NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 1 – Nature of Operations and Significant Accounting Policies

Allendale Bancorp, Inc. (the "Bancorp") and its wholly-owned subsidiary, First National Bank of Allendale (the "Bank" and together with Bancorp) provide various banking and other financial services to their customers. The Bank's customers include individuals and commercial enterprises within its principal market area consisting of Wabash County, Illinois. The Bank operates under a national bank charter and provides full banking services. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (FDIC). On May 23, 2017 the Bank formed an Illinois Limited Liability Company that it wholly owns, Allendale Holdings, LLC. Allendale Holdings, LLC has been consolidated with the Bank and Bancorp.

Additionally, the Bank maintains correspondent banking relationships and transacts daily federal funds sales on an unsecured basis with regional correspondent banks. Note 4 discusses the types of securities the Bank invests in. Note 5 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one industry or customer.

The accounting and reporting policies and practices of the Bank conform with accounting principles generally accepted in the United States of America. The following is a summary of the Bank's significant accounting policies.

Date of Management's Review

Management has evaluated subsequent events through March 7, 2018, the date that the financial statements were available to be issued.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bancorp and the Bank. In consolidation, all significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Use of Estimates (Concluded)

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the agricultural industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the balance sheet. Such items along with net income are components of comprehensive income.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks, non-interest bearing (including cash items in process of clearing); interest-bearing deposits in banks with an original maturity of 90 days or less, and federal funds sold. Generally federal funds are sold for one-day periods.

The Bank considers all non-interest bearing deposits in other banks and federal funds sold to be cash and cash equivalents. The Bank has deposit accounts with several financial institutions.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Presentation of Cash Flows (Concluded)

The accounts are insured by the FDIC up to $250,000 per bank at December 31, 2017 and 2016. At December 31, 2017 and 2016 the Bank had approximately $1,495,000 and $1,331,000 in excess of the FDIC insurance limit, respectively.

Investment Securities

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of shareholders' equity, net of the related deferred tax effect.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Gains and losses realized on sales of investment securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted stock is stock from the Federal Home Loan Bank of St. Louis ("FHLB"), which is restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank's investment in these stocks is carried at cost.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Bank evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectibility of the loan is in doubt. Cash collections on loans where ultimate collectibility remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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 is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability 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.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses (Continued)

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 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.

The Bank’s allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management’s estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Bank’s calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower’s overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank’s internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management’s estimate of the associated risk, complexity and size of the individual loans within the particular loan category.

Classified loans are assigned a higher allowance factor than non-classified loans due to management’s concerns regarding collectibility or management’s knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses (Continued)

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectibility based on information available to them at the time of their examination.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses (Concluded)

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have been paying as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such an extent as to require the loan be put into a nonaccruing status. Cash receipts on impaired loans are recorded as interest income as received, unless the loan is in a nonaccrual status.

The Bank's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Bank's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged-off as follows: (a) closed end loans are charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Company is an unsecured creditor, are charged-off within 60 days of receipt of the notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of a borrower will cause a charge-off to be incurred at such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. The provision for depreciation is computed using straight-line and accelerated methods based on the estimated useful lives of the assets, which range from 5 to 10 years for bank equipment and 39 years for bank buildings. Leasehold improvements are amortized over the lesser of the terms of the leases or their estimated useful lives. Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over the asset's remaining useful life. Gains or losses realized on the disposition of properties and equipment are reflected in the statements of income. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Bank Owned Life Insurance

The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policy is classified in noninterest income.

Foreclosed Properties

Foreclosed properties include properties that have been acquired in complete or partial satisfaction of a debt. These properties are initially recorded at fair value on the date of acquisition. Any write-downs at the time of acquisition are charged to the allowance for loan losses. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of (a) fair value minus estimated costs to sell or (b) cost. Gains and losses realized on the sale, and any adjustments resulting from periodic re-evaluation of this property are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Bancorp files consolidated income tax returns with its subsidiary. The Bank recognizes interest and penalties related to income tax matters in operating expense.

The Bank does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits. The Bank's policy is to recognize interest and penalties on income taxes in other noninterest expenses. The Bank remains subject to examination for income tax returns for the years ending after December 31, 2014.

Note 1 – Nature of Operations and Significant Accounting Policies (Concluded)

Fair Value Measurements

The Company follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurements and Disclosures*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Recent Accounting Pronouncements

There are no recent accounting pronouncements that pertain to the Bank's consolidated financial statements.

Note 2 – Restriction on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserves were $300,000 and $2,106,000 at December 31, 2017 and 2016, respectively.

Note 3 – Certificates of Deposit

The Bank had certificates of deposits totaling $4,653,340 and $4,867,812 at December 31, 2017 and 2016, in the accompanying financial statements. The certificates bear interest at rates ranging from 1.00% to 2.50% and have maturities ranging from January 2018 to December 2022, with penalties for early withdrawal. Any penalties for early withdrawal would not have material effect on the financial statements.

Note 4 – Securities Available-for-Sale

The amortized cost of securites available-for-sale and their approximate fair values are as follows:

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
State and municipal securities	$32,838,285	$ 41,628	$ 364,092	$ 32,515,821
U.S. government and agency securities	13,438,368	4,104	209,755	13,232,717
Mortgage backed securities	2,474,444	480	34,708	2,440,216
Total available-for-sale securities	$48,751,097	$ 46,212	$ 608,555	$ 48,188,754

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
State and municipal securities	$27,387,536	$ 95,970	$ 416,913	$ 27,066,593
U.S. government and agency securities	14,377,857	30,673	173,880	14,234,650
Mortgage backed securities	946,776	729	14,455	933,050
Total available-for-sale securities	$42,712,169	$ 127,372	$ 605,248	$ 42,234,293

	December 31, 2017		December 31, 2016	
Available-for-Sale	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 5,303,419	$ 5,310,005	$ 4,299,557	$ 4,307,672
Due from one to five years	19,687,745	19,441,212	24,167,352	24,013,289
Due in more than five to ten years	18,534,799	18,292,416	9,538,288	9,242,541
Due after ten years	2,750,690	2,704,905	3,760,196	3,737,741
Subtotal	46,276,653	45,748,538	41,765,393	41,301,243
Mortgage backed securities	2,474,444	2,440,216	946,776	933,050
Total	$48,751,097	$48,188,754	$42,712,169	$ 42,234,293

Note 4 – Securities Available-for-Sale (Continued)

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.

Investment securities valued at approximately $35,797,000 and $32,573,000 at December 31, 2017 and 2016, respectively were pledged to secure public deposits, and for other purposes required or permitted by law.

Information pertaining to securities with gross unrealized losses at December 31, 2017 and 2016 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017						
Available-for-sale securities	$ 18,499,285	$ (234,294)	$ 18,978,240	$ (294,171)	$ 37,477,525	$ (528,465)
December 31, 2016						
Available-for-sale securities	$ 989,053	$ (2,202)	$ 27,135,766	$ (573,556)	$ 28,124,819	$ (575,758)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2017, the 106 debt securities with unrealized losses have depreciated 1.39% from the Bank's amortized cost basis. At December 31, 2016 there were 80 debt securities with unrealized losses that had depreciated 2.01% from the Bank's amortized cost basis.

These securities are guaranteed by either the U.S. Government or other state or local governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities classified as available-for-sale for the foreseeable future, no declines are deemed to be other-than-temporary.

Note 5 – Loans Receivable

The recorded investment in loans by segment in the consolidated balance sheets consisted of the following at December 31, 2017 and 2016:

	2017	2016
Construction Real Estate	$ 734,156	$ 3,768,080
Commercial Real Estate	41,035,522	36,914,785
Other Real Estate		
Residential Real Estate	49,411,770	48,427,208
Commercial and Industrial	38,840,131	37,479,332
Consumer and Installment	16,520,386	16,060,638
Leases	936,055	975,737
Subtotal	147,478,020	143,625,780
Allowance for Loan Loss	(1,519,665)	(1,283,573)
Total	$ 145,958,355	$ 142,342,207

Age Analysis of Past Due Financing Receivables by Class

The following tables include an aging analysis of the recorded investment of past due loans as of December 31, 2017 and 2016:

December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Construction real estate:						
Residential	$ 0	$ 0	$ 0	$ 0	$ 424,000	$ 424,000
Other	0	0	0	0	310,156	310,156
Other real estate:						
Farmland	0	0	0	0	30,092,578	30,092,578
Residential	460,321	96,899	55,000	612,220	48,799,550	49,411,770
Other	65,311	0	0	65,311	10,877,633	10,942,944
Commercial	224,234	18,199	0	242,433	38,597,698	38,840,131
Consumer:						
Automobile	21,152	0	0	21,152	6,010,171	6,031,323
Other	46,893	19,832	30,318	97,043	10,392,020	10,489,063
Leases	0	0	0	0	936,055	936,055
Total	$ 817,911	$ 134,930	$ 85,318	$ 1,038,159	$ 146,439,861	$ 147,478,020

Note 5 – Loans Receivable (Continued)

December 31, 2016	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Construction real estate:						
Residential	$ 0	$ 0	$ 0	$ 0	$ 1,695,075	$ 1,695,075
Other	0	0	0	0	2,073,005	2,073,005
Other real estate:						
Farmland	0	0	0	0	26,865,445	26,865,445
Residential	292,975	133,019	472,964	898,958	47,528,250	48,427,208
Other	0	0	59,462	59,462	9,989,878	10,049,340
Commercial	67,938	15,147	562,944	646,029	36,833,303	37,479,332
Consumer:						
Automobile	0	36,596	23,735	60,331	5,839,245	5,899,576
Other	61,059	57,947	76,249	195,255	9,965,807	10,161,062
Leases	0	0	0	0	975,737	975,737
Total	$ 421,972	$ 242,709	$ 1,195,354	$ 1,860,035	$ 141,765,745	$ 143,625,780

The Bank's recorded investment in loans past due 90 days or more and still accruing interest at December 31, 2017 and 2016 was $13,018 and $36,291, respectively.

Impaired Loans

The following tables include the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount at December 31, 2017 and 2016. The Bank determined the specific impairment allowance based on the factors discussed in Note 1. Also presented at December 31, 2017 and 2016 is the average recorded investment of the impaired loans and the related amount of interest recognized within the period that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the financing receivables of the period reported.

Note 5 – Loan Receivable (Continued)

Impaired loans as of December 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
Other real estate:					
Commercial	$ 0	$ 0	$ 0	$ 14,866	$ 0
Residential	55,000	55,000	0	104,597	0
Commercial and Industrial	0	0	0	65,647	0
Consumer and Installment:					
Automobile	0	0	0	823	0
Other	0	0	0	3,751	0
With an Allowance:					
Other real estate:					
Residential	0	0	0	21,461	0
Commercial	0	0	0	139,395	0
Commercial and Industrial	0	0	0	4,914	0
Consumer and Installment:					
Automobile	0	0	0	11,698	0
Other	21,449	21,449	16,649	17,709	0
Total:					
Construction real estate	$ 0	$ 0	$ 0	$ 0	$ 0
Other real estate	$ 55,000	$ 55,000	$ 0	$ 280,319	$ 0
Commercial and Industrial	$ 0	$ 0	$ 0	$ 70,561	$ 0
Consumer and Installment	$ 21,449	$ 21,449	$ 16,649	$ 33,981	$ 0
Financing leases	$ 0	$ 0	$ 0	$ 0	$ 0

Note 5 – Loan Receivable (Continued)

Impaired loans as of December 31, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
Other real estate:					
Commercial	$ 59,462	$ 59,462	$ 0	$ 29,731	$ 0
Residential	264,624	264,624	0	154,194	0
Commercial and Industrial	525,175	525,175	0	131,294	0
Consumer and Installment:					
Automobile	183	183	0	1,645	
Other	0	0	0	7,503	0
With an Allowance:					
Other real estate:					
Residential	208,340	208,340	41,590	278,790	0
Commercial	0	0	0	42,921	0
Commercial and Industrial	9,828	9,828	6,828	9,828	0
Consumer and Installment:					
Automobile	20,617	20,617	7,167	23,396	0
Other	70,835	70,835	44,935	35,417	0
Total:					
Construction real estate	$ 0	$ 0	$ 0	$ 0	$ 0
Other real estate	$ 532,426	$ 532,426	$ 41,590	$ 505,636	$ 0
Commercial and Industrial	$ 535,003	$ 535,003	$ 6,828	$ 141,122	$ 0
Consumer and Installment	$ 91,635	$ 91,635	$ 52,102	$ 67,961	$ 0
Financing leases	$ 0	$ 0	$ 0	$ 0	$ 0

Note 5 – Loan Receivable (Concluded)

Nonaccrual Loans

The following table represents the total recorded investment in loans on nonaccrual at December 31, 2017 and 2016. The balances are presented by class of loan.

	12/31/2017	12/31/2016
Other real estate:		
Residential	$ 55,000	$ 472,964
Other	0	59,462
Commercial	0	535,003
Consumer:		
Automobile	0	20,800
Other	21,449	70,835
	$ 76,449	$ 1,159,064

Note 6 – Allowance for Loan Losses

Loans by Segment

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the statement of financial position condition date. The Bank considers the allowance for loan losses as detailed below adequate to cover loan losses inherent in the loan portfolio at December 31, 2017. The following tables present, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the year ended December 31, 2017 and 2016:

Loans by Segment as of December 31, 2017	Construction Real Estate	Other Real Estate	Commercial and Industrial	Consumer and Installment	Leases	Unallocated	Total
Allowance for Loan Losses:							
Beginning Balance	$ 6,180	$ 684,030	$ 359,165	$ 290,662	$ 0	$ (56,464)	$ 1,283,573
Charge-offs	0	(235,675)	(433,817)	(124,097)	0	0	(793,589)
Recoveries	956	9,081	3,900	65,745	0	0	79,682
Provision	(5,007)	301,371	606,033	11,872	0	35,730	949,999
Ending Balance	$ 2,129	$ 758,807	$ 535,281	$ 244,182	$ 0	$ (20,734)	$ 1,519,665
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 0	$ 0	$ 16,649	$ 0	$ 0	$ 16,649
Ending Balance, Collectively Evaluated for Impairment	$ 2,129	$ 758,807	$ 535,281	$ 227,533	$ 0	$ (20,734)	$ 1,503,016
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Loans:							
Ending Balance	$ 734,156	$ 90,447,292	$ 38,840,131	$ 16,520,386	$ 936,055		$ 147,478,020
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 0	$ 55,000	$ 21,449	$ 0		$ 76,449
Ending Balance, Collectively Evaluated for Impairment	$ 734,156	$ 90,447,292	$ 38,785,131	$ 16,498,937	$ 936,055		$ 147,401,571
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0		$ 0

Note 6 – Allowance for Loan Losses (Continued)

Loans by Segment (Concluded)

Loans by Segment as of December 31, 2016	Construction Real Estate	Other Real Estate	Commercial and Industrial	Consumer and Installment	Leases	Unallocated	Total
Allowance for Loan Losses:							
Beginning Balance	$ 16,374	$ 568,114	$ 277,414	$ 356,897	$ 7,860.00	$ 156,276	$ 1,382,935
Charge-offs	0	(253,770)	(409,365)	(186,932)	0	0	(850,067)
Recoveries	0	4,502	2,400	43,802	0	0	50,704
Provision	(10,194)	365,184	488,716	76,895	(7,860)	(212,740)	700,001
Ending Balance	$ 6,180	$ 684,030	$ 359,165	$ 290,662	$ 0	$ (56,464)	$ 1,283,573
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 41,590	$ 6,828	$ 52,102	$ 0	$ 0	$ 100,520
Ending Balance, Collectively Evaluated for Impairment	$ 6,180	$ 642,440	$ 352,337	$ 238,560	$ 0	$ (56,464)	$ 1,183,053
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Loans:							
Ending Balance	$ 3,768,080	$ 85,341,993	$ 37,479,332	$ 16,060,638	$ 975,737		$ 143,625,780
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 478,844	$ 9,828	$ 44,288	$ 0		$ 532,960
Ending Balance, Collectively Evaluated for Impairment	$ 3,768,080	$ 84,863,149	$ 37,469,504	$ 16,016,350	$ 975,737		$ 143,092,820
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0		$ 0

Note 6 – Allowance for Loan Losses (Continued)

At December 31, 2017 and 2016, there were no commitments to lend additional funds to borrowers whose loans have been modified.

Changes in Accounting Methodology

The Bank has not revised its methodology for calculation of the allowance for loan losses.

Credit Quality Information

The following table represents credit exposures by loan rating category for the year ended December 31, 2017. The Bank's internal credit exposure grading system is based on experiences with similarly graded loans. All commercial credit relationships with a minimum aggregate balance of $100,000 or greater are reviewed on a semi-annual basis. Based on this review, a risk rating is applied to each credit relationship.

The Bank's internal risk ratings are as follows:

Pass – Credits will range from minimal risk to average risk to acceptable risk. At a minimum, these borrowers will have satisfactory asset quality and liquidity, adequate debt capacity and coverage, and good management. A year of losses or fluctuating earnings may be reflected but borrowers have sufficient strength and financial flexibility to offset these events. Performance is generally in accordance with company projections.

Watch – Credits have specific weaknesses which can be corrected and are not seriously harmful to the Bank's overall position in the credit. These borrowers have limited additional debt capacity, modest coverage and average or below average asset quality, margins, and market share. Some management weaknesses or a lack of depth exists. A lack of current financial statement/information may limit the Bank's ability to assess repayment. Insufficient support in the credit file or other technical exceptions which may impair the credit file or other technical exceptions which may impair the credit-worthiness of the borrower may exist. Inconsistent or declining trends, strained cash flow, and/or high leverage may be evident and indicate an above-average risk. Adverse outside events or a management change may also indicate above-average risk. Also, the borrower may be performing as agreed but may be adversely affected by developing problems. Additional monitoring may be required.

Note 6 – Allowance for Loan Losses (Continued)

Special Mention – Credits to borrowers who exhibit potential weaknesses or downward trends deserving Bank management's close attention. Loans in this category are currently protected but may impair the Bank's credit position if not corrected in a timely manner. A weak or speculative market or economic conditions exist which may, in the future, adversely affect the obligor. No loss of principal or interest is expected but these borrowers are potentially weak and maintain a marginal position. Adverse trends in operating results and/or financial ratios are of a magnitude and degree that warrant this rating. Improper control over collateral, lack of proper documentation, and/or a notable deviation from Bank policy or prudent lending practices may be present. The borrower could be in a turnaround situation. Any credit categorized as Special Mention by regulatory authorities would be classified by the Bank as special mention.

Substandard – Credits have well-defined weaknesses which jeopardize repayment. These credits are inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged. Although loss does not have to exist in any one asset, there is a possibility of a partial loss of interest and/or principal which will occur if deficiencies are not corrected. It is not necessary for a loan to have an identifiable loss in order to be rated Substandard. A credit may be current and supported by collateral or a contingent obligor but the rating may still be warranted. Characteristics of this type of credit would include: reliance on a secondary source of repayment, significant deterioration in financial condition or cash flow, questionable repayment capacity based on delinquency status, and/or poor performance. Any credit classified as substandard by the regulatory authorities and any consumer loan 90 days or more past due would be classified by the Bank as substandard.

Doubtful – Credits have the traits mentioned in the Substandard category in addition to weaknesses which make collection or liquidation in full highly questionable or improbable. If serious problems exist and the potential for loss of principal is likely, the Bank would classify the credit as doubtful. The possibility of loss is extremely likely, but is not identified at this point because of pending factors. These factors could include: merger and/or acquisition, liquidation procedures, a capital injection, perfecting liens on additional collateral, and/or refinancing plans. Management has demonstrated a history of failing to meet agreements. Any credit classified as doubtful by the regulatory authorities would also be classified by the Bank as doubtful. As of December 31, 2017 and 2016, the Bank had no loans with a loss rating that had not been charged off. As such, this category has not been included in the table below.

Note 6 – Allowance for Loan Losses (Continued)

Loss – Credits are generally uncollectible and are no longer considered a bankable asset. This rating does not mean a loan has no recovery or salvage value. However, it is not practicable or desirable to defer writing off the loss credit even though partial recovery may occur. Loans do not remain as booked assets while long-term recoveries are attempted. Credits in this category should be accompanied with a recommendation for charge-off. In order to affect timely recognition of loan losses, credits with this rating should normally be charged off when identified. As such, the Loss rating is a one-time designation. This category should include consumer credits 120 days or more past due. As of December 31, 2017 and 2016, the Bank had no loans with a loss rating that had not been charged off. As such, this category has not been included in the table below.

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2017

	Construction Real Estate		Other Real Estate		
	Residential	Other	Farmland	Residential	Other
Grade:					
Pass	$ 424,000	$ 310,156	$ 27,066,141	$ 48,514,647	$10,441,569
Watch	0	0	2,707,578	342,953	0
Special Mention	0	0	318,859	217,721	123,151
Substandard	0	0	0	336,449	378,224
Total	$ 424,000	$ 310,156	$ 30,092,578	$ 49,411,770	$10,942,944

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2017 (Concluded)

	Commercial and Industrial	Consumer and Installment		Financing Leases
		Automobile	Other	
Grade:				
Pass	$ 34,518,837	$ 6,031,323	$ 10,467,614	$ 936,055
Watch	2,313,431	0	0	0
Special Mention	214,260	0	0	0
Substandard	1,793,603	0	21,449	0
Total	$ 38,840,131	$ 6,031,323	$ 10,489,063	$ 936,055

Note 6 – Allowance for Loan Losses (Concluded)

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2016

	Construction Real Estate		Other Real Estate		
	Residential	Other	Farmland	Residential	Other
Grade:					
Pass	$1,420,396	$ 2,073,005	$ 25,368,365	$ 47,204,583	$ 9,597,876
Watch	274,679	0	1,326,283	435,345	0
Special Mention	0	0	0	0	392,002
Substandard	0	0	170,797	787,280	59,462
Total	$1,695,075	$ 2,073,005	$ 26,865,445	$ 48,427,208	$10,049,340

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2016 (Concluded)

		Consumer and Installment		
	Commercial and Industrial	Automobile	Other	Financing Leases
Grade:				
Pass	$ 34,393,435	$ 5,876,898	$ 10,070,085	$ 975,737
Watch	879,970	0	4,921	0
Special Mention	1,646,379	0	0	0
Substandard	559,548	22,678	86,056	0
Total	$ 37,479,332	$ 5,899,576	$ 10,161,062	$ 975,737

Note 7 – Loans to Related Parties

The Bank has entered into transactions with certain employees, directors, executive officers, significant stockholders, and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The following is a summary of the activity involving loans to related parties.

	2017	2016
Balance, January 1,	$ 5,428,094	$ 5,738,024
New loans	960,214	1,002,275
Less loan repayments	(2,342,658)	(1,312,205)
Balance, December 31	$ 4,045,650	$ 5,428,094

Note 8 – Premises and Equipment

Components of premises and equipment included in the consolidated balance sheets at December 31, 2017 and 2016 were as follows:

	2017	2016
Cost:		
Land	$ 66,000	$ 66,000
Bank premises	5,194,045	4,859,025
Equipment	3,628,069	3,535,039
Total cost	8,888,114	8,460,064
Less accumulated depreciation	(5,253,977)	(5,031,577)
Net book value	$ 3,634,137	$ 3,428,487

Note 9 – Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of Chicago (FHLBC), the Bank is required to purchase a statutory amount of stock which is used to collateralize borrowings or advances from the FHLBC. All members must maintain a minimum amount of capital stock equal to the greater of 5% of borrowings from the FHLBC or the member's "floor" as established by the FHLBC. The floor represents the amount of capital stock held by each member at the close of business on July 23, 2008.

Beginning July 24, 2008 and to the extent that a member's required stock purchases to support advances exceed this floor, the member is able to redeem the incremental capital stock back to the FHLBC if the amount of borrowings no longer require it. At December 31, 2017 and 2016 advances from the FHLBC totaled $8,052,688 and $8,911,615, respectively. This stock is recorded at cost and does not have a readily determinable market value.

It is classified as a restricted investment because it can be sold back only to the FHLBC or to another member institution at its par value of $100 per share. None of this stock is pledged as collateral for FHLBC advances. For December 31, 2017 and 2016, the recorded investment in FHLBC capital stock totaled $345,487 and $877,221, respectively.

Note 10 – Time Deposits

The aggregate amount of short-term jumbo time deposits, each with a minimum denomination of $100,000, was approximately $15,427,000 and $13,887,000 at December 31, 2017 and 2016, respectively.

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

2018	$ 26,139,839
2019	8,724,414
2020	6,343,136
2021	5,184,099
2022	5,985,365
Total	$ 52,376,853

Note 11 – Deposits of Related Parties

Deposits are made in the normal course of business by officers and directors. These deposits are made on substantially the same terms, including interest rates, as those prevailing for comparable transactions with other persons. The amount of deposits for related parties at December 31, 2017 and 2016 was $1,391,393 and $5,107,969, respectively.

Note 12 – Federal Home Loan Bank Advances

Federal Home Loan Bank (FHLB) advances consisted of the following at December 31,

	2017	2016
16 advances payable at maturity, interest ranging from 1.04% to 3.83% is due monthly for the years ended December 31, 2017 and 2016. Notes are collateralized by 1-4 family residential real estate loans and certain agriculture real estate loans. Due dates range from 2018 through 2025.		
	$8,052,688	$8,911,615

The advances are collateralized by certain loans receivable. The carrying amount of the loans pledged to the FHLB as of December 31, 2017 was $70,538,000. The bank has FHLB Letters of Credit securing City of Mount Carmel and Mount Carmel Pension Fund deposits in the amount of $1,500,000 and $1,000,000, respectively.

At December 31, 2017 maturities of FHLB advances are as follows for the years ending December 31,

2018	$ 1,500,000
2019	1,190,000
2020	0
2021	1,947,710
2022	2,662,753
Thereafter	752,225
	$ 8,052,688

Note 13 – Line of Credit

The Bank has a secure line of credit with the Federal Reserve Bank. The amount available for borrowing fluctuates monthly. The amount available at December 31, 2017 was $11,895,000. Under the agreement the Bank is required to pledge collateral to the Federal Reserve Bank. At December 31, 2017, the Bank has pledged consumer loans in the amount of $14,507,000 to secure this loan. There were no borrowings under this credit facility at December 31, 2017. This line of credit can be used for overnight purchases and carries an interest rate of 1.75%.

Note 14 – Income Taxes

The Bancorp and subsidiary file a consolidated federal income tax return on a calendar-year basis. The provision for income taxes consisted of the following for the years ended December 31:

	2017	2016
Current tax provision		
Federal	$ 354,932	$ 574,136
State	128,721	72,155
	483,653	646,291
Deferred expense (benefit)	400,962	(159,993)
Total tax expense	$ 884,615	$ 486,298

The provision for income taxes differs from that computed by applying statutory rates to income before income tax expense, as indicated in the following analysis:

	2017	2016
Federal statutory income tax at statutory rates	$ 825,686	$ 748,916
State income tax expense at statutory rates	224,115	165,831
Adjustments related to:		
Tax exempt interest	(205,220)	(160,764)
Nondeductible expense	13,790	8,549
Other tax exempt income	(47,582)	(54,225)
Net operating losses	(25,950)	(99,077)
Other differences	99,776	(122,932)
Total income tax expense	$ 884,615	$ 486,298

Note 14 – Income Taxes (Concluded)

Deferred tax assets and liabilities included in other assets or other liabilities at December 31 consist of the following:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 360,851	$ 432,951
Director benefits payable	350,377	451,118
Net operating loss carryforward	29,544	73,041
Net unrealized loss on securities available-for-sale	171,514	198,318
	912,286	1,155,428
Deferred tax liabilities:		
§481(a) adjustment	(11,690)	(23,858)
Accumulated depreciation	(226,070)	(297,729)
Accumulated depreciation	(213,521)	0
	(451,281)	(321,587)
Net deferred tax asset (liability)	$ 461,005	$ 833,841

In connection with the acquisition of First Bank of West Salem, the bank inherited federal and state net operating losses. The federal net operating loss of $257,688 may be carried forward to offset future federal taxable income for a period of 20 years or until utilized. The state net operating loss of $1,084,869 was fully used in 2016.

Note 15 – Benefit Plans and Supplemental Executive Retirement Plan

The Bank provides a trustee profit-sharing plan to all full-time employees who have completed one year of service. Employees may participate by contributing a percentage of income as a savings supplement to the plan through payroll deductions. The Directors may change the amount provided at any time. Bank contributions to the plan for 2017 and 2016 were $104,602 and $91,131, respectively.

The Bank provides a supplemental executive retirement plan (SERP) for certain bank executives. The bank is using a cash value life insurance policy to finance the SERP agreement. Expenses under this plan were $105,391 and $179,837, respectively. Benefits paid from this plan as of December 31, 2017 and 2016 was $76,000 and $31,667, respectively.

Note 16 – Financial Instruments with Off-Balance-Sheet Risk

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements.

These commitments and contingent liabilities include various commitments to extend credit and lines of credit. Outstanding standby letters of credit which are not reflected in the balance sheets were $1,025,938 on December 31, 2017 and $1,059,727 on December 31, 2016. The Bank evaluates each customer's creditworthiness on a case-by-case basis. As of December 31, 2017 and 2016, standby letters of credit of $999,000 and $338,289, respectively, were unsecured. The Bank has not had any standby letters of credit drawn upon as of December 31, 2017 and 2016. The Bank does not anticipate any material losses as a result of these transactions.

Note 17 – Restrictions on Dividends

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. During 2016 the Bank obtained regulatory approval for the purchase of 100% of the outstanding common shares of First State Bank of West Salem. As part of this acquisition, the Bank obtained regulatory approval to issue a special dividend in the amount of $3,295,228. Excluding this special dividend made in the prior year, the bank had $2,935,879 available for dividends at December 31, 2017 without prior regulatory approval.

Note 18 – Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 18 – Regulatory Capital (Concluded)

Quantitative measures established by regulation 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 average assets (as defined). Management believes, as of December 31, 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain total risk-based, Tier I risk-based, 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 institution's category.

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

REGULATORY CAPITAL RATIOS

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017:						
Total Capital (to Risk-Weighted Assets)	$24,544,000	15.89%	≥$12,357,120	≥8.0%	≥$15,446,400	≥10.0%
Tier I Capital (to Risk-Weighted Assets)	$22,940,000	14.85%	≥$9,267,840	≥6.0%	≥$12,357,120	≥8.0%
Tier I Capital (to Average Assets)	$22,940,000	10.49%	≥$8,747,840	≥4.0%	≥$10,934,800	≥5.0%
As of December 31, 2016:						
Total Capital (to Risk-Weighted Assets)	$23,497,000	16.17%	≥$11,627,680	≥8.0%	≥$14,534,600	≥10.0%
Tier I Capital (to Risk-Weighted Assets)	$22,128,000	15.22%	≥$8,720,760	≥6.0%	≥$11,627,680	≥8.0%
Tier I Capital (to Average Assets)	$22,128,000	10.53%	≥$8,401,760	≥4.0%	≥$10,502,200	≥5.0%

Note 19 – Fair Value Financial Instruments

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings.

FASB ASC 820, *Fair Value Measurement*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

> Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
>
> Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of

Note 19 – Fair Value Financial Instruments (Continued)

the fair value hierarchy. As required by this guidance, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Cash and Due From Banks

The carrying amounts reported on the Consolidated Balance Sheets for cash and due from banks approximate those assets' fair values.

Federal Funds Sold

The carrying amounts reported on the Consolidated Balance Sheets for federal funds sold approximate those assets' fair values.

Available-for-sale-securities and Restricted Stock

Fair values for available-for-sale securities are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restrictions.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Note 19 – Fair Value Financial Instruments (Continued)

Fair value for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The carrying amount of accrued interest receivable approximates its fair value.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money-market accounts and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of accrued interest payable approximates its fair value.

Federal Home Loan Bank Advances

The fair value of Federal Home Loan Bank Advances are estimated using a discounted cash flow analysis.

Accrued Interest

The carrying amounts of accrued interest approximate fair values.

Fair values of assets measured on a recurring basis at December 31, 2017 and 2016 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Available-for-sale securities	$48,188,754	$ 0	$48,188,754	$ 0
December 31, 2016				
Available-for-sale securities	$42,234,293	$ 0	$42,234,293	$ 0

Note 19 – Fair Value Financial Instruments (Continued)

The following tables set forth the Bank's financial assets that were accounted for and disclosed at a fair value on a nonrecurring basis as of December 31, 2017 and 2016:

December 31, 2017	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Other real estate	$ 55,000	$ 0	$ 55,000	$ 0
Commercial and industrial	0	0	0	0
Consumer and installment	21,449	0	21,449	0
Total impaired loans	$ 76,449	$ 0	$ 76,449	$ 0

December 31, 2016	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Other real estate	$ 532,426	$ 0	$ 532,426	$ 0
Commercial and industrial	535,003	0	535,003.0	0
Consumer and installment	91,635	0	91,635	0
Total impaired loans	$ 1,159,064	$ 0	$ 1,159,064	$ 0

Note 19 – Fair Value Financial Instruments (Concluded)

In accordance with the disclosure requirements of FASB ASC 825, Financial Instruments, the estimated fair values of the Bank's financial instruments are as follows:

	2017				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$ 5,426,492	$ 5,426,492	$ 0	$ 5,426,492	$ 0
Investment securities	48,188,754	48,188,754	0	48,188,754	0
Loans	145,958,355	149,812,111	0	149,812,111	0
Federal Home Loan Bank stock, restricted	345,487	345,487	0	345,487	0
Other stock, restricted	157,850	157,850	0	157,850	0
Accrued interest receivable	1,549,547	1,549,547	0	1,549,547	0
Financial Liabilities:					
Deposits	189,335,851	189,537,301	0	189,537,301	0
Accrued interest payable	82,881	82,881	0	82,881	0
Federal Home Loan Bank Advances	8,052,688	8,058,011	0	8,058,011	0

	2016				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$ 3,890,112	$ 3,890,112	$ 0	$ 3,890,112	$ 0
Investment securities	42,234,293	42,234,293	0	42,234,293	0
Loans	142,342,207	150,836,585	0	150,836,585	0
Federal Home Loan Bank stock, restricted	877,221	877,221	0	877,221	0
Other stock, restricted	157,850	157,850	0	157,850	0
Accrued interest receivable	1,357,098	1,357,098	0	1,357,098	0
Financial Liabilities:					
Deposits	178,518,120	178,435,982	0	178,435,982	0
Accrued interest payable	76,777	76,777	0	76,777	0
Federal Home Loan Bank Advances	8,911,615	8,938,985	0	8,938,985	0