 2016 | 493,267,858 | 467,685,755 |
| Premises and equipment, net of accumulated depreciation of $12,544,306 and $11,439,154 at December 31, 2017 and 2016 | 22,484,469 | 21,968,427 |
| Federal Reserve and Federal Home Loan Bank stock | 2,409,900 | 3,670,400 |
| Foreclosed assets held for sale, net | 514,518 | 195,280 |
| Cash surrender value of life insurance | 14,147,117 | 13,727,072 |
| Mortgage servicing rights | 5,822,394 | 4,894,416 |
| Goodwill | 6,317,994 | 6,317,994 |
| Core deposit intangibles | 1,557,776 | 1,962,937 |
| Other | 7,879,607 | 5,985,431 |
| Total assets | $ 749,238,164 | $ 738,891,657 |

| **Liabilities and Stockholders' Equity** | | |
|---|---|---|
| Deposits | | |
| Non-interest bearing | $ 111,486,731 | $ 113,436,387 |
| Interest bearing, savings and money market | 309,606,316 | 312,178,885 |
| Time | 171,291,969 | 158,438,932 |
| Total deposits | 592,385,016 | 584,054,204 |
| Federal funds purchased | 1,125,000 | - |
| Other borrowings | 81,500,000 | 86,800,000 |
| Junior subordinated debt owed to unconsolidated parties | 13,925,627 | 13,872,922 |
| Deferred income taxes | 1,222,682 | 805,515 |
| Other liabilities | 5,219,102 | 5,448,776 |
| Total liabilities | 695,377,427 | 690,981,417 |
| **Stockholders’ Equity** | | |
| Preferred stock, no par value; $1,000 liquidation value; authorized 1,000,000 shares; issued and outstanding 0 shares | - | - |
| Common stock, no par value; authorized 5,000,000 shares; issued 2,983,608 shares; outstanding 2,857,567 and 2,845,204 shares at December 31, 2017 and 2016 | 1,657,560 | 1,657,560 |
| Additional paid-in capital | 10,300,139 | 10,023,030 |
| Retained earnings | 43,068,994 | 37,854,454 |
| Accumulated other comprehensive income (loss) | (154,810) | (581,802) |
| | 54,871,883 | 48,953,242 |
| Treasury stock, at cost | | |
| Common; 126,041 and 138,404 shares at December 31, 2017 and 2016 | 1,011,146 | 1,043,002 |
| Total stockholders’ equity | 53,860,737 | 47,910,240 |
| Total liabilities and stockholders’ equity | $ 749,238,164 | $ 738,891,657 |

# Town and Country Financial Corporation
## Consolidated Statements of Income
## Years ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Interest and Dividend Income** | | |
| Loans | $ 21,162,728 | $ 19,636,427 |
| Securities | | |
| Taxable | 2,656,367 | 2,222,989 |
| Tax-exempt | 1,140,075 | 742,554 |
| Other | 382,049 | 412,538 |
| Dividends on Federal Home Loan and Federal Reserve Bank stock | 114,072 | 94,775 |
| Deposits with financial institutions | 86,232 | 85,745 |
| Total interest and dividend income | 25,541,523 | 23,195,028 |
| **Interest Expense** | | |
| Deposits | 2,133,942 | 1,766,800 |
| Other borrowings | 1,877,935 | 1,545,964 |
| Total interest expense | 4,011,877 | 3,312,764 |
| **Net Interest Income** | 21,529,646 | 19,882,264 |
| **Provision for Loan Losses** | 1,020,000 | 1,230,000 |
| **Net Interest Income After Provision for Loan Losses** | 20,509,646 | 18,652,264 |
| **Noninterest Income** | | |
| Fiduciary activities | 738,000 | 647,516 |
| Customer service fees | 1,596,200 | 1,444,817 |
| Other service charges and fees | 2,152,346 | 2,011,477 |
| Realized gains on sales of available-for-sale securities | 269,841 | 987,750 |
| Mortgage banking income, net | 5,550,273 | 5,755,844 |
| Other | 463,476 | 541,144 |
| Total noninterest income | 10,770,136 | 11,388,548 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 14,961,464 | 13,570,847 |
| Net occupancy expense | 1,646,849 | 1,933,321 |
| Equipment expense | 755,143 | 728,765 |
| Other | 7,223,173 | 7,443,561 |
| Total noninterest expense | 24,586,629 | 23,676,494 |
| **Income Before Income Taxes** | 6,693,153 | 6,364,318 |
| **Provision for Income Taxes** | 1,047,859 | 1,641,645 |
| **Net Income** | 5,645,294 | 4,722,673 |
| Preferred stock dividend | - | 9,306 |
| **Net Income Available to Common Stockholders** | $ 5,645,294 | $ 4,713,367 |
| **Basic Earnings Per Share** | $ 1.98 | $ 1.66 |
| **Weighted Average Shares Outstanding** | 2,850,599 | 2,845,204 |

# Town and Country Financial Corporation
## Consolidated Statements of Comprehensive Income
## Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Net Income** | $ 5,645,294 | $ 4,722,673 |
| **Other Comprehensive Income (Loss)** | | |
| Change in fair value of derivative financial instruments, net of taxes of $119,919 and $189,128 for 2017 and 2016, respectively | 123,489 | 336,940 |
| Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $301,587 and $(427,006), for 2017 and 2016, respectively | 491,694 | (665,564) |
| Less: reclassification adjustment for realized gains included in net income, net of taxes of $107,116 and $386,358, for 2017 and 2016, respectively | 162,725 | 601,392 |
| | 452,458 | (930,016) |
| Comprehensive Income | $ 6,097,752 | $ 3,792,657 |

# Town and Country Financial Corporation

## Consolidated Statements of Stockholders' Equity

## Years Ended December 31, 2017 and 2016

| | Preferred Stock | | Common Stock | | | | Accumulated Other Compre-hensive Income (Loss) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares Issued | Amount | Shares Issued | Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Compre-hensive Income (Loss) | Treasury Stock | Total |
| **Balance, January 1, 2016** | 5,000 | $ 5,000,000 | 2,983,608 | $ 1,657,560 | $9,902,070 | $ 33,482,511 | $ 348,214 | $ (1,043,002) | $ 49,347,353 |
| Redemption of Preferred Stock | (5,000) | (5,000,000) | - | - | - | - | - | - | (5,000,000) |
| Net income | - | - | - | - | - | 4,722,673 | - | - | 4,722,673 |
| Other comprehensive loss | - | - | - | - | - | - | (930,016) | - | (930,016) |
| Dividends on preferred stock | - | - | - | - | - | (9,306) | - | - | (9,306) |
| Dividends on common stock, $0.12 per share | - | - | - | - | - | (341,424) | - | - | (341,424) |
| Stock compensation expense | - | - | - | - | 120,960 | - | - | - | 120,960 |
| **Balance, December 31, 2016** | - | - | 2,983,608 | $ 1,657,560 | $10,023,030 | $ 37,854,454 | $ (581,802) | $ (1,043,002) | $ 47,910,240 |
| Net income | - | - | - | - | - | 5,645,294 | - | - | 5,645,294 |
| Other comprehensive income | - | - | - | - | - | - | 452,458 | - | 452,458 |
| Amount of stranded AOCI reclassified to retained earnings due to enacted change in tax laws | - | - | - | - | - | 25,466 | (25,466) | - | - |
| Dividends on common stock, $0.16 per share | - | - | - | - | - | (456,220) | - | - | (456,220) |
| Treasury stock issued (9,863 shares) | | | | | 183,351 | | | 25,741 | 209,092 |
| Stock compensation expense | - | - | - | - | 99,873 | - | - | - | 99,873 |
| Stock compensation forfeiture (7,500 shares) | - | - | - | - | 18,375 | - | - | (18,375) | - |
| Issuance of 10,000 treasury shares to restricted stock plan | - | - | - | - | (24,490) | - | - | 24,490 | - |
| **Balance, December 31, 2017** | - | $ - | 2,983,608 | $ 1,657,560 | $10,300,139 | $ 43,068,994 | $ (154,810) | $ (1,011,146) | $ 53,860,737 |

# Town and Country Financial Corporation

## Consolidated Statements of Cash Flows

## Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 5,645,294 | $ 4,722,673 |
| Items not requiring (providing) cash | | |
| Depreciation | 1,141,684 | 1,055,967 |
| Provision for loan losses | 1,020,000 | 1,230,000 |
| Amortization of premiums and discounts on securities | 1,554,949 | 1,534,987 |
| Change in fair value of mortgage servicing rights | 533,998 | 1,109,613 |
| Deferred income taxes | 102,777 | 319,581 |
| Net realized gains on available-for-sale securities | (269,841) | (987,750) |
| Gain on sale of property and equipment | - | (2,000) |
| Write downs on property & equipment | 208,927 | - |
| Gains on loan sales | (3,792,016) | (4,465,333) |
| Net (gain) loss on foreclosed assets | (61,864) | 3,842 |
| Amortization of core deposit intangibles | 405,161 | 361,436 |
| Net amortization of purchase accounting adjustments | (417,837) | - |
| Stock compensation cost | 99,873 | 120,960 |
| Increase in cash surrender value of life insurance | (420,045) | (428,685) |
| Loans originated for sale | (144,877,199) | (181,492,766) |
| Proceeds from sales of loans originated for sale | 141,660,912 | 180,556,662 |
| Changes in | | |
| Other assets | (1,894,743) | 69,942 |
| Other liabilities | 14,302 | (200,494) |
| Net cash provided by operating activities | 654,332 | 3,508,635 |
| **Investing Activities** | | |
| Net cash received in acquisitions | - | 46,764,744 |
| Net change in interest-bearing time deposits in banks | (486,000) | (980,000) |
| Purchases of available-for-sale securities | (11,340,410) | (43,089,118) |
| Proceeds from maturities of available-for-sale securities | 18,446,953 | 18,640,005 |
| Proceeds from the sales of available-for-sale securities | 4,083,610 | 988,739 |
| Purchases of held-to-maturity securities | - | (48,758,607) |
| Proceeds from maturities of held-to-maturity securities | 5,530,469 | 9,699,907 |
| Net change in loans | (21,067,596) | (21,489,581) |
| Purchase of premises and equipment | (1,866,653) | (2,423,988) |
| Cost from the capitalization of foreclosed assets | 4,254 | 5,027 |
| Proceeds from the sale of foreclosed assets | 641,542 | 797,665 |
| Purchase of Federal Home Loan Bank Stock | (2,846,250) | (49,950) |
| Purchase of Federal Reserve Bank Stock | (281,250) | (479,050) |
| Proceeds from redemption of Federal Reserve Stock | - | 270,000 |
| Proceeds from redemption of Federal Home Loan Bank Stock | 4,388,000 | - |
| Proceeds from sale of property and equipment | - | 2,000 |
| Net cash used in investing activities | (4,793,331) | (40,102,207) |
| **Financing Activities** | | |
| Net increase (decrease) in demand deposits, money market, NOW and savings accounts | (4,522,225) | 28,996,583 |
| Net increase (decrease) in certificates of deposit | 12,797,105 | (20,671,438) |
| Proceeds from other borrowings | 1,125,000 | 14,000,000 |
| Repayment of other borrowings | (1,200,000) | (600,000) |
| Proceeds from Federal Home Loan Bank advance | 730,725,000 | 514,700,000 |
| Repayment of Federal Home Loan Bank advances | (734,825,000) | (492,300,000) |
| Redemption of preferred stock | - | (5,000,000) |
| Proceeds from issuance of common stock | 209,092 | - |
| Dividends paid on preferred stock | - | (21,806) |
| Dividends paid on common stock | (456,220) | (341,424) |
| Net cash provided by financing activities | 3,852,752 | 38,761,915 |
| **Increase (Decrease) in Cash and Cash Equivalents** | (286,247) | 2,168,343 |
| **Cash and Cash Equivalents, Beginning of Year** | 12,163,596 | 9,995,253 |
| **Cash and Cash Equivalents, End of Year** | $ 11,877,349 | $ 12,163,596 |
| **Supplemental Cash Flows Information** | | |
| Interest paid | $ 3,964,131 | $ 3,073,251 |
| Income taxes paid (net of refunds) | $ 2,215,947 | $ 1,257,937 |
| Real estate acquired in settlement of loans | $ 903,170 | $ 622,257 |
| Transfer of loans held for sale to portfolio loans | $ 5,911,203 | - |

The Company purchased all of the capital stock of West Plains Investors, Inc. for $23,000,000 on February 29, 2016 and received net cash of $1,358,565 for the purchase of certain assets and assumption of certain liabilities from Centrue Bank on June 17, 2016. In conjunction with these transactions, liabilities were assumed as follows:

| | |
|---|---|
| Fair value of assets acquired | $201,087,491 |
| Less cash paid | 24,358 565 |
| Less seller non-compete agreement | 300,000 |
| Liabilities assumed | $176,428,926 |

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

### *Nature of Operations*

Town and Country Financial Corporation ("Company") is a bank holding company, which through its subsidiaries provide a full range of banking and financial services to individuals, organizations, and businesses in central and metro-east areas of Illinois. Additionally, the Company owns three wholly owned subsidiaries, Town and Country Risk Management, Inc, which is a captive insurance corporation providing group insurance to the Company as well as other group participants, Town and Country Community Development Corporation and Town and Country Bank. The Company is subject to competition from other financial institutions. The Company and its bank subsidiary are subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Town and Country Risk Management, Inc., Town and Country Community Development Corporation and Town and Country Bank and the Bank's wholly-owned subsidiaries Town and Country Banc Mortgage Services, Inc. and Haley, LLC. Haley, LLC was merged into Town and Country Bank during 2016. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

### *Cash Equivalents*

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of noninterest bearing deposits and interest bearing deposits.

At December 31, 2017, the Company had approximately $964,000 in cash accounts that exceeded federally insured limits.

### *Interest-bearing Deposits in Banks*

Interest-bearing deposits in banks mature within one year and are carried at cost.

### *Securities*

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

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

The Company’s consolidated statements of income reflect the full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

For equity securities, when the Company does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired and the Company recognizes an impairment loss.

### *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.

### *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, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income if accrued in the current year. 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.

Discounts and premiums on purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

### *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 collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans 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. 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 commercial 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.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group'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 loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

### *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. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

| | |
|---|---|
| Buildings and improvements | 35-40 years |
| Leasehold improvements | 5-10 years |
| Equipment | 3-5 years |

### *Federal Reserve and Federal Home Loan Bank Stock*

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

### *Bank-Owned Life Insurance*

The Company has purchased life insurance policies on certain key individuals. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts dues that are probable at settlement.

### *Foreclosed Assets Held for Sale*

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

### *Goodwill*

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. 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 financial statements. All goodwill is allocated to the banking segment of the business.

### *Intangible Assets*

Intangible assets with finite lives are being amortized on the straight-line basis over an appropriate period of time, 7 to 15 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

### *Derivatives*

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation.

### *Mortgage Servicing Rights*

Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company has elected to initially and subsequently measure the mortgage servicing rights for consumer mortgage loans using the fair value method. Under the fair value method, the servicing rights are carried in the consolidated balance sheet at fair value and the changes in said value are reported in earnings in the period in which the changes occur.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

### *Treasury Stock*

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

### *Share-Based Compensation*

Compensation cost is measured using the fair value of an award on the grant dates and is recognized over the service period, which is usually the vesting period. Compensation cost related to the non-vested portion of awards outstanding is based on the grant-date fair value of those awards. The Corporation has an incentive restricted stock award plan which is described more fully in Note 18.

### *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.

### *Trust Assets and Fees*

Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets, since such items are not assets of the Company.

Fees from trust activities are recorded on the cash basis, for the period in which the service is provided. Fees are a function of the market value of assets managed and administered and the volume of transactions and fees for other services rendered, as set forth in the underlying trust agreements. The Company manages or administers trust accounts with assets totaling approximately $155,950,097 and $144,516,761 as of December 31, 2017 and 2016, respectively.

### *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 revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax 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.

On December 22, 2017, the United States enacted tax reform legislation through the *Tax Cuts and Jobs Act*, which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35 percent to 21 percent, as well as other changes. As a result of enactment of the legislation, the Company incurred additional one-time income tax benefit of $399,534 during the fourth quarter of 2017, related to the remeasurement of certain deferred tax assets and liabilities.

The Company uses the specific identification method for reclassifying material stranded effects in accumulated other comprehensive income (AOCI) to earnings.

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

The Company files consolidated income tax returns with its subsidiaries.

### *Earnings Per Share*

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. The restricted stock did not have a material effect on diluted earnings per share. Treasury stock shares are not deemed outstanding for earnings per share calculations.

### *Comprehensive Income*

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized depreciation on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income and change in derivative financial instruments that qualify for hedge accounting.

## Note 2: Securities

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-sale Securities:** | | | | |
| December 31, 2017: | | | | |
| U.S. government agencies | $ 12,886,000 | $ 2,629 | $ (117,451) | $ 12,771,178 |
| Mortgage-backed securities | 74,321,885 | 543,210 | (600,973) | 74,264,122 |
| State and political subdivisions | 12,809,617 | 28,191 | (328,138) | 12,509,670 |
| Equity securities | 14,396 | 1,298,285 | - | 1,312,681 |
| Trust preferred securities | 8,039,404 | 84,419 | (1,779,157) | 6,344,666 |
| Corporates | 1,500,000 | 13,450 | (3,240) | 1,510,210 |
| | $ 109,571,302 | $ 1,970,184 | $ (2,828,959) | $ 108,712,527 |
| December 31, 2016: | | | | |
| U.S. government agencies | $ 12,933,891 | $ 24,056 | $ (74,259) | $ 12,883,688 |
| Mortgage-backed securities | 83,566,992 | 701,637 | (1,153,189) | 83,115,440 |
| State and political subdivisions | 12,964,634 | 42,757 | (602,923) | 12,404,468 |
| Equity securities | 15,487 | 1,644,530 | - | 1,660,017 |
| Trust preferred securities | 8,563,462 | 198,960 | (2,233,556) | 6,528,866 |
| Corporates | 3,492,093 | 107,632 | (37,860) | 3,561,865 |
| | $ 121,536,559 | $ 2,719,572 | $ (4,101,787) | $ 120,154,344 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Held-to-maturity Securities:** | | | | |
| December 31, 2017: | | | | |
| U.S. government agencies | $ 1,000,000 | $ - | $ (24,800) | $ 975,200 |
| Mortgage-backed securities | 23,877,085 | 127,620 | (276,642) | 23,728,063 |
| State and political subdivisions | 38,751,176 | 24,350 | (962,324) | 37,813,202 |
| Trust preferred security | 47,950 | - | - | 47,950 |
| | $ 63,676,211 | $ 151,970 | $ (1,263,766) | $ 62,564,415 |
| December 31, 2016: | | | | |
| U.S. government agencies | $ 1,000,000 | $ - | $ (32,500) | $ 967,500 |
| Mortgage-backed securities | 29,630,274 | 196,206 | (375,780) | 29,450,700 |
| State and political subdivisions | 39,022,575 | 416 | (2,686,605) | 36,336,386 |
| Trust preferred security | 63,836 | - | - | 63,836 |
| | $ 69,716,685 | $ 196,622 | $ (3,094,885) | $ 66,818,422 |

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2017, 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.

| | Available-for-sale | | Held-to-maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within one year | $ 2,483,210 | $ 2,492,028 | $ 15,500 | $ 15,500 |
| One to five years | 13,762,622 | 13,722,942 | 429,836 | 427,336 |
| Five to ten years | 2,756,523 | 2,653,912 | 6,027,405 | 6,003,271 |
| After ten years | 8,193,262 | 7,922,176 | 33,278,435 | 32,342,295 |
| | 27,195,617 | 26,791,058 | 39,751,176 | 38,788,402 |
| Mortgage-backed securities | 74,321,885 | 74,264,122 | 23,877,085 | 23,728,063 |
| Trust preferred securities | 8,039,404 | 6,344,666 | 47,950 | 47,950 |
| Equity securities | 14,396 | 1,312,681 | - | - |
| Totals | $ 109,571,302 | $ 108,712,527 | $ 63,676,211 | $ 62,564,415 |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $36,503,423 at December 31, 2017, and $36,919,005 at December 31, 2016.

Gross gains of $269,841 and $987,750 resulting from sales of all available-for-sale securities were realized for 2017 and 2016, respectively.

Certain investments in debt and equity 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, 2017 and 2016, was $119,268,266 and $130,281,081, which is approximately 70% and 70%, respectively, of the Company's available-for-sale and held-to-maturity investment portfolio. These declines primarily resulted from recent changes in market interest rates and failure of certain investments to maintain consistent credit quality ratings.

Management believes the declines in fair value for all 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, 2017 and 2016:

**December 31, 2017**

| Description of Securities | Less than 12 Months Fair Value | Less than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| **Available-for-sale securities:** | | | | | | |
| U.S. government agencies | $ 6,001,040 | $ (35,358) | $ 4,974,760 | $ (82,093) | $ 10,975,800 | $ (117,451) |
| Mortgage-backed securities | 24,103,188 | (151,120) | 19,992,389 | (449,853) | 44,095,577 | (600,973) |
| State and political subdivisions | 1,548,813 | (35,623) | 8,072,833 | (292,515) | 9,621,646 | (328,138) |
| Trust preferred securities | - | - | 5,544,268 | (1,779,157) | 5,544,268 | (1,779,157) |
| Corporates | - | - | 996,760 | (3,240) | 996,760 | (3,240) |
| Total temporarily impaired securities | $ 31,653,041 | $ (222,101) | $ 39,581,010 | $ (2,606,858) | $ 71,234,051 | $ (2,828,959) |
| **Held-to-maturity Securities:** | | | | | | |
| U.S. government agencies | $ 975,200 | $ (24,800) | $ - | $ - | $ 975,200 | $ (24,800) |
| Mortgage-backed securities | 1,048,731 | (9,394) | 11,147,287 | (267,248) | 12,196,018 | (276,642) |
| State and political subdivisions | 8,562,383 | (67,593) | 26,300,614 | (894,731) | 34,862,997 | (962,324) |
| Total temporarily impaired securities | $ 10,586,314 | $ (101,787) | $ 37,447,901 | $ (1,161,979) | $ 48,034,215 | $ (1,263,766) |

**December 31, 2016**

| Description of Securities | Less than 12 Months Fair Value | Less than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| **Available-for-sale securities:** | | | | | | |
| U.S. government agencies | $ 9,064,290 | $ (74,259) | $ - | $ - | $ 9,064,290 | $ (74,259) |
| Mortgage-backed securities | 52,412,354 | (1,153,189) | - | - | 52,412,354 | (1,153,189) |
| State and political subdivisions | 9,501,607 | (602,923) | - | - | 9,501,607 | (602,923) |
| Trust preferred securities | - | - | 6,198,683 | (2,233,556) | 6,198,683 | (2,233,556) |
| Corporates | 962,140 | (37,860) | - | - | 962,140 | (37,860) |
| Total temporarily impaired securities | $ 71,940,391 | $ (1,868,231) | $ 6,198,683 | $ (2,233,556) | $ 78,139,074 | $ (4,101,787) |
| **Held-to-maturity Securities:** | | | | | | |
| U.S. government agencies | $ 967,500 | $ (32,500) | $ - | $ - | $ 967,500 | $ (32,500) |
| Mortgage-backed securities | 15,460,266 | (375,780) | - | - | 15,460,266 | (375,780) |
| State and political subdivisions | 35,714,241 | (2,686,605) | - | - | 35,714,241 | (2,686,605) |
| Total temporarily impaired securities | $ 52,142,007 | $ (3,094,885) | $ - | $ - | $ 52,142,007 | $ (3,094,885) |

### *U.S. Government Agencies, State and Political Subdivisions and Mortgage-backed Securities*

The unrealized losses on the Company's investment in U.S. Government agencies, state and political subdivisions and mortgage-backed securities were caused by changes in interest rates and illiquidity. 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 illiquidity, 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, 2017.

### *Trust Preferred Securities (TruPSs)*

The unrealized loss on the TruPSs was primarily caused by the long-term nature of the pooled trust preferred securities, a lack of demand or inactive market for these securities, and concerns regarding the financial institutions that have issued the underlying trust preferred securities. The Company currently expects certain issuing financial institutions to settle the securities at a price less than the amortized cost basis of the investment (that is, the Company expects to recover less than the entire amortized cost basis of the security). Credit losses were calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the securities to the carrying value of the investment. Because the Company does not intend to sell the investment and it is not more likely than not the Company will be required to sell the investment before recovery of its new, lower amortized cost basis, which may be maturity, it does not consider the remainder of the investment in TruPSs to be other-than-temporarily impaired at December 31, 2017.

### *Other-than-temporary Impairment*

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses debt and equity securities impairment model.

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Economic models are used to determine whether an other-than-temporary impairment has occurred on these securities. While all securities are considered, the securities primarily impacted by other-than-temporary impairment testing are pooled trust preferred securities. For each pooled trust preferred security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other-than-temporary. The most significant inputs are the following:

- Prepayments
- Default rates
- Loss severity

The pooled trust preferred securities relate to trust preferred securities issued by financial institutions throughout the United States. Other inputs may include performance indicators of the underlying financial institutions including profitability, capital ratios, and asset quality.

To determine if the unrealized loss for pooled trust preferred securities is other-than-temporary, the Company projects total estimated defaults of the underlying assets (financial institutions) and multiplies that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected collateral loss. If the Company determines that a given pooled trust preferred security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

### *Credit Losses Recognized on Investments*

Certain debt securities have experienced fair value deterioration due to credit losses, as well as due to other market factors, but are not otherwise other-than-temporarily impaired.

The following table provides information about debt securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss).

| | Accumulated credit losses | |
|---|---|---|
| | 2017 | 2016 |
| Credit losses on debt securities held | | |
| Beginning of year | $ 1,034,002 | $ 1,105,802 |
| Reductions due to final settlement | (655,002) | - |
| Reductions due to increases in expected cash flows | (981) | (71,800) |
| End of year | $ 378,019 | $ 1,034,002 |

## Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

| | 2017 | 2016 |
|---|---|---|
| Mortgage loans on real estate | | |
| Residential 1-4 family | $ 139,822,393 | $ 136,279,193 |
| Commercial | 205,786,649 | 190,692,149 |
| Construction and land development | 37,241,840 | 35,613,670 |
| Agriculture | 17,482,040 | 19,861,536 |
| Total mortgage loans on real estate | 400,332,922 | 382,446,548 |
| Commercial | 77,626,315 | 70,553,504 |
| Agriculture | 11,396,960 | 10,561,639 |
| Consumer Installment loans | 9,267,048 | 9,284,574 |
| | 498,623,245 | 472,846,265 |
| Less | | |
| Allowance for loan losses | 5,355,387 | 5,160,510 |
| Net loans | $ 493,267,858 | $ 467,685,755 |

The Company purchases loans from other institutions. The outstanding balance of loans purchased from other financial institutions was $39,735,697 and $39,160,906 as December 31, 2017 and 2016, respectively. The outstanding balance of loans sold to other financial institutions serviced by the Company was $26,102,122 and $24,117,121 as December 31, 2017 and 2016, respectively.

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to $205,786,649 and $190,692,149 as of December 31, 2017 and 2016, respectively. Generally, these loans are collateralized by assets of the borrower. The loans are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrower.

The loan portfolio includes a concentration of loans for construction and land development amounting to $37,241,840 and $35,613,670 as of December 31, 2017 and 2016, respectively. Generally, these loans are collateralized by building or land being developed. The loans are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrower.

The Company maintains lending policies and procedures designed to focus lending efforts on the type, location and duration of loans most appropriate for its business model and markets. The Company's principal lending activity is the origination of residential and commercial investor real estate loans, commercial loans, agricultural, and consumer loans. The primary lending market is where the Company's branches are located in central and metro-East areas of Illinois and the surrounding counties. Generally, loans are collateralized by assets of the borrower and guaranteed by the principals of the borrowing entity.

The Board of Directors reviews and approves the Company's lending policy on an annual basis. Quarterly, the Board of Directors review the allowance for loan losses and reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans.

The Company does not accrue interest on any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower, any asset for which payment in full of interest or principal is not expected, or any asset upon which principal or interest has been in default for a period of ninety days or more unless it is both well secured and in the process of collection. A non-accrual asset may be restored to an accrual status when none of its principal and interest is due and unpaid, or when it otherwise becomes well secured and in the process of collection.

The Company's third party loan review conducts periodic independent loan reviews of outstanding loans. The primary objective of the independent loan review function is to ensure the maintenance of a quality loan portfolio and minimize the potential for loan losses. The third party loan review is performed on sample of existing loans for compliance with internal policies and procedures.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2017 and 2016:

| | Mortgage Loans on Real Estate | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year Ended December 31, 2017 | Residential 1-4 Family | Commercial | Construction and land development | Agriculture | Commercial | Agriculture | Consumer | Unallocated | Total |
| **Allowance for loan losses:** | | | | | | | | | |
| Balance, beginning of year | $ 1,162,277 | $ 1,803,290 | $ 536,832 | $ 128,305 | $ 445,539 | $ 137,431 | $ 96,854 | $ 849,982 | $ 5,160,510 |
| Provision charged to expense | 300,919 | 669,116 | (330,142) | 13,044 | 307,110 | (72,468) | 26,216 | 106,205 | 1,020,000 |
| Losses charged off | (368,940) | (178,038) | - | - | (223,008) | - | (194,260) | | (964,246) |
| Recoveries | 14,433 | 945 | 10,826 | - | - | - | 112,919 | | 139,123 |
| Balance, end of year | $ 1,108,689 | $ 2,295,313 | $ 217,516 | $ 141,349 | $ 529,641 | $ 64,963 | $ 41,729 | $ 956,187 | $ 5,355,387 |
| Ending balance: individually evaluated for impairment | $ 82,981 | $ 68,500 | $ - | $ - | $ 115,939 | $ - | $ 5,116 | $ - | $ 272,536 |
| Ending balance: collectively evaluated for impairment | 1,025,708 | 2,226,813 | 217,516 | 141,349 | 413,702 | 64,963 | 36,613 | 956,187 | 5,082,851 |
| Ending balance | $ 1,108,689 | $ 2,295,313 | $ 217,516 | $ 141,349 | $ 529,641 | $ 64,963 | $ 41,729 | $ 956,187 | $ 5,355,387 |
| **Loans:** | | | | | | | | | |
| Ending balance | $ 139,822,393 | $ 205,786,649 | $ 37,241,840 | $ 17,482,040 | $ 77,626,315 | $ 11,396,960 | $ 9,267,048 | $ - | $ 498,623,245 |
| Ending balance: individually evaluated for impairment | $ 1,192,767 | $ 3,165,052 | $ 1,547,794 | $ - | $ 702,273 | $ - | $ 26,597 | $ - | $ 6,634,483 |
| Ending balance: collectively evaluated for impairment | $ 138,629,626 | $ 202,621,597 | $ 35,694,046 | $ 17,482,040 | $ 76,924,042 | $ 11,396,960 | $ 9,240,451 | $ - | $ 491,988,762 |

| Year Ended December 31, 2016 | Mortgage Loans on Real Estate: Residential 1-4 Family | Commercial | Construction and land development | Agriculture | Commercial | Agriculture | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | | | | | | | | | |
| Balance, beginning of year | $ 866,576 | $ 1,917,943 | $ 235,351 | $ 120,415 | $ 384,233 | $ 104,720 | $ 24,839 | $ 623,443 | $ 4,277,520 |
| Provision charged to expense | 360,783 | 56,778 | 290,770 | 7,890 | 87,578 | 32,711 | 166,951 | 226,539 | 1,230,000 |
| Losses charged off | (68,759) | (171,431) | - | - | (31,272) | - | (173,972) | - | (445,434) |
| Recoveries | 3,677 | - | 10,711 | - | 5,000 | - | 79,036 | - | 98,424 |
| Balance, end of year | $ 1,162,277 | $ 1,803,290 | $ 536,832 | $ 128,305 | $ 445,539 | $ 137,431 | $ 96,854 | $ 849,982 | $ 5,160,510 |
| Ending balance: individually evaluated for impairment | $ 193,358 | $ 366,202 | $ 99,171 | $ - | $ 76,173 | $ - | $ - | $ - | $ 734,904 |
| Ending balance: collectively evaluated for impairment | 968,919 | 1,437,088 | 437,661 | 128,305 | 369,366 | 137,431 | 96,854 | 849,982 | 4,425,606 |
| Ending balance | $ 1,162,277 | $ 1,803,290 | $ 536,832 | $ 128,305 | $ 445,539 | $ 137,431 | $ 96,854 | $ 849,982 | $ 5,160,510 |
| **Loans:** | | | | | | | | | |
| Ending balance | $ 136,279,193 | $ 190,692,149 | $ 35,613,670 | $ 19,861,536 | $ 70,553,504 | $ 10,561,639 | $ 9,284,574 | $ - | $ 472,846,265 |
| Ending balance: individually evaluated for impairment | $ 2,253,436 | $ 6,268,827 | $ 1,936,256 | $ - | $ 413,670 | $ - | $ 42,990 | $ - | $ 10,915,179 |
| Ending balance: collectively evaluated for impairment | $ 134,025,757 | $ 184,423,322 | $ 33,677,414 | $ 19,861,536 | $ 70,139,834 | $ 10,561,639 | $ 9,241,584 | $ - | $ 461,931,086 |

The unallocated amounts in the above tables represent qualitative factors, including local and national economic trends that have not been specifically allocated to the portfolio segments.

Management's opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of the borrowers.

### *Credit Quality Indicators*

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. The analysis is performed on commercial loans at origination. In addition, significant lending relationships, new commercial and commercial real estate loans, and watch list credits are reviewed annually by an independent third party in order to verify risk ratings. The Company uses the following definitions for risk rating.

**Pass -** Loans classified as pass are well protected by the ability of the borrower to pay or by the value of the asset or underlying collateral.

**Special Mention –** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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

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

**Loss –** Loans classified as loss are the portion of the loan that is considered uncollectible so that its continuance as an asset is not warranted. The amount of the loss determined will be charged-off.

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

**Residential 1-4 Family and Equity Lines of Credit Real Estate:** The residential 1-4 family and equity lines of credit real estate loans are generally secured by owner-occupied family residences. Repayment is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

**Commercial Real Estate:** Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

**Construction and Land Development Real Estate:** Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

**Agricultural and Agricultural Real Estate Loan:** Agricultural loans are generally comprised of seasonal operating lines to grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop. Loan-to-value ratios on loans secured by farmland generally do not exceed 75% and have amortization periods limited to twenty five years. Federal government-assistance lending programs through the Farm Service Agency and U.S. Department of Agriculture are used to mitigate the level of credit risk when deemed appropriate.

**Commercial:** The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

**Consumer:** The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

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, 2017 and 2016:

| | Mortgage Loans on Real Estate | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2017** | Residential 1-4 Family | Commercial | Construction and land development | Agriculture | Commercial | Agriculture | Consumer | Total |
| Pass | $ 137,629,621 | $ 185,252,038 | $ 35,660,704 | $ 13,773,283 | $ 73,089,874 | $ 10,153,220 | $ 9,232,725 | $ 464,791,465 |
| Special Mention | 1,000,005 | 17,369,558 | 33,342 | 3,708,757 | 4,308,654 | 1,243,740 | 7,726 | 27,671,782 |
| Substandard | 1,103,721 | 3,044,630 | 1,547,794 | - | 227,787 | - | 13,202 | 5,937,134 |
| Doubtful | 89,046 | 120,423 | - | - | - | - | 13,395 | 222,864 |
| Loss | - | - | - | - | - | - | - | - |
| Total | $ 139,822,393 | $ 205,786,649 | $ 37,241,840 | $ 17,482,040 | $ 77,626,315 | $ 11,396,960 | $ 9,267,048 | $ 498,623,245 |
| **December 31, 2016** | | | | | | | | |
| Pass | $ 133,642,429 | $ 177,320,853 | $ 33,434,526 | $ 15,887,001 | $ 68,087,630 | $ 9,542,238 | $ 9,204,413 | $ 447,119,090 |
| Special Mention | 652,652 | 8,092,305 | 565,895 | 3,974,535 | 2,121,313 | 1,019,401 | 46,016 | 16,472,117 |
| Substandard | 1,783,544 | 5,278,991 | 1,613,249 | - | 340,407 | - | 17,988 | 9,034,179 |
| Doubtful | 200,568 | - | - | - | 4,154 | - | 15,860 | 220,582 |
| Loss | - | - | - | - | - | - | 297 | 297 |
| Total | $ 136,279,193 | $ 190,692,149 | $ 35,613,670 | $ 19,861,536 | $ 70,553,504 | $ 10,561,639 | $ 9,284,574 | $ 472,846,265 |

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, 2017 and 2016:

| December 31, 2017 | 30-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable | Greater than 90 Days & Accruing |
|---|---|---|---|---|---|---|
| Mortgage loans on real estate | | | | | | |
| Residential 1-4 family | $ 1,322,037 | $ 1,238,269 | $ 2,560,306 | $ 137,262,087 | $ 139,822,393 | $ 1,114,373 |
| Commercial | 73,780 | 120,423 | 194,203 | 205,592,446 | 205,786,649 | - |
| Construction and land development | 33,342 | - | 33,342 | 37,208,498 | 37,241,840 | - |
| Agriculture | - | - | - | 17,482,040 | 17,482,040 | - |
| Commercial | 65,316 | 588,624 | 653,940 | 76,972,375 | 77,626,315 | - |
| Agriculture | - | - | - | 11,396,960 | 11,396,960 | - |
| Consumer | 39,052 | 16,636 | 55,688 | 9,211,360 | 9,267,048 | 1,749 |
| **Total** | $ 1,533,527 | $ 1,963,952 | $ 3,497,479 | $ 495,125,766 | $ 498,623,245 | $ 1,116,122 |

| December 31, 2016 | 30-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable | Greater than 90 Days & Accruing |
|---|---|---|---|---|---|---|
| Mortgage loans on real estate | | | | | | |
| Residential 1-4 family | $ 1,486,869 | $ 2,004,273 | $ 3,491,142 | $ 132,788,051 | $ 136,279,193 | $ 1,026,193 |
| Commercial | 467,736 | 436,477 | 904,213 | 189,787,936 | 190,692,149 | - |
| Construction and land development | - | - | - | 35,613,670 | 35,613,670 | - |
| Agriculture | - | - | - | 19,861,536 | 19,861,536 | - |
| Commercial | 81,710 | 270,987 | 352,697 | 70,200,807 | 70,553,504 | 9,293 |
| Agriculture | - | - | - | 10,561,639 | 10,561,639 | - |
| Consumer | 74,734 | 22,374 | 97,108 | 9,187,466 | 9,284,574 | 2,398 |
| **Total** | $ 2,111,049 | $ 2,734,111 | $ 4,845,160 | $ 468,001,105 | $ 472,846,265 | $ 1,037,884 |

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 loans and loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

At December 31, 2017 and 2016, impaired loans included $233,122 and $2,745,924 of the troubled debt restructuring outstanding respectively. The following tables present impaired loans for the years ended December 31, 2017 and 2016:

| **December 31, 2017:** | 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 | | | | | | |
| Mortgage Loans on Real Estate: | | | | | | |
| Residential 1-4 Family | $ 982,021 | $ 982,021 | $ - | $ 795,933 | $ 60,030 | $ 57,699 |
| Commercial | 3,014,763 | 3,014,763 | - | 1,903,739 | 193,378 | 194,744 |
| Construction and land development | 1,547,794 | 1,701,412 | - | 773,897 | 103,364 | 97,445 |
| Agriculture | - | - | - | - | - | - |
| Commercial | 533,847 | 681,450 | - | 590,240 | 52,025 | 25,391 |
| Agriculture | - | - | - | - | - | - |
| Consumer | 13,202 | 13,202 | - | 7,347 | 1,154 | 1,193 |
| Loans with a specific valuation allowance | | | | | | |
| Mortgage Loans on Real Estate: | | | | | | |
| Residential 1-4 Family | $ 210,746 | $ 210,746 | $ 82,981 | $ 167,615 | $ 10,893 | $ 11,140 |
| Commercial | 150,289 | 166,434 | 68,500 | 159,318 | 7,907 | 1,914 |
| Construction and land development | - | - | - | - | - | - |
| Agriculture | - | - | - | - | - | - |
| Commercial | 168,426 | 168,426 | 115,939 | 167,856 | 9,327 | 3,761 |
| Agriculture | - | - | - | - | - | - |
| Consumer | 13,395 | 13,395 | 5,116 | 13,454 | 277 | 216 |
| Total: | | | | | | |
| Mortgage Loans on Real Estate: | | | | | | |
| Residential 1-4 Family | $ 1,192,767 | $ 1,192,767 | $ 82,981 | $ 963,548 | $ 70,923 | $ 68,839 |
| Commercial | 3,165,052 | 3,181,197 | 68,500 | 2,063,057 | 201,285 | 196,658 |
| Construction and land development | 1,547,794 | 1,701,412 | - | 773,897 | 103,364 | 97,445 |
| Agriculture | - | - | - | - | - | - |
| Commercial | 702,273 | 849,876 | 115,939 | 758,096 | 61,352 | 29,152 |
| Agriculture | - | - | - | - | - | - |
| Consumer | 26,597 | 26,597 | 5,116 | 20,801 | 1,431 | 1,409 |
| | $ 6,634,483 | $ 6,951,849 | $ 272,536 | $ 4,579,399 | $ 438,355 | $ 393,503 |

| **December 31, 2016:** | 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 | | | | | | |
| Mortgage Loans on Real Estate: | | | | | | |
| Residential 1-4 Family | $ 1,774,130 | $ 1,829,485 | $ - | $ 1,444,136 | $ 104,629 | $ 73,330 |
| Commercial | 3,996,811 | 3,996,811 | - | 2,102,682 | 230,194 | 228,798 |
| Construction and land development | 1,635,722 | 1,800,166 | - | 890,421 | 90,896 | 87,353 |
| Agriculture | - | - | - | - | - | - |
| Commercial | 331,807 | 331,807 | - | 312,675 | 37,287 | 10,849 |
| Agriculture | - | - | - | - | - | - |
| Consumer | 42,990 | 42,990 | - | 32,228 | 3,508 | 2,916 |
| Loans with a specific valuation allowance | | | | | | |
| Mortgage Loans on Real Estate: | | | | | | |
| Residential 1-4 Family | $ 479,306 | $ 479,306 | $ 193,358 | $ 421,789 | $ 35,518 | $ 19,533 |
| Commercial | 2,272,016 | 2,272,016 | 366,202 | 1,333,197 | 109,830 | 97,534 |
| Construction and land development | 300,534 | 300,534 | 99,171 | 150,267 | 17,013 | 16,842 |
| Agriculture | - | - | - | - | - | - |
| Commercial | 81,863 | 81,863 | 76,173 | 73,545 | 5,638 | 2,903 |
| Agriculture | - | - | - | - | - | - |
| Consumer | - | - | - | - | - | - |
| Total: | | | | | | |
| Mortgage Loans on Real Estate: | | | | | | |
| Residential 1-4 Family | $ 2,253,436 | $ 2,308,791 | $ 193,358 | $ 1,865,925 | $ 140,147 | $ 92,863 |
| Commercial | 6,268,827 | 6,268,827 | 366,202 | 3,435,879 | 340,024 | 326,332 |
| Construction and land development | 1,936,256 | 2,100,700 | 99,171 | 1,040,688 | 107,909 | 104,195 |
| Agriculture | - | - | - | - | - | - |
| Commercial | 413,670 | 413,670 | 76,173 | 386,220 | 42,925 | 13,752 |
| Agriculture | - | - | - | - | - | - |
| Consumer | 42,990 | 42,990 | - | 32,228 | 3,508 | 2,916 |
| | $ 10,915,179 | $ 11,134,978 | $ 734,904 | $ 6,760,940 | $ 634,513 | $ 540,058 |

Interest income recognized on impaired loans includes interest accrued and collected on the outstanding balances of accruing impaired loans as well as interest cash collections on non-accruing impaired loans for which the ultimate collectability is not certain.

The following table presents the Company's nonaccrual loans at December 31, 2017 and 2016. This table excludes performing troubled debt restructurings of $22,711 and $2,860,551.

| | 2017 | 2016 |
|---|---|---|
| Mortgage loans on real estate | | |
| Residential 1-4 family | $ 342,508 | $ 1,252,284 |
| Commercial | 150,514 | 492,481 |
| Construction and land development | - | - |
| Agriculture | - | - |
| Commercial | 630,548 | 336,680 |
| Agriculture | - | - |
| Consumer | 14,887 | 17,976 |
| **Total** | $ 1,138,457 | $ 2,099,421 |

When economic concessions have been granted to borrowers who have experienced financial difficulties, the loan is designated as a troubled debt restructured loan (TDR). These concessions typically result from loss mitigation activities and could include: reduction in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Troubled debt restructured loans are considered impaired at the time of restructuring and typically are returned to accrual status after considering the borrower's sustained repayment performance, as agreed, for a reasonable period of at least six months or once the granted concessions have ended or are no longer applicable.

The following table presents the recorded balance, at original cost, of troubled debt restructured loans as of December 31, 2017 and 2016.

| December 31, 2017: | Total Troubled Debt Restructuring | Troubled debt restructurings performing in accordance with modified terms: Accruing | Troubled debt restructurings performing in accordance with modified terms: Nonaccrual | Troubled debt restructurings not performing in accordance with modified terms |
|---|---|---|---|---|
| Mortgage loans on real estate | | | | |
| Residential 1-4 family | $ 427,717 | $ 253,842 | $ - | $ 173,875 |
| Commercial | 213,580 | 213,580 | - | - |
| Construction and loan development | - | - | - | - |
| Agriculture | - | - | - | - |
| Commercial | 22,711 | - | 18,148 | 4,563 |
| Agriculture | - | - | - | - |
| Consumer | 7,726 | - | - | 7,726 |
| **Total** | $ 671,734 | $ 467,422 | $ 18,148 | $ 186,164 |

| December 31, 2016: | Total Troubled Debt Restructuring | Troubled debt restructurings performing in accordance with modified terms: Accruing | Troubled debt restructurings performing in accordance with modified terms: Nonaccrual | Troubled debt restructurings not performing in accordance with modified terms |
|---|---|---|---|---|
| Mortgage loans on real estate | | | | |
| Residential 1-4 family | $ 665,140 | $ 230,956 | $ 14,053 | $ 420,131 |
| Commercial | 2,128,170 | 2,102,566 | - | 25,604 |
| Construction and loan development | 300,534 | 300,534 | - | - |
| Agriculture | - | - | - | - |
| Commercial | 90,340 | - | - | 90,340 |
| Agriculture | - | - | - | - |
| Consumer | 17,654 | 17,654 | - | - |
| **Total** | $ 3,201,838 | $ 2,651,710 | $ 14,053 | $ 536,075 |

At December 31, 2017 and 2016, eight and ten loans, respectively, designated as TDR were on accrual status. These loans performed in accordance with modified terms for a period of 6 months or more.

Newly classified troubled debt restructurings:

| 2017: | Number of Loans | Pre-Modification Recorded Balance | Post-Modification Recorded Balance |
|---|---|---|---|
| Mortgage loans on real estate | | | |
| Residential 1-4 family | - | $ - | $ - |
| Commercial | - | - | - |
| Construction and land development | - | - | - |
| Agriculture | - | - | - |
| Commercial | 1 | 18,148 | 18,148 |
| Agriculture | - | - | - |
| Consumer | - | - | - |
| **Total** | 1 | $ 18,148 | $ 18,148 |

There were no newly classified troubled debt restructured in 2016.

The troubled debt restructures described above increased (decreased) the allowance for loan losses by ($477,168) and ($15,847) in 2017 and 2016, respectively, and resulted in charge offs of $208,667 and $0 during the year ended December 31, 2017 and 2016, respectively.

Newly restructured loans by type of modification:

| 2017: | Interest only | Term | Combination | Total Modification |
|---|---|---|---|---|
| Mortgage loans on real estate | | | | |
| Residential 1-4 family | $ - | $ - | $ - | $ - |
| Commercial | - | - | - | - |
| Construction and land development | - | - | - | - |
| Agriculture | - | - | - | - |
| Commercial | - | 18,148 | - | 18,148 |
| Agriculture | - | - | - | - |
| Consumer | - | - | - | - |
| **Total** | $ - | $ 18,148 | $ - | $ 18,148 |

There were no newly restructured loans in 2016.

There were no troubled debt restructures modified in the past 12 months that subsequently defaulted, in 2017.

At December 31, 2017, the balance of real estate owned includes $32,852 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2017, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is $981,473.

## Note 4: Premises and Equipment

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

| | 2017 | 2016 |
|---|---|---|
| Land | $ 6,293,990 | $ 6,293,990 |
| Buildings and improvements | 19,661,749 | 18,908,132 |
| Construction in progress | 4,050 | 130,939 |
| Equipment | 7,787,399 | 6,816,491 |
| Leasehold improvements | 1,281,587 | 1,258,029 |
| | 35,028,775 | 33,407,581 |
| Less accumulated depreciation | 12,544,306 | 11,439,154 |
| Net premises and equipment | $ 22,484,469 | $ 21,968,427 |

The Company had a commitment to renovate a branch facility for $62,000. The construction in progress relates to the costs to date on this project as of December 31, 2017.

## Note 5: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016 were:

| | 2017 | 2016 |
|---|---|---|
| Balance as of January 1 | $ 6,317,994 | $ 1,988,631 |
| Goodwill acquired during the year | - | 4,329,363 |
| Balance as of December 31 | $ 6,317,994 | $ 6,317,994 |

All goodwill is allocated to the banking segment of the business. See Note 20 for further details on the acquisition.

## Note 6: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2017 and 2016, were:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Core deposits | $ 3,487,736 | $ 1,929,960 | $ 3,487,736 | $ 1,524,799 |

Amortization expense for the years ended December 31, 2017 and 2016, was $405,161 and $361,436, respectively. Estimated amortization expense for each of the following five years is:

| | |
|---|---|
| 2018 | $ 405,161 |
| 2019 | 321,851 |
| 2020 | 262,346 |
| 2021 | 262,346 |
| 2022 | 262,346 |

## Note 7: Mortgage Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage loans serviced for others were $623,058,170 and $583,598,487 at December 31, 2017 and 2016, respectively.

The following summarizes the activity pertaining to mortgage servicing rights measured using the fair value method for years ended December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Fair value as of the beginning of the period | $ 4,894,416 | $ 3,838,678 |
| Additions | | |
| Purchases | - | 498,085 |
| Servicing obligations that result from asset transfers | 1,461,976 | 1,667,265 |
| Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model* | 400,000 | (290,000) |
| Other changes | (933,998) | (819,612) |
| Fair Value at the end of the period | $ 5,822,394 | $ 4,894,416 |

*Reflects changes in discount rates and prepayment speed assumptions

### Note 8: Interest-bearing Deposits

Interest-bearing deposits in denominations of $250,000 or more were $13,776,901 on December 31, 2017 and $16,769,667 on December 31, 2016.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

| | |
|---|---|
| 2018 | $ 113,463,102 |
| 2019 | 43,754,543 |
| 2020 | 7,353,876 |
| 2021 | 4,156,763 |
| 2022 | 2,563,685 |
| Thereafter | - |
| | $ 171,291,969 |

### Note 9: Junior Subordinated Debentures

The Company has three junior subordinated debt issues owed to individual statutory trusts, each of which are wholly-owned, subsidiaries owned, unconsolidated subsidiaries the details of which are outlined in the table below. The individual statutory trusts were formed to issue cumulative preferred securities.

| | Date formed | Call date | Maturity date | Interest rate term | Adjustment periods | Interest rate at December 31, 2017 | Balance owed at December 31, 2017 | Balance owed at December 31, 2016 |
|---|---|---|---|---|---|---|---|---|
| Statutory Trust II | 3/17/2004 | N/A | 3/17/2034 | Floating 3 mo LIBOR + 279 | Adjusts quarterly, each 3/15, 6/15, 9/15, 12/15 | 4.390% | $ 4,124,000 | $ 4,124,000 |
| Statutory Trust III | 3/22/2007 | 3/22/2012 | 3/22/2037 | Fixed until call, then floating 3 mo LIBOR + 168 | Adjusts quarterly, each 3/15, 6/15, 9/15, 12/15 | 3.268% | 7,732,000 | 7,732,000 |
| WPI Statutory Trust I1 | 7/7/2007 | 9/15/2007 | 6/15/2037 | Floating 3 mo LIBOR + 145 | Adjusts quarterly, each 3/15, 6/15, 9/15, 12/15 | 3.038% | 3,093,000 | 3,093,000 |

[1]Fair value was $2,069,627 and $2,016,922 as of December 31, 2017 and 2016, respectively.

The Company's obligations with respect to the issuance of the preferred securities constitute a full and unconditional guarantee of the obligations with respect to the preferred securities. Interest on the junior subordinated debentures and distributions on the preferred securities are payable quarterly in arrears. Distributions on the preferred securities are cumulative. The Company has the right, at any time, so long as no events of default has occurred and is continuing, to defer payments of interest on the junior subordinated debentures, which will require deferral of distribution of the preferred securities, for a period not exceeding 20 consecutive quarterly periods, provided that such deferral may not extend beyond the stated maturity of the junior subordinated debentures. The preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at maturity or their earlier redemption.

Interest expense on the junior subordinated debt was $528,396 and $431,554 for the years ended December 31, 2017 and 2016, respectively.

### Note 10: Other Borrowings

Other borrowings consisted of the following components:

| | 2017 | 2016 |
|---|---|---|
| Federal Home Loan Bank advances | $ 69,300,000 | $ 73,400,000 |
| CIBC Bank USA notes | 12,200,000 | 13,400,000 |
| | $ 81,500,000 | $ 86,800,000 |

The Federal Home Loan Bank advances are secured by mortgage loans and investment securities totaling $209,190,703 at December 31, 2017. Advances, at interest rates from 1.02% to 1.71% and maturity dates from January 2018 through October 2019 are subject to restrictions or penalties in event of prepayment.

The CIBC Bank USA (formerly The Private Bank) notes consist of a term note with a balance of $10,200,000 and $11,400,000 as of December 31, 2017 and 2016, respectively and a line of credit with a balance of $2,000,000. The notes are secured by the Company's stock in its Bank subsidiary. The notes reprice quarterly at 1 month LIBOR plus 225 basis points. The rates as of December 31, 2017 and 2016 were 3.61069% and 2.86677% respectively. The maturity date is February 2019. The Company has debt convent requirements related to total capital to Risk-Weighted Assets, Tier 1 Leverage Capital Ratio, minimum return on assets, and non-performing loans to primary capital.

Aggregate annual maturities of other borrowings at December 31, 2017, are:

| | |
|---|---|
| 2018 | $ 64,000,000 |
| 2019 | 17,500,000 |
| | $ 81,500,000 |

### Note 11: Small Business Lending Fund

On September 8, 2011, as part of the Small Business Lending Fund (SBLF) of the United States Department of the Treasury (Treasury), the Company entered into a Small Business Lending Fund-Securities Purchase Agreement (Purchase Agreement) with the Secretary of the Treasury, pursuant to which the Company sold 5,000 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series A (SBLF Preferred Stock) to the Secretary of the Treasury for a purchase price of $5,000,000. The SBLF Preferred Stock was issued pursuant to the SBLF program, a $30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small business by providing capital to qualified community banks with assets of less the $10 billion.

The SBLF Preferred Stock qualifies as Tier 1 capital. The SBLF Preferred Stock is entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the SBLF Preferred Stock is outstanding, based upon changes in the Company's subsidiary Town and Country Bank's level of Qualified Small Business Lending (QBSL), as defined in the Purchase Agreement, the dividend rate for the initial dividend period was set at 5.0%. For the second through ninth calendar quarters, the dividend rate may be adjusted to between 1.0% and 5.0% per annum, to reflect the amount of change in the Bank's level of QBSL. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between 1.0% and

7.0% based upon the increase in QBSL as compared to the baseline. After four and one half years from issuance, the dividend rate will increase to 9.0%.

The SBLF Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, the holder of the SBLF Preferred Stock will have the right to appoint a representative as an observer on the Company's Board of Directors. In the event that the Company misses six dividend payments, then the holder of the SBLF Preferred Stock will have the right to designate two directors to the Board of Directors of the Company.

On March 8, 2016, the Company redeemed the SBLF Preferred Stock for $5,000,000 with federal banking regulator approval.

Dividends paid on the SBLF Preferred Stock were $21,806 for the year ended December 31, 2016.

## Note 12: Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and State of Illinois The Company is no longer subject to U.S. Federal or Illinois income tax examinations by tax authorities for years before 2014. During the years ended December 31, 2017 and December 31, 2016, the Company recognized no expense for interest or penalties.

The income tax expense includes these components:

| | 2017 | 2016 |
|---|---|---|
| Taxes currently payable (receivable) | $ 945,082 | $ 1,322,064 |
| Deferred income taxes | 502,311 | 319,581 |
| Adjustment of deferred tax liability for enacted change in tax laws | (399,534) | - |
| Income tax expense | $ 1,047,859 | $ 1,641,645 |

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

| | 2017 | 2016 |
|---|---|---|
| Computed at the statutory rate (34%) | $ 2,275,672 | $ 2,163,868 |
| Increase (decrease) resulting from | | |
| Tax exempt interest | (754,885) | (507,678) |
| State income taxes | 335,775 | 276,805 |
| Dividends received | (7,744) | (13,445) |
| Cash surrender value of life insurance | (142,815) | (145,753) |
| Captive Insurance | (73,640) | (91,935) |
| Adjustment of deferred tax liability for enacted change in tax laws | (399,534) | - |
| Other | (184,970) | (40,217) |
| Actual tax expense | $ 1,047,859 | $ 1,641,645 |

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

| | 2017 | 2016 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for loan losses | $ 1,308,254 | $ 1,768,750 |
| Deferred compensation | 26,283 | 54,353 |
| Loss on other-than-temporary impairment of securities | 115,046 | 432,534 |
| Unrealized losses on available-for-sale securities | 244,837 | 540,300 |
| Fair market value on acquired assets | 339,126 | 701,404 |
| Other | 551,877 | 489,061 |
| | 2,585,423 | 3,986,402 |
| Deferred tax liabilities | | |
| Depreciation | (559,719) | (664,269) |
| Mortgage servicing rights | (1,659,673) | (1,914,451) |
| Fair market value on acquired liabilities | (291,712) | (420,908) |
| Core Deposit Intangible | (386,372) | (767,803) |
| Other | (910,629) | (1,024,486) |
| | (3,808,105) | (4,791,917) |
| Net deferred liability | $ (1,222,682) | $ (805,515) |

## Note 13: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Net unrealized loss on AFS securities | $ (695,219) | $ (1,433,497) |
| Net unrealized gain on derivative used as cash flow hedge | 642,226 | 398,818 |
| Net unrealized gain (loss) on AFS securities for which a portion of an OTTI has been recognized in income | (163,556) | 51,282 |
| | (216,549) | (983,397) |
| Tax Effect | (61,739) | (401,595) |
| Net-of-tax amount | $ (154,810) | $ (581,802) |

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

Amounts reclassified from AOCI and the affected line items in the consolidated statements of income during the year ended December 31, 2017 and 2016, were as follows:

| | Amounts Reclassified from AOCI | | |
|---|---|---|---|
| | December 31, 2017 | December 31, 2016 | Affected Line Item in the Statements of Income |
| Loss on cash flow hedge | | | |
| Interest rate contract | $ - | $ - | Interest expense |
| Tax Effect | - | - | Tax benefit |
| | $ - | $ - | Net Reclassified Amount |
| Realized securities gains on available-for-sale securities | $ 269,841 | $ 987,750 | Net realized gains on sales of available-for-sale securities |
| Tax Effect | 107,116 | 386,358 | Tax benefit |
| | $ 162,725 | $ 601,392 | Net Reclassified Amount |
| Total reclassifications out of AOCI | $ 162,725 | $ 601,392 | Net Reclassified Amount |

## Note 15: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Quantitative measures established by regulation reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to total 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, 2017 and 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent notification from the Bank's regulators 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 I 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 Bank's category.

| | Actual | | Minimum Capital Requirement | | Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| As of December 31, 2017 | | | | | | |
| Town and Country Bank | | | | | | |
| Total capital (to risk-weighted assets) | $ 69,586 | 12.7% | $ 43,772 | 8.0% | $ 54,715 | 10.0% |
| Tier I capital (to risk-weighted assets) | 64,213 | 11.7 | 32,829 | 6.0 | 43,772 | 8.0 |
| Common equity Tier I capital (to risk-weighted assets) | 64,213 | 11.7 | 24,622 | 4.5 | 35,887 | 6.5 |
| Tier I capital (to average assets) | 64,213 | 8.7 | 29,509 | 4.0 | 36,887 | 5.0 |
| As of December 31, 2016 | | | | | | |
| Town and Country Bank | | | | | | |
| Total capital (to risk-weighted assets) | $ 66,867 | 12.5% | $ 42,880 | 8.0% | $ 53,601 | 10.0% |
| Tier I capital (to risk-weighted assets) | 61,424 | 11.5 | 32,160 | 6.0 | 42,880 | 8.0 |
| Common equity Tier I capital (to risk-weighted assets) | 61,424 | 11.5 | 24,120 | 4.5 | 34,840 | 6.5 |
| Tier I capital (to average assets) | 61,424 | 8.4 | 29,082 | 4.0 | 36,353 | 5.0 |

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer was 1.25% at December 31, 2017. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

The Company and Bank are subject to certain restrictions on the amount of dividends that they may declare without prior regulatory approval.

### *Basel III Capital Rules*

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

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

## Note 16: Related Party Transactions

At December 31, 2017 and 2016, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $1,374,888 and $1,739,133, respectively.

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

## Note 17: Employee Benefits

The Company has an Employee Stock Ownership Plan (ESOP) to provide retirement benefits for substantially all employees. All full time employees who meet certain age and length of service requirements are eligible to participate in the ESOP. Dividends on allocated shares of common stock are allocated directly to the participant's account. All shares held by the ESOP have been allocated to the Plan participants and are included in the computation of weighted average common shares outstanding.

The Plan owned 91,263 and 81,400 shares of the Company's common stock as of December 31, 2017 and 2016, respectively. The market value of those shares totaled $2,016,912 and $1,303,214 as of December 31, 2017 and 2016, respectively.

In the event a terminated Plan participant desires to sell his or her shares of the Company's stock, the Company may choose to purchase the shares from the participant at their fair market value as determined by an independent appraiser.

A portion of the Company's contributions is based upon the employees' contributions and another portion of the Company's contribution is at the discretion of the Board of Directors. Contributions by the Company to the plan were $324,027 and $309,578 for years ended December 31, 2017 and 2016, respectively. During 2017, the Company issued 9,863 shares of common stock to the plan for the 2016 contribution. Shares will be issued based on the 2017 expense after the appraisal of the fair market is received in 2018.

Also, the Company has a non-qualified executive incentive retirement plan (Plan) that covers select members of management. Contributions to the Plan are based upon the Company meeting certain financial performance measures and are deferred until the employee reaches the normal retirement age of 65. Retirement benefits are paid out of the general assets of the Company. The retirement benefit is paid out in monthly installments for a 13 year period and equals the deferral account balance. The liability recorded was $67,850 and $62,942 at December 31, 2017 and 2016, respectively. The Company's expense for the plan was $4,908 and $3,802 for 2017 and 2016, respectively.

### Note 18: Stock-Based Compensation

The Company's Board of Directors adopted the 2015 Stock Compensation Plan ("Plan") on June 25, 2015. The purpose of the Plan is to align the interests of the Company and its stockholders to employees, officers and directors. The Plan authorizes up to 100,000 shares of restricted stock to be granted to eligible participants over the life of the Plan. At December 31, 2017, there were 45,000 shares available to be issued under the Plan. From the time employees are granted the restricted shares, those shares are considered issued and the employee is given all rights of ownership including dividend and voting rights.

During the year ended December 31, 2015, the Company granted 52,500 restricted stock awards to eligible participants. All awards were issued using an estimated grant date fair value of $11.52 per share. At December 31, 2017, 45,000 of the restricted stock shares were outstanding and vest over a weighted average period of 1.75 years. None of the restricted stock awards have vested as of December 31, 2017 and 7,500 of the restricted stock awards were forfeited during 2017. The Company recorded $77,760 and $120,960 in compensation expenses related to the restricted stock awards during the year ended December 31, 2017 and 2016, respectively. Over the remaining vesting period of 1.75 years, the Company expects to incur an additional $311,040 of compensation expense related to outstanding restricted stock.

During the year ended December 31, 2017, the Company granted 10,000 restricted stock awards to eligible participants. All awards were issued using an estimated grant date fair value of $21.30 per share. At December 31, 2017, 10,000 of the restricted stock shares were outstanding and vest over a weighted average period of 3.75 years. None of the restricted stock awards have vested as of December 31, 2017 and no restricted stock awards were forfeited during 2017. The Company recorded $22,113 in compensation expenses related to the restricted stock awards during the year ended December 31, 2017. Over the remaining vesting period of 3.75 years, the Company expects to incur an additional $195,250 of compensation expense related to outstanding restricted stock.

## Note 19: Operating Leases

The Company has several non-cancellable operating leases, primarily for office space, that expire over the next three years and require the company to pay all executory costs such as taxes, maintenance and insurance. Rental expense for this lease and equipment was $119,900 and $417,270 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments under operating leases are:

| | |
|---|---|
| 2018 | $ 69,673 |
| 2019 | 60,300 |
| 2020 | 55,275 |
| Total minimum lease payments | $ 185,248 |

## Note 20: Business Combinations

On September 30, 2015, the Company entered into an Agreement and Plan of Merger with West Plains Investors, Inc. ("WPI") and its wholly owned subsidiary Premier Bank, to acquire 100% of the outstanding stock in an all-cash transaction. The transaction was completed as of the close of business on February 29, 2016. As a result of the acquisition, the Company will have an opportunity to increase its deposit base and reduce transactions costs. The Company also expects to reduce costs through the economics of scale.

The Company incurred third-party acquisition-related costs of $414,167 for year ended December 31, 2016. The expenses are included in noninterest expense in the Company's consolidated statement of income for the year ended December 31, 2016.

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from the combining of the operations. All of the goodwill was assigned to the banking segment of the business and will not be deductible for tax purposes.

The following table summarizes the consideration paid for the acquisition and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

| | | |
|---|---|---|
| **Fair Value of Consideration Transferred** | | |
| Cash | $ | (23,000,000) |
| Non-compete agreement | | (300,000) |
| | | (23,300,000) |
| **Recognized amounts of identifiable assets acquired and liabilities assumed** | | |
| Cash and cash equivalents | | 70,926,224 |
| Securities | | 23,147,680 |
| Federal Reserve and Federal Home Loan Bank Stock | | 942,450 |
| Loans | | 81,829,167 |
| Premises and equipment | | 4,375,536 |
| Interest Receivable | | 397,015 |
| Identifiable intangible assets | | 1,836,423 |
| Other assets | | 1,712,001 |
| Deposits | | (162,854,074) |
| Junior Subordinated Debentures | | (1,973,000) |
| Other Liabilities | | (1,368,785) |
| Total identifiable net liabilities | | 18,970,637 |
| **Goodwill** | $ | (4,329,363) |

On January 27, 2016, Town and Country Bank announced the acquisition of Centrue Bank's Fairview Heights branch. The transaction was consummated with an effective date of June 17, 2016 and the branch was merged into Town and Country Bank (as a branch) on June 17, 2016. The acquisition was to expand the Company's financial service offering in the metro east area of Illinois. The Company received $1,358,565 in cash in the transaction as liabilities assumed were more than the assets acquired. The goodwill, core deposit intangible, and fair value adjustments were nominal.

In 2016, the Company incurred $46,642 of third-party acquisition-related costs related to the Centrue Bank branch acquisition. The expenses are included in noninterest expense in the Company's consolidated statement of income for the year ended December 31, 2016.

## Note 21: Financial Instruments

In the normal course of business, the Company uses various derivative financial instruments to manage its interest rate risk and market risks so as to accommodate the needs of its customers. These instruments carry varying degrees of credit, interest rate and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the accompanying consolidated financial statements and are measured at fair value.

### *Cash Flow Hedge*

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company has entered into various interest rate swap agreements for portions of its floating rate debt. The agreements provide for the Company to receive interest from the counterparty at one or three month LIBOR and to pay interest to the counterparty at a fixed rate ranging from 0.99% to 2.08% on notional amounts of $34,000,000 at December 31, 2017. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

### *Other Derivatives*

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company enters into interest rate swap agreements from time to time. The Company currently has outstanding aggregate interest rate swaps of $25,860,572. The agreements provide for the Company to receive interest from the counterparty at a fixed rate ranging from 3.79% to 4.50% and to pay a variable rate ranging from one month LIBOR plus 67 basis points to one month LIBOR plus 250 basis points. The Company also has agreements with a counterparty whereby the Company receives interest at a rate ranging from one month LIBOR plus 67 basis points to one month LIBOR plus 250 basis points and pays interest to the counterparty at a fixed rate ranging from 3.79% to 4.50%. Under all agreements, the net interest paid or received is included in interest income. The two interest rate swap agreements are economic hedges and are not considered accounting hedges.

The following table presents the fair value of derivative instruments as of December 31, 2017 and 2016:

2017

| Derivative designated as hedging instruments | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
|---|---|---|---|---|
| Interest rate swaps | Other Assets | $ 642,226 | Other Liabilities | $ - |
| Total derivatives | | $ 642,226 | | $ - |

2017

| Derivative not designated as hedging instruments | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
|---|---|---|---|---|
| Interest rate swaps | Other Assets | $ 50,010 | Other Liabilities | $ 50,010 |
| Total derivatives | | $ 50,010 | | $ 50,010 |

2016

| Derivative designated as hedging instruments | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
|---|---|---|---|---|
| Interest rate swaps | Other Assets | $ 398,818 | Other Liabilities | $ - |
| Total derivatives | | $ 398,818 | | $ - |

2016

| Derivative not designated as hedging instruments | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
|---|---|---|---|---|
| Interest rate swaps | Other Assets | $ 155,473 | Other Liabilities | $ 155,473 |
| Total derivatives | | $ 155,473 | | $ 155,473 |

The following tables present the effect of derivative instruments on the consolidated statements of income for the years ended December 31, 2017 and 2016:

| Fair Value Hedges | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income 2017 | 2016 |
|---|---|---|---|
| Interest rate swaps | Interest income - Loans | $ (105,463) | $ (113,991) |
| Interest rate swaps | Interest income - Loans | 105,463 | 113,991 |
| | | $ - | $ - |

## Note 22: 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 that the company can access at the measurement date

**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, 2017 and 2016:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| December 31, 2017 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for sale securities | | | | |
| U.S. government agencies | $ 12,771,178 | $ - | $ 12,771,178 | $ - |
| Mortgage-backed securities | 74,264,122 | - | 74,264,122 | - |
| State and political subdivisions | 12,509,670 | - | 12,509,670 | - |
| Equity securities | 1,312,681 | 1,312,681 | - | - |
| Trust preferred securities | 6,344,666 | - | - | 6,344,666 |
| Corporates | 1,510,210 | - | 1,510,210 | - |
| Total available-for sale securities | $ 108,712,527 | $ 1,312,681 | $ 101,055,180 | $ 6,344,666 |
| | | | | |
| Mortgage Servicing Rights | $ 5,822,394 | $ - | $ - | $ 5,822,394 |
| Hedged Federal Home Loan Bank Advances | (31,000,000) | - | (31,000,000) | - |
| Interest rate swap agreements | 692,236 | - | 692,236 | - |
| Interest rate swap agreements | (50,010) | - | (50,010) | - |
| | | | | |
| December 31, 2016 | | | | |
| Available-for sale securities | | | | |
| U.S. government agencies | $ 12,883,688 | $ - | $ 12,883,688 | $ - |
| Mortgage-backed securities | 83,115,440 | - | 83,115,440 | - |
| State and political subdivisions | 12,404,468 | - | 12,404,468 | - |
| Equity securities | 1,660,017 | 1,660,017 | - | - |
| Trust preferred securities | 6,528,866 | - | - | 6,528,866 |
| Corporates | 3,561,865 | - | 3,561,865 | - |
| Total available-for sale securities | $ 120,154,344 | $ 1,660,017 | $ 111,965,461 | $ 6,528,866 |
| | | | | |
| Mortgage Servicing Rights | $ 4,894,416 | $ - | $ - | $ 4,894,416 |
| Hedged Federal Home Loan Bank Advances | (34,000,000) | - | (34,000,000) | - |
| Interest rate swap agreements | 554,291 | - | 554,291 | - |
| Interest rate swap agreements | (155,473) | - | (155,473) | - |

Following is a description of the valuation methodologies and inputs used for assets and liabilities 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 and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

#### *Available-for-sale Securities*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where

Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

***Mortgage Servicing Rights***

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Management measures mortgage servicing rights through the completion of a proprietary model. Inputs to the model are developed by staff and are reviewed by management. The model is tested quarterly using baseline data to check its accuracy. Management obtains fair value calculations from a third party model.

***Hedged Federal Home Loan Bank Advances***

Certain variable rate Federal Home Loan Bank (FHLB) advances have been converted to fixed rate advances by entering into interest rate swap agreements. The fair value of those variable rate loans is based on discounting the estimated cash flows using interest rates determined by the respective interest rate swap agreement. FHLB estimates are classified within Level 2 of the valuation hierarchy based on the unobservable inputs used.

***Interest Rate Swap Agreements***

The fair value is estimated using forward-looking interest rate curves and is calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

## Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities are the responsibility of the Chief Financial Officer's (CFO) office. The CFO's office, in consultation with an independent firm, generates fair value estimates on a quarterly basis. The CFO's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

## Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

| | Pooled Trust Preferred Securities | |
|---|---|---|
| | **2017** | **2016** |
| Beginning balance January 1 | $ 6,528,866 | $ 6,636,221 |
| Total realized and unrealized gains and losses | | |
| Included in net income | - | - |
| Included in other comprehensive income | | |
| Unrealized appreciation on available-for-sale securities | 339,858 | 200,775 |
| Settlements | (524,058) | (308,130) |
| Ending balance, December 31 | $ 6,344,666 | $ 6,528,866 |

Realized and unrealized gains and losses for items reflected in the table above has no effect to net income in the consolidated statements of income in 2017 or 2016.

The reconciliation of mortgage servicing rights is included in Note 7.

### *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, 2017 and 2016:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| December 31, 2017 | | | | |
| Impaired loans | $ 270,380 | $ - | $ - | $ 270,380 |
| December 31, 2016 | | | | |
| Impaired loans | $ 2,398,815 | $ - | $ - | $ 2,398,815 |

Following is a description of the valuation methodologies and inputs 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.

***Collateral-dependent Impaired Loans, Net of ALL***

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

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. 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 management by comparison to historical results.

### *Unobservable (Level 3) Inputs*

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

| Unobservable (Level 3) Inputs | Fair Value at December 31, 2017 | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Pooled Trust Preferred Securities | $ 6,344,666 | Discounted cash flow | Constant prepayment rate | 1% annually |
| | | | Probability of default | 0.50% for the remaining life |
| | | | Loss severity | 90% with a 2 year lag |
| Collateral-dependent impaired loans | 270,380 | Market comparable properties | Marketability Discount | 20% - 50% (35%) |
| Mortgage servicing rights | 5,822,394 | Discounted cash flow | Discount rate | 3.52% - 4.148% (3.979%) |
| | | | PSA standard prepayment | 117 - 261 (134) |

| Unobservable (Level 3) Inputs | Fair Value at December 31, 2016 | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Pooled Trust Preferred Securities | $ 6,528,866 | Discounted cash flow | Constant prepayment rate | 1% annually |
| | | | Probability of default | 0.50% for the remaining life |
| | | | Loss severity | 90% with a 2 year lag |
| Collateral-dependent impaired loans | 2,398,815 | Market comparable properties | Marketability Discount | 20% - 50% (35%) |
| Mortgage servicing rights | 4,894,416 | Discounted cash flow | Discount rate | 2.77% - 3.663% (3.39%) |
| | | | PSA standard prepayment | 121 - 265 (189) |

### *Fair Value of Financial Instruments*

The following table presents estimated fair values of the Company's other financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| December 31, 2017 | Carrying Amount | 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 | $ 11,877,349 | $ 11,877,349 | $ - | $ - |
| Interest bearing time deposits | 1,964,000 | 1,964,000 | - | - |
| Held-to-maturity securities | 63,676,211 | - | 62,564,415 | - |
| Loans held for sale | 8,606,444 | - | - | 8,606,444 |
| Loans, net of allowance for loan losses | 493,267,858 | - | - | 491,033,549 |
| Federal Reserve and Federal Home Loan Bank stock | 2,409,900 | - | - | 2,409,900 |
| Interest receivable | 2,563,668 | 2,563,668 | - | - |
| Financial liabilities | | | | |
| Deposits | 592,385,016 | 421,093,047 | 172,188,585 | - |
| Junior subordinated debentures | 13,925,627 | - | - | 11,322,544 |
| Other Borrowings | 50,500,000 | - | - | 50,207,949 |
| Interest payable | 448,044 | 448,044 | - | - |
| Unrecognized financial instruments (net of contract amount) | - | - | - | - |
| Commitments to originate loans | - | - | - | - |
| Letters of credit | - | - | - | - |
| Lines of credit | - | - | - | - |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **December 31, 2016** | **Carrying Amount** | **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 | $ 12,163,596 | $ 12,163,596 | $ - | $ - |
| Interest bearing time deposits | 1,478,000 | 1,478,000 | - | - |
| Held-to-maturity securities | 69,716,685 | - | 66,818,422 | - |
| Loans held for sale | 8,971,320 | - | - | 8,971,320 |
| Loans, net of allowance for loan losses | 467,685,755 | - | - | 468,502,404 |
| Federal Reserve and Federal Home Loan Bank stock | 3,670,400 | - | - | 3,670,400 |
| Interest receivable | 2,552,315 | 2,552,315 | - | - |
| Financial liabilities | | | | |
| Deposits | 584,054,204 | 425,615,272 | 159,279,448 | - |
| Junior subordinated debentures | 13,872,922 | - | - | 10,699,520 |
| Other Borrowings | 55,800,000 | - | - | 55,211,105 |
| Interest payable | 400,298 | 400,298 | - | - |
| Unrecognized financial instruments (net of contract amount) | - | - | - | - |
| Commitments to originate loans | - | - | - | - |
| Letters of credit | - | - | - | - |
| Lines of credit | - | - | - | - |

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

***Cash and Cash Equivalents, Interest-bearing Time Deposits, Federal Reserve and Federal Home Loan Bank Stock, Interest Receivable and Interest Payable***

The carrying amount approximates fair value.

***Held-to-maturity Securities***

Fair values equal quoted market prices, if available. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities.

***Loans Held For Sale***

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

***Loans***

Fair value is estimated by discounting the future cash flows using the current rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations.

***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 maturities.

***Junior Subordinated Debentures and Other Borrowings***

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

***Commitments to Originate Loans, Letters of Credit and Lines of Credit***

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

## Note 23: 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 note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk. Other significant estimates and concentrations not discussed in those notes include:

### *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 balance sheets.

### *General Litigation*

The Company is subject to claims and lawsuits that 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, results of operations and cash flows of the Company.

## Note 24: Commitments and Credit Risk

The Company grants commercial, mortgage and consumer loans and receives deposits from customers primarily located within central and metro east Illinois. The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors ability to honor their contracts is dependent upon the economic conditions within central and metro east Illinois.

### *Commitments to Originate Loans*

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2017 and 2016, the Company had outstanding commitments to originate loans aggregating approximately $10,956,330 and $12,744,845. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to $10,219,330 and $8,369,845 at December 31, 2017 and 2016, respectively, with the remainder at floating market rates.

### *Standby Letters of Credit*

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to $3,014,674 and $4,989,229, at December 31, 2017 and 2016, respectively, with terms ranging from 1day to 25 months. At December 31, 2017 and 2016, the Company's deferred revenue under standby letter of credit agreements was nominal.

### *Lines of Credit*

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2017, the Company had granted unused lines of credit to borrowers aggregating approximately $63,153,055 and $31,624,702 for commercial lines and open-end consumer lines, respectively. At December 31, 2016, unused lines of credit to borrowers aggregated approximately $56,464,299 for commercial lines and $31,525,853 for open-end consumer lines.

## Note 25: Subsequent Event

Subsequent events have been evaluated through March 22, 2018, which is the date the consolidated financial statements were available to be issued.

### Note 26: Future Change in Accounting Principles

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. The ASU introduces a new credit loss model, the current expected credit loss model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sales securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple exiting impairment models, which generally require that a loss be incurred before it is recognized.

The CECL model represents a significant change from existing practice and may result in material changes to the Company's accounting for financial instruments. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of our portfolios at the date of adoption. The new standard is effective for annual periods beginning after December 14, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021.