FFW CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

FFW CORPORATION
Wabash, Indiana

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
FFW Corporation
Wabash, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of FFW Corporation, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FFW Corporation as of June 30, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
September 2, 2016

FFW CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and due from financial institutions	$ 4,031,546	$ 4,154,036
Interest-bearing deposits in other financial institutions	6,188,392	4,988,002
Total cash and cash equivalents	10,219,938	9,142,038
Securities available for sale (AFS)	79,011,265	77,922,871
Loans receivable, net of allowance for loan losses of $3,557,769 in 2016 and $3,314,307 in 2015	229,454,626	225,521,274
Loans held for sale	854,375	104,932
Federal Home Loan Bank stock, at cost	1,462,500	1,462,500
Accrued interest receivable (AIR)	1,760,537	1,707,661
Premises and equipment, net	5,193,270	5,044,265
Mortgage servicing rights	660,784	754,076
Cash surrender value of life insurance	8,022,990	7,744,574
Goodwill	1,213,898	1,213,898
Repossessed assets	2,062,708	1,968,808
Other assets	1,070,211	1,469,251
Total assets	$ 340,987,102	$ 334,056,148
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 25,032,689	$ 30,780,793
Interest-bearing	254,123,833	234,698,904
Total deposits	279,156,522	265,479,697
Borrowings	21,698,400	32,558,400
Accrued expenses and other liabilities	2,682,835	2,335,878
Total liabilities	303,537,757	300,373,975
Shareholders' equity		
Preferred stock, $.01 par; $1,000 liquidation value per share, 500,000 shares authorized; Series C, 5% Fixed Rate Cumulative Perpetual Preferred Stock - 2,250 shares outstanding June 30, 2016 and 3,250 shares at June 30, 2015, $2,264,000 liquidation preference at June 30, 2016 and $3,271,000 at June 30, 2015	2,250,000	3,250,000
Common stock, $.01 par; 2,000,000 shares authorized; Issued: 1,836,328; outstanding: 1,156,084 - June 30, 2016 and 1,142,084 - June 30, 2015	18,363	18,363
Additional paid-in capital	9,358,395	9,452,255
Retained earnings	34,053,094	31,116,433
Accumulated other comprehensive income	2,211,217	501,746
Treasury stock, at cost; 680,244 shares at June 30, 2016 and 694,244 shares at June 30, 2015	(10,441,724)	(10,656,624)
Total shareholders' equity	37,449,345	33,682,173
Total liabilities and shareholders' equity	$ 340,987,102	$ 334,056,148

See accompanying notes to financial statements.

FFW CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2016, 2015 and 2014

	2016	2015	2014
Interest and dividend income			
Loans, including fees	$ 10,614,782	$ 10,526,111	$ 10,531,363
Taxable securities	1,290,446	1,143,642	1,362,600
Tax exempt securities	1,016,000	1,268,092	1,216,517
Other	24,945	21,039	47,257
Total interest and dividend income	12,946,173	12,958,884	13,157,737
Interest expense			
Deposits	1,273,386	1,361,775	2,357,116
Borrowings	150,234	161,211	144,174
Total interest expense	1,423,620	1,522,986	2,501,290
Net interest income	11,522,553	11,435,898	10,656,447
Provision (benefit) for loan losses	280,000	560,000	(1,280,000)
Net interest income after provision for loan losses	11,242,553	10,875,898	11,936,447
Noninterest income			
Net gains on sales of securities	50,000	51,449	85,892
Net gains on sales of loans	517,754	438,230	317,572
Net gains (loss) on fixed assets	(2,196)	(18,866)	8,668
Commission income	971,716	982,879	943,590
Service charges and fees	698,975	954,071	976,143
Earnings on life insurance	278,416	271,458	266,220
Income from REO	1,230,864	708,180	-
Other	419,838	326,707	313,203
Total noninterest income	4,165,367	3,714,108	2,911,288
Noninterest expense			
Salaries and benefits	4,996,585	4,865,720	4,626,176
Occupancy and equipment	1,094,473	991,671	1,003,951
Professional	652,903	543,107	757,015
Marketing	206,928	153,797	158,185
Deposit insurance premium	234,712	204,459	301,071
Regulatory assessment	48,511	129,971	104,591
Correspondent bank charges	59,038	58,852	84,733
Data processing	436,127	628,703	620,921
Printing, postage and supplies	259,152	221,990	239,562
Expense on life insurance	87,652	81,259	75,270
Contribution expense	41,187	49,186	42,010
Expense on REO	1,266,652	1,301,604	48,382
Other	1,164,104	1,128,638	1,065,019
Total noninterest expense	10,548,024	10,358,957	9,126,886
Income before income taxes	4,859,896	4,231,049	5,720,849
Income tax expense	1,069,625	1,066,380	1,634,618
Net income	3,790,271	3,164,669	4,086,231
Preferred stock dividends and discount accretion	162,361	331,919	455,588
Net income attributable to common shareholders	$ 3,627,910	$ 2,832,750	$ 3,630,643
Earnings per common share:			
Basic	$ 3.15	$ 2.49	$ 3.21
Diluted	$ 3.15	$ 2.49	$ 3.21

See accompanying notes to financial statements.

FFW CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended June 30, 2016, 2015 and 2014

	2016	2015	2014
Net income	$ 3,790,271	$ 3,164,669	$ 4,086,231
Other comprehensive income:			
Unrealized gains on securities:	2,684,274	603,414	1,256,602
Reclassification adjustment for gains included in net income (1)	(50,000)	(51,449)	(85,892)
Net unrealized gains	2,634,274	551,965	1,170,710
Tax effect	924,803	202,333	400,080
Total other comprehensive income	1,709,471	349,632	770,630
Comprehensive income	$ 5,499,742	$ 3,514,301	$ 4,856,861

(1) Amounts are included in net gains on sales of securities on the Consolidated Statements of Income. Income tax expense associated with the reclassification adjustments, included in income tax expense, for the year ended June 30, 2016, 2015 and 2014 was $20,000, $17,000 and $29,000, respectively.

See accompanying notes to financial statements.

FFW CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended June 30, 2016, 2015 and 2014

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at July 1, 2013	$ 7,616,600	$ 18,363	$ 9,531,646	$ 25,737,557	$ (618,516)	$ (10,963,624)	$ 31,322,026
Accretion of preferred stock discount on issuance to U.S. Treasury	36,400	-	-	(36,400)	-	-	-
Cash dividends:							
Common- $0.44 per share	-	-	-	(498,117)	-	-	(498,117)
Preferred (a)	-	-	-	(419,188)	-	-	(419,188)
Redemption of preferred stock (Series A)	(4,750,000)	-	-	-	-	-	(4,750,000)
Issuance of preferred stock (Series C)	3,250,000	-	-	-	-	-	3,250,000
Issuance of 10,000 shares under the MRP	-	-	(153,500)	-	-	153,500	-
Amortization of MRP contribution	-	-	68,562	-	-	-	68,562
Net income	-	-	-	4,086,231	-	-	4,086,231
Other comprehensive income (loss)	-	-	-	-	770,630	-	770,630
Balance at June 30, 2014	6,153,000	18,363	9,446,708	28,870,083	152,114	(10,810,124)	33,830,144
Cash dividends:							
Common- $0.515 per share	-	-	-	(586,400)	-	-	(586,400)
Preferred (a)	-	-	-	(331,919)	-	-	(331,919)
Redemption of preferred stock (Series A and B)	(2,903,000)	-	-	-	-	-	(2,903,000)
Issuance of 5,000 shares under the MRP	-	-	(76,750)	-	-	76,750	-
Issued 5,000 shares on exercise of stock options	-	-	28,250	-	-	76,750	105,000
Amortization of MRP contribution	-	-	54,047	-	-	-	54,047
Net income	-	-	-	3,164,669	-	-	3,164,669
Other comprehensive income (loss)	-	-	-	-	349,632	-	349,632
Balance at June 30, 2015	3,250,000	18,363	9,452,255	31,116,433	501,746	(10,656,624)	33,682,173

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FFW CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended June 30, 2016, 2015 and 2014

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2015	$ 3,250,000	$ 18,363	$ 9,452,255	$ 31,116,433	$ 501,746	$ (10,656,624)	$ 33,682,173
Cash dividends:							
Common- $0.515 per share	-	-	-	(691,249)	-	-	(691,249)
Preferred (a)	-	-	-	(162,361)	-	-	(162,361)
Redemption of preferred stock (Series C)	(1,000,000)	-	-	-	-	-	(1,000,000)
Issuance of 14,000 shares under the MRP	-	-	(214,900)	-	-	214,900	-
Amortization of MRP contribution	-	-	121,040	-	-	-	121,040
Net income	-	-	-	3,790,271	-	-	3,790,271
Other comprehensive income (loss)	-	-	-	-	1,709,471	-	1,709,471
Balance at June 30, 2016	$ 2,250,000	$ 18,363	$ 9,358,395	$ 34,053,094	$ 2,211,217	$ (10,441,724)	$ 37,449,345

(a) Amount includes $14,391 of cumulative preferred dividends declared, but unpaid at June 30, 2016 and $20,780 and $54,164 at June 30, 2015 and 2014, respectively.

See accompanying notes to financial statements.

FFW CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2016, 2015 and 2014

	2016	2015	2014
Cash flows from operating activities			
Net income	$ 3,790,271	$ 3,164,669	$ 4,086,231
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	1,227,887	1,082,800	1,107,753
Provision (benefit) for loan losses	280,000	560,000	(1,280,000)
Net (gains) losses on sales of:			
Securities	(50,000)	(51,449)	(85,892)
Loans held for sale	(517,754)	(438,230)	(317,572)
REOs and repossessed assets	(39,854)	70,679	48,349
Fixed assets	2,196	18,866	(8,668)
Originations of loans held for sale	(22,308,758)	(19,262,794)	(15,036,415)
Proceeds from sales of loans held for sale	21,917,709	19,725,672	15,063,890
Valuation adjustments on mortgage servicing right asset	123,677	(12,742)	(14,788)
Net increase in cash surrender value of life insurance	(278,416)	(271,457)	(266,220)
Amortization of MRP contribution	121,040	54,047	68,562
Net change in AIR and other assets	611,733	601,990	1,396,984
Amortization of customer list intangible	2,143	2,143	2,143
Net change in accrued expenses and other liabilities	(839,168)	155,702	588,008
Net cash from operating activities	4,042,706	5,399,896	5,352,365
Cash flows from investing activities			
Proceeds from:			
Sales, calls and maturities of securities AFS	2,035,000	4,499,961	6,997,900
Sales of REOs and repossessed assets	156,304	123,961	1,107,398
Sales of fixed assets	-	11,000	26,193
Purchase of securities AFS	(8,385,033)	(5,741,181)	(13,460,343)
Principal collected on mortgage-backed securities	7,294,594	6,989,258	8,362,622
Net change in loans receivable	(4,423,702)	(8,569,949)	(4,005,124)
Proceeds from FHLB stock redemption	-	1,272,100	-
Purchase of FHLB stock	-	(17,300)	-
Purchases of premises and equipment, net	(598,794)	(2,097,655)	(247,628)
Net cash from (used) in investing activities	(3,921,631)	(3,529,805)	(1,218,982)
Cash flows from financing activities			
Net change in deposits	13,676,825	(30,714,179)	(3,784,612)
Proceeds from borrowings	-	31,500,000	13,500,000
Repayment of borrowings	(10,860,000)	(2,200,000)	(15,000,000)
Proceeds from exercise of stock options	-	105,000	-
Redemption of preferred stock (Series A, B and C)	(1,000,000)	(2,903,000)	(4,750,000)
Proceeds from issuance of preferred stock (Series C)	-	-	3,250,000
Cash dividends paid	(860,000)	(951,703)	(913,907)
Net cash from financing activities	956,825	(5,163,882)	(7,698,519)
Net change in cash and cash equivalents	1,077,900	(3,293,791)	(3,565,136)
Beginning cash and cash equivalents	9,142,038	12,435,829	16,000,965
Ending cash and cash equivalents	$ 10,219,938	$ 9,142,038	$ 12,435,829
Supplemental disclosure of cash flow information			
Cash paid during the period			
Interest	$ 1,463,002	$ 1,488,028	$ 2,516,209
Income taxes	1,255,000	525,003	700,000
Transfers from loans to REO and repossessed assets	210,350	118,050	2,345,401

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include FFW Corporation (the Company), and its wholly-owned subsidiaries, Crossroads Bank (the Bank) and Insurance 1 Services, Inc. Also included in the consolidated financial statements is Wabash Investments, Inc., a wholly-owned subsidiary of the Bank, which is a Nevada corporation that manages a portion of the Bank's investment portfolio. All intercompany transactions and balances are eliminated in consolidation.

Nature of Business and Concentrations of Credit Risk: The primary source of income for the Company is interest income derived from origination of commercial and residential real estate loans (see Note 14).

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through September 2, 2016 which is the date the financial statements were available to be issued.

Use of Estimates In Preparing Financial Statements: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flow Reporting: For reporting cash flows, cash and cash equivalents include cash on hand, due from financial institutions and interest-bearing deposits in other financial institutions. Net cash flows are reported for customer loan and deposit transactions.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of $2,994,000 and $2,096,000 was required to meet regulatory reserve and clearing requirements at June 30, 2016 and 2015, respectively.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

The amount of the total other-than-temporary-impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

Loans Receivable: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Cash interest received on such loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current, and future payments are reasonably assured.

Allowance for Loan and Lease Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial, construction, residential and consumer loans with a relationship balance greater than $100,000 and classified as special mention, substandard or doubtful are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as residential and consumer loans not individually reviewed for impairment, as discussed previously, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 3 years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The allowance for loan loss allocated to loans collectively evaluated for impairment totaled $2.5 million at June 30, 2016 and June 30, 2015. Fiscal year 2012 consumer loan historical loss experience includes a $2.5 million charge-off for a single participation loan relationship secured by a life insurance policy. The Company fully recovered the $2.5 million in fiscal year 2014. The charge-off and recovery were offset in the historical loss experience that is the basis for determining the allowance allocation for impairment. The following portfolio segments have been identified:

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Commercial Real Estate
These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

Commercial Leases
Commercial leases are primarily based on the identified cash flows of the lessee and secondarily on the underlying property being leased. The cash flows of the lessee, however, may not be as expected and the property being leased may fluctuate in value. All commercial leases are secured by the assets being leased.

Residential Real Estate
With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires PMI if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Consumer Credit
Consumer loans are generally secured by consumer assets such as automobiles or recreational vehicles. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. With respect to home equity loans, repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Buildings and related components are depreciated using the straight-line or other accelerated methods with useful lives ranging from 7 to 39 years. Furniture, fixtures and equipment are depreciated using the straight-line or other accelerated methods with useful lives ranging from 3 to 15 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Mortgage Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in the valuation allowance are reported with service charges and fees. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement in service charges and fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $306,000, $295,000, and $292,000 for the years ended June 30, 2016, 2015 and 2014. Late fees and ancillary fees related to loan servicing are not material.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Company Owned Life Insurance: Life insurance plans are provided for certain executive officers on a split dollar basis. The Company is the owner of the split dollar policies. The officers are entitled to a sum equal to two times the employee's annual salary at death, if actively employed. The Company is entitled to the remainder of the death proceeds. The employees have the right to designate a beneficiary(s) to receive their share of the proceeds payable upon death. The Company records company owned life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The cash surrender value of these life insurance policies, life insurance policies related to the Company's Salary Continuation Plan and other company owned life insurance policies totaled approximately $8,023,000 and $7,745,000 as of June 30, 2016 and 2015.

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Foreclosed Real Estate: Real estate properties acquired through, or in lieu of, foreclosure are initially recorded at fair value less estimated costs to sell at acquisition, establishing a new cost basis. Any reduction to fair value from the carrying value of the related loan at the time of acquisition is accounted for as a loan loss and charged against the allowance for loan losses. Valuations are periodically performed by management and valuation allowances are adjusted through a charge to income for changes in fair value or estimated selling costs. Operating costs after acquisition are expensed. The amount of foreclosed properties, net of REO allowance, was $2,063,000 and $1,969,000 at June 30, 2016 and 2015, respectively.

The Company currently holds two commercial real estate properties in REO that generate rental income. Income from REO on the consolidated statements of income reflects such rental income received. Expenses on REO also includes the expenses associated with operating these properties.

Long-Term Assets: Premises and equipment, other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Retirement Plans: Pension expense under a multi-employer plan is based on employer contributions due to the plan. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. A summary of these commitments is disclosed in Note 13.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Earnings Per Common Share: Basic earnings per common share is computed by dividing net income available to common shareholders (net income less dividend requirements for preferred stock and accretion of preferred stock discount) by the weighted-average number of common shares outstanding during the year. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for the calculation. Diluted net income per share is computed as above and assumes the conversion of outstanding stock options.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of shareholders’ equity. At June 30, 2016 and 2015 the accumulated other comprehensive income (loss) was entirely attributed to available for sale securities.

Dividend Restrictions: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

In July 2013, the FASB amended existing guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. These amendments provide that an unrecognized tax benefit, or a portion thereof, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. These amendments became effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

In January 2014, the FASB issued an update (ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects) impacting FASB ASC 323, Investments – Equity Method and Joint Ventures. This update permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

In January 2014, the FASB issued an update (ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure) impacting FASB ASC 310-40. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the property in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments also require disclosure of (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In January 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities). The amendments in this update impact public business entities as follows: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. 3) Eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. 4) Require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 5) Require an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. 6) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. 7) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, which is not expected to have a material impact.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting. The amendments are intended to improve the accounting for employee shared-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The main objective of this amendment is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment requires the measurement of 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 enhance their credit loss estimates. The amendment requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. Early adoption will be permitted beginning after December 15, 2018. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

(Continued)

NOTE 2 - EARNINGS PER SHARE

A reconciliation of the numerators and denominators used in the computation of basic earnings per share and diluted earnings per share is presented below:

	Years ended June 30		
	2016	2015	2014
Basic Earnings Per Common Share			
Numerator: Net income attributable to common shareholders	$ 3,627,910	$ 2,832,750	$ 3,630,643
Denominator: Weighted average common shares outstanding, including participating securities	1,150,155	1,137,125	1,132,084
Basic earnings per common share	$ 3.15	$ 2.49	$ 3.21
Diluted Earnings Per Common Share			
Numerator: Net income attributable to common shareholders	$ 3,627,910	$ 2,832,750	$ 3,630,643
Denominator: Weighted average shares outstanding for basic earnings per share	1,150,155	1,137,125	1,132,084
Add: Dilutive effects of assumed exercise of stock options	308	38	-
Weighted average common shares and dilutive potential shares outstanding	1,150,463	1,137,163	1,132,084
Diluted earnings per common share	$ 3.15	$ 2.49	$ 3.21

There were no anti-dilutive stock options in 2016. Stock options for 5,000 and 10,000 shares of common stock were not considered in computing diluted earnings per common share for 2015 and 2014 because they were anti-dilutive.

(Continued)

NOTE 3 - SECURITIES

The amortized cost and fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 1,000,000	$ -	$ -	$ 1,000,000
State and political subdivisions	43,942,360	3,446,554	-	47,388,914
U.S. government sponsored entities	2,248,446	4,953	(6,062)	2,247,337
Mortgage backed securities – residential	14,365,020	202,918	(7,156)	14,560,782
Collateralized mortgage obligations – agency	12,793,004	78,208	(27,578)	12,843,634
Collateralized mortgage obligations – non-agency	526,255	3,137	(9,380)	520,012
Collateralized debt obligations	714,350	-	(294,566)	419,784
Equity securities	18,099	12,703	-	30,802
	$ 75,607,534	$ 3,748,473	$ (344,742)	$ 79,011,265

2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 1,000,000	$ -	$ -	$ 1,000,000
State and political subdivisions	44,079,480	1,440,479	(200,029)	45,319,930
U.S. government sponsored entities	3,088,450	13,056	(2,331)	3,099,175
Mortgage backed securities – residential	12,382,673	61,716	(60,929)	12,383,460
Collateralized mortgage obligations – agency	15,039,433	15,632	(147,752)	14,907,313
Collateralized mortgage obligations – non-agency	671,850	4,490	(10,177)	666,163
Collateralized debt obligations	873,429	-	(355,509)	517,920
Equity securities	18,099	10,811	-	28,910
	$ 77,153,414	$ 1,546,184	$ (776,727)	$ 77,922,871

Sales/calls of available for sale securities were as follows:

	2016	2015	2014
Sales	$ 985,000	$ 1,422,938	$ 5,987,900
Calls	1,050,000	3,052,000	1,010,000
Gross gains	50,000	51,449	295,650
Gross losses	-	-	(209,758)

(Continued)

NOTE 3 - SECURITIES (Continued)

Contractual maturities of debt securities at June 30, 2016 were as follows. Expected maturities may differ from contractual maturities because borrowers may call or prepay obligations. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	$ 500,000	$ 500,000
Due from one to five years	1,722,326	1,745,265
Due from five to ten years	8,823,742	9,424,523
Due after ten years	36,859,088	39,386,247
Mortgage backed	27,684,279	27,924,428
Equity	18,099	30,802
	$ 75,607,534	$ 79,011,265

Securities with unrealized losses at June 30, 2016, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government – sponsored entities	$ 560,930	$ (571)	$ 694,094	$ (5,491)	$ 1,255,024	$ (6,062)
Mortgage backed securities - residential	-	-	1,576,770	(7,156)	1,576,770	(7,156)
Collateralized mortgage obligations – agency	242,306	(562)	4,196,031	(27,016)	4,438,337	(27,578)
Collateralized mortgage obligations – non-agency	103,257	(604)	108,572	(8,776)	211,829	(9,380)
Collateralized debt obligations	-	-	419,784	(294,566)	419,784	(294,566)
Total temporarily impaired	$ 906,493	$ (1,737)	$ 6,995,251	$ (343,005)	$ 7,901,744	$ (344,742)

NOTE 3 - SECURITIES (Continued)

Securities with unrealized losses at June 30, 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	$ 11,734,547	$ (164,492)	$ 790,055	$ (35,537)	$ 12,524,602	$ (200,029)
U.S. government – sponsored entities	995,210	(2,331)	-	-	995,210	(2,331)
Mortgage backed securities - residential	3,441,705	(24,294)	1,868,093	(36,635)	5,309,798	(60,929)
Collateralized mortgage obligations – agency	1,475,469	(23,604)	6,902,131	(124,148)	8,377,600	(147,752)
Collateralized mortgage obligations – non-agency	137,178	(1,073)	134,865	(9,104)	272,043	(10,177)
Collateralized debt obligations	-	-	517,920	(355,509)	517,920	(355,509)
Total temporarily impaired	$ 17,784,109	$ (215,794)	$ 10,213,064	$ (560,933)	$ 27,997,173	$ (776,727)

Other-Than-Temporary-Impairment: Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320. However, certain purchased beneficial interests, including collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-10.

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (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, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325-10 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325-10 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

As of June 30, 2016, the Company's security portfolio consisted of 148 securities, 13 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's collateralized mortgage obligations and collateralized debt obligations, as discussed below:

(Continued)

NOTE 3 - SECURITIES (Continued)

Collateralized Mortgage Obligations (CMO's): At June 30, 2016, approximately 96.1% of the collateralized mortgage obligations held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Both the fair value and book value of agency CMOs was $12.8 million at June 30, 2016.

The remainder of the Company's CMO portfolio includes non-agency CMO's with a fair value of $520,000 which had net unrealized losses of approximately $(6,200) at June 30, 2016. These non-agency CMO's were rated AAA at purchase and are not within the scope of FASB ASC 325-10. At June 30, 2016 the ratings of all six CMOs were as follows: two remained rated in investment grade categories, one security was rated Ba3, one security was rated Caa1, one security was rated CCC, and one security was rated D. The Company monitors these investments to ensure it has adequate credit support by projecting cash flows under various default, loss and prepayment assumptions. In the fiscal year ended June 30, 2016, the Company did not record OTTI on non-agency CMO securities.

Collateralized Debt Obligations (CDO's): The Company's unrealized losses on CDOs at June 30, 2016 relates to its investment in one pooled trust preferred security. The decline in fair value is primarily attributable to temporary illiquidity and the financial crisis affecting these markets and not necessarily the expected cash flows of the individual security. Due to the illiquidity in the market, it is unlikely that the Company would be able to recover its investment in this security if the Company sold the security at this time. The Company's analysis of this investment falls within the scope of FASB ASC 325-10 and includes $714,000 amortized cost of a pooled trust preferred security (CDO). This security was rated upper medium grade (A3) at inception, but at June 30, 2016 Moodys rated the security B3, which indicates the security is subject to high credit risk and/or speculative and likely in, or very near, default, with some prospect for recovery of principal and interest. The issuers in this security are primarily banks. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether there were any adverse changes in cash flows during the year. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. The Company assumes 10% recoveries on defaults and treats all interest payment deferrals as defaults. In addition, the Company uses the model to "stress" the CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Company's note class. The Company's analysis is supported by a third party valuation. Upon completion of the June 30, 2016 analysis, the Company concluded that there was no additional OTTI and it does not have the intent to sell this security and the Company does not believe it will be required to sell the security. For the securities the Company previously recognized OTTI, there remains $295,000 and $356,000 (before tax) of unrealized loss in accumulated other comprehensive income at June 30, 2016 and 2015, respectively. One security for which $500,000 credit loss impairment was recognized in previous years was liquidated during fiscal year 2014 with an additional loss of $(208,000) in the income statement, included in net gains on sales of securities. The remaining security is classified as available for sale at June 30, 2016.

(Continued)

NOTE 3 - SECURITIES (Continued)

The table below presents a rollforward of the credit losses recognized in earnings for debt securities for the years ended June 30, 2016, 2015 and 2014:

	2016	2015	2014
Beginning balance	$ 130,352	$ 130,352	$ 630,352
Additions for credit losses on securities for which an other-than-temporary impairment was not previously recognized	-	-	-
Reductions for previous credit losses realized on securities sold during the period	-	-	(500,000)
Increases to credit losses on securities for which an other-than-temporary impairment was previously recognized	-	-	-
Ending balance	$ 130,352	$ 130,352	$ 130,352

NOTE 4 - LOANS RECEIVABLE, NET

The composition of loans at June 30 by class was as follows:

	2016	2015
Commercial	$ 14,437,319	$ 15,787,064
Commercial real estate:		
Construction	1,418,524	1,374,640
Other	70,676,584	64,634,189
Commercial leases	16,876,518	13,716,950
Residential real estate	89,164,779	93,690,436
Consumer credit:		
HELOC	24,147,656	24,187,908
Auto	9,976,866	8,939,623
Other	6,244,739	6,432,836
Subtotal	232,942,985	228,763,646
Net deferred loan origination costs (fees)	69,410	71,935
Allowance for loan loss	(3,557,769)	(3,314,307)
Net Loans	$ 229,454,626	$ 225,521,274

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The components of the Company's direct financing leases as of June 30 are summarized below:

	2016	2015
Future minimum lease payments	$ 17,382,030	$ 14,256,828
Residual interests	587,860	364,209
Initial direct costs	114,478	74,590
Unearned income	(1,207,850)	(978,677)
	$ 16,876,518	$ 13,716,950

Future minimum lease payments are as follows:

2017	$ 4,710,255
2018	5,000,037
2019	4,083,216
2020	2,239,429
2021	613,695
Thereafter	229,886
Total	$ 16,876,518

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The Company's activity in the allowance for loan losses by portfolio segment for the years ended June 30, 2016, 2015 and 2014 is as follows:

	Commercial	Commercial Real Estate	Commercial Leases	Residential Real Estate	Consumer Credit	Unallocated	Total
2016							
Allowance for loan losses:							
Beginning balance	$ 293,046	$ 1,225,328	$ 317,386	$ 1,032,445	$ 300,113	$ 145,989	$ 3,314,307
Charge-offs	(61,650)	(24,546)	-	(154,229)	(34,987)	-	(275,412)
Recoveries	117,095	48,833	13,965	28,857	30,124	-	238,874
Provision	(65,818)	130,492	203,343	80,348	41,880	(110,245)	280,000
Ending balance	$ 282,673	$ 1,380,107	$ 534,694	$ 987,421	$ 337,130	$ 35,744	$ 3,557,769
2015							
Allowance for loan losses:							
Beginning balance	$ 293,608	$ 1,251,696	$ 148,703	$ 836,538	$ 194,484	$ 125,978	$ 2,851,007
Charge-offs	-	(158,841)	(3,338)	(192,422)	(131,546)	-	(486,147)
Recoveries	27,533	195,617	17,179	124,045	25,073	-	389,447
Provision	(28,095)	(63,144)	154,842	264,284	212,102	20,011	560,000
Ending balance	$ 293,046	$ 1,225,328	$ 317,386	$ 1,032,445	$ 300,113	$ 145,989	$ 3,314,307
2014							
Allowance for loan losses:							
Beginning balance	$ 206,000	$ 1,081,497	$ 43,396	$ 1,047,472	$ 753,649	$ -	$ 3,132,014
Charge-offs	(77,096)	(1,360,951)	(58,668)	(265,441)	(143,246)	-	(1,905,402)
Recoveries	8,424	153,984	147,720	51,078	2,543,189	-	2,904,395
Provision	156,280	1,377,166	16,255	3,429	(2,959,108)	125,978	(1,280,000)
Ending balance	$ 293,608	$ 1,251,696	$ 148,703	$ 836,538	$ 194,484	$ 125,978	$ 2,851,007

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The Company's recorded investment in loan receivables by portfolio segment and the related allowance for loan losses at June 30, 2016 and 2015 is as follows. Adjustments to recorded investment for deferred loan origination costs (fees) and accrued interest receivable are not deemed material to this presentation.

	Commercial	Commercial Real Estate	Commercial Leases	Residential Real Estate	Consumer Credit	Unallocated	Total
2016							
Allowance for loan losses:							
Ending balance: individually evaluated for impairment	$ -	$ 448,011	$ 125,682	$ 382,576	$ 52,198	$ -	$ 1,008,467
Ending balance: collectively evaluated for impairment	$ 282,673	$ 932,096	$ 409,012	$ 604,845	$ 284,932	$ 35,744	$ 2,549,302
Loans receivables:							
Ending balance: individually evaluated for impairment	$ -	$ 3,990,155	$ 576,992	$ 4,306,144	$ 235,990	$ -	$ 9,109,281
Ending balance: collectively evaluated for impairment	$ 14,437,319	$ 68,104,953	$ 16,299,526	$ 84,858,635	$ 40,133,271	$ -	$ 223,833,704
2015							
Allowance for loan losses:							
Ending balance: individually evaluated for impairment	$ -	$ 362,269	$ 701	$ 412,649	$ 12,966	$ -	$ 788,585
Ending balance: collectively evaluated for impairment	$ 293,046	$ 863,059	$ 316,685	$ 619,796	$ 287,147	$ 145,989	$ 2,525,722
Loans receivables:							
Ending balance: individually evaluated for impairment	$ -	$ 3,231,199	$ 3,793	$ 4,886,784	$ 244,655	$ -	$ 8,366,431
Ending balance: collectively evaluated for impairment	$ 15,787,064	$ 62,777,630	$ 13,713,157	$ 88,803,652	$ 39,315,712	$ -	$ 220,397,215

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The Company monitors the credit quality of its loan and lease receivables on an on-going basis. Internally, management assigns a credit quality grade to each commercial and commercial real estate loan in the portfolio. Additionally, management assigns a credit quality grade to each non-homogeneous commercial lease, residential real estate loan and consumer credit loan. The primary determinants of credit quality grade are based upon relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company uses the following definitions for risk ratings:

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

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

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

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans shown as not rated are monitored for credit quality primarily based on payment status, which is disclosed elsewhere in Note 4. As of June 30, 2016 and 2015, based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
2016						
Commercial	$ 14,347,060	$ 50,000	$ 40,259	$ -	$ -	$ 14,437,319
Commercial real estate:						
Construction	1,418,524	-	-	-	-	1,418,524
Other	67,415,339	1,073,457	2,187,788	-	-	70,676,584
Commercial leases	-	-	543	576,448	16,299,527	16,876,518
Residential real estate	-	619,522	1,101,915	1,019,251	86,424,091	89,164,779
Consumer credit:						
HELOC	-	10,146	66,926	115,158	23,955,426	24,147,656
Auto	-	77,058	48,838	3,491	9,847,479	9,976,866
Other	-	24,512	9,974	177	6,210,076	6,244,739
Total	$ 83,180,923	$ 1,854,695	$ 3,456,243	$ 1,714,525	$ 142,736,599	$ 232,942,985
2015						
Commercial	$ 15,747,149	$ -	$ 39,915	$ -	$ -	$ 15,787,064
Commercial real estate:						
Construction	1,374,640	-	-	-	-	1,374,640
Other	61,211,430	-	2,898,218	524,541	-	64,634,189
Commercial leases	-	-	3,793	-	13,713,157	13,716,950
Residential real estate	-	636,152	1,392,150	1,159,850	90,502,284	93,690,436
Consumer credit:						
HELOC	-	41,300	73,253	31,960	24,041,395	24,187,908
Auto	-	-	74,347	3,162	8,862,114	8,939,623
Other	-	-	26,165	-	6,406,671	6,432,836
Total	$ 78,333,219	$ 677,452	$ 4,507,841	$ 1,719,513	$ 143,525,621	$ 228,763,646

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2016 and 2015. Recorded Investment is net of charge-offs and the adjustment from Unpaid Principal Balance to the Recorded Investment is not deemed material to this presentation.

	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized(1)
June 30, 2016				
With no related allowance recorded:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate:				
Construction	-	-	-	-
Other	2,009,921	-	1,764,095	100,377
Commercial leases	-	-	-	-
Residential real estate	780,744	-	762,922	61,035
Consumer credit:				
HELOC	-	-	-	-
Auto	-	-	-	-
Other	-	-	-	-
With an allowance recorded:				
Commercial	-	-	-	-
Commercial real estate:				
Construction	-	-	-	-
Other	1,980,234	448,011	1,846,583	-
Commercial leases	576,992	125,682	290,393	-
Residential real estate	3,525,400	382,576	3,833,543	-
Consumer credit:				
HELOC	182,084	46,179	158,997	-
Auto	43,756	5,481	63,168	-
Other	10,150	538	18,158	-
Total	$ 9,109,281	$ 1,008,467	$ 8,737,859	$ 161,412

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized(1)
June 30, 2015				
With no related allowance recorded:				
Commercial	$ -	$ -	$ 88,375	$ -
Commercial real estate:				
Construction	-	-	-	-
Other	1,518,268	-	2,155,757	125,750
Commercial leases	-	-	-	-
Residential real estate	745,099	-	599,144	67,708
Consumer credit:				
HELOC	-	-	-	-
Auto	-	-	-	-
Other	-	-	-	-
With an allowance recorded:				
Commercial	-	-	15,000	-
Commercial real estate:				
Construction	-	-	-	-
Other	1,712,931	362,269	1,806,124	-
Commercial leases	3,793	701	5,293	-
Residential real estate	4,141,685	412,649	3,975,692	-
Consumer credit:				
HELOC	135,910	7,203	128,061	-
Auto	82,579	4,377	84,648	-
Other	26,166	1,386	16,542	-
Total	$ 8,366,431	$ 788,585	$ 8,874,636	$ 193,458

(1) The Company does not record interest on nonaccrual loans until principal is recovered. All income recognized was received in cash.

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

For all loan classes, a loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectability of principal or interest. Interest on such loans is reversed against earnings. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for six months and future payments are reasonably assured.

Nonaccrual loans and loans past due 90 days still on accrual were as follows:

	2016	2015
Loans past due over 90 days still on accrual	$ -	$ -
Nonaccrual loans	4,296,161	3,927,817

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the recorded investment in nonaccrual loans by class of loans as of June 30, 2016 and 2015:

	2016	2015
Commercial	$ -	$ -
Commercial real estate:		
Construction	-	-
Other	1,412,251	1,132,440
Commercial leases	576,992	3,793
Residential real estate	2,073,629	2,552,000
Consumer credit:		
HELOC	182,083	135,910
Auto	41,056	77,508
Other	10,150	26,166
	$ 4,296,161	$ 3,927,817

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The following table presents the aging of the recorded investment in past due loans as of June 30, 2016 and 2015 by class of loans. Adjustments to recorded investment for deferred loan origination costs (fees) and accrued interest receivable are not deemed material to this presentation.

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
June 30, 2016						
Commercial	$ -	$ -	$ -	$ -	$ 14,437,319	$ 14,437,319
Commercial real estate:						
Construction	-	-	-	-	1,418,524	1,418,524
Other	164,816	404,477	-	569,293	70,107,291	70,676,584
Commercial leases	390,111	-	-	390,111	16,486,407	16,876,518
Residential real estate	1,180,816	270,852	851,840	2,303,508	86,861,271	89,164,779
Consumer credit:						
HELOC	113,836	-	-	113,836	24,033,820	24,147,656
Auto	50,275	24,086	-	74,361	9,902,505	9,976,866
Other	26,323	-	-	26,323	6,218,416	6,244,739
Total	$ 1,926,177	$ 699,415	$ 851,840	$ 3,477,432	$ 229,465,553	$ 232,942,985
June 30, 2015						
Commercial	$ -	$ -	$ -	$ -	$ 15,787,064	$ 15,787,064
Commercial real estate:						
Construction	-	-	-	-	1,374,640	1,374,640
Other	21,204	-	-	21,204	64,612,985	64,634,189
Commercial leases	-	-	-	-	13,716,950	13,716,950
Residential real estate	1,458,916	353,697	1,191,826	3,004,439	90,685,997	93,690,436
Consumer credit:						
HELOC	59,287	-	43,511	102,798	24,085,110	24,187,908
Auto	54,882	1,375	40,845	97,102	8,842,521	8,939,623
Other	20,304	18,792	-	39,096	6,393,740	6,432,836
Total	$ 1,614,593	$ 373,864	$ 1,276,182	$ 3,264,639	$ 225,499,007	$ 228,763,646

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

Troubled Debt Restructurings:

The Company may choose to restructure the contractual terms of certain loans. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Company by increasing the ultimate probability of collection.

Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring ("TDR") has occurred, which is when for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms are generally modified to fit the ability of the borrower to repay in line with its current financial status and included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate of new debt with similar risk, or a period of interest only payments.

Loans modified in a TDR are typically placed on nonaccrual status until the Company determines the future collection of the principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for six months.

At June 30, 2016, troubled debt restructurings consisted of $2.8 million of commercial real estate loans, $1,000 of commercial leases, $2.5 million of residential real estate loans and $14,000 of consumer loans. At June 30, 2015, troubled debt restructurings consisted of $2.0 million of commercial real estate loans, $4,000 of commercial leases, $2.8 million of residential real estate loans and $28,000 of consumer loans.

The Company has allocated $544,000 and $293,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2016 and 2015. The Company does not have outstanding commitments to extend additional credit to customers whose loans have been renegotiated under a troubled debt restructuring.

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ended June 30, 2016. Both modifications involved a six month period of interest only.

	Number of Loans	Recorded Investment (1)
Troubled Debt Restructuring:		
Commercial real estate	2	$ 1,277,923
Total	2	$ 1,277,923

(1) Adjustments for recorded investment are not deemed material to this presentation.

The troubled debt restructurings described above have not increased the allowance for loan losses during the twelve months ended June 30, 2016.

There were no charge-offs recorded as a result of the above TDRs during the year ended June 30, 2016.

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ended June 30, 2015. One modification involved a reduction of the stated interest rate of the loan from 6.50% to 4.75%. One modification involved an extension of the maturity date from 38 to 67 months. One modification involved a combination of reduction of the stated interest rate of the loan and an extension of the maturity date. The rate reduced from 7.0% to 4.75% and the period increased from 20 to 181 months.

	Number of Loans	Recorded Investment (1)
Troubled Debt Restructuring:		
Commercial real estate	2	$ 90,165
Commercial leases	1	14,609
Total	3	$ 104,774

(1) Adjustments for recorded investment are not deemed material to this presentation.

The troubled debt restructurings described above increased the allowance for loan losses by $6,000 during the twelve months ended June 30, 2015.

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the twelve months ended June 30, 2016 or 2015. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

There were no charge-offs recorded as a result of the above TDRs during the year ended June 30, 2015.

(Continued)

NOTE 5 - LOAN SERVICING

Loans serviced for others are not reported as assets in the balance sheets. These loans totaled $128,531,000 and $125,445,000 at June 30, 2016 and 2015. Related escrow deposit balances were $452,000 and $364,000 at June 30, 2016 and 2015.

Activity for capitalized mortgage servicing rights for the years ended June 30 follows:

	2016	2015	2014
Servicing rights:			
Carrying amount at beginning of year	$ 901,650	$ 840,678	$ 804,154
Additions	159,360	157,220	116,897
Amortized to expense	(128,975)	(96,248)	(80,373)
Carrying amount before valuation allowance	932,035	901,650	840,678
Valuation allowance:			
Beginning of year	(147,574)	(160,316)	(175,104)
(Provisions for) recovery of valuation allowance	(123,677)	12,742	14,788
Valuation allowance at end of year	(271,251)	(147,574)	(160,316)
Carrying amount at end of year	$ 660,784	$ 754,076	$ 680,362

As of June 30, 2016, 2015 and 2014, a valuation allowance was recorded to reflect impairment in groupings of underlying loans.

The fair value of servicing rights was $689,000 and $953,000 at year-end 2016 and 2015. Fair value at year-end 2016 was determined using discount rates ranging from 9.1% to 11.1%, prepayment speeds ranging from 9.2% to 23.1%, depending on the stratification of the specific right, and a weighted average default rate of 0.3%. Fair value at year-end 2015 was determined using discount rates ranging from 8.0% to 10.0%, prepayment speeds ranging from 6.1% to 19.4%, depending on the stratification of the specific right, and a weighted average default rate of 1.0%.

NOTE 6 - PREMISES AND EQUIPMENT, NET

Premises and equipment at June 30 were as follows:

	2016	2015
Land	$ 831,027	$ 791,383
Buildings	6,294,407	5,906,153
Furniture, fixtures and equipment	2,120,917	2,055,657
Total cost	9,246,351	8,753,193
Accumulated depreciation	(4,053,081)	(3,708,928)
	$ 5,193,270	$ 5,044,265

Depreciation expense on premises and equipment was $448,000, $302,000 and $300,000 for fiscal years 2016, 2015 and 2014.

(Continued)

NOTE 7 - DEPOSITS

Deposit accounts individually exceeding $250,000 totaled approximately $74,000,000 and $81,000,000 at June 30, 2016 and 2015.

At June 30, 2016, stated maturities of certificates of deposit for the years ended June 30 were:

2017	$ 38,017,000
2018	25,752,000
2019	2,644,000
2020	3,944,000
2021	9,713,000
Thereafter	-
	$ 80,070,000

Included in the total amount of certificates of deposit is $9,831,000 placed with the Certificate of Deposit Account Registry Service (CDARS). Funds deposited through the CDARS network are divided among participating banks to ensure there is never more than $250,000 at any one institution; therefore these are fully eligible for FDIC insurance.

NOTE 8 - BORROWINGS

Federal Home Loan Bank (FHLB) advances totaled $21,000,000 and $31,500,000 at June 30, 2016 and 2015. The advances are a mix of variable rate and fixed rate bullet advances. At June 30, 2016, the advances carry interest rates at 0.70% for variable rate and rates ranging from 0.87% to 1.71% for fixed rate bullet advances. At June 30, 2015, the advances carry interest rates at 0.44% for variable rate and rates ranging from 0.87% to 1.71% for fixed rate bullet advances.

The Company also maintains lines of credit with other financial institutions in the amounts of $1,000,000 and $2,000,000, which terminate on July 1, 2016 and March 20, 2017, respectively. The $1,000,000 line which matured July 1, 2016 was subsequently renewed, with a new maturity date of June 27, 2017. As of June 30, 2016 and 2015, balances of $698,400 and $1,058,000, respectively, were outstanding against these lines.

FHLB borrowings, including the $1,000,000 in line of credit, are secured by all stock in the FHLB, qualifying first mortgage loans, government, agency and mortgage-backed securities. At June 30, 2016, collateral of approximately $105,300,000 is pledged to the FHLB to secure advances outstanding. The Company’s $2,000,000 line of credit is secured by shares of Crossroads Bank.

(Continued)

NOTE 9 - EMPLOYEE BENEFITS

Employee Pension Plan: Effective July 1, 2008, the Bank approved a freeze of benefits accrued under the employee pension plan and no benefits for future employee service will be accrued and employees hired after that date are not eligible for benefits from the pension plan. The pension plan is part of a noncontributory multi-employer defined-benefit pension plan. There is no separate actuarial valuation of plan benefits nor segregation of plan assets specifically for the Company. As of July 1, 2016, 2015 and 2014, the actuarially determined value of total vested benefits exceeded plan assets and a contribution and expense were required for fiscal years 2016, 2015 and 2014. During fiscal years 2016, 2015 and 2014, expense of $71,000, $69,000 and $60,000 was recorded. For the years ending June 30, 2016, 2015 and 2014, administrative pension expenses were $6,000, $6,000 and $5,000.

401(k) Plan: A retirement savings 401(k) plan covers full time employees 21 or older that have completed one year of service. Participants may defer up to 50% of compensation. The Company matches 100% of elective deferrals on the first 4% of the participants' compensation, and the Company matches 50% of elective deferrals on the next 2% of the participant's compensation. Additionally, the Company may contribute up to 4% of each participant's compensation regardless of the participant's personal contributions to their 401(k) account depending on earnings and other benefit expenses. Expenses under this plan were $130,000, $133,000 and $119,000 for 2016, 2015 and 2014.

Salary Continuation Plan: The Company maintains a Salary Continuation Plan (Plan) for certain executive officers. The Company is recording an expense equal to the projected present value of the payments due after retirement based on the participants' vesting schedules and projected remaining years of service. The accrued liability for this plan as of June 30, 2016 and 2015 was approximately $861,000 and $773,000 with expense of $88,000, $81,000 and $75,000 recorded during the years ended June 30, 2016, 2015 and 2014.

NOTE 10 - STOCK-BASED COMPENSATION

The Company has two share based compensation plans as described below.

Stock Option Plan: The 1999 Omnibus Incentive Plan authorized 142,000 shares of common stock. The 2013 Stock Option and Incentive Plan authorized 90,000 shares of common stock for options, restricted stock and stock appreciation rights. For both plans, when options are granted, the option price is at least 100% of the market value of common stock on the date of grant and the option term cannot exceed 10 years. Options awarded vest and may be exercised at a rate of 25% per year. Exercised options are generally issued from treasury stock. Total compensation costs has been charged against income for these plans was $0 for fiscal years 2016, 2015, and 2014, net of tax. The 1999 plan has expired and, therefore, no awards are currently available for issuance. The 2013 plan will expire on October 22, 2023.

The fair value of each option award is established on the date of grant using a closed form option valuation (Black-Scholes) model that uses various assumptions. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. (Employee and management options are tracked separately.) The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

(Continued)

NOTE 10 - STOCK-BASED COMPENSATION (Continued)

There were no options granted in 2016, 2015 or 2014.

Stock option plans are used to reward directors and certain executive officers and provide them with an additional equity interest. Options are issued for 10 year periods with varying vesting periods. A summary of the activity in the stock option plan for the year ended June 30, 2016 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, June 30, 2015	5,000	$ 23.25		
Granted	-	-		
Forfeited or expired	-	-		
Exercised	-	-		
Outstanding, June 30, 2016	5,000	$ 23.25	0.30	$ 11,250
Fully vested and expected to vest	5,000	23.25	0.30	$ 11,250
Exercisable at June 30, 2016	5,000	$ 23.25	0.30	$ 11,250

Information related to the stock option plan during the years ended June 30 follows:

	2016	2015	2014
Intrinsic value of options exercised	$ -	$ 4,500	$ -
Cash received from option exercises	-	105,000	-
Tax benefit realized from option exercises	-	-	-
Weighted average fair value of options granted	n/a	n/a	n/a

As of June 30, 2016 and 2015, there was no unrecognized compensation cost related to nonvested stock options granted under the Plan.

As of June 30, 2016, 71,000 share awards remain available for future grants under the 2013 plan.

Management Recognition and Retention Plans: The Management Recognition and Retention Plan (MRP) provides directors, officers and other key employees with a proprietary interest in the Company to encourage such persons to remain with the Company. MRP awards are allowed for under the 2013 Stock Option and Incentive Plan as described above. Eligible directors, officers and other key employees of the Company become vested in shares of common stock awarded on a discretionary basis at a rate of 25% per year beginning on the date of grant. Expense of $121,000, $54,000 and $69,000 was recorded for MRP awards for the years ended June 30, 2016, 2015 and 2014.

(Continued)

NOTE 10 - STOCK-BASED COMPENSATION (Continued)

A summary of changes in the Company's nonvested shares for the year follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at June 30, 2015	12,500	$ 18.10
Granted	14,000	24.97
Vested	(4,400)	17.36
Forfeited	-	-
Nonvested at June 30, 2016	22,100	$ 22.59

As of June 30, 2016, there was $402,000 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.03 years. The total fair value of shares vested during the years ended June 30, 2016, 2015 and 2014 was $106,000, $86,000 and $50,000.

NOTE 11 - INCOME TAXES

Income tax expense (benefit) for the years ended June 30 was:

	2016	2015	2014
Federal			
Current	$ 966,156	$ 1,031,261	$ 538,033
Deferred	(90,811)	(170,958)	788,644
	875,345	860,303	1,326,677
State			
Current	232,724	254,710	124,473
Deferred	(38,444)	(48,633)	183,468
	194,280	206,077	307,941
Income tax expense (benefit)	$ 1,069,625	$ 1,066,380	$ 1,634,618

Income tax expense differed from amounts computed using the U.S. federal income tax rate of 34% as follows:

	2016	2015	2014
Income taxes at 34% statutory rate	$ 1,652,365	$ 1,438,556	$ 1,945,089
Tax effect of:			
Tax-exempt income, net	(448,004)	(437,247)	(434,630)
State tax, net of federal income tax effect	130,626	136,011	203,241
Earnings on life insurance	(94,661)	(92,296)	(90,515)
Change in valuation allowance	(6,459)	(161,574)	(89,625)
General business credits	(105,681)	(105,681)	(105,841)
Stock repurchase expenses	-	-	14,357
Other	(58,561)	288,611	192,542
Total income tax expense (benefit)	$ 1,069,625	$ 1,066,380	$ 1,634,618

(Continued)

NOTE 11 - INCOME TAXES (Continued)

Components of the net deferred tax asset as of June 30 are:

	2016	2015	2014
Deferred tax assets:			
Bad debts	$ 788,827	$ 684,565	$ 479,150
Deferred compensation	317,425	284,622	254,227
Other than temporary security impairment	70,916	70,871	70,821
Capital loss carry forward	134,918	141,421	303,051
Nonaccrual interest	477,282	335,843	218,399
General business credit carry forward	-	-	46,374
AMT credit carry forward	338,492	612,858	751,555
Other real estate writedowns	47,202	47,123	8,591
Partnership investments	101,857	102,136	108,409
Other	184,710	118,385	148,026
	2,461,629	2,397,824	2,388,603
Deferred tax liabilities:			
Accretion	(2,981)	(2,494)	(2,215)
Core deposit intangible and goodwill	(420,740)	(411,675)	(400,269)
Mortgage servicing rights	(243,677)	(277,612)	(250,004)
FHLB stock dividends	(52,700)	(52,611)	(98,735)
Prepaid expenses	(137,191)	(133,138)	(128,418)
Lease financing operations	(112,843)	(174,061)	(225,489)
Unrealized gain on debt securities AFS	(1,192,516)	(267,709)	(65,376)
Net deferred loan fees and costs	(25,596)	(26,483)	(21,831)
Other	(102,859)	(79,504)	(79,413)
	(2,291,103)	(1,425,287)	(1,271,750)
Valuation allowance	(136,993)	(143,452)	(305,026)
Net deferred tax asset (liability)	$ 33,533	$ 829,085	$ 811,827

The capital loss carry forward relates to sales of equity securities which begin to expire in 2019. A valuation allowance has been established for the federal and state capital loss carry forwards. The valuation allowance also includes the state portion of other than temporary securities impairment.

At fiscal year end 2016, the Company had AMT credit carry forwards of approximately $338,000 which do not expire. No valuation allowance has been established for the credits as it is believed that the carry forwards will be utilized.

Federal income tax laws provided savings banks with additional bad debt deductions through 1987, totaling $1,156,000 for the Bank. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total $393,000 at June 30, 2016. If the Bank was liquidated or otherwise ceased to be a bank or if tax laws were to change, the $393,000 would be recorded as expense.

Our Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Indiana and various other state income taxes. The statute of limitations related to the consolidated Federal income tax return is closed for all tax years up to and including June 30, 2012 fiscal year. The expiration of the statute of limitations related to the various state income tax returns that the Company and subsidiaries file varies by state.

(Continued)

NOTE 11 - INCOME TAXES (Continued)

The Company had no unrecognized tax benefits as of July 1, 2014 or July 1, 2015, and did not recognize any increase in unrecognized tax benefits during the year ended June 30, 2016 relative to any tax positions taken in the fiscal year 2016.

The Company recognizes interest and/or penalties related to income tax matters in tax expense.

NOTE 12 - REGULATORY MATTERS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Management believes as of June 30, 2016, the Bank met all capital adequacy requirements to which it is subject.

The prompt corrective action regulations establish quantitative measures to ensure capital adequacy and require minimum amounts and ratios of total, Tier 1, and common equity Tier 1 (as of January 1, 2015) capital to risk-weighted assets and Tier 1 capital to average assets. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that could have a material effect on our financial statements. Under capital adequacy guidelines, we must meet the specific capital requirements that involve quantitative measures as well as qualitative judgments by the regulators.

In July 2013, the U.S banking regulators approved a final rule that implements the Basel III Regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. In general, minimum requirements have increased for both the quantity and quality of capital held by banking organizations and a revised approach for determining risk-weighted assets was implemented. The final rule included a new common equity Tier 1 capital to risk-weighted assets ratio with a minimum of 4.5% and established a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets that applies to all supervised financial institutions and will be phased in through January 2019. At June 30, 2016 and 2015, the capital conservation buffer was 0.625% and 0%, respectively. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking organizations. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital levels fall below the buffer amount. The final capital rules became effective for the Bank on January 1, 2015.

At June 30, 2016 and 2015, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank’s category.

(Continued)

NOTE 12 - REGULATORY MATTERS (Continued)

The Bank's actual capital levels (in thousands) and minimum required levels are presented below:

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2016:						
Total Capital (to risk weighted assets)	$ 36,562	14.39%	$ 20,321	8.00%	$ 25,402	10.00%
Tier I Capital (to risk weighted assets)	33,379	13.14%	15,241	6.00%	20,321	8.00%
Common Equity Tier I Capital (to risk weighted assets)	33,379	13.14%	11,431	4.50%	16,511	6.50%
Tier I Capital (to average assets)	33,379	9.82%	13,589	4.00%	16,987	5.00%
As of June 30, 2015:						
Total Capital (to risk weighted assets)	$ 35,071	15.04%	$ 18,660	8.00%	$ 23,325	10.00%
Tier I Capital (to risk weighted assets)	32,149	13.78%	13,995	6.00%	18,660	8.00%
Common Equity Tier I Capital (to risk weighted assets)	32,149	13.78%	10,496	4.50%	15,161	6.50%
Tier I Capital (to average assets)	32,149	9.64%	13,345	4.00%	16,681	5.00%

Regulations of the Indiana Department of Financial Institutions (DFI) limit the amount of dividends and other capital distributions that may be paid by a savings institution without prior approval of the DFI. Under the regulations, the Bank can make without application to the DFI, distributions during a calendar year up to 100% of its retained net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid) as long as the Bank would remain adequately capitalized, as defined in the prompt corrective action regulations, following the proposed distribution. Accordingly, at June 30, 2016, approximately $3,335,000 of the Bank's retained earnings was potentially available for distribution to the Company.

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONTINGENCIES

Various outstanding commitments and contingent liabilities are not reflected in the financial statements. Commitments to make loans at June 30 were as follows:

	2016		2015	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 6,346,970	$ 1,806,817	$ 2,637,678	$ 781,298
Unused lines of credit	4,909,240	42,868,937	2,344,630	36,006,947
Standby letters of credit	946,015	344,101	1,884,551	452,760
	$ 12,202,225	$ 45,019,855	$ 6,866,859	$ 37,241,005

Fixed rate loan commitments, unused lines of credit and standby letters of credit at June 30, 2016 were at current rates ranging from 2.88% to 6.00% for loan commitments, 2.27% to 18.00% for unused lines of credit and 2.20% to 6.00% for standby letters of credit.

Variable rate loan commitments, unused lines of credit and standby letters of credit at June 30, 2016 were at current rates of 4.00% to 6.00% for loan commitments, 2.10% to 8.75% for unused lines of credit, and 4.00% for standby letters of credit.

Since commitments to make loans and to fund unused lines of credit, loans in process and standby letters of credit may expire without being used, the amounts do not necessarily represent future cash commitments. In addition, commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The maximum exposure to credit loss in the event of nonperformance by the other party is the contractual amount of these instruments. The same credit policy is used to make such commitments as is used for loans receivable.

Under employment agreements with two of its officers, certain events leading to separation from the Company could result in a lump sum cash payment.

The Company and the Bank are subject to certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position or results of operations of the Company.

During the fiscal year ended June 30, 2011, the Bank committed to invest $773,000 in a limited partnership formed to construct, own and manage affordable housing projects. The Bank is one of 11 investors and has an 11.1% interest. As of June 30, 2016, the Bank had invested $728,000, which leaves a remaining obligation to the limited partnership of $45,000. At June 30, 2016, the carrying value of the asset was $514,000 and included with other assets in the balance sheet and the unfunded commitment of $45,000 is recorded in the balance sheet within other liabilities.

(Continued)

NOTE 14 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Real estate and consumer loans, including automobile, home equity and improvement, manufactured home and other consumer loans are granted primarily in Wabash, Kosciusko and Whitley counties. Loans secured by one to four family residential real estate mortgages make up approximately 38% of the loan portfolio. The Company also sells loans and services loans for secondary market agencies.

The policy for collateral on mortgage loans allows borrowings up to 100%, if private mortgage insurance is obtained to reduce the Company's exposure to or below the 80% loan-to-value level on loans held for sale, and 90%, on in-house adjustable rate loans, of the appraised value of the property as established by appraisers approved by the Company's Board of Directors. Loan-to-value percentages and documentation guidelines are designed to protect the Company's interest in the collateral as well as to comply with guidelines for sale in the secondary market.

NOTE 15 - RELATED PARTY TRANSACTIONS

Certain directors, executive officers and principal shareholders of the Company, including associates of such persons, are loan customers. Related party loan balances were $2,349,000 and $2,921,000 at June 30, 2016 and 2015.

(Continued)

NOTE 16 - PARENT COMPANY FINANCIAL STATEMENTS

Presented below are condensed financial statements for the parent company, FFW Corporation.

CONDENSED BALANCE SHEETS
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 656,728	$ 253,974
Investment in subsidiaries	36,649,426	33,691,335
Securities AFS	12,697	14,921
Goodwill	238,430	238,430
Tax assets	672,038	623,847
Other assets	-	1,258
Total assets	$ 38,229,319	$ 34,823,765
LIABILITIES		
Borrowings	$ 698,400	$ 1,058,400
Accrued expenses and other liabilities	81,574	83,192
Total liabilities	779,974	1,141,592
SHAREHOLDERS' EQUITY		
Preferred stock	2,250,000	3,250,000
Common stock	18,363	18,363
Additional paid-in capital	9,358,395	9,452,255
Retained earnings	34,053,094	31,116,433
Accumulated other comprehensive income	2,211,217	501,746
Treasury stock	(10,441,724)	(10,656,624)
Total shareholders’ equity	37,449,345	33,682,173
Total liabilities and shareholders’ equity	$ 38,229,319	$ 34,823,765

(Continued)

NOTE 16 - PARENT COMPANY FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME
For the years ended June 30, 2016, 2015 and 2014

	2016	2015	2014
Interest income	$ 318	$ 304	$ 281
Dividend income from subsidiary	2,400,000	2,700,000	3,278,000
Total noninterest income	2,400,318	2,700,304	3,278,281
Interest expense	25,310	31,790	35,087
Operating expense	112,826	102,873	164,901
Equity in undistributed income of subsidiaries	1,474,875	544,374	930,363
Income before income taxes	3,737,057	3,110,015	4,008,656
Income tax benefit	(53,214)	(54,654)	(77,575)
Net income	$ 3,790,271	$ 3,164,669	$ 4,086,231

(Continued)

NOTE 16 - PARENT COMPANY FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2016, 2015 and 2014

	2016	2015	2014
Cash flows from operating activities			
Net income	$ 3,790,271	$ 3,164,669	$ 4,086,231
Adjustments to reconcile net income to net cash from operating activities			
Equity in undistributed income of subsidiaries	(1,474,875)	(544,374)	(930,363)
Other	307,358	50,793	(490,844)
Net cash from operating activities	2,622,754	2,671,088	2,665,024
Cash flows from financing activities			
Proceeds from exercise of stock options	-	105,000	-
Proceeds from stock issuance	-	-	3,250,000
Repayment of borrowings	(360,000)	(200,000)	-
Redemption of preferred stock	(1,000,000)	(2,903,000)	(4,750,000)
Cash dividends paid	(860,000)	(951,703)	(913,907)
Net cash used in financing activities	(2,220,000)	(3,949,703)	(2,413,907)
Net change in cash and cash equivalents	402,754	(1,278,615)	251,117
Beginning cash and cash equivalents	253,974	1,532,589	1,281,472
Ending cash and cash equivalents	$ 656,728	$ 253,974	$ 1,532,589

The extent to which the Company may pay cash dividends to shareholders will depend on the cash currently available at the Company, as well as the Bank's ability to pay dividends to the Company (see Note 12).

NOTE 17 - FAIR VALUES

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(Continued)

NOTE 17 - FAIR VALUES (Continued)

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities: The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Level 3 valued securities include the Company's investments in CDOs. Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. The discount rate utilized for the period ended June 30, 2016 was 6.9%. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations. Refer to Note 3 for further discussion of ratings and default and deferral assumptions for June 30, 2016.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Mortgage Servicing Rights: The fair value of servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Loan Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. After the review of the appraisal, the Company typically applies a discount for liquidation and other considerations.

(Continued)

NOTE 17 - FAIR VALUES (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2016 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Financial Assets:				
Certificates of deposit	$ -	$ 1,000,000	$ -	$ 1,000,000
State and political subdivisions	-	47,388,914	-	47,388,914
US government sponsored entities	-	2,247,337	-	2,247,337
Mortgage backed securities - residential	-	14,560,782	-	14,560,782
CMO's - agency	-	12,843,634	-	12,843,634
CMO's - non-agency	-	520,012	-	520,012
CDO's	-	-	419,784	419,784
Equity securities	30,802	-	-	30,802
Total investment securities available for sale	$ 30,802	$ 78,560,679	$ 419,784	$ 79,011,265

	Fair Value Measurements at June 30, 2015 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Financial Assets:				
Certificates of deposit	$ -	$ 1,000,000	$ -	$ 1,000,000
State and political subdivisions	-	45,319,930	-	45,319,930
US government sponsored entities	-	3,099,175	-	3,099,175
Mortgage backed securities - residential	-	12,383,460	-	12,383,460
CMO's - agency	-	14,907,313	-	14,907,313
CMO's - non-agency	-	666,163	-	666,163
CDO's	-	-	517,920	517,920
Equity securities	28,910	-	-	28,910
Total investment securities available for sale	$ 28,910	$ 77,376,041	$ 517,920	$ 77,922,871

(Continued)

NOTE 17 - FAIR VALUES (Continued)

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) CDO's
Beginning balance, July 1, 2014	$ 498,293
Total gains or losses (realized/unrealized)	
Included in other comprehensive income	143,124
Included in earnings	-
Payments	(123,497)
Ending balance, June 30, 2015	$ 517,920
Beginning balance, July 1, 2015	$ 517,920
Total gains or losses (realized/unrealized)	
Included in other comprehensive income	60,943
Included in earnings	-
Payments	(159,079)
Ending balance, June 30, 2016	$ 419,784

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2016:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Weighted Average
Collateralized debt obligations	$ 419,784	Discounted cash flow	Collateral default rate	0.5%
			Recovery probability	10%
			Discount rate	Libor + 1.15

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2015:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Weighted Average
Collateralized debt obligations	$ 517,920	Discounted cash flow	Collateral default rate	0.5%
			Recovery probability	10%
			Discount rate	Libor + 1.15

(Continued)

NOTE 17 - FAIR VALUES (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at June 30, 2016 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Impaired loans:				
Commercial real estate	$ -	$ -	$ 1,393,517	$ 1,393,517
Commercial leases	-	-	450,876	450,876
Residential real estate	-	-	24,225	24,225
Consumer credit	-	-	39,600	39,600
Mortgage servicing rights	-	552,081	-	552,081
Other real estate owned, net:				
Commercial real estate	-	-	1,844,358	1,844,358

	Fair Value Measurements at June 30, 2015 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Impaired loans:				
Commercial real estate	$ -	$ -	$ 614,612	$ 614,612
Residential real estate	-	-	431,200	431,200
Mortgage servicing rights	-	184,155	-	184,155
Other real estate owned, net:				
Commercial real estate	-	-	1,844,358	1,844,358

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of $2.5 million and a valuation allowance of $629,000 at June 30, 2016, resulting in additional provision for loan losses of $324,000 for the year. At June 30, 2015, impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of $1.4 million and a valuation allowance of $333,000 at June 30, 2015, resulting in additional provision for loan losses of $9,000 for the year.

Real estate owned, which are measured for impairment using the fair value of the property, had a balance of $1,844,000 at June 30, 2016 and 2015, respectively. Any gains/losses resulting from sales or declines in value of the property are recorded through the income statement. Losses and writedowns of $40,000, $191,000 and $50,000 were recorded through the income statement in the years ended June 30, 2016, 2015 and 2014.

Mortgage servicing rights with an amortized cost of $823,000 had a valuation allowance of $271,000 at June 30, 2016 resulting in impairment charges of $124,000 during the year. Mortgage servicing rights with an amortized cost of $332,000 had a valuation allowance of $148,000 at June 30, 2015 resulting in a recovery of prior impairment charges of $13,000 during the year.

(Continued)

NOTE 17 - FAIR VALUES (Continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2016:

	Fair value	Technique(s)	Valuation Unobservable Input(s)	Weighted Average
Impaired loans – commercial real estate	$ 1,393,517	Sales comparison approach	Adjustment for differences between the comparable sales	33.4%
Impaired loans – commercial leases	$ 450,876	Sales comparison approach	Adjustment for differences between the comparable sales	40.0%
Impaired loans – residential real estate	$ 24,225	Sales comparison approach	Adjustment for differences between the comparable sales	50.0%
Impaired loans – Consumer credit	$ 39,600	Sales comparison approach	Adjustment for differences between the comparable sales	25.0%
Real estate owned – commercial real estate	$ 1,844,358	Sales comparison approach	Adjustment for differences between the comparable sales	32.9%

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2015:

	Fair value	Technique(s)	Valuation Unobservable Input(s)	Weighted Average
Impaired loans – commercial real estate	$ 614,612	Sales comparison approach	Adjustment for differences between the comparable sales	30.0%
Impaired loans – residential real estate	$ 431,200	Sales comparison approach	Adjustment for differences between the comparable sales	20.0%
Real estate owned – commercial real estate	$ 1,844,358	Sales comparison approach	Adjustment for differences between the comparable sales	32.9%

(Continued)

NOTE 17 - FAIR VALUES (Continued)

The carrying amounts and estimated fair values of financial instruments at June 30, 2016 and June 30, 2015 are as follows:

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)		(In thousands)	
Cash and cash equivalents	$ 10,220	$ 10,220	$ 9,142	$ 9,142
Securities available for sale	79,011	79,011	77,923	77,923
Loans receivable, net	229,455	226,236	225,521	223,960
Loans held for sale	854	863	105	106
Federal Home Loan Bank stock	1,463	N/A	1,463	N/A
Accrued interest receivable	1,761	1,761	1,708	1,708
Noninterest-bearing deposits	(25,033)	(25,033)	(30,781)	(30,781)
Interest-bearing deposits	(254,124)	(254,683)	(234,699)	(234,751)
Borrowings	(21,698)	(21,751)	(32,558)	(32,558)
Accrued interest payable	(29)	(29)	(68)	(68)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of June 30, 2016 and 2015. The estimated fair values for cash and cash equivalents, accrued interest receivable, noninterest-bearing deposits and accrued interest payable are considered to approximate cost. The estimated fair value for loans receivable, net, is based on estimates of the market interest rate for similar loans at June 30, 2016 and 2015 applied for the time period until the loans are assumed to reprice or be paid, without considering market liquidity. The estimated fair value for interest-bearing deposits as well as borrowings is based on estimates of the market interest rate on such liabilities at June 30, 2016 and 2015, applied for the time period until maturity, without considering market liquidity. It was not practical to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Company to have disposed of such items at June 30, 2016 and 2015, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at June 30, 2016 and 2015 should not necessarily be considered to apply to subsequent dates.

In addition, other assets and liabilities of the Company that are not defined as financial instruments are not included in the above disclosures, such as premises and equipment. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill and similar items.

(Continued)

NOTE 18 - PREFERRED STOCK

On December 18, 2008, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the United States Department of the Treasury ("U.S. Treasury"), pursuant to which the Company sold 7,289 shares of newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share and liquidation value $1,000 per share (the "Series A Preferred Stock") and also issued warrants (the "Warrants") to the U.S. Treasury to acquire an additional $364,000 of Fixed Rate Cumulative Perpetual Preferred Stock, Series B par value $0.01 per share and liquidation value $1,000 per share (the "Series B Preferred Stock") for an aggregate purchase price of $364,450 in cash. Subsequent to the closing, the U.S. Treasury exercised the Warrants and the Company issued 364 shares of the Series B Preferred Stock.

On November 27, 2012, the U.S. Treasury sold both the Series A Preferred Stock and Series B Preferred Stock through a public offering structured as a modified Dutch auction. Following the sale, the combined $7,653,000 stated value of the Preferred Stock remained outstanding and the obligation to pay future dividends continued until the Preferred Stock was fully retired. Annual rates at this time were 9% for the Series A and B Preferred Stock.

The Company announced December 31, 2013 that it closed the sale of 3,250 shares of a new series of Fixed Rate Cumulative Perpetual Preferred Stock, Series C ("Series C Preferred Stock"), for an aggregate subscription price of $3,250,000. The shares were offered to a select group of investors in a private placement exempt from registration under Section 4(2) and Rule 506 of the Securities Act of 1933 (the "Act"). The Company used the net proceeds of the offering along with a dividend of approximately $1,500,000 paid by the Bank to the Company to redeem 4,750 of the Company's shares of Series A Preferred Stock, for $4,750,000, plus accrued dividends. Following the redemption, the Company continued to have outstanding 364 shares of its Series B Preferred Stock and 2,539 shares of its Series A Preferred Stock both of which paid dividends at 9% per year.

During the fiscal year ended June 30, 2015 the Company fully redeemed the remaining 2,539 shares of Series A Preferred Stock, for $2,539,000, plus accrued dividends, and 364 shares of Series B Preferred Stock, for $364,000, plus accrued dividends. The shares were redeemed with existing cash at the Company and a dividend of approximately $2.7 million paid by the Bank to the Company.

Following the redemption, the Company had outstanding 3,250 shares of its Series C Preferred Stock. The Series C Preferred Stock is perpetual and non-voting, has a liquidation preference of $1,000, and pays annual dividends of 5% for the first three years, subject to possible increases to a maximum of 9% thereafter depending on changes in the prime rate of interest, payable quarterly. It is redeemable immediately for 100% of its liquidation preference plus declared and unpaid dividends.

During the fiscal year ended June 30, 2016 the Company redeemed 1,000 shares of its Series C Preferred Stock, for $1,000,000, plus accrued dividends. The shares were redeemed with existing cash at the Company. Following the redemption, the Company has outstanding 2,250 shares of its Series C Preferred Stock.