AMES NATIONAL CORP
Form 10-Q
November 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number 0-32637

AMES NATIONAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

IOWA	**42-1039071**
(State or Other Jurisdiction of Incorporation or Organization)	(I. R. S. Employer Identification Number)

405 FIFTH STREET

AMES, IOWA 50010

(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: **(515) 232-6251**

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No__

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes __X_ No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer____ Accelerated filer __X__ Non-accelerated filer ____ Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ____ No ___X_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

COMMON STOCK, $2.00 PAR VALUE	**9,310,913**
(Class)	(Shares Outstanding at October 28, 2016)

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AMES NATIONAL CORPORATION

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

ASSETS	**September 30, 2016**	**December 31, 2015**
Cash and due from banks	$21,305,138	$24,005,801
Interest bearing deposits in financial institutions	25,998,518	26,993,091
Securities available-for-sale	517,579,320	537,632,990
Loans receivable, net	740,321,874	701,328,171
Loans held for sale	1,188,415	539,370
Bank premises and equipment, net	16,342,418	17,007,798
Accrued income receivable	8,370,918	7,565,791
Other real estate owned	653,684	1,249,915
Deferred income taxes	-	1,276,571
Core deposit intangible, net	1,035,525	1,308,731
Goodwill	6,732,216	6,732,216
Other assets	815,950	1,106,698
Total assets	$1,340,343,976	$1,326,747,143
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	$187,835,703	$202,542,011
NOW accounts	302,133,497	298,227,493
Savings and money market	366,167,359	354,026,475
Time, $250,000 and over	35,663,074	36,956,653
Other time	170,009,512	182,440,490
Total deposits	1,061,809,145	1,074,193,122
Securities sold under agreements to repurchase	49,858,395	54,289,915
Federal Home Loan Bank (FHLB) advances	38,000,000	18,542,203
Other borrowings	13,000,000	13,000,000
Deferred income taxes	1,039,151	-
Dividend payable	1,955,292	1,862,183
Accrued expenses and other liabilities	3,945,268	3,609,663
Total liabilities	1,169,607,251	1,165,497,086
STOCKHOLDERS' EQUITY		
Common stock, $2 par value, authorized 18,000,000 shares; issued and outstanding 9,310,913 shares as of September 30, 2016 and December 31, 2015	18,621,826	18,621,826
Additional paid-in capital	20,878,728	20,878,728

Retained earnings	124,112,244	118,267,767
Accumulated other comprehensive income - net unrealized gain on securities available-for-sale	7,123,927	3,481,736
Total stockholders' equity	170,736,725	161,250,057
Total liabilities and stockholders' equity	$1,340,343,976	$1,326,747,143

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Interest income:				
Loans, including fees	$8,236,401	$7,808,414	$24,124,973	$22,920,161
Securities:				
Taxable	1,425,366	1,506,702	4,392,602	4,639,398
Tax-exempt	1,329,071	1,433,537	4,117,893	4,399,623
Interest bearing deposits and federal funds sold	86,869	94,364	296,925	288,411
Total interest income	11,077,707	10,843,017	32,932,393	32,247,593
Interest expense:				
Deposits	753,642	744,958	2,259,140	2,276,004
Other borrowed funds	274,297	257,791	796,006	898,565
Total interest expense	1,027,939	1,002,749	3,055,146	3,174,569
Net interest income	10,049,768	9,840,268	29,877,247	29,073,024
Provision for loan losses	234,703	37,797	440,787	1,036,610
Net interest income after provision for loan losses	9,815,065	9,802,471	29,436,460	28,036,414
Noninterest income:				
Wealth management income	684,908	671,699	2,210,229	2,040,956
Service fees	426,711	445,706	1,228,416	1,285,063
Securities gains, net	64,917	111,622	296,110	608,926
Gain on sale of loans held for sale	339,501	206,072	773,512	705,370
Merchant and card fees	350,488	350,310	1,051,378	1,016,783
Other noninterest income	137,153	164,568	469,138	466,085
Total noninterest income	2,003,678	1,949,977	6,028,783	6,123,183
Noninterest expense:				
Salaries and employee benefits	3,977,495	3,882,484	11,883,696	11,418,395
Data processing	824,429	720,232	2,366,293	2,089,363
Occupancy expenses, net	449,775	414,868	1,461,201	1,408,464
FDIC insurance assessments	109,289	169,692	434,808	519,962
Professional fees	296,720	346,665	889,721	951,835
Business development	239,917	254,757	696,033	719,689
Other real estate owned expense (income), net	(91,173)	(104,380)	(87,564)	605,830
Core deposit intangible amortization	86,492	103,251	273,206	326,249

Other operating expenses, net	219,283	194,639	750,244	773,430
Total noninterest expense	6,112,227	5,982,208	18,667,638	18,813,217
Income before income taxes	5,706,516	5,770,240	16,797,605	15,346,380
Provision for income taxes	1,902,636	1,670,389	5,087,253	4,246,790
Net income	$3,803,880	$4,099,851	$11,710,352	$11,099,590
Basic and diluted earnings per share	$0.41	$0.44	$1.26	$1.19
Dividends declared per share	$0.21	$0.20	$0.63	$0.60

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income	$3,803,880	$4,099,851	$11,710,352	$11,099,590
Other comprehensive income (loss), before tax:				
Unrealized gains (losses) on securities before tax:				
Unrealized holding gains (losses) arising during the period	(1,838,831)	2,649,038	6,077,365	954,990
Less: reclassification adjustment for gains realized in net income	64,917	111,622	296,110	608,926
Other comprehensive income (loss), before tax	(1,903,748)	2,537,416	5,781,255	346,064
Tax effect related to other comprehensive income (loss)	704,387	(938,843)	(2,139,064)	(128,044)
Other comprehensive income (loss), net of tax	(1,199,361)	1,598,573	3,642,191	218,020
Comprehensive income	$2,604,519	$5,698,424	$15,352,543	$11,317,610

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)
Nine Months Ended September 30, 2016 and 2015

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Total Stockholders' Equity
Balance, December 31, 2014	$ 18,621,826	$ 20,878,728	$ 110,701,847	$ 4,472,017	$ 154,674,418
Net income	-	-	11,099,590	-	11,099,590
Other comprehensive income	-	-	-	218,020	218,020
Cash dividends declared, $0.60 per share	-	-	(5,586,548)	-	(5,586,548)
Balance, September 30, 2015	$ 18,621,826	$ 20,878,728	$ 116,214,889	$ 4,690,037	$ 160,405,480
Balance, December 31, 2015	$ 18,621,826	$ 20,878,728	$ 118,267,767	$ 3,481,736	$ 161,250,057
Net income	-	-	11,710,352	-	11,710,352
Other comprehensive income	-	-	-	3,642,191	3,642,191
Cash dividends declared, $0.63 per share	-	-	(5,865,875)	-	(5,865,875)
Balance, September 30, 2016	$ 18,621,826	$ 20,878,728	$ 124,112,244	$ 7,123,927	$ 170,736,725

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
Nine Months Ended September 30, 2016 and 2015

	2016	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$11,710,352	$11,099,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	440,787	1,036,610
Provision for off-balance sheet commitments	12,000	7,000
Amortization, net	2,327,654	2,590,850
Amortization of core deposit intangible asset	273,206	326,249
Depreciation	885,202	812,607
Deferred income taxes	176,658	526,700
Securities gains, net	(296,110)	(608,926)
Loss on sale of premises and equipment, net	2,769	1,132
Impairment of other real estate owned	28,039	614,687
(Gain) on sale of other real estate owned, net	(131,127)	(88,164)
Change in assets and liabilities:		
(Increase) in loans held for sale	(649,045)	(211,472)
(Increase) in accrued income receivable	(805,127)	(1,069,704)
Decrease in other assets	286,238	321,674
Increase in accrued expenses and other liabilities	323,605	546,791
Net cash provided by operating activities	14,585,101	15,905,624
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(49,668,267)	(87,374,515)
Proceeds from sale of securities available-for-sale	18,738,154	21,305,694
Proceeds from maturities and calls of securities available-for-sale	54,611,331	60,365,412
Net (increase) decrease in interest bearing deposits in financial institutions	994,573	(8,691,970)
Decrease in federal funds sold	-	6,000
Net (increase) in loans	(39,394,414)	(32,535,238)
Net proceeds from the sale of other real estate owned	755,906	4,594,675
Purchase of bank premises and equipment, net	(218,081)	(1,679,676)
Other	-	(28,812)
Net cash (used in) investing activities	(14,180,798)	(44,038,430)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits	(12,358,477)	9,357,287
Increase (decrease) in securities sold under agreements to repurchase	(4,431,520)	800,552
Payments on FHLB borrowings and other borrowings	(1,542,203)	(10,414,260)
Proceeds from short-term FHLB borrowings, net	21,000,000	36,200,000
Dividends paid	(5,772,766)	(5,400,329)

Net cash provided by (used in) financing activities	(3,104,966)	30,543,250
Net increase (decrease) in cash and due from banks	(2,700,663)	2,410,444
CASH AND DUE FROM BANKS		
Beginning	24,005,801	23,730,257
Ending	$21,305,138	$26,140,701

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(unaudited)
Nine Months Ended September 30, 2016 and 2015

	2016	**2015**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$3,145,519	$3,377,794
Income taxes	4,223,653	3,246,791
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans receivable to other real estate owned	$56,587	$74,609

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements *(unaudited)*

1. Significant Accounting Policies

The consolidated financial statements for the three and nine months ended September 30, 2016 and 2015 are unaudited. In the opinion of the management of Ames National Corporation (the "Company"), these financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary to present fairly these consolidated financial statements. The results of operations for the interim periods are not necessarily indicative of results which may be expected for an entire year. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted in accordance with the requirements for interim financial statements. The interim financial statements and notes thereto should be read in conjunction with the year-end audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "Annual Report"). The consolidated financial statements include the accounts of the Company and its wholly-owned banking subsidiaries (the "Banks"). All significant intercompany balances and transactions have been eliminated in consolidation.

Goodwill: Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill resulting from acquisitions is not amortized, but is tested for impairment annually or whenever events change and circumstances indicate that it is more likely than not that an impairment loss has occurred. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. The second step, if necessary, measures the amount of impairment, if any.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. At September 30, 2016, Company management has performed a goodwill impairment assessment and determined goodwill was not impaired.

Current Accounting Developments: In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities.* The update enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information by updating certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other changes, the update includes requiring changes in fair value of equity securities with readily determinable fair value to be recognized in net income and clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entities' other deferred tax assets. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017, and is to be applied on a modified retrospective basis. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU requires a lessee to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (“GAAP”), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. Unlike current GAAP, which requires that only capital leases be recognized on the balance sheet, the ASC requires that both types of leases by recognized on the balance sheet. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2018. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

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In February 2016, the FASB issued ASU Update No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Among other items the ASC requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The effect of the adoption of this guidance has not yet been determined by the Company.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. The effect of the adoption of this guidance has not yet been determined by the Company.

2. Dividends

On August 10, 2016, the Company declared a cash dividend on its common stock, payable on November 15, 2016 to stockholders of record as of November 1, 2016, equal to $0.21 per share.

3. Earnings Per Share

Earnings per share amounts were calculated using the weighted average shares outstanding during the periods presented. The weighted average outstanding shares for the three and nine months ended September 30, 2016 and 2015 were 9,310,913. The Company had no potentially dilutive securities outstanding during the periods presented.

4. Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. No material changes in the Company’s off-balance sheet arrangements have occurred since December 31, 2015.

5. Fair Value Measurements

Assets and liabilities carried at fair value are required to be classified and disclosed according to the process for determining fair value. There are three levels of determining fair value.

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

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Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatility, prepayment speeds, credit risk); or inputs derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following table presents the balances of assets measured at fair value on a recurring basis by level as of September 30, 2016 and December 31, 2015. *(in thousands)*

Description	Total	Level 1	Level 2	Level 3
2016				
U.S. government treasuries	$1,505	$1,505	$-	$ -
U.S. government agencies	108,222	-	108,222	-
U.S. government mortgage-backed securities	82,685	-	82,685	-
State and political subdivisions	266,535	-	266,535	-
Corporate bonds	54,678	-	54,678	-
Equity securities, other	3,954	-	3,954	-
	$517,579	$1,505	$516,074	$ -
2015				
U.S. government treasuries	$1,467	$1,467	$-	$ -
U.S. government agencies	106,445	-	106,445	-
U.S. government mortgage-backed securities	98,079	-	98,079	-
State and political subdivisions	277,597	-	277,597	-
Corporate bonds	50,889	-	50,889	-
Equity securities, other	3,156	-	3,156	-
	$537,633	$1,467	$536,166	$ -

Level 1 securities include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. U.S government mortgage-backed securities, state and political subdivisions, most corporate bonds and other equity securities are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security’s terms and conditions, among other things.

The Company's policy is to recognize transfers between levels at the end of each reporting period, if applicable. There were no transfers between levels of the fair value hierarchy during the nine months ended September 30, 2016.

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Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the balance sheet (after specific reserves) by caption and by level within the valuation hierarchy as of September 30, 2016 and December 31, 2015. *(in thousands)*

Description	Total	Level 1	Level 2	Level 3
2016				
Loans receivable	$1,185	$ -	$ -	$1,185
Other real estate owned	654	-	-	654
Total	$1,839	$ -	$ -	$1,839
2015				
Loans receivable	$603	$ -	$ -	$603
Other real estate owned	1,250	-	-	1,250
Total	$1,853	$ -	$ -	$1,853

Loans Receivable: Loans in the tables above consist of impaired credits held for investment. In accordance with the loan impairment guidance, impairment was measured based on the fair value of collateral less estimated selling costs for collateral dependent loans. Fair value for impaired loans is based upon appraised values of collateral adjusted for trends observed in the market. A valuation allowance was recorded for the excess of the loan's recorded investment over the amounts determined by the collateral value method. This valuation allowance is a component of the allowance for loan losses. The Company considers these fair value measurements as level 3.

Other Real Estate Owned: Other real estate owned in the table above consists of real estate obtained through foreclosure. Other real estate owned is recorded at fair value less estimated selling costs, at the date of transfer, with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs, with any impairment amount recorded as a noninterest expense. The carrying value of other real estate owned is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value less estimated selling costs. Management uses appraised values and adjusts for trends observed in the market and for disposition costs in determining the value of other real estate owned. A valuation allowance was recorded for the excess of the asset's recorded investment over the amount determined by the fair value, less estimated selling costs. This valuation allowance is a component of the allowance for other real estate owned. The valuation allowance was $426,000 as of September 30, 2016 and $681,000 as of December 31, 2015. The Company considers these fair value measurements as level 3.

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The significant inputs used in the fair value measurements for Level 3 assets measured at fair value on a nonrecurring basis as of September 30, 2016 and December 31, 2015 are as follows: *(in thousands)*

	2016 Estimated Fair Value		Valuation Techniques	Unobservable Inputs	Range (Average)	
Impaired Loans	$	1,185	Evaluation of collateral	Estimation of value	NM*	
Other real estate owned	$	654	Appraisal	Appraisal adjustment	6% - 8%	(7%)

	2015 Estimated Fair Value		Valuation Techniques	Unobservable Inputs	Range (Average)	
Impaired Loans	$	603	Evaluation of collateral	Estimation of value	NM*	
Other real estate owned	$	1,250	Appraisal	Appraisal adjustment	6% - 10%	(8%)

* Not Meaningful. Evaluations of the underlying assets are completed for each impaired loan with a specific reserve. The types of collateral vary widely and could include accounts receivables, inventory, a variety of equipment and real estate. Collateral evaluations are reviewed and discounted as appropriate based on knowledge of the specific type of collateral. In the case of real estate, an independent appraisal may be obtained. Types of discounts considered included aging of receivables, condition of the collateral, potential market for the collateral and estimated disposal costs. These discounts will vary from loan to loan, thus providing a range would not be meaningful.

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

Fair value of financial instruments:

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the consolidated balance sheets. In cases in which quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Company.

The following disclosures represent financial instruments in which the ending balances at September 30, 2016 and December 31, 2015 are not carried at fair value in their entirety on the consolidated balance sheets.

Cash and due from banks and interest bearing deposits in financial institutions: The recorded amount of these assets approximates fair value.

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Securities available-for-sale: Fair value measurement for Level 1 securities is based upon quoted prices. Fair value measurement for Level 2 securities are based upon quoted prices, if available. If quoted prices are not available, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. Level 1 securities include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. U.S government mortgage-backed securities, state and political subdivisions, some corporate bonds and other equity securities are reported at fair value utilizing Level 2 inputs.

Loans receivable: The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates, which reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the historical experience, with repayments for each loan classification modified, as required, by an estimate of the effect of current economic and lending conditions. The effect of nonperforming loans is considered in assessing the credit risk inherent in the fair value estimate.

Loans held for sale: The fair value of loans held for sale is based on prevailing market prices.

Deposits: Fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings and NOW accounts, and money market accounts, are equal to the amount payable on demand as of the respective balance sheet date. Fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Securities sold under agreements to repurchase: The carrying amounts of securities sold under agreements to repurchase approximate fair value because of the generally short-term nature of the instruments.

FHLB advances and other borrowings: Fair values of FHLB advances and other borrowings are estimated using discounted cash flow analysis based on interest rates currently being offered with similar terms.

Accrued income receivable and accrued interest payable: The carrying amounts of accrued income receivable and accrued interest payable approximate fair value.

Commitments to extend credit and standby letters of credit: The fair values of commitments to extend credit and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and credit worthiness of the counterparties. The carrying value and fair value of the commitments to extend credit and standby letters of credit are not considered significant.

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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The estimated fair values of the Company's financial instruments as described above as of September 30, 2016 and December 31, 2015 are as follows: *(in thousands)*

		2016		**2015**	
	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and due from banks	Level 1	$21,305	$21,305	$24,006	$24,006
Interest bearing deposits	Level 1	25,999	25,999	26,993	26,993
Securities available-for-sale	See previous table	517,579	517,579	537,633	537,633
Loans receivable, net	Level 2	740,322	741,279	701,328	702,438
Loans held for sale	Level 2	1,188	1,188	539	539
Accrued income receivable	Level 1	8,371	8,371	7,566	7,566
Financial liabilities:					
Deposits	Level 2	$1,061,809	$1,063,219	$1,074,193	$1,075,289
Securities sold under agreements to repurchase	Level 1	49,858	49,858	54,290	54,290
FHLB advances	Level 2	38,000	38,304	18,542	19,017
Other borrowings	Level 2	13,000	13,510	13,000	13,807
Accrued interest payable	Level 1	348	348	413	413

The methodologies used to determine fair value as of September 30, 2016 did not change from the methodologies described in the December 31, 2015 Annual Financial Statements.

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6. Debt and Equity Securities

The amortized cost of securities available-for-sale and their fair values as of September 30, 2016 and December 31, 2015 are summarized below: *(in thousands)*

2016:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries	$ 1,454	$ 51	$ -	$ 1,505
U.S. government agencies	105,400	2,865	(43)	108,222
U.S. government mortgage-backed securities	79,916	2,769	-	82,685
State and political subdivisions	261,981	4,823	(269)	266,535
Corporate bonds	53,566	1,163	(51)	54,678
Equity securities, other	3,954	-	-	3,954
	$ 506,271	$ 11,671	$ (363)	$ 517,579

2015:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries	$ 1,444	$ 23	$ -	$ 1,467
U.S. government agencies	105,948	797	(300)	106,445
U.S. government mortgage-backed securities	96,373	1,828	(123)	98,078
State and political subdivisions	273,771	4,359	(533)	277,597
Corporate bonds	51,414	227	(751)	50,890
Equity securities, other	3,156	-	-	3,156
	$ 532,106	$ 7,234	$ (1,707)	$ 537,633

The proceeds, gains and losses from securities available-for-sale are summarized as follows: *(in thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Proceeds from sales of securities available-for-sale	$ 5,852	$ 5,926	$ 18,738	$ 21,306
Gross realized gains on securities available-for-sale	66	126	303	623
Gross realized losses on securities available-for-sale	(1)	(14)	(7)	(14)

Tax provision applicable to net realized gains on securities available-for-sale	29	42	110	227

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Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are summarized as of September 30, 2016 and December 31, 2015 are as follows: *(in thousands)*

2016:	Less than 12 Months Estimated Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Estimated Fair Value	12 Months or More Unrealized Losses	Total Estimated Fair Value	Total Unrealized Losses
Securities available-for-sale:						
U.S. government agencies	$4,014	$ (43)	$-	$ -	$4,014	$ (43)
State and political subdivisions	22,711	(262)	1,725	(7)	24,436	(269)
Corporate bonds	2,106	(14)	3,275	(37)	5,381	(51)
	$28,831	$ (319)	$5,000	$ (44)	$33,831	$ (363)

2015:	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
Securities available-for-sale:						
U.S. government agencies	$30,245	$ (253)	$3,121	$ (47)	$33,366	$ (300)
U.S. government mortgage-backed securities	22,842	(123)	-	-	22,842	(123)
State and political subdivisions	38,202	(414)	11,096	(119)	49,298	(533)
Corporate bonds	22,091	(249)	14,614	(502)	36,705	(751)
	$113,380	$ (1,039)	$28,831	$ (668)	$142,211	$ (1,707)

Gross unrealized losses on debt securities totaled $363,000 as of September 30, 2016. These unrealized losses are generally due to changes in interest rates or general market conditions. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, state or political subdivision, or corporations. Management then determines whether downgrades by bond rating agencies have occurred, and reviews industry analysts' reports. The Company's procedures for evaluating investments in states, municipalities and political subdivisions include but are not limited to reviewing the offering statement and the most current available financial information, comparing yields to yields of bonds of similar credit quality, confirming capacity to repay, assessing operating and financial performance, evaluating the stability of tax revenues, considering debt profiles and local demographics, and for revenue bonds, assessing the source and strength of revenue structures for municipal authorities. These procedures, as applicable, are utilized for all municipal purchases and are utilized in whole or in part for monitoring the portfolio of municipal holdings. The Company does not utilize third party credit rating agencies as a primary component of determining if the municipal issuer has an adequate capacity to meet the financial commitments under the security for the projected life of the investment, and, therefore, does not compare internal assessments to those of the credit rating agencies. Credit rating downgrades are utilized as an additional indicator of credit weakness and as a reference point for historical default rates. Management concluded that the gross unrealized losses on debt securities were temporary. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values and management's assessments will occur in the near term and that such changes could materially affect the amounts reported in the Company's financial statements.

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7. Loans Receivable and Credit Disclosures

Activity in the allowance for loan losses, on a disaggregated basis, for the three and nine months ended September 30, 2016 and 2015 is as follows: *(in thousands)*

	Three Months Ended September 30, 2016							
	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance, June 30, 2016	$758	$ 1,742	$ 3,890	$ 834	$ 1,439	$ 1,219	$ 253	$10,135
Provision (credit) for loan losses	121	32	(89)	-	169	12	(10)	235
Recoveries of loans charged-off	15	1	-	-	75	-	2	93
Loans charged-off	-	-	-	-	(1)	-	(11)	(12)
Balance, September 30, 2016	$894	$ 1,775	$ 3,801	$ 834	$ 1,682	$ 1,231	$ 234	$10,451

	Nine Months Ended September 30, 2016							
	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance, December 31, 2015	$999	$ 1,806	$ 3,557	$ 760	$ 1,371	$ 1,256	$ 239	$9,988
Provision (credit) for loan losses	(135)	(34)	244	74	308	(25)	9	441
Recoveries of loans charged-off	30	3	-	-	81	-	7	121
Loans charged-off	-	-	-	-	(78)	-	(21)	(99)
Balance, September 30, 2016	$894	$ 1,775	$ 3,801	$ 834	$ 1,682	$ 1,231	$ 234	$10,451

	Three Months Ended September 30, 2015							
	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total

Balance, June 30, 2015	$823	$ 1,826	$ 3,590	$ 812	$ 1,263	$ 1,338	$ 220	$9,872
Provision for loan losses	130	(10)	(129)	(20)	97	(44)	14	38
Recoveries of loans charged-off	15	2	-	-	-	-	16	33
Loans charged-off	-	(1)	-	-	-	-	(15)	(16)
Balance, September 30, 2015	$968	$ 1,817	$ 3,461	$ 792	$ 1,360	$ 1,294	$ 235	$9,927

Nine Months Ended September 30, 2015

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance, December 31, 2014	$495	$ 1,648	$ 3,214	$ 737	$ 1,247	$ 1,312	$ 186	$8,839
Provision for loan losses	438	154	247	55	113	(18)	48	1,037
Recoveries of loans charged-off	35	22	-	-	-	-	24	81
Loans charged-off	-	(7)	-	-	-	-	(23)	(30)
Balance, September 30, 2015	$968	$ 1,817	$ 3,461	$ 792	$ 1,360	$ 1,294	$ 235	$9,927

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Allowance for loan losses disaggregated on the basis of impairment analysis method as of September 30, 2016 and December 31, 2015 is as follows: *(in thousands)*

2016	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$ -	$ 140	$ -	$ -	$ 576	$ -	$ -	$716
Collectively evaluated for impairment	894	1,635	3,801	834	1,106	1,231	234	9,735
Balance September 30, 2016	$ 894	$ 1,775	$ 3,801	$ 834	$ 1,682	$ 1,231	$ 234	$10,451

2015	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$ -	$ 273	$ 2	$ -	$ 164	$ -	$ -	$439
Collectively evaluated for impairment	999	1,533	3,555	760	1,207	1,256	239	9,549
Balance December 31, 2015	$ 999	$ 1,806	$ 3,557	$ 760	$ 1,371	$ 1,256	$ 239	$9,988

Loans receivable disaggregated on the basis of impairment analysis method as of September 30, 2016 and December 31, 2015 is as follows *(in thousands)*:

2016	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$ -	$ 1,047	$ 431	$ -	$ 1,406	$ 11	$ 85	$2,980
Collectively evaluated for impairment	58,639	148,950	302,608	69,824	71,039	75,850	20,988	747,898
	$ 58,639	$ 149,997	$ 303,039	$ 69,824	$ 72,445	$ 75,861	$ 21,073	$750,878

Balance September 30, 2016

2015	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$ -	$ 1,050	$ 558	$ -	$ 197	$ 11	$ 2	$ 1,818
Collectively evaluated for impairment	66,268	126,026	251,331	62,530	102,318	79,522	21,597	709,592
Balance December 31, 2015	$ 66,268	$ 127,076	$ 251,889	$ 62,530	$ 102,515	$ 79,533	$ 21,599	$ 711,410

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 payment of principal and 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. The Company will apply its normal loan review procedures to identify loans that should be evaluated for impairment.

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The following is a recap of impaired loans, on a disaggregated basis, as of September 30, 2016 and December 31, 2015: *(in thousands)*

	2016			**2015**		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no specific reserve recorded:						
Real estate - construction	$ -	$ -	$ -	$ -	$ 31	$ -
Real estate - 1 to 4 family residential	428	447	-	296	304	-
Real estate - commercial	431	1,044	-	456	1,030	-
Real estate - agricultural	-	-	-	-	-	-
Commercial	124	133	-	11	17	-
Agricultural	11	13	-	11	13	-
Consumer and other	85	88	-	2	2	-
Total loans with no specific reserve:	1,079	1,725	-	776	1,397	-
With an allowance recorded:						
Real estate - construction	-	-	-	-	-	-
Real estate - 1 to 4 family residential	619	766	140	754	891	273
Real estate - commercial	-	-	-	102	111	2
Real estate - agricultural	-	-	-	-	-	-
Commercial	1,282	1,283	576	186	262	164
Agricultural	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
Total loans with specific reserve:	1,901	2,049	716	1,042	1,264	439
Total						
Real estate - construction	-	-	-	-	31	-
Real estate - 1 to 4 family residential	1,047	1,213	140	1,050	1,195	273
Real estate - commercial	431	1,044	-	558	1,141	2
Real estate - agricultural	-	-	-	-	-	-
Commercial	1,406	1,416	576	197	279	164
Agricultural	11	13	-	11	13	-
Consumer and other	85	88	-	2	2	-
	$2,980	$ 3,774	$ 716	$1,818	$ 2,661	$ 439

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The following is a recap of the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2016 and 2015: *(in thousands)*

	Three Months Ended Septmber 30,			
	2016		**2015**	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded:				
Real estate - construction	$ -	$ -	$ 51	$ 62
Real estate - 1 to 4 family residential	481	-	250	-
Real estate - commercial	450	-	525	-
Real estate - agricultural	-	-	-	-
Commercial	67	-	94	-
Agricultural	11	-	11	-
Consumer and other	88	6	4	-
Total loans with no specific reserve:	1,097	6	935	62
With an allowance recorded:				
Real estate - construction	-	-	-	-
Real estate - 1 to 4 family residential	626	-	761	-
Real estate - commercial	-	-	129	-
Real estate - agricultural	-	-	-	-
Commercial	1,003	2	131	-
Agricultural	-	-	-	-
Consumer and other	1	-	-	-
Total loans with specific reserve:	1,630	2	1,021	-
Total				
Real estate - construction	-	-	51	62
Real estate - 1 to 4 family residential	1,107	-	1,011	-
Real estate - commercial	450	-	654	-
Real estate - agricultural	-	-	-	-
Commercial	1,070	2	225	-
Agricultural	11	-	11	-
Consumer and other	89	6	4	-
	$ 2,727	$ 8	$ 1,956	$ 62

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	Nine Months Ended September 30,			
	2016		**2015**	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded:				
Real estate - construction	$ -	$ 31	$ 121	$ 129
Real estate - 1 to 4 family residential	438	1	161	-
Real estate - commercial	465	22	579	23
Real estate - agricultural	-	-	-	-
Commercial	39	-	276	3
Agricultural	11	-	13	-
Consumer and other	66	6	5	2
Total loans with no specific reserve:	1,019	60	1,155	157
With an allowance recorded:				
Real estate - construction	-	-	-	-
Real estate - 1 to 4 family residential	663	5	772	-
Real estate - commercial	26	-	143	-
Real estate - agricultural	-	-	-	-
Commercial	732	2	106	-
Agricultural	-	-	-	-
Consumer and other	1	-	-	-
Total loans with specific reserve:	1,422	7	1,021	-
Total				
Real estate - construction	-	31	121	129
Real estate - 1 to 4 family residential	1,101	6	933	-
Real estate - commercial	491	22	722	23
Real estate - agricultural	-	-	-	-
Commercial	771	2	382	3
Agricultural	11	-	13	-
Consumer and other	67	6	5	2
	$ 2,441	$ 67	$ 2,176	$ 157

The interest foregone on nonaccrual loans for the three months ended September 30, 2016 and 2015 was approximately $46,000 and $39,000, respectively. The interest foregone on nonaccrual loans for the nine months ended September 30, 2016 and 2015 was approximately $124,000 and $127,000, respectively

The Company had loans meeting the definition of a troubled debt restructuring (TDR) of $1,388,000 as of September 30, 2016, of which all were included in impaired loans and nonaccrual loans. The Company had TDRs of $780,000 as of December 31, 2015, all of which were included in impaired and nonaccrual loans.

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The following tables sets forth information on the Company's TDRs, on a disaggregated basis, occurring in the three and nine months ended September 30, 2016 and 2015: *(dollars in thousands)*

	Three Months Ended September 30,									
	2016					**2015**				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment		Number of Contracts	Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Real estate - construction	-	$	-	$	-	-	$	-	$	-
Real estate - 1 to 4 family residential	-		-		-	-		-		-
Real estate - commercial	-		-		-	-		-		-
Real estate - agricultural	-		-		-	-		-		-
Commercial	-		-		-	-		-		-
Agricultural	-		-		-	-		-		-
Consumer and other	-		-		-	-		-		-
	-	$	-	$	-	-	$	-	$	-

	Nine Months Ended September 30,									
	2016					**2015**				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment		Number of Contracts	Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Real estate - construction	-	$	-	$	-	-	$	-	$	-
Real estate - 1 to 4 family residential	-		-		-	-		-		-
Real estate - commercial	-		-		-	-		-		-
Real estate - agricultural	-		-		-	-		-		-
Commercial	3		702		705	-		-		-
Agricultural	-		-		-	-		-		-
Consumer and other	3		70		70	-		-		-
	6	$	772	$	775	-	$	-	$	-

During the three months ended September 30, 2016, the Company did not grant concessions to any borrowers that were experiencing financial difficulties. During the nine months ended September 30, 2016, the Company granted concessions to two borrowers experiencing financial difficulties with six loans. The three consumer loans were extended beyond normal terms at an interest rate below a market interest rate. The three commercial operating loans were extended beyond normal terms.

The Company did not grant any concessions on any significant loans experiencing financial difficulties during the three and nine months ended September 30, 2015.

The Company considers TDR loans to have payment default when it is past due 60 days or more.

Three TDR loans modified during the twelve months ended September 30, 2016 had payment defaults. No TDR modified during the twelve months ended September 30, 2015 had payment defaults.

There were no charge-offs related to TDRs for the nine months ended September 30, 2016 and 2015.

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An aging analysis of the recorded investments in loans, on a disaggregated basis, as of September 30, 2016 and December 31, 2015, is as follows: *(in thousands)*

2016	30-89 Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	90 Days or Greater Accruing
Real estate - construction	$64	$ -	$64	$58,575	$58,639	$ -
Real estate - 1 to 4 family residential	940	167	1,107	148,890	149,997	-
Real estate - commercial	1,172	-	1,172	301,867	303,039	-
Real estate - agricultural	-	-	-	69,824	69,824	-
Commercial	1,244	38	1,282	71,163	72,445	-
Agricultural	69	-	69	75,792	75,861	-
Consumer and other	30	16	46	21,027	21,073	-
	$3,519	$ 221	$3,740	$747,138	$750,878	$ -

2015	30-89 Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	90 Days or Greater Accruing
Real estate - construction	$-	$ -	$-	$66,268	$66,268	$ -
Real estate - 1 to 4 family residential	1,311	307	1,618	125,458	127,076	75
Real estate - commercial	1,356	-	1,356	250,533	251,889	-
Real estate - agricultural	-	-	-	62,530	62,530	-
Commercial	266	204	470	102,045	102,515	-
Agricultural	-	-	-	79,533	79,533	-
Consumer and other	79	-	79	21,520	21,599	-
	$3,012	$ 511	$3,523	$707,887	$711,410	$ 75

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The credit risk profile by internally assigned grade, on a disaggregated basis, as of September 30, 2016 and December 31, 2015 is as follows: *(in thousands)*

2016	Construction Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Total
Pass	$ 54,485	$ 276,012	$ 52,055	$ 54,718	$ 54,473	$491,743
Watch	3,055	20,084	11,669	15,095	20,751	70,654
Special Mention	-	590	4,228	-	76	4,894
Substandard	1,099	5,922	1,872	1,225	550	10,668
Substandard-Impaired	-	431	-	1,407	11	1,849
	$ 58,639	$ 303,039	$ 69,824	$ 72,445	$ 75,861	$579,808

2015	Construction Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Total
Pass	$ 60,700	$ 227,425	$ 55,503	$ 91,096	$ 71,457	$506,181
Watch	4,487	17,523	6,865	8,329	7,156	44,360
Special Mention	-	388	-	224	81	693
Substandard	1,081	5,995	162	2,669	828	10,735
Substandard-Impaired	-	558	-	197	11	766
	$ 66,268	$ 251,889	$ 62,530	$ 102,515	$ 79,533	$562,735

The credit risk profile based on payment activity, on a disaggregated basis, as of September 30, 2016 and December 31, 2015 is as follows:

2016	1-4 Family Residential Real Estate	Consumer and Other	Total
Performing	$ 148,949	$ 20,988	$169,937
Non-performing	1,048	85	1,133
	$ 149,997	$ 21,073	$171,070

2015	1-4 Family Residential Real Estate	Consumer and Other	Total

Performing	$ 125,951	$ 21,597	$ 147,548
Non-performing	1,125	2	1,127
	$ 127,076	$ 21,599	$ 148,675

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8. Other Real Estate Owned

The following table provides the composition of other real estate owned as of September 30, 2016 and December 31, 2015: *(in thousands)*

	2016	**2015**
Construction and land development	$427	$739
1 to 4 family residential real estate	227	511
	$654	$1,250

The Company is actively marketing the assets referred to in the table above. Management uses appraised values and adjusts for trends observed in the market and for disposition costs in determining the value of other real estate owned. The assets above are primarily located in the Ames, Iowa area.

9. Goodwill

Goodwill is not amortized but is evaluated for impairment at least annually. For income tax purposes, goodwill is amortized over fifteen years.

10. Core deposit intangible asset

The following sets forth the carrying amounts and accumulated amortization of core deposit intangible assets at September 30, 2016 and December 31, 2015: *(in thousands)*

	2016		**2015**	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposit intangible asset	$2,518	$ 1,482	$2,518	$ 1,209

The weighted average life of the core deposit intangible is 3 years as of September 30, 2016 and December 31, 2015.

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The following sets forth the activity related to core deposit intangible assets for the three and nine months ended September 30, 2016 and 2015: *(in thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Beginning core deposit intangible, net	$1,122	$1,507	$1,309	$1,730
Amortization	(86)	(103)	(273)	(326)
Ending core deposit intangible, net	$1,036	$1,404	$1,036	$1,404

Estimated remaining amortization expense on core deposit intangible for the years ending December 31st is as follows: *(in thousands)*

2016	$80
2017	298
2018	251
2019	128
2020	71
2021	71
After	137
	$1,036

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11. Secured Borrowings

The following sets forth the pledged collateral at estimated fair value related to securities sold under repurchase agreements and term repurchase agreements as of September 30, 2016 and December 31, 2015: *(in thousands)*

	2016			**2015**		
	Remaining Contractual Maturity of the Agreements					
	Overnight	Greater than 90 days	Total	Overnight	Greater than 90 days	Total
Securities sold under agreements to repurchase:						
U.S. government treasuries	$1,505	$-	$1,505	$1,467	$-	$1,467
U.S. government agencies	47,673	-	47,673	46,755	-	46,755
U.S. government mortgage-backed securities	33,214	-	33,214	41,657	-	41,657
Total	$82,392	$-	$82,392	$89,879	$-	$89,879
Term repurchase agreements (Other borrowings):						
U.S. government agencies	$-	$15,545	$15,545	$-	$12,503	$12,503
U.S. government mortgage-backed securities	-	395	395	-	676	676
Total	$-	$15,940	$15,940	$-	$13,179	$13,179
Total pledged collateral	$82,392	$15,940	$98,332	$89,879	$13,179	$103,058

In the event the repurchase agreements exceed the estimated fair value of the pledged securities available-for-sale, the Company has unpledged securities available-for-sale that may be pledged on the repurchase agreements.

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12. Regulatory Matters

The Company and the Banks capital amounts and ratios are as follows: (*dollars in thousands*)

	Actual		For Capital Adequacy Purposes *		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2016:						
Total capital (to risk-weighted assets):						
Consolidated	$167,797	17.4 %	$83,363	8.625 %	N/A	N/A
Boone Bank & Trust	14,975	17.0	7,602	8.625	$8,814	10.0 %
First National Bank	77,382	15.2	43,894	8.625	50,891	10.0
Reliance State Bank	25,642	14.6	15,125	8.625	17,536	10.0
State Bank & Trust	20,119	17.0	10,182	8.625	11,805	10.0
United Bank & Trust	14,930	20.0	6,435	8.625	7,461	10.0
Tier 1 capital (to risk-weighted assets):						
Consolidated	$156,827	16.3 %	$64,033	6.625 %	N/A	N/A
Boone Bank & Trust	14,046	15.9	5,839	6.625	$7,051	8.0 %
First National Bank	71,842	14.1	33,716	6.625	40,713	8.0
Reliance State Bank	23,692	13.5	11,617	6.625	14,029	8.0
State Bank & Trust	18,640	15.8	7,821	6.625	9,444	8.0
United Bank & Trust	14,163	19.0	4,943	6.625	5,969	8.0
Tier 1 capital (to average-weighted assets):						
Consolidated	$156,827	12.0 %	$52,374	4.000 %	N/A	N/A
Boone Bank & Trust	14,046	10.5	5,372	4.000	$6,715	5.0 %
First National Bank	71,842	10.1	28,566	4.000	35,707	5.0
Reliance State Bank	23,692	11.4	8,341	4.000	10,426	5.0
State Bank & Trust	18,640	12.2	6,122	4.000	7,653	5.0
United Bank & Trust	14,163	12.7	4,469	4.000	5,586	5.0
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	$156,827	16.3 %	$49,535	5.125 %	N/A	N/A
Boone Bank & Trust	14,046	15.9	4,517	5.125	$5,729	6.5 %
First National Bank	71,842	14.1	26,082	5.125	33,079	6.5
Reliance State Bank	23,692	13.5	8,987	5.125	11,398	6.5
State Bank & Trust	18,640	15.8	6,050	5.125	7,673	6.5

United Bank & Trust	14,163	19.0	3,824	5.125	4,850	6.5

* These ratios for September 30, 2016 include a capital conservation buffer of 0.625%, except for the Tier 1 capital to average weighted assets ratios.

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	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Total capital (to risk-weighted assets):						
Consolidated	$157,926	16.6 %	$76,179	8.0 %		